THE HAMILTON PROJECT

FACILITATING AND REWARDING WORK

PANEL ONE: MAKING WORK PAY

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JASON FURMAN: If the last few of you could take your seats, we’ll get started here. I am Jason Furman and I’m the director of the Hamilton Project and want to welcome you all to our ninth and final public event of 2007. Poverty and rewarding work is a fitting topic to end the year on because it ties together so much of the work that we’ve done over the past year on issues ranging from preschool to college financing to healthcare to progressive tax reform.

Today, the Hamilton Project is releasing a new strategy paper, "A Hand Up: A Strategy to Reward Work, Expand Opportunity, and Reduce Poverty" that was co-authored by Jason Bordoff, Paige Shevlin, and myself. The strategy paper makes clear that today’s discussion about facilitating and rewarding work is just one important part of an overall strategy to expand opportunity and reduce poverty.

We say it’s an important part because the old adage is not less true for being oft repeated that the best anti-poverty program is a job. The tremendous success story of the 1990s was the large increase in female participation in the workforce and the large growth of income for families with children, especially single parents with children. But jobs don’t automatically pay well, and the two panels we have today will explore the right balance of different approaches to help make sure that they do. One is what we’re calling rewarding work through policies like the earned income tax credit, and a second is – which Karl Scholz will be talking about – and a second is policies that facilitate work, that help train people for jobs, connect them with good jobs, and ease their entry into the labor force. And we’ll be hearing different approaches from our other office that I’ll introduce in a moment to that question. And one topic we’ll talk about is how to strike the right balance between rewarding work and facilitating work.

But I said that this discussion that we’re having today is only one important part of an overall strategy. And in our strategy paper, we have two other elements that we think are just as important as what we’re talking about today. The first of those is to prepare people to succeed, and the principle policy here would be education. And throughout the two years of the Hamilton Project’s existence, we’ve talked about ideas like success for all, from Belle Sawhill and Jens Ludwig, about how to have universal – how to have high quality preschool for families in poverty. We’ve talked about college affordability and how to improve K-12 education with a focus on schools in low-income areas.

The third and final part of the strategy that we success – we suggest is a more robust safety net instead of social insurance policies to help people rebound if they do experience hardships, and to mitigate the likelihood that they’ll fall below a certain economic level at any point. The most important part of this last part, a robust safety net and social insurance, is surely universal healthcare. And earlier in the year, we released four different approaches to get to, or towards, universal healthcare.
But there are many other elements, like retirement security, programs like food stamps and housing vouchers, and ways of reaching families that have more barriers to work than they types of people that benefit from the policies we’re talking about today, and I’d particularly commend you to a paper by Becky Blank, who will be on our second panel, that I think was on your table today that addresses some of those issues.

So, you don’t want to center everything around just rewarding and facilitating work. It’s a very important part; it’s what we’re talking about today, but you want to fit it into a broader context, one where you’re preparing people to succeed, but also have a more robust safety net for people who are going to still fall through the cracks of that rewarding and facilitating work.

So, with that, let me introduce the four people who will be presenting their papers, and then the discussant for those papers. And we’ll be going in alphabetical order on the presentations.

The first is Greg Duncan, he is the Edwina S. Tarry professor at Northwestern University and the co-author of a book “Higher Ground” that is the basis of his presentation today.

Second is Harry Holzer who is a professor of public policy at Georgetown University, a senior fellow at the Urban Institute, and he was chief economist at the U.S. Department of Labor in the Clinton administration.

Third is Karl Scholz, he’s a professor of economics at the University of Wisconsin, a visiting fellow down the hall from me at Brookings, and a former deputy assistant secretary for tax analysis, the U.S. Treasury in the Clinton administration.

Then finally, presenting a forthcoming paper that currently exists in the form of a PowerPoint that you’ll be seeing today, is Bruce Western, a professor of sociology at Harvard University and the writer of “Between Class and Market,” which won the 2007 Albert J. Weiss Award.

After that nod, we’re very luck to have Nada Eissa commenting on these papers. She’s an associate professor of public policy at the Georgetown Public Policy Institute, and was – very recently stepped down as deputy assistant secretary of the Treasury for microeconomic policy.

So, we will start with your presentation, Greg.

GREG DUNCAN: Thank you very much. It’s a pleasure to be here.

I’d like to talk to you about the New Hope Program, which was an experimental program run in Milwaukee in the mid 1990s. The motivation for New Hope comes about because, despite the fact over the last 10 years, we’ve made remarkable strides towards supporting work through expansion of the earned income tax credit, welfare reforms of
various sorts, S-chip health insurance coverage, but despite that, there are millions of households who work full time and are still poor. Even when you count in the EITC benefits, millions of children are without health insurance and millions of children who are underachieving in our nation’s schools. Moreover, despite these incentives, there are millions of able-bodied women and men who are not working.

So, the idea behind New Hope is that this collection of programs is too fragmented, that it’s not well matched to the real needs of working poor families, and that they don’t really collectively eliminate the barriers to getting into the labor market to secure full time work. So, here’s what New Hope is all about. The New Hope benefits are conditioned on proof of 30 hours per week, which is the definition of full time work for New Hope, so a participant has to come in and actually show with pay stubs that they, in fact, in the last month or the last set of months, averaged at least 30 hours a week. Providing that proof entitled them to a suite of benefits, including an earnings supplement that brought family income above the poverty line, a childcare subsidy on a sliding scale that enabled them to get decent quality childcare. If they needed health insurance, there was subsidized health insurance available. If they weren’t working full time and needed help because of a poor work experience record or some other reason, there were community service jobs, temporary community service jobs that were available on a six-month basis. And finally, the New Hope Program was administered by a respectful and very helpful, well trained staff.

These benefits were extended to all low-income men and women, regardless of family circumstances. So, the idea was that any low-income working adult in America ought to be entitled to these kinds of benefits if they work full time. In terms of values, New Hope really hits the trifecta. It effectively makes work pay long hope for American social policy, and this makes it a reality. The full time focus, the requirement of full time work resonates with the business community. In Milwaukee, the business elite lent its heavy-duty support, political support to New Hope, and it resonates with the broader public and participants themselves. And finally, its social contract nature is both respectful of participants but also demanding of them in the form of this full time work requirement.

New Hope is actually evaluated so we know what its impacts are. It was evaluated in a very rigorous kind of way. It ran for three years in Milwaukee and two of Milwaukee’s poorest neighborhoods in the mid-1990s. About half of New Hope participants were African American, about a quarter Hispanic. And the evaluation used random assignment, a lottery, the kind of method that medical trials use to establish impacts and was conducted by NBRC. Hans Bos, who led the NBRC evaluation effort, is in the audience.

And what New Hope – the evaluation did was to compare what happened under New Hope versus what happened under the conditions that were prevailing in Milwaukee and the state of Wisconsin in the mid-1990s, which were collectively the kind of welfare reforms that Tommy Thompson was putting in place in Wisconsin. Labor market conditions were very favorable in Milwaukee at this time, but the comparison is going to
be between New Hope and this collection of programs that the state of Wisconsin had put together.

About 750 won the lottery and had a chance to sign up for New Hope. Almost all of them, over their three year period, used at least some of the New Hope benefits some of the time, but few of them used all the benefits all the time, and an important thing to understand about any program, a program like New Hope or any collection of programs for low-income families, is how fluid family situations are and how difficult it is sometimes to match the needs from a program to the needs of the families themselves.

So, not all participants were able to sustain the 30 hours necessary to qualify for benefits. Some benefits fit at some points and not others; perhaps people had a childcare arrangement with a relative that worked just fine for younger children, and they needed New Hope benefits later when their kids became older. The community service jobs fit some people, but some people didn’t really have any need for them because they were already working full time. So, what was nice about New Hope, and I think key to New Hope’s success, which I’ll show you in a second, is that it provided a kind of cafeteria approach that matched program benefits to the fluidity of needs and low income families.

New Hope’s impacts, these are comparing the New Hope group to this comparison group. Overall, the New Hope group out-earned the comparison group by about $500 per year over the three years of New Hope, but that’s an average, which mixes together some negative earnings impacts with some positive earnings impacts. A third of the people in New Hope were already working full time; they just wanted to take advantage of New Hope benefits. They cut back on their work, not dropping out of the labor force altogether, there was no drop there, but they dropped back from a second job or a third job back to a single job, from an over time where you work 50 hours a week down to 40 hours a week. So, their earnings were negative relative to the control group, but as I say, their employment didn’t decline.

People who weren’t working at the beginning of the program had a $1,000 increase. People who were just one barrier away from being able to make it in full time work had the biggest gains. And then – not to – I want to mention single men, not typically a part of these programs, also had a positive impact on earnings. Poverty impacts mirror the earnings impacts; they declined eight points overall, less for families already working, more for families with kids and these one-barrier families had an actually 25 percentage point drop in poverty as a result of the program.

What’s really remarkable about New Hope is the impact on kids. Teachers were asked to rate how kids were doing in their schools, and the difference was about a quarter of a standard deviation, this is about 25 points on an SAT-type test. There were big behavior improvements for boys but not girls, and quite impressive earnings impacts relative to other programs. The paper goes through the cost and benefit calculation, about $3,300 per year, half of which was program administration, half of which was participant benefits. We estimate a national cost, depending on take-up, between about $14 and $22 billion. The benefits, we go through and account for those, depend on how you value the
child achievement and behavior impacts, you can easily come up with benefits that exceed these costs. And our proposal is for a five state five year test of New Hope to develop state models for surface delivery at about a $250 million total cost for the test over a five year period.

Many resources to explain New Hope: the newhope.com website links to the New Hope program as well as all the evaluation evidence, there’s the book “Higher Ground,” not to be confused with “New Hope for Higher Ground” by Mike Huckabee, which was published in the same week as this book. If you’re looking for the New Hope book and Mike Huckabee is on the cover, you’ve got the wrong book – (laughter). Thank you very much – (applause).

MR. FURMAN: Harry Holzer will be next.

HARRY HOLZER: Well, my proposal is focused more broadly on the low-wage labor market, and both youth and adults in the low-wage labor market, and it proposes a new program which some of the staff of Brookings creatively titled WAGES, Worker Advancement Grants for Employment and States. I think I got that right. So, it’s a very clever acronym even though I will tell you that it’s not mine.

You know, the dimensions of the low-wage labor market problem, I think, are pretty well known. We have growing numbers over time of working poor in our labor markets, partly because of things like welfare reform and immigration that swell the supply of low-wage workers, and also probably because of changes on the demand side of the labor market and lower wages for less skilled work. The wages of these workers have certainly declined relative to those of more educated workers over a long period, roughly a 30 year period, over some periods and by some measures, depending on exactly how you control for inflation. They – even the real wages of those workers have been declining. And their advancement prospects are very limited; this is not a temporary problem that most people eventually grow out of. It is a persistent problem for millions of workers in this situation.

There are a chunk of people who don’t even usually make it to the ranks of the working poor. What you see for some populations, especially low-income African-American men, among others, is declining employment at all in the regular labor market, and dramatic declines in the labor force activity over time. And I know Karl Scholz and Bruce Western are going to talk about some dimensions of that problem.

So, when you put all this together, what I think is needed is a package of policies that really do three things: number one, that improve the skills of the workers, and we all know that skills play a bigger role in labor markets than they ever did before. But secondly, also improve the access of workers to good jobs, well paying jobs, and there’s a lot of evidence that suggest that it’s not just about the skills workers have. Workers of different skills have access often to very different kinds of jobs, some of which pay more than others. It’s important that they have access to the better paying jobs for skill set.
And thirdly, they also need a package of supports and incentives, especially for those that will still have low wages to both encourage them and to help them and these are the kinds of supports that Greg Duncan just talked about. Finally, another piece of the problem is that the current workforce system simply doesn’t match up to these needs. The current workforce system is woefully under-funded, and I remember, we have a nearly $14 trillion economy and the few billion dollars that we put into workforce development at the federal level really come nowhere near the need we have. But the system is not only under-funded, it’s also fragmented. There aren’t a lot of mechanisms or pathways, certainly at the local level, to connect workers with skill development and the employers and the work supports. To an extent, you have public activity in these areas; they’re often in very different agencies and very little bringing together of the package. So, that’s what I’m hoping to propose doing more of.

There are, however, some very promising approaches at the state level and even at the local level that you see out there and I just want to briefly list. My proposal really deals with three different populations: the working poor, at-risk youth, and adult whom we now already consider hard to employ, people with very limited labor force activity already. In the area of the working poor, there’s a whole new body, a whole new generation of programs that really try to link them more effectively to parts of the private sector where we know that there are strong demand for workers and continual employment growth and there are good jobs available for people without college diplomas. And I’ve listed some of the approaches here; they often heavily target the health care sector, the construction sector, at least until recently, financial services and some other sectors where there’s both strong growth and good jobs.

For youth, we’re talking about the newest generations of career and technical education, not old-fashioned vocab, but again, stronger programs that provide strong academics, good occupational training, and also links to jobs. And finally, for the hard to employ, packages that involve either transitional employment, transitional paid employment, plus a whole other range of supports and services that connect people to the labor market.

Now, all these things are already out there, but there’s a couple problems. Number one, they exist usually at the very small scale, much too small to really have any kind of aggregate measurable impact on the problem. Secondly, most of these things have not yet been rigorously evaluated, a few of them have, and we have some evidence, but in most cases we don’t have strong, really clear evaluation evidence on exactly what works and what doesn’t work and where and for whom? So, what you really want, I think, is a program that provides more resources to the states and local areas; encourages them to ramp up, to invest some of their own resources to really generate some scale, but also to use the most cost-effective methods and to gain more knowledge over time and to incorporate that knowledge, sort of a flexible system as well as a system that’s big enough to have some impact.

So, this is my proposal to accomplish that. The proposal is basically we give out competitive grants to the states on a rolling basis. The expectation would be that most
states would eventually get grants, but not automatically, they would have to jump through some hoops initially. They would be building advancement systems at the state and local levels that basically involve partnerships between community colleges for the training, industry associations and employers, and the local workforce boards and the intermediaries. And the intermediaries would be critical to pull the different pieces together and make sure that workers have access to the things they need.

The grants would provide matching funds for new expenditures, not existing expenditures, but for new expenditures, new investments, either by the state, the localities, or by the private sector in both training and the range of supports the workers need like childcare, transportation, et cetera. Federal oversight and technical assistance would be an important part of this discussion; the states would need help and time to build up the institutional capacity. This would be a process of years for this to gear up, and performance measures and bonuses would be very important, not just the performance measures for program participants, because we know that states have ways of manipulating those to make them look better than they often are, but performance measures for the broader populations to try to generate some broader measures of advancement and strong bonuses for good performance. And rigorous evaluation would also be a very necessary part of this thing.

And finally, the – most of the grants would be renewable and expandable over time. There’s an expectation that most grants would be renewed and expanded, but again, not automatically. The renewal would be conditional on good performance measures and incorporating new knowledge that’s generated through the evaluation process. So, again, you’re creating a system that I think provides new resources, mobilizes resources that are out there, can build to scale, but again strong incentives through the performance measures and bonuses, to the evaluation piece, and through the renewal process, strong incentives for good cost effective performance and flexibility over time.

I’m going to skip through the last thing I want to say. There’s a few other, I think, complimentary policies that are not directly part of my proposal, but I think they’re also important to make all this work. We simply need more funding for things like Pell grants or other programs that channel more resources to low-income workers and other proposals in Hamilton have addressed those and I’m supportive, but I think they really need more funding to make this work. We also need more high-wage jobs on the demand side of the labor market, and again, I’ve listed three things: higher minimum wages and easier – making it easier for workers to choose collective bargaining, which I think, each of those has their downside, but the downsides are manageable if they’re done in a sensible and moderate way; and thirdly, a place where we know a lot less about exactly where it works, but exploring economic development options at the local level that tie local assistance – development assistance that generate high-wage jobs and the training and education necessary for those.

That’s it, thank you – (applause).
JOHN KARL SCHOLZ: It’s a great honor to be here, so thank you very much.

I want to start out by – with a couple pictures that reinforce much of what Greg and Harry said. In these – oh my gosh, those are small – so, I’m going to describe with these pictures and you can believe me. The top one has a line going down; that’s a worrisome trend of labor force participation rates for men 25 or older with a high school degree or less. It just tracks men from 1992 to – through 2007, and it shows labor force participation rates fell from 79 to 73 percent. This is during a period when the economy has done very well.

The middle graph, you can see an upward sloping line. That’s – those are incarceration rates going from 1980 to today, incarceration rates in the population have more than tripled. The bottom line, another downward sloping thing is showing the fraction of kids living in households with two adults. That goes from 1970 to today, and the number of kids living in two-adult families has fallen from 86 percent to 69 percent.

These trends are very worrisome for low-income communities. I would say, in certain low-income communities, they’re devastating. And so, that motivates my proposals as well as, I think, part of what Harry and Greg are talking about. Now, many factors presumably account for these trends, but I’d argue declining formal labor market opportunity is the most important given that belief that I have, my two-part proposal would increase the return to work in the formal labor market. I get no creativity points for the first plank of this two-part proposal, and that is to expand the EITC for childless taxpayers; Bob Greenstein, Harry, Jason Furman, among others have proposed that. Congressman Rangel includes that as part of his big tax reform package. My variant has a couple twists, but it is what it is.

The second part is – would expand earnings by half the difference between market wages and a target wage, which in my proposal would be $11.30 an hour. Therefore, if a worker’s market wage was $8 an hour, the worker would receive a subsidy of $1.65 an hour on their wages. Now, these aren’t silver bullets; there’s other problems in low-income communities, but I think this would take a step toward addressing some of the problems. Let me describe these in a bit more detail.

All right, my proposal to increase the EITC to childless taxpayers, I hope everyone in the room – everyone in the room turning out for an event like this has to understand what the EITC is, but very briefly, to wage subsidy increases with hours of work up to a certain level, and then with greater earnings, the thing phases out. We have an EITC right now for childless workers: in 2007, the maximum credit is $428. I would propose increasing that, so for a childless single taxpayer, the maximum credit would be roughly twice as much, $864; for a married, childless couple, the credit would be $1,728. So, I’m proposing quite a substantial increase in the credit and being very sensitive to incentive to marriage. I don’t want to create so-called marriage penalties with this.

Second, I would also include and early career employment incentive. An awful lot of ideas that people get on the right track early in their lives and so the credit would
actually have a – would be slightly more generous for childless workers under the age of 30. The second part then is to implement these targeted wage subsidies to workers in these federally designated empowerment communities, enterprise zones, and renewal communities. As I said earlier, the policy would pay workers directly the difference between their market wage and $11.30 an hour. There’s a 40 or more year history of academic support for this idea. Among other promising features, it has very strong incentives to increase the number of hours of work. If you look at the date on these low-wage labor markets, average hours of work in a year are about 800 hours, okay?

With this wage subsidy, you increase hours of work; the wage subsidy keeps on augmenting income, it doesn’t phase out. So, it has very good employment or hours incentives. Now, targeting in the way that I propose to these EZs, ECs, and RCs – that does not roll off my tongue – would limit the cost and allow careful evaluation and focus scarce resources on economically distressed areas. There’s some concerns – administrative concerns with a proposal like this, and so I propose to start in a demonstration context.

So, what is the premise of these two ideas? The premise is the increasing the return to work for childless, low-skilled workers, lower unemployment rates, and achieve the dual social benefits of reducing incarceration rates and increasing marriage rates, thus reducing the number of children being raised in single-parent households. All right, the two pieces of the proposals could be implemented together or separately, I think, for maximum effect I would love to see them implemented together.

So, what would the consequences of adopting policies like this be? What would the costs and what would the benefits be? I estimate the expansion of the childless EITC in the way I propose – or suggesting would cost about $7.3 billion, and it would deliver an average increase and earn income tax credit benefits to childless workers of around $800 a tax-filer. I think based on credible estimates and conservative estimates from the social science literature, it would increase employment by about 700,000 individuals, reduce crime by 900,000 incidents, increase marriage and deliver substantial resources to low-skilled individuals doing the right thing, that is working in the formal labor market. The social benefit of crime reduction alone could range from $722 million to more than paying for the cost of the proposal.

The wage subsidy would cost about $3.1 billion; it would deliver a very large average benefit per recipient of around $2,700. I would expect that to increase employment by about 150,000 jobs, reduce crimes by anywhere from 150,000 to 440,000 incidents, again increase marriage and deliver substantial resources to low-skilled individuals doing the right thing. The problem here, or a problem here, is that it’s very difficult to design policies that redistribute a substantial amount of resources, yet at the same time do not have important undesirable behavioral consequences. I think the policies I’m suggesting are a sensible part of a package to address these, what I think, are extremely important problems to the nation. Thank you – (applause).
BRUCE WESTERN: Okay, I’m going to take up one piece of the array of social problems that Karl was describing and I’m going to describe the policy proposal designed to improve the employment of those coming out of prison. Just to provide some context for this policy proposal, we can look at the scale of the American penal system over the 20th century from 1925 to 1972. The size of the penal system was roughly constant, about 100 per 100,000 in the United States were in state or federal prison. And then in the mid-‘70s, the incarceration rate began to grow, and of course it grew continuously in every year after that and it’s still growing.

That’s not the whole of the population in custody, of course, there’s another third in the local jail, so we now have about actually today 2.2 million people under lock and key, another 760,000 under the supervision of a parole officer in the community and another 4.1 million people on probation. All together then, we have a correctional population of 7 million and this is completely historically unprecedented.

Of course, the risks of incarceration are not distributed evenly over the population if we consider African American men born since the late 1960s who have not been to college, I estimate that about one third of those will go to state or federal prison at some point in their lives, and that’s now 36 months of incarceration at the average for a felony conviction, so this is really a significant period of institutionalization, again, entirely historically novel. We only need go back 20 years to find a time when this was not the case.

If we consider the economic status of those coming out of prison, these are predominantly men, about 93 percent men, very low levels of school, about 11 years of schooling on the average, very low levels of employment after release from prison, about 25 weeks in the year, very low earnings. This is a very difficult to employ population, and I’m going to propose three related measures that can improve employment in this group. The core of this proposal is a transitional employment program immediately after prison for up to a year, full time work in a minimum wage job, and the idea of this proposal is to build regular work routines. This is a group of people who have participated in the labor market very, very low rate and have not developed the routines of steady work.

And this core proposal for transitional employment for up to a year follows the practices adopted by a range of prisoner re-entry programs that have been very positively evaluated. Another acute need in this population is transitional housing, and again, the important point here is this transitional housing must come immediately after release because it’s this period immediately after release when the risk of recidivism is highest. Of course, you can’t be developing these routines of steady work unless you are sober, and so the third part of this proposal of transitional support is drug treatment, again, which begins immediately after release from prison. So, what we want is a housing context which is safe and secure, in which people can be sober, and this can promote the routines of steady work.
Now, all of these things that I’ve proposed take elements from successfully evaluated prisoner reentry programs around the country. And these tend to be small programs that have developed long-standing relationships with employers and rely on very intensive individualized case management. What I’m proposing is, how do we – what I’m proposing is that we try and achieve the gains of these small programs on a national scale. So, how do we scale up? And to scale up and adopt this broadly, I think we need to do two more things.

First, we need to eliminate collateral consequences. What are collateral consequences? Well, under federal law, people with felony convictions and other classes of drug convictions are denied benefits for housing, education, and welfare, and this creates an enormous barrier to reintegration. Now, there’s very little evidence that these collateral consequences, that these denial of benefit serve public safety and I think there’s good reason to think that collateral consequences ultimately impede the promotion of public safety by preventing reintegration. Housing benefits, in particular, are key here; if you don’t have access to public housing because of a felony conviction, then the risk that you pose to the community, I think, is even greater.

The third part of this story, we need to provide incentives to employers. Part of the reason why this is such a difficult to employ population is because employers have extreme reluctance to take on people with criminal records. Well, what can we do? We already have measures: the work opportunity tax credit provides a tax credit to employers, up to $2,400 now, for taking on new hires, ex-felons, and other categories of hard to employ people. So, what we should do in our transitional employment and housing, is to certify people for the work opportunity tax credit to make this an automatic process.

The other thing we can do to provide incentives to employers is to automatically certify parolees for the federal bonding program. The federal bonding program provides insurance – free insurance to employers against theft or embezzlement by the workers with criminal records. So, this is the three-part proposal: transitional services involve up to a year of work, housing, and drug treatment, the elimination of collateral consequences, and improved incentives for employers through the work opportunity tax credit and federal bonding.

Now, how do we pay for this? It’s expensive and it’s more expensive than what we’re currently doing in the form of prisoner reentry services. The general idea is to move costs from custody, prisons and jails, which is very expensive, to intensive community supervision and program, which is relatively cheap. I estimate that this will cost about $7 and half billion at a national level; we pay for this by substantially parole reputation rates, which have escalated dramatically over the last decade. It’s difficult to justify these programs on a purely cost-benefit basis, but we should not be comparing these programs so much to the cost, but to the real policy alternative, which is incarceration, which is an extremely expensive program and delivers little in public safety, particularly as we think about the life chances of people coming out of prisons and
the kinds of lives and families – the lives they lead, the families they raise after release – (applause).

MR. FURMAN: So, now we’ll have Nada commenting on the papers. We’ll open it up to a discussion of the panel after that, and then go to your questions.

NADA EIssa: Thank you, Jason. So, it’s a pleasure to be here to comment on these papers. They offer very different public approaches to rewarding work. Karl focuses on the tax system, Harry on training, and then also employment benefits and public works that would operate parallel to this social safety net. These are very creative proposals which would address, I would argue, somewhat modestly, the concerns about worker opportunities at the low end of the skill distribution. And it’s obviously a broad set of tools that are being proposed here, so I’m going to focus my comments at a very general level. I’ll have a few specific things; unfortunately, I didn’t see the last paper before today, but I’ll have something to say about that and in fact, it fits into some of the comments that I’m going to make.

So, my main comment is that I’m actually somewhat skeptical that we can do much using the current tax transfer system to encourage more work. So, the success of the EITC has always been a model for this. The success of EITC in welfare reform, that encouraging single mothers to enter the labor market doesn’t necessarily translate to other populations or even those to – or even to those eligible parents who are not working today. And I’ll motivate that argument – and actually, maybe I’ll just do it here, since there’s not much time.

But the basic idea here is that when the EITC was expanded, about 50 percent, over 50 percent of eligible single mothers were out of the labor force, so in other words, the pool of non-workers from which we could draw in to the labor force was fairly large. And what the success of the EITC has done, basically, is separate the population of single mothers into those for whom financial incentives matter and they could work, and the rest who face significant barriers to work. And so the question here is, among those who are not working today, what are the constraints? And are the barriers likely to be overcome by modest financial transfers?

Now, an alternative approach would take that separation seriously, and Harry actually followed this line, although he classifies three populations, but just generally, one could think about the hard to employ and everyone else and design appropriate policy proposals for each. For everyone else, the proposals, the way that I would approach this is to really focus on human capital formation and expanded career opportunities.

So, a lot of what we’re talking about here are transfers that increase the wage in the labor market at any point in time, rather than focus on the trajectory of wages. And so, if we think about human capital formation, then we can help people get into those job for which there are – there’s growth opportunities and higher wages over time. And with the exception of the last part, this is a generality, the proposals we have seen today really do cover everyone else, although I might take a slightly different approach here.
Let me come back to the specifics on the papers. There are also some unintended consequences of policies, and they can be important. And clearly, Karl focused on the family formation issue and designed his policies appropriate so that they don’t discourage family formation as much. One interesting issue with the EITC that we’re just beginning to understand now is that the better these policies work and the more they succeed at encouraging work, the more pressure they put on the going market wage, so that some of the benefits actually go to employers. That’s just a cost of these programs that has to be built in, but what we know now suggests that about 30 cents of each EITC dollar actually goes to employers, with the remaining 70 cents going to workers.

So, as I said, the focus should be, for everyone else, for the non hard to employ, the focus should be on human capital formation. One can think about restructuring training dollars that we use today to pay for community college tuition, so current training funding, and Harry will – I’m sure, will come back and say this is trivial, but it what it is. The current training budget of about $15 billion, half of that amount, if you use that to cover the average tuition for two years at a community college, it’s about $4,500, would cover about $1.5 million a year. You could also think about alternative ways, such as providing tax credits for training or education, redesigning the current tax credits that we have now, so that they operate more on the margin and actually incentivize people to go and get more education.

Now, when I focus on the hard to employ, for one the tax cost of supporting people who would work otherwise is high, if the goal is just redistributing, and that’s a valuable goal obviously, then we just need to think about the tradeoff between equity and efficiency and that’s just social choice. So, a lot of what I’m talking about here is really on the efficiency side.

The second point is that the social benefits of assisting the hard to employ are likely very high, and this is as far as I’m going to take it because what we do with the hard to employ is a big question mark and I think some of the ideas here are extremely important, the idea that you need integrated services, you need intensive services to really get those people who face significant constraints, whether they are physical constraints. And for the most part, people who are hard to employ have severe deficiencies in human capital, we’re talking about just basic job skills. And so – in some sense – that’s sort of the way we’ve got to think about this is really to think about people who are out of the labor force and worry how to get them in through these expanded programs and that’s going to be expensive to do, I recognize.

So, let me go back and just say a couple of specific things – actually, a couple of specific issues on each of the papers that may be useful for discussion as we go on. I think, to start with Harry’s paper, which is – which motivates states to come up with new ideas on these integrative programs, it’s likely to work that states will come up with more innovative ideas, more than now, I’m not sure, but the question will always be the scalability of these programs that come up, so states cannot – can design their own programs, I think, and we can evaluate them but this is a problem we face with all
randomized experiments that are more localized. How do we know that they will scale up in some reasonable way? And the extent of the services that we seek need to be provided; it’s hard to imagine that they would operate on any large scale.

The second paper that’s based on the New Hope experiment, I think the other – that’s also an issue that comes up there. Programs that work in small scale may not work in the aggregate, but also there’s the general equilibrium effects on labor markets that we need to worry about. When you’re offering serves to 700 or 1,000 people, you get very different dynamics than if you’re offering it to 16 million people. And again, the issue with the EITC, I think, is interesting where we’re just beginning to see some of these general equilibrium effects on the labor markets.

And the question – one question that I had for Karl is, what’s the tax cost of new workers that are incentivized, that the way that I calculated – back of the envelope – would be something like 10,000, which is reasonable. It’s actually lower than we had with the EITC expansion in 1986. But I – but again, I’m a little bit skeptical that the EI – that the financial – that the incentive that’s created by the EITC for childless adults really is going to have much of a labor supply effect. It could actually do a lot to support work in the sense that it transfers and increases the wage. I would argue that we need to worry a little bit more about the long-term wage trajectory rather than transferring money to people who are in low-wage jobs. So, that’s all that I have. (Applause).

MR. FURMAN: So, thank you, Nada, and I think you gave us a good place to start the discussion. If you look at the academic literature on the EITC, two of the three most important papers that document and basically establish the large incentives it had for participation work by single mothers, one was co-written by Nada; one was co-written by Karl. So, we’re very lucky to have two-thirds of that literature represented here.

So Karl, I wanted to start with you and ask, on the one hand, there’s this point that there’s – we had this low hanging fruit before and the population for trying to get to now are harder, which was Nada’s point. On the other hand, we’re doing so little for that hard-to-reach population now, that maybe at the margin doing more could have higher returns that we would have thought and also, in the context of that addressing the comments about the incidents of the ITC.

MR. SCHOLZ: Yes, so that’s certainly where I started, as I thought about this project, that the array of programs we currently have, as part of the social safety net in many ways, I think, very appropriately focus on families with children. We devote very few federal and state and local dollars to low-skilled workers without children. And I’ve long thought that if you care about family formation, that you want to strengthen incentives for both parents to live with their children and like you care about incarceration and these issues, I think it makes sense, to me, to focus on childless workers. That is, you know, one of the things that you hear very vividly in ethnic-graphic work on low-wage labor markets, is what are the important determinants of mothers marrying the fathers of their kids. And very often they’ll say, we’re anxious for
the guy to have a job. A good job. I don’t need another person to care for around the house. And so, getting people into the labor market and productive jobs, I think, is very important. And so, given that, it seems to make sense or it made sense to me when thinking about these proposals to try to expand the childless (?) earned income tax credit and then think very carefully about these wage subsidies that I’ve suggested.

So, Nada was correct, I think, in characterizing the work, looking at the effects of earned income tax credit on what we call incidents. Who benefits from the earned income tax credit? The work on this topic is very, very preliminary. I don’t think the evidence — well, my reading of the evidence, let’s try to put it that way. I’ll personalize it. My reading of the evidence is that the earned income tax credit goes overwhelming to the recipient and so, both based on Jesse Rothstein’s evidence and some other work that I’ve seen, I think most of the dollars of the earned income tax credit are indeed augmenting the income so the recipients — it comes down a little bit how competitive you think low-wage markets and I think low-wage markets are very, very competitive, which is consistent with this idea that most of the benefits of these credits go to workers.

But, you know, Nada says 30 cents; I say closer to zero. But, certainly, my confidence — (inaudible) — would encompass easily her estimate. I think it is unquestionable, though, that policies along the lines that I talked about would increase the incomes of these workers and make the return to engaging in the formal labor market higher, which would increase employment.

MR. FURMAN: I mean, one other point on the incidents is I would think that employers would benefit if and only if it had a significant effect on increasingly employment and you can think about that in two ways. One is employers are essentially getting a subsidy for employing low-income people, which may not be the worst thing or thought of the other way, that the policy increases labor supply, which would drive down the wage. So, I guess I don’t have as confidence of reading maybe closer to zero than 30 cents. But if it were 30 cents, it wouldn’t necessarily be bad news because that might be the flip side of a policy that was very successful, increasing employment beyond where it would have been otherwise.

MR. SCHOLZ: Yes.

MS. EISSA: I don’t disagree with that. I just think it’s one of the labor market – its one of the effects that we need to keep in mind. It is precisely because of the success of the program.

MR. FURMAN: Right.

MS. EISSA: So in a sense, it’s just a flip side of it but we’re not – so that raises the question, is there an alternative way to transfer money so that it goes to the worker and remains with the worker? Not clear you can do that through the tax system. There’s always going to be some incidents but I would argue that in the long run, that what you want to do is get people into those jobs that pay high wages. I think that’s the idea. And
the ITC does that in part, if it encourages work through on the job training but that, we
know, is not enough for people at the bottom of the education – so many of the bad
outcomes that we see, whether it’s incarceration or just about anything you look at. It’s
correlated very strongly with education. So, the question is can you think of ways to get
people into the right education or skill set so that you avoid some of these consequences.

MR. FURMAN: I wanted to bring Harry in and one question we try to struggle
with is priorities. So if we had enough money, I think we’d – I bet everyone on the stage
would agree to do what everyone else on the stage has proposed. (Chuckles.) If we only
had, you know, $5 or $10 billion a year extra, and in the current climate, that’s a lot of
money if you look at something like the SCHIP expansion or even just funding existing
SCHIP. You’re talking about, you know, sums of money that aren’t much higher than
that. Harry, would you do your proposal or Karl’s and can you explain why? (Laughter.)

MR. HOLZER: Mine and in an instance. No, I – (chuckles) – you know, I think
when you look at these populations, I think you quickly learn is these populations have a
lot of difficulties and a lot of barriers and a lot of constraints. There are limited skills,
limited family pressures, limited time to invest in this training. Of course, once you’re
incarcerated and then the child support issues, the barriers are enormous. So what that
also means is that no single proposal is going to be a magic bullet for any of these things.
And therefore, I would be very reluctant to say any one of these three approaches is the
right one and deserves all those resources.

I think that when you have multi-dimensional problems, you need multi-
dimensional solutions, which look at skills on the supply side and look at jobs and look at
the incentives and supports that Karl and Greg both talk about. So I’m arguing that if you
only have that small amount of money to spend, sort of $5 to $10 billion, which in some
lenses looked big. In a $14 trillion economy, it’s very, very, very small and I understand
the constraints. I understand political and fiscal constraints. I would still argue for even
limited amounts of money to be spent in more comprehensive ways and with a gradual
scaling up.

So I think, you know, Nada’s point about scalability is very, very important. I
think it – we know that things like the EITC, pure financial things, can be scaled up. You
know, there are the incidents effects and all that, but we know – because there you’re just
writing checks, essentially, and relying on incentives. So the kinds of things that Greg
and I are talking about, I think, scale does really matter. So you want to do it gradually
and build evaluation into it while you’re doing it and try to figure out what works
relatively better and works and then maybe change course a little bit as you gain that
information. So, I think that there’s a way to spend the money wisely that enables you to
learn along the way with a long-run goal of really spending those dollars most
effectively.

MR. FURMAN: And Greg, I was wondering, when you were listening to any of
it, if you were at all sympathetic to the argument that these new populations would be
harder to reach than some of the ones that we’ve reached in the past and maybe if that
was part of why you thought of this approach, where you bundled together a bunch of services because it helps? And then the question of it seemed to work best with these one barrier families and do you have any idea at all, from your research, about what you can do to push further to the sort of workers that have more barriers to work that even in your more comprehensive approach, which is much more comprehensive than Karl’s, which is just money, still does not seem sufficient for those sorts of workers?

MR. DUNCAN: New Hope is not, first and foremost, directed at the multiple barrier families or individuals. It had some success with the people who had some barriers but not a large number of barriers. But much more success – well, the greatest success were the one barrier people, the people that couldn’t get the childcare arranged, maybe they had a prison record and need the experience from the community service job. Maybe they had a history of welfare receipt and just need some experience to make it into the private labor market. Those are the people who seemed to be helped the most.

But I guess I would take issue with Nada on the importance for the nonmultiple barrier people of increasing wages; the supreme importance of that. When you talked to New Hope participants, what attracted them to the program and what they defined as their needs weren’t so much, you know, trying to get that $10 an hour job versus a $9 an hour job or a $12 instead of a $10.

It was all about trying to make full-time work work for themselves and their families. It was all about sustaining their family routine so they could accomplish the kind of goals that they were defining for their families. It was getting the total amount of time that they were spending in work and commuting down to a reasonable level so they had some time with their families. It was getting the childcare arrangement setup so that they felt comfortable going to work. It was setting up that health insurance so when their job wasn’t providing it, they would have health insurance for their kids.

So it was really focused on this idea of sustaining full-time work. And, you know, if I were to say what kind of outcome is most important from these programs, I would look toward the second generation outcomes as much as the first generation outcomes. It’s not so much did it increase work or not. It’s what is it doing to the families? What is doing to the kids? And one of the things that didn’t really have time to detail was the nature of the benefits for the children, where the teachers are reporting substantially higher achievement among the whole families compared to the teachers who are rating the control kids. That behavior difference for the boys was an even bigger kind of effect.

So, you know, we don’t know if those kinds of effects would persist but if you carry those effects to scale, I mean, if you could scale up this program and get that kind of effect, there would be the kind of benefits and general equilibrium benefits that would be a multiple of the individual benefits. So I want to focus the attention as much on kind of family process and child well-being as worker earnings and worker employment.

MR. FURMAN: Yes?
MS. EISSA: So I would say that I think that’s important – I do agree that the set of benefits that you provide are very important and that’s an essential way in which we can support work. And I think your paper speaks to that, that at the end of the day we’ve got to talk about the broad social safety net and health insurance is a big part of that. But I do think that we should – so, as you were saying, they’re not looking to get the next higher-wage job.

Well, they should and encouraging that is an important part of what we should be doing because having a $15 an hour job can make for a very different life than having a $7 an hour job and can alleviate some of the stresses with childcare or some of the other concerns that they face. So, I would say it is important – what you’re proposing is important but I think at the end of the day, ensuring that people are on trajectories where they can earn the jobs that provide support is just as important.

MR. FURMAN: Okay. I had one question for Bruce and the we’ll open it up to your questions, which how much would you describe your proposal as leveling the playing field between ex-offenders and everyone else who is trying to navigate the job market and navigate the social safety net versus offering special incentives and new things that you would be eligible for as an ex-offender that you wouldn’t be eligible for without that? And to the degree it’s the latter, how do you build support for that in a political system that might be skeptical of something that was described as you get an extra bonus if you’re an ex-offender?

MR. WESTERN: Yes, I mean, this is the key question politically, I think. I mean, from my point of view, I think we can think of this as leveling the playing field, where, you know – but we’re thinking about the playing field in quite a broad sense. We’re compensating for severe deficits in human capital. We’re trying to overcome discrimination against people with criminal record, which in many states is not legal. But I understand that many others would view this, not as leveling the playing field, but providing additional benefits, you know, guaranteed employment and housing and so on for those who may be least deserving because they’ve bargained with the social compact. To that view, I would say, we all share a collective interest in the reintegration and the full membership of in society, these people coming out of prison. And partly, we share that interest in a very concrete sense because we share an interest in public safety and public safety will be served to the extent that these people are able to return to society.

They’re coming back. I mean, people coming out of prison – people going into prison will come back to society and the question is do we want to reintegrate them and make communities safer and so on or continue their marginalization, their separation, from society, where the risk that they posed to public safety will be perpetuated. So, that would be the kind of political argument that I would make.
MR. FURMAN: Okay. So I’d love to open it up to questions now. What we’d like to do is collect three questions at once and then – well, don’t ask them simultaneously – (laughter) – but we’ll answer them simultaneously. And if you could give your name and your affiliation. There should be eight people with microphones wandering around and when we have three questions, we’ll then open it up to the panel to ask. And with one of our next panelists but –

Q: Rob Carmona from STRIVE.

MR. FURMAN: Why don’t you – you should set a good example with the microphone. Okay.

Q: I’m sorry. Rob Carmona from STRIVE. One of the things that struck me about your presentation is that I thought I heard you say that it’d hard to justify these kinds of investments, if I heard you correctly. And I’m wondering why you said that because I don’t necessarily agree with that.

MR. WESTERN: Yes, no, I shouldn’t –

MR. FURMAN: Oh, why don’t you answer that because that’s a pretty direct question and then we’ll collect more.

MR. WESTERN: Okay, yes – no, I want to be very clear. So, the program would be hard to justify in a pure cost benefit sense. So the benefits that would be produced in terms of increased earnings in employment are reduced for a set of these and would not cover the cost of the program. But that’s not the calculation we have to make politically. The calculation we have to make is against the alternative of incarceration, which I think is impossible to justify economically. So, this is my proposal, I think for me, is much more preferable to what’s happening currently.

MR. FURMAN: So, okay. Do we have other questions so we round up microphones? Do you have a question? Oh, Gene has a question. Over there. Oh, we can start with you then work our way back.

Q: Bruce McClurry (sp) formerly Brookings and my question is we try to impose upon Congress the PAYGO principle when we talk about budgeting. We’ve here proposed a lot of good ideas this morning. What if we tried to impose a PAYGO limit on social incentives such as you’re proposing? You not only have to propose something, for which we thank you, that sounds very good but you also have to tell us or you get somebody else to tell us what we should transfer resources from, where we are wasting money on programs that are designed to do the same thing?

MR. FURMAN: I’m going to violate our three-question rule again. (Laughter.) So maybe we’ll ditch it entirely and if you wouldn’t mind, I’ll take the first stab at answering that. I think PAYGO is very near and dear to the hear of the Hamilton Project
and when we’ve done papers in the past, we’ve always put a lot of pressure on our authors to try to come up with a way to pay for their proposal within their proposal itself.

And sometimes it can be quite controversial. We had two proposals on reforming unemployment insurance and adding wage insurance and those were both fully paid for. One of them, for example, made the argument that short-term unemployment insurance is something that people can self-insure against, so we need to do less there and more for long-term on insurance. When we looked at K-12 education, we said we’re spending $500 billion a year right now. We could certainly spend a bit more but the gains of spending that money better, relative to the games of any conceivable increase in that $500 billion a year, we’re just so much larger, so we really focused on using that money better.

When we looked at this particular area, and it might have been different if you were looking at it 10 or 15 years ago, there just didn’t seem like a lot in anti-poverty programs, where the money was being spent in obviously, wasteful, inefficient manner. That you could just take the existing pool of money going to the EITC or going to food stamps or going to training and just use that money better. Now surely there are things that we can do better and some of the evaluation Harry Holzer is training. Seems less that the big thing that you needed to do was to spend more money in these areas and to spend it wisely.

Now, obviously, if you were introducing a budget, it would be in the context of PAYGO and, you know, we would, you know, reinstate the estate tax and pay for all these proposals with – (inaudible) – something we just paid for by eight different sets of proposals around Washington in probably the last week. So if we were doing a budget, we’d certainly pay for this but it didn’t seem like an area where we saw a lot of waste and ways to pay for it. Within this area, it seemed like new money was really needed. I don’t know if others have anything to add to that or –

MR. HOLZER: I’d like to say a couple of things. You know, we assume these very stiff budget constraints and I think PAYGO clearly makes sense. But just to put these things in context, two numbers I’ll throw out relative to the magnets that you talked about. Greg and I, with a few others, wrote a paper for the Center of American Progress that looked at what costs, aggregate costs, are imposed on the nation – economic costs because so many kids grow up in poverty without these getting addressed. It was a paper that laid out some back of the envelope calculations. We came up with the number $500 billion of lost or wasted output every year because we don’t make the kinds of – so that was one number to keep in mind.

The second is if you look at overall, what’s happened to the U.S. economy in this massive transfer about – in pretax dollars, up to 10 percent of GDP being transferred up to the top 1 percent for a group whose tax rates have gone, you know, that there are some resources – (chuckles) – that I think that can be taxed to a problem, which unaddressed, is adding yet more costs in the U.S. society. So I don’t use that to argue against PAYGO, I
just think there are places where resources can be generated and it can be wisely spent from an economic point of view.

MR. SCHOLZ: I’m a tax guy so we’re good at rooting out aspects of the tax code and saying that’s a tax expenditure that we’re going to use to pay for things. But one of the ironies in thinking about these low-wage labor market issues is the earned income tax credit, I think it’s fair to say, is the most intensively scrutinized corner of the tax code. And there’s about on the order of $8 billion of payments going to EITC recipients that Congress didn’t intend to receive the benefit.

On the other hand, the tax gap is estimated upwards or over, say, $400 billion a year. So it seems – it’s odd, I guess I’ll try to say it in an understated way. It’s odd that the EITC is the most intensively scrutinized part of the tax code when the tax gap is $400 billion and EITC noncompliance accounts for maybe $8 billion of that.

MR. FURMAN: So, continuing to violate our policy, Gene Steuerle will –

Q: I’d like to compliment on this excellent panel. I mean, outside of getting resources, including preventative types of resources to young children, I can’t think of any topic that’s higher on the social welfare agenda than what you’re talking about today. So, I want to congratulate you there. I’m also reminded, like many of you in this room and go to other conferences on things like health care, we’re going to spend something like $200 billion more in real dollars in the next four years just on existing programs.

Then we come to a conference like this and we talk about whether we can afford $5 or $10 billion, I always find that type of calculation fascinating, which is one comment to you, Bruce, is – (inaudible) – as well. But my question to the panel has to do with would I consider the tension that Nada opposed, with respect to what I’m thinking of its target efficiency versus the equal justice issues that started rising when you try and start targeting.

So when you target to a prison population and give them a year’s worth of housing, you know, how do people who don’t go to prison respond to that? Or Karl, when you give money to single workers in the way I think you do it, although, you say you’re very conscious of the marriage penalty, it does look to me that for an unmarried couple getting an EITC with children and a father who perhaps doesn’t live them getting a single EITC, it’s not clear to me you haven’t bumped up the marriage penalty. And if we go to enterprise zones, where we don’t even gather data or empirement zones, and we say if you’re on this side of the geographical barrier, you get the subsidy. But you’re on that side, you don’t.

Eventually we get to these issues of scalability because if you get scalability, it seems to be that equal justice issues start dominating. I think these even came up a little bit in New Hope as well. So I’m really wondering if people might address that tension between scalability really running headlong into the equal justice issues vises the target efficiency-types of issues that Nada so well expounded.
MR. FURMAN: So if you want to – I don’t know who wants to take that first.

MR. DUNCAN: Well, New Hope, I think, is the least targeted in some sense, right? It’s open to everyone; men and women with children, without children, with low wages for their full-time work. You can actually think of targeting if you really wanted to target New Hope on the group where the labor market impacts were greatest. You’d go after these one-barrier families. But what’s interesting is if you look then at the second generation benefits, the child achievement improvements and behavioral improvements, and asked whether the kids who benefited the most matched up with the adults who benefited the most in terms of the greatest increase in employment and income.

That wasn’t at all the case. So, the families that were cutting back on their work hours, not the employment, but the work hours, had kids who had just a big a boost in achievement and behavior as these one-barrier families who are getting much higher incomes. So I think if you target too narrowly on the first generation, you might miss opportunities in targeting benefits for the second generation if you think about the child benefits.

MR. SCHOLZ: So, Gene, your point is very well taken and it’s an important one. On the EITC thing, I’ll just say look at the paper. I’ve been pretty careful so surely there are cases where marriage penalties increased pretty overwhelmingly. Though, the policies that I’m suggested improves marriage penalties. But more importantly, why limit this wage-subsidy idea to the EZ, EC, RZ areas because it raises exactly the issues. Why if you’re living on this side of the street, you’re eligible for wage subsidy. If you’re living on that side of the street, you aren’t.

That’s clearly an unappealing aspect of what I’m proposing. The problem is that this a pretty out of the box idea. It’s been kind of in academic poverty writings for more than 40 years. It’s never been tried and it’s not a policy proposal that would be implemented through the tax code so there needs to be an administrative agency that’s monitoring earnings and writing checks. And so that’s a big administrative schlep, if you will. There’s also some worries about whether it will inhibit wage progression, this issue that Nada’s been focusing on. And so, we need to have a way to evaluate the thing without spending crazy amounts of money.

And so, these are very economically distressed areas. They are well-defined as part of legislative language and so as a demonstrative project, I think it makes sense to try to limit the scale to see whether, indeed, it has the beneficial effects that I and many other writers have speculated about but without breaking the bank. And so, at least initially, you have to tolerate that kind of potential inequity. Although, boy, you’re focusing resources on some very, very disadvantage communities.

MR. FURMAN: Okay.
Q: Thanks. I have a question but I wanted to ask the indulgence for a comment first, if I may?

MR. FURMAN: If it’s a very brief comment.

Q: Okay.

MR. FURMAN: And rarely does anyone ask the indulgence.

Q: Pardon me? (Laughter.)

MR. FURMAN: People usually just proceed with their comment. (Laughter.)

Q: I’m Julie Kerksick and I’m with the New Hope Project in Milwaukee. And I’m grateful to all of you for putting yourselves out there and especially to the evaluators and authors of the New Hope work. I want to make a couple of clarifying comments. Number one, the one barrier really needs a lot more explication then you can do here. So please, as a community organizer and labor organizer, I urge you to not just take that at face value. That is a research shorthand and 40 percent of the families fit the one barrier definition in our sample. So it was actually a very large number of people that benefited.

Secondly, I am really wanting to this – New Hope essentially tested transitional jobs and the EIC for childless adults and we have some lessons that we’d like to share and I’d like to take that forward with Hamilton Project somehow because the third thing leads also to the question then, which is actually for Nada, because I share with you the concerns about suppressing wages, for example, when you supplement earnings. On the other hand, one of the things that we’ve discovered on the ground is that we’ve had a really hard time getting people to take advantage of higher skilled training because they’re so far away from passing the qualifying exams. I don’t mean exams, you know, the tests. The seventh grade math skills that they have to have.

So, obviously, let’s keep kids in school and that’s the best solution. But the people with whom I work didn’t do that. So what my question is, have you seen human capital efforts that you think are really starting to address these adult, low skill and earners?

MS. EISSA: No, I have not but we’ve thought about it. In fact, when I was in charge, we thought about that very particular population that we called very low skilled but trainable in some sense and tried to think about ways that we could reach that population to really get them the basic skills, whether it’s literacy, just post-literacy. Just help them to get the basic skills so that they can then take advantage of the opportunities, whether it’s community colleges or vocational programs. However you want to think about it, but the answer is no and I think that’s why I stopped my slides by saying there’s some populations that are very hard to get because I do think that you need, for those populations, to do these intensive services and I recognize they’re really expensive.
We don’t, I think, know very much about how well they work. We’re just starting, as Harry said, to do some of these evaluations. So we don’t – I don’t know that we have good ideas at this point. I do think it’s worth exploring and I think that it is valuable to try to get more innovation there. But again, I think we have to be careful about what we can learn from that – at the end of the day we’ll have as many questions or, you know, just different questions as where we start. It maybe just worth trying some large-scale programs to see how far we can go.

MR. HOLZER: Let me – if I could just jump in and I'll be just slightly more optimistic than Nada is. I think there are efforts and you see them mushrooming around the country at the local level and getting at least some scale, principally, the community college systems. The state of Kentucky has done the best work on this, really trying to build a state-wide system that really addresses working poor folks with quite poor skills early on. And there’s a whole branch of programs that they call bridge programs, which are trying to give people the basic remediation they need before they even get the occupational training.

Now, again, whether how well it works, we don’t know yet, but you see that effort starting to be developed in lots of places around the country. And a lot of these sectorial programs really target jobs, again, in healthcare, which are, you know, one or two notches up from nurses aid, where the amount of skills you need are really quite limited and with some focused training, can be provided or in construction. You know, trying to get some of these young men into an apprenticeship program. And I know Rob Carmona at STRIDE has a program, where they intensively focus on the guys just passing the test that they need to then get into the apprenticeship program to get the occupational training.

So I think there are promising models out there. Again, need more evaluation work and it needs to be scaled up but it’s not like we’re starting from ground zero or starting from scratch. There are things out there. States are learning from each other and you see a lot of activity already going on at the state and local level that I think we need to be built on and encouraged.

MR. FURMAN: Okay. And we are now have reached the end of this session. We want to leave time for the next session, where we’re going to be talking to practitioners, academics, and people who can give us a bigger picture that puts a lot of these ideas and the great discussion we’ve just had in context. So, we will start again in about 10 minutes at 10:45. I wanted to thank all the presenters and commenters for a great session.

(Applause.)

(End of panel one.)
JASON FURMAN: Okay, we will get started with the second panel. As I said, this panel is intended to provide a broader perspective that helps take some of the issues we just talked about and specific policy ideas and puts them in a bigger context. And my job is just to introduce the moderator and then let the wonderful discussion flourish. And we’re lucky to have Harold Ford, who is a former congressman from Tennessee, currently the vice chairman of Merrill Lynch.

And as we were thinking about what moderator we wanted, I got an email from the ideas primary that I think is at the DLC or PPI organizes. And it was from Harold with his EITC ideas. And it reminded me that he was also a member of the Hamilton
Project advisory council and would be the perfect person to moderate this discussion. So Congressman Ford, if I can turn it over to you.

HAROLD FORD: Yes, sir. Director Furman, thank you for the introduction and thank you for all of your leadership and direction at Hamilton and at Brookings. I’m always excited to be in his presence. His mother is my friend and was a great advisor, remains a great advisor, so he comes from good stock. (Laughter.) So I thank him and congratulate him as well.

This is an august panel that we have. I am sorry that I was not able to join the first panel. I know that Dean Blank and Mr. Greenstein were part or at least were present during most of it. Mr. Carmona might have been part of it as well or been present. I understand it was lively and interesting and invigorating as well. We are sure this one will be the same.

The assembled group here: Becky Blank, Professor Rebecca Blank, who was a former dean of the Ford School of Public Policy at the University of Michigan, former member of the president’s council of economic advisors and currently the visiting, the Kerr visiting fellow at the Brookings Institution, a distinguished author, an accomplished author on matters, policy matters that we will discuss today as well as other matters that affect working people across this country, especially those that find themselves below the poverty line.

We are delighted to have Bob Carmona, who brings a practical and everyday in theory to practice, work ethic, and approach to what we’re dealing with today. As the former executive director and current president of STRIVE, a workforce training program with more than 30 offices in 20 cities across the country, a board member of the Workforce Alliance and the New York Employment and Training Coalition. We look forward to hearing Mr. Carmona’s comments and thoughts and ideas and particularly, as many of the policy experts and big thinkers on this issue meet up with those who are actually practitioners on the home front.

Bob Greenstein – I joke with him because I have known him for some time. He has not always agreed with my positions on the issues over the years. When I was in Congress, I was proud to call him a mentor, as many of us in public life are, largely because he’s been as consistent and as true and as sincere to his beliefs and convictions over the years on a variety of issue that involve federal spending priorities, especially as they relate to domestic policy issues. I’m excited that he’s on the panel.

As I shared with him, I’ve never known if his last name was pronounced Greenstein or Greenstein. My personal rabbi from Memphis spells it the same and calls himself Greenstein, but I learned that my friend Bob calls himself Greenstein. So I’m delighted that he is here and look forward to not only his ideas on these issues, but hope he would even share a little bit about where he thinks this Congress may go and where the White House and Congress may end up, rather, as they negotiate a budget.
And finally, my favorite Democrat in the Republican Party – (laughter) – someone who –

JACK KEMP: There once was a democratic Republican Party – (laughter) – 1800.

MR. FORD: Someone who, in all seriousness, whom I believe embodies the very best in politics. Politics at its best, I think some would agree, if not all is always about ideas. And whether you come from one part or one end of the ideological spectrum or one political party, you can only hope that your adversary or even your ally in your party or outside of your party will challenge you with new ideas, with new approaches, and with meaningful, constructive ways in which to do things.

As a former congressman who has never been afraid to talk about capital formation and the use of public policy, particularly tax policy, to accomplish the goals of creating opportunity for all, as a football player, professional football player – and I hope he regales us with a few stories – and as the former secretary of Housing and Urban Development and as his party’s number two, party bearer, in ’96 as the vice-presidential nominee for the National Republican Party under Bob Dole, he has been as consistent a politician, a public figure and a political figure in his views and ideas and approaches to addressing issues of poverty, to addressing issues of capital formation for those who find themselves at the bottom of the ladder. Secretary Kemp, we thank you for your time.

MR. KEMP: Thank you, Harold.

MR. FORD: And thank you for your commitment to public life. Let me jump right into it. And what I’d love to do is just to open up and ask a broad question. And I understand there will be questions from the audience and we encourage that. If members of the panel could only do one policy, could only do one policy reform or make one policy recommendation that would create somewhat of an overhaul to help make work pay and reduce poverty, what would it be? I’d love to start with Dean Blank and do a round the clock if we can and hear from the panelists. So Dean Blank, big policy, how would you do it?

REBECCA BLANK: Yeah, it’s an honor to be here and I’d say I love being on a panel with Congressman Ford. We got to know each other – he’s a graduate of the University of Michigan, which is very important, and I was the dean there at the Ford school. And one of our first commencements, since we couldn’t bring Gerald Ford in that particular year, we brought his brother Harold in – (laughter) – who gave just a wonderful, wonderful talk. So big policies that work – I’m going to disobey the laws. I’m going to say two things actually.

One, if you are worried about low-skill work, we’ve done a lot to bring low-skilled single moms into the workforce. And there’s a lot more we can do that this long agenda, but at this point, I really think we need to spend some more time thinking about the men, and particularly the men coming out of jail, the men who are fathers, and the
men who are increasingly dropping out of the labor force. And there’s good evidence to link those dropouts, you know, the decline in formal labor-force participation with declining wages, which the men are facing even more so than the women.

So my first policy is definitely to increase the Earned Income Tax Credit for individuals who do not have children in their households because many of those individuals are connected to children and it will stabilize their lives and stabilize the lives of those who they are connected to if they are more involved in the workforce and earning higher incomes. So that’s comment number one.

Comment number two, which I’ve got to make, is that there is a group of people out there who are not in the labor market and for whom it’s not just a matter of slightly higher wages and more jobs. And those are people who are more disconnected, who face multiple barriers to work. There’s really clear evidence right now that among the single mothers, a growing population of low-skilled single mothers is neither working nor receiving welfare, and that is a group we need to worry a very great deal about. And I think proposals that are going to try to reach out to the population and that’s very heavily involved often with the mental-health community as well.

And it’s not just women, of course, who are out of the labor market and need additional mental health services. So thinking about specific and targeted ways to bring them into the labor market to deal with the barriers that they face before they are going to get into work or provide them with a safety net if indeed you think work just isn’t an option, rather than leaving them and their children without income is absolutely mandatory.

MR. FORD: So EITC and targeting resources for those –

MS. BLANK: Targeting those with multiple barriers to work who are not working and now no longer have access to some of our safety-net programs.

MR. FORD: Rob?

ROBERT CARMONA: First of all, let me thank the principal of the Hamilton Project for having me here. I would have said I was slumming because – I’m not slumming today because I work in Harlem, but everybody knows Harlem is prime real estate now – (laughter) – so I’m not slumming. But Becky kind of took the words out of my mouth. This concentration on men – the more that I do this work, the more I become convinced that one of the most devastating things in our community is lack of male involvement in families. I mean, one of the previous panelists, you know, focused on incarcerated men and all of the barriers that we’ve erected to keep them incarcerated even once they’re released to the extent that we can take those away.

I mean, a very simple thing, like a lot of guys that go to jail, particularly in New York State, don’t have access to higher education. And all the indicators show that if they do have access to higher education, the recidivism rate drops from like 65 percent on
average like 7 to 8 percent. And, you know, things like being able to live in public housing and the like. So, you know, my vote would go for concentration on that and policies that enable individuals that are formerly incarcerated to kind of become part of the main –

MR. FORD: Do you see the EITC working in Harlem? And how, in light of what Dean Blank – and there’s a lot of attention here in Washington now, even at the DLC where I am, there’s talk about that?

MR. CARMONA: I do, but that is kind of after the fact, for me as a practitioner and anybody who’s a practitioner out there. I can’t afford to think big picture, all right, because it would become too frustrating. When you’re working in the hood, so to speak, you’ve got to look at it one client at a time, one success at a time, because taking the big picture is kind of overwhelming and debilitating, quite frankly.

I made a – I had a question to – at the earlier panel, and I think we are apologetic about the kind of investments that Harry and his colleagues ask here, and I don’t think that we should be apologetic. Clearly, you know, we have to focus on what can be done in Washington, but I don’t think that the principles here in Washington have been challenged the way they should. And I’ve just got to say this, a lot of the work we do is in spite of what we see. We want poor folks to be accountable.

And if you look at the average poor person, if you look at the Daily News, the New York Post, and papers like that, people can read them and they’re at the fifth grade level, so one think that they get is that people at the highest levels of government, people at the highest level of business have been blatantly unaccountable. And they can read that, and they – well challenge them then to be accountable. Look at the larger side, you’ll say, why should I be? The people that lead me are not and these are the examples that I follow. So, in a lot of respects, people in those communities get their unaccountability honestly.

MR. FORD: Mr. Secretary, you’ve never been timid about big ideas, offering big ideas and big change. And as a leader of a former large organization with the government with responsibility in these areas, if you could send Secretary Jackson memo that he would follow, just to modify the question a tad bit for you, one big – and I heard you nodding loudly when Dean Blank made the point about incarcerated men and the barriers. What would that recommend – what would that policy recommendation be to Secretary Jackson – he’s a good man – for he and the president to follow?

MR. KEMP: Well, first of all, thank you for the wonderful introduction and to pay you the compliment, you’re my favorite Abraham Lincoln Democrat – (laughter).

MR. FORD: I’m glad you chose Abe Lincoln – (chuckles).

MR. KEMP: Yeah, right. And I want to congratulate Brookings and the Hamilton Project and with specificity. I read through not every line but all of the ideas
being expressed by the Hamilton group, and they all are absolutely wonderful ideas for public policy to be reformed in our country. And I like what the dean and you, Bob, talked about in terms of concentrating on African-American men and male of color.

I’m going to take it up a little bit though. And by the way, there really was a Democratic Republican Party; Mr. Jefferson beat the Federalists by being a Democratic Republican. It’s a beautiful name, I love it, and I use the word democratic in a way that I think would be applicable, not only to the politics of our country, but to the economics, I think we have to democratize our system. I think our system works very well once you’re up on the rungs of the ladder and you can climb to untold levels based upon your own merit, your own determination, your education, as Bob pointed out, et cetera.

I have made a case that – in fact I wrote a chapter for John Edwards’s book on poverty, that I thought what was really missing in the debate so far that I’ve been looking at, both from the center left to the center right, is the type of a policy that could help democratize our capitalistic system. Big idea: Lincoln’s Homestead Act of 1862, 160 acres of land free and clear and under contract, if you lived on it and worked on it and improved it. You don’t have to tell people to improve that which they own. As soon as they own something, they begin to improve it. So, that’s big idea. The Moral Land Grant College Act of 1864, establishing our agricultural colleges, goes to what Bob was talking about even though it hasn’t been as accessible as would be higher education, particularly to those who are incarcerated or coming out of incarceration. Franklin Roosevelt, G.I. Bill, FHA, two big ideas of the ’30s and ’40s that helped reduce the gap between wealth and poverty.

So, what would I do if I could have an immediate impact on one policy? I’m for the EITC being liberalized. It was a very, very positive – but what does it do? It offsets the payroll tax. When a working woman comes off welfare, she loses her welfare food stamps and healthcare and the tax – the after-tax benefits of not working sometimes are higher than the after-tax benefits of going to work. So, here’s my proposal, and it’s not something that I’ve just come to lately. It’s predicated upon the Bed-Stuyvesant Project of Bobby Kennedy circa 1968. He said, and I quote, “to ignore the potential contribution of private enterprise is to fight a war on poverty with a platoon while the great armies are left standing aside.”

So, what would that great army be? Some form of democratic capitalism; to it, eliminate the payroll tax altogether. Take the areas that have been redlined in our country’s history: Watts, Los Angeles, East L.A., East Harlem, South Bronx, I can go through them because I’ve visited them all when I was secretary of housing, South Side of Chicago, Overtown Miami. I won’t try to label every, but take those redlined areas and just put them up on a huge U.S. map in front of the United States Congress and then say that every redlined area in our country would be green-lined for a zone of enterprise that would pay the woman who comes off welfare, the father who comes off unemployment or out of prison, faces no payroll tax, up to 200 – over 200 percent of poverty level. Eliminate the capital gain tax, which is a stupid tax, by the way; it’s not a
tax on the rich, it’s a tax on poor people who want to get rich who can’t get rich on wages. The only way to create wealth is to earn, save, and invest.

So, anyone who invests his or her capital in a newly generated green zone, enterprise zone, empowerment zone – whatever you want to call it, I don’t need my name on it – no capital gain tax, no tax on the wages of a working woman or man up to 200 percent of poverty level. Get ready for this: no corporate tax for 10 years, jump-start that economy. No tax on the small business, no tax on a corporation who would put their plant, their business, their technology to work hiring people in this formerly redlined, now green-lined area.

My favorite rabbi in Bethesda with whom we lit a menorah Saturday night for the fifth night of Hanukah, Rabbi Stuart Weinblath of Bethesda, quoted at dinner Maimonides, the 11th century Talmudic philosopher, Moses Moses ben Maimon (?). He said, “the highest form of charity is to prevent a man from taking charity.” The greatest form of charity in Judaism is to remove the need for charity, and there’s only way to really remove the need for charity, that’s provide education and a job and an opportunity to climb that ladder that we euphemistically call American, but it ain’t American, it’s Chinese and Latino and Hispanic and African and Asian and we’re finding out Macedonian, whatever. That’s my big idea for the moment.

MR. FORD: Yes, sir, it’s pretty big, too. It seems appropriate that we would turn to Director Greenstein to give us the answer to the question, but to put some of the ideas in perspective, 20 year historically from what impact ideas like these have had on the budget and where we are today and how we could incorporate some of these ideas without causing short, intermediate, or long-term harm to the projections regarding surpluses – but we haven’t really had a surplus conversation in a while – but what impact it would have in the short term on our debt picture?

ROBERT GREENSTEIN: Let me say three things on the poverty front, and I’ll try and briefly mention the debt picture at the end. I think there’s a distinction between what would be the most important policies to make work pay, reduce poverty over time, and an immediate issue that we’re facing. We have about a 50 percent risk, as I’m sure everyone in the audience knows, of a recession. In recessions, poverty goes up significantly; a number of people who were poor become poorer.

Now, the front line in a recession is supposed to be the unemployment insurance program, which in theory should protect those low-income workers who succeed in going to work if they, due to no fault of their own, lose their job in a downturn. But we all know the unemployment insurance program doesn’t work very well for low-wage workers, it only covers about 37 percent of the unemployed now, and does much less well for many low-wage workers, particularly many women who are less than full time workers with young children.

Reforms to address this were called for by the bipartisan advisory committee on unemployment compensation 12 years ago. Congress has never moved on them, except
that some of the key things were passed two months ago in a deficit-neutral bill by the House of Representatives. It has been sitting in the Senate for two months. These are reforms recommended, again, 12 years ago by a bipartisan commission. They’ve got to be put in place before unemployment really starts to rise significantly. Should that occur, the Senate could attach them to something, they could be enacted in the next 10 days, but they won’t be. That’s unfortunate.

So, this is the most immediate thing, like it ought to be done in the next 10 days to do. Thinking larger, getting closer to the topic of the panel, in the area of making work pay, it won’t surprise anyone who knows the Center on Budget’s work, that we’re very attracted to Karl Scholz’s proposal regarding the EITC expansion for childless workers, given the large role we played in its creation in ’93 and the center has been proposing since about ’95 a major expansion in this. Further, I won’t repeat the reasons, Karl outlined them eloquently on the first panel, but I want to add to this, if we’re looking about big gaps in the make work pay area, and we’re talking about a significant hole, particularly for men and for childless workers, another growing hole is the lack of adequate resources for adequate quality childcare to better enable low-income parents to go to work. And the gap between the childcare needs and the childcare resources that are being made available is growing significantly year by year and that’s got to be a part of the make work pay agenda as well.

But my third point is that I would probably put something else ahead of either of those things, although it isn’t precisely make work pay, it’s poverty, but not make work pay. And that is the proposal set forth in a recent outstanding paper, I recommend every read, by fellow panelist here Rebecca Blank. It’s in the Future of Children volume that I think came out this fall. And in this paper, Becky points out that the share of low-income single mothers who have neither employment nor cash welfare assistance has roughly doubled since the early ’90s. It has been growing even during the period of economic recovery, the census data show that about one third of all poor children now have incomes, even after counting non-cash benefits, below half the poverty line, in significant part because a growing share of them are in what Becky calls these disconnected families.

And the changes made last year in the TANF program will pretty certainly make this problem worse because they make it harder for states to tailor their TANF programs to provide the services that these multi-barrier families face. As Greg acknowledge, for all the – I love the New Hope – I love his proposal in the New Hope Project – but as he noted, it isn’t really for these severely multi-barrier families, to a great degree.

So, one more point here: what really struck me in Becky’s paper was she makes an analogy between these families and the flow-out after deinstitutionalization for mental institutions several decades ago, which was liberating for many people who were able to then make it, but there were a subset of those people who sank, didn’t get the help they needed, and became homeless. And she notes that the welfare policy changes of the ’90s, many families went to work, got less poor, climbed out of poverty, but we have this group of disconnected mothers, and she notes some of them may have been able to put
employment together for a while, but their physical, mental problems, depression, whatever, ultimately defeat them, or their family may have housed them for a while, but ultimately that’s unsustainable. And she worries, and got me even more worried than I was before I read her paper, of a growing problem here or a growing population of mothers and children without employment, without much assistance, really at the bottom, and large numbers of kids involved.

I won’t – she has proposals she can talk about, about how to try to address that, but I think that dealing with those disconnected families has to be one of our higher – highest priorities in the poverty area alongside making work pay; not one or the other, we’ve got to do both.

MR. KEMP: I want to thank Bob for not suggesting that the budget consequences of the Kemp idea would destroy the fiscal conservatism of the United States. Thank you, sir.

MR. GREENSTEIN: Let me –

MR. KEMP: I’m sure you’ll hit it later though – (chuckles).

MR. FORD: Did you want to – you said you would want to make a minute just on what these implications are for –

MR. GREENSTEIN: Well, what was really covered, I thought, by Jason Furman in the first panel – I’m an ardent believer in the pay as you go – but, what pay as you go really is supposed to mean is not that good policies shouldn’t be implemented, but if they’re important enough policies, then you ought to be able to find the ways to pay for it. Certainly, not everything else in the tax code or in the spending side of the budget is as high a priority in my view as the things we were talking about here today. So, I thought Jason outlined it well.

The one question I sort of have, and I don’t know enough about it, this is more a question for Karl Scholz or others, and this is – there’s only very small amounts of money involved – but my sense is that there’s a little money that might be gotten from some changes in some of the existing tax breaks that are designed to spur employment of low income workers, but that really aren’t very effective in doing that.

MR. FORD: Bob, let me ask you a question. Now, you talked about some of these ideas are after the fact, in light of what Bob’s analysis of Dean Blank’s paper or one of her essays, and in light of what Secretary Kemp called for, the no cap gains and no payroll tax above the 200 percent of poverty for – and no taxes for, no corporate tax on companies that may locate in areas where we find many of these depressing statistics prevalent. Is that too after the fact?

And then when we come to Dean Blank, Dean, if you would just comment on the points that Director Greenstein made regarding your essay and who you assess the impact
of what Secretary Kemp – because I’m – I’d love – the ideas, I think, are the most important. It’s clear, I’ve not heard anyone quite say right off the back yet, maybe it’s in the last panel, that a good job is probably the best way to do this, but it seems like Kemp’s ideas sort of move in that direction a bit. And I’m curious if that’s too after the fact, to borrow your term?

MR. CARMONA: I wouldn’t – I don’t know about characterizing it as after the fact. I think that, particularly people that – the people that we’re talking about that these policies would ultimately impact, pay absolutely no attention to them. If you have conversations with individuals, you know, at – that are served by organizations like STRIVE, and there are many of them, very useful and good organizations, they are so concentrated on their day-to-day existence, that the challenge of looking at that big picture is just too overwhelming for them.

I think Becky’s point about this growing population of women that are disconnected, I think, is certainly critical as a challenge that I – you know, that we also mentioned about – that men face in our community. And you know, one of the things that I think, in coming on me to mention this, is probably a positive and that may be able to impact living wage jobs for people in our communities, is this notion that you’re going to have the biggest exodus of retirees in this country’s history over the next 10 to 15 years. And there are a lot of jobs that pay quite well that are not going to be able to be sucked up through immigration and all that, that I think that companies that Secretary Kemp may be referring to, are going to have to look at individuals that heretofore they haven’t looked at.

Harry made a comment about STRIVE doing a program where we’ve attempted to marry workforce and education. But in order to get the contextual math and reading to do the kind of jobs we’re talking about, you have to at least be at the tenth grade level, you know, engineering – you’re always going to need a plumber, you’re always going to need a carpenter. I don’t care how high-tech we get, you’re going to need a plumber. And these individuals are retiring and they made a good deal of dough so their children had the opportunity to go to college, and we’re looking at these kind of individuals to go into these occupations. But there’s going to be a, A, a recognition that there has to be a broader view of what we characterize as education and that because there’s, in my view, been a massive disinvestment in education, we have people coming to STRIVE, even high school graduates, at the second or third grade level. So, we can –

MR. FORD: Reading at the second or third grade level?

MR. CARMONA: And they’re high school graduates; forget about those that are dropouts. But if we can understand the link between education and workforce and make the kind of investments that we need to do, you know, different sectoral strategies, there is some – there’s a silver lining out there.

Most of us in this room are college educated and we are not concentrating on the fact that the preponderant of the people in this country are not going to go to college. I
think maybe 30 percent of Americans go to college. There’s a whole slew of occupations that poor folks can master if we make the appropriate investments in education at this point. Now, it’s a long-winded way and I don’t even know if I answered your question, but that’s my story.

MR. FORD: In Harlem, would a two – would a no corporate tax and no payroll tax of 200 percent, would that attract? Is that something that would inspire, incentivize the kind of workforce training and encourage people to go out and get the skill set needed to keep the job? Get a job and keep a job?

MR. CARMONA: It may be – it may be attractive to the employers, but you know, given something like that, I would wonder where we’d get the money to meet the bread and butter needs of the communities. I mean, if there’s no tax, who pays for services? We’ve got to ask, you, Jack. You know, things that we take for granted.

I think it would be attractive to employers, but most poor folks, they don’t think about taxes. And they’re at a tax rate that’s so low, I’m not sure what the significance would be to an individual making that kind of money.

MR. FORD: Sure.

MR. GREENSTEIN: Again, others like Karl know this area better than I, but I don’t think the track record on place-based tax breaks to spur economic development has been all that impressive. And the revenue loss from the idea would be large. I’d go in the other direction; I’m still a fan of Ronald Reagan’s 1986 tax reform act where we tax all income, we try to tax all income at the same rates. We tax capital gains and ordinary income at similar rates, rather than moving capital gains taxes down towards zero.

If I were to make a change in the tax code following up on what Rob’s talking about with education, I look in a different direction. I look at the fact that the evidence is quite clear that the costs of college, whether it is community college or four-year college, are a significant barrier for many kids from low-income families. The evidence showing that the existing tax credits in the tax code, the hope credit, the life-long learning credit, and not to say, things like the 529s, the evidence is that they have near zero effect in increasing college attendance. They give tax breaks to people who would’ve gone anyway, and they’re no refundable, so the very people for whom a tax-based approach for tuition assistance could have the biggest bang for the buck, the very people we’re talking about on the panel, are shut out.

Congress is talking about further expansions for middle and upper-middle, possibly going up as high as $180,000 a year, students through expansions of these tax credits. The first thing that ought to be done is to make those credits partially or fully refundable and provide a better ability for low-income students to attend school, and if they do attend, to stay and graduate and not have to drop out half way through for financial pressures. That’d be my first tax-based priority in the poverty area.
MR. KEMP: It’s interesting to me that whatever tax credit you’re talking about does what? It offsets a tax. All I’m saying is, why not eliminate the source of the problem up front? No tax in a green-lined area where they’re not paying taxes anyway. How do you lose tax revenue if you cut the capital gain tax in an area where no capital gain taxes are being paid at all? I don’t know, Bob, if you read Henry Louis Gates’s piece in The New York Times, I think a week ago – he studied 25 African-American families that were very successful. I’m not talking Oprah or Bob Johnson, we’re talking about families that were successful knowing there was a huge problem –

MR. FORD: You’re talking about black families like the Kemp family, is what you’re referring to – (laughter).

MR. KEMP: As a certified African-American on this panel, the cradle of all humanity is Africa; we’re all African-American. Henry Louis Gates – Skip Gates, I gave him an honorary degree at Howard University; we’ve become penpals since then – discovered that where people have ownership opportunities, particularly in the African-American community, which he was addressing, the ability to generate wealth and get out of poverty was enormous. The trouble is, there’s not enough opportunities to own something, i.e., property, a stock, a bond, a home.

And I think preventing a recession would be important. Will I wait for that recession to come? We’re already in a housing recession, and the Fed, which I think kept interest rates too low for too long, encouraged these ARMs to be given in the sub-prime market and now, as interest rates climbed up to 5.2 under the new chairman of the Fed, who’s getting hit the hardest? The sub-prime market, where they’re losing those homes; 65 percent of all the defaults are in the ARMs, the adjustable rate mortgage areas. So preventing the recession by cutting the Fed fund’s rate should have been cut 100 basis points, at least 50 basis points.

Twenty-five basis points was nothing, A; B, I really want to make the point to you again that eliminating a tax that is not now being paid, the creed and incentive for capital to come into that area – if you look at the most successful cities in the world, Hong Kong, Singapore, Dubai, they run from Asia to Middle East to Africa, are the lowest tax, freest enterprise cities. I’m not talking laissez-faire, 18th century, Darwinian capitalism; I’m talking about a social safety net, all the things that the Hamilton project have talked about. They’re great, do everything we can, but I don’t think the budget – I remember when Charlie Rangel introduced his bill in ’98, and it went to O&B. They said, we can’t afford it, $5 billion over 10 years. We couldn’t afford it. So the Republicans turned it down. Charlie Rangel pushed it, Bill Clinton signed it, changed the name to empowerment zones and I’ll make a case, Bob, it’s doing pretty well in Harlem. Why not do it in a turbo-prop way, and eliminate totally the capital gain tax for 10 years because a corporate tax for 10 years and a payroll tax in perpetuity.

MR. FORD: Dean Blank?
MS. BLANK: So the question of whether you want to focus a lot of resources on a few target areas, or want to do things that are little bit more, you know, universal in the sense of hitting anyone who is eligible across the country, is a really important question. I guess I must say, I have a lot of sympathy for Bob Greenstein’s point of view here, that a lot of the things that we have tried in more disadvantaged communities, many of them tax-based, have ended up basically shifting around where the jobs are without having very much of a net effect of job growth at all, and they’re quite extensive.

MR. KEMP: Give me an example.

MS. BLANK: You know, people have evaluated the enterprise zones fairly clearly, and said that the enterprise zones of the 1980s ended up basically costing, you know, multiple tens of thousands of dollars with very little job creation. There’s four or five major research studies that essentially say that.

MR. KEMP: Note the – excuse me for arguing, Dean, but the empowerment zones that have signed into law by the Republican Congress and a Democratic president, i.e., Bill Clinton, there is no real tax incentive other than tax credit based on wages. What I’m suggesting goes far beyond just a little tax credit. I’m eliminating the tax on anybody that puts their capital at risk in that area.

MS. BLANK: No, I understand the radicalness of your proposal, believe me – (laughter) – you know –

MR. KEMP: But you said it wouldn’t work.

MS. BLANK: But I guess the question is, do you think the problem is the taxes. And, you know, I would much rather see a set of proposals that create jobs broadly and that subsidize wages broadly, so that no matter where you live, if you’re a less-skilled or lower-wage worker, you’ve got an incentive to go to work and you’ve got a way to stabilize your income. And to target that just on one – you know, and a small number of communities, you know, first of all encourages everyone, you know, who’s low-income to live together. And everything we know says that’s a bad idea; you actually want to disperse people and create quite a bit of integration across income levels. You know, and you really don’t want to provide subsidies to employers here. I mean, the people you want to get the money to is not the employers but to the families and the individuals. And a lot of the tax-based strategies – and yours is different than what I’ve before, I’ll freely admit; maybe it’ll work differently. A lot of the tax-based strategies end up giving more money to the employers and not getting as much through to the people.

MR. GREENSTEIN: And Rob was talking about how Harlem was becoming prime real estate. Now, had we had a big tax break in Harlem a few years ago of the sort you’re talking about, people would now be saying see, Harlem is moving forward economically because of the tax break. But it’s happening without those tax breaks. I think it’s very hard to make those kinds of things work.
I would rather invest more money in something you’ve also been a big proponent of; I would both increase the number of section 8 housing vouchers, and try to take all the – there are 2,400 public housing authorities throughout the country. In theory, vouchers are portable. You’re in an inner city, you have a voucher, there’s a job in the next town; you can move to the next town and use your voucher there. In practice, it’s hard to make it work because of this vulcanized structure of all these little public housing authorities. We ought to, in my view, consolidate, metro-area wide, the housing authorities, make the portability work, provide more vouchers and empower people to move to where the best jobs and the best schools are. I would do more of that sort of thing.

MR. KEMP: Harold, everything – I want to say I agree with just almost 98 percent of everything that’s been said. Republicans love school vouchers, and my liberal Democratic friends love housing vouchers; why not link them together and have – no, seriously. You just mentioned you want a voucher for housing to get a better education. Why not link a housing and an education voucher?

But, to go back to my predicate. Everything we’ve talked about, I think just about everything, Harold, we’ve talked about here is either subsidizing a wage or a tax credit against the tax on the wage. All I’m saying is, find those areas, do the macro thing, and I would support the Hamilton Project on almost everything I’ve read of it. There’s not a bad idea – they’re all good ideas.

But why not do something that is so radical that it goes to the heart of what’s happening in Watts, Los Angeles? There is no capital, and I’m going to quote Jesse Jackson. He said, capitalism without access to capital is an ism, it’s an abstraction. We’ve got to make capitalism work or it’s not working, and the only way to do it is to incentivize men and women of affluence – some will be white, some will be black, some will be from other countries, whatever, who bailed out UBS, Singapore sovereign wealth fund; who bailed out Citibank; Abu Dhabi. Does it bother anybody that Abu Dhabi invested in Citibank? It doesn’t bother me a bit. So let’s make capitalism work by really incentivizing it instead of – and subsidize every wage you want and have every tax credit you want; why not try something radical – not left or right, I don’t think it’s right or left. So I’m disappointed we end up debating whether a tax incentive would work. You’d eliminate the capital gain tax in Watts, Los Angeles, for any man or woman who puts her capital, his capital, at risk in a job-creating enterprise.

Folks, I am, I guess, upper-income. My daddy was a truck driver. He bought the truck, started a trucking company, and he had access to capital. There is no access to capital in those redlined areas of America, and I think what’s happening today is re-redlining, de facto.

MS. BLANK: I want to talk a little bit about – it falls right under what Secretary Kemp is saying about access to formal financial services among low-income families. Large numbers of low-income families do not hold checking accounts, regularly use various payroll loans, which end up at huge interest rates. And in part because they have relatively unstable incomes, you know, need something that softens consumption for
them. And one of the real things that we need to think about, and particularly in disadvantaged areas, is making sure that our banks have availability of accounts that are open to low-income families that make sense for low-income families.

So you don’t need the huge minimum deposit; you don’t have large prices for every check that you write, but there are incentives for banks to serve the low-income and moderate-income community, in terms of financial services, to provide alternative forms of payday loans that don’t have – that might have higher interest rates than longer-term loans, but don’t have the 1,000 percent interest rates that you see. And that’s one area of; you know, making sure that low-income families have access to the same capitalist structures and banking structures that all the rest of us have. That, I think, is highly important and particularly important in the low-income neighborhoods the banks seriously under-serve in all sorts of ways.

MR. FORD: You all have efforts and STRIVE has been a part of any kind of partnership like this. This is often talked about, with obviously the savings rates being incredibly low, access to –

MR. CARMONA: Well, we’ve always had what we would characterize as financial literacy kind of classes; get people to become more aware of the value of that instead of, you know, relying on cashing their checks to local check-cashing and things like that. But that’s, I think, something that’s cultural and in some ways embedded, that the financial literacy classes try to address, so we do.

MR. FORD: My congressional district was Memphis. Didn’t take up the entire city, but it was encapsulated there. And I’m always fascinated when I hear conversations about what to do for people that live in these communities. And I was blessed to serve on the financial services committee to Congress, and whenever we had a challenge with the financial services community we did the logical thing; we invited them in or they had a lobbyist bring them into the office, and they would explain their needs. And we, most of the times, responded if not favorably, doggone close to favorably to what it is they want. This population of people we oftentimes kind of talk around, above them, beneath them, without taking the conversation directly to them. And if capitalism is to be believed, I don’t care where you live; you’re excited and motivated by the opportunity to be rewarded for whatever it is you do. In most of these communities, a lot of the communities that we’re talking about here – and I would agree, I don’t think there’s much difference. There’s not as big as a chasm between, I think, what Kemp is saying and what others on the panel are saying regarding not confining this to geography, and not limiting to a certain area, but making it broader-based.

I did a poll in – I ran for Senate last year and didn’t win, and did a poll amongst poor people, amongst middle-income to poor people. And you know, the thing they associated most – and this is in Tennessee. What people associated most with being rich in America; tax cuts. They said that rich people got tax cuts. So, you know, we used the
data for a variety of reasons; we largely used it initially for developing and organizing a political message.

But the more I thought about it, it really had a bigger policy implication. And if indeed poor people associate rich people with getting tax cuts, it explains a lot of political dynamics and even some of the success at the national level that both parties have, and we might as well prepare ourselves for a pretty robust, if not ugly discussion about one party being for tax cuts and another party being against them when frankly, the party that claims they’re for them oftentimes constructs regimes that are more beneficial to one group or a smaller group of people than they are everyone else, which is one of the reasons I applaud what Kemp is saying. Whether we think the impact is too detrimental to the overall budget, whether the practice has been as universally positive as we’d like, the reality is if you say to someone earning $30,000 a year, you’re going to get a tax cut, I found at least in this little parochial poll we did, that people responded and reacted.

I would contend that one of the reasons that Harlem has emerged is there have been a number of – the real estate has emerged has been a number of reasons. One of the reasons is that there’s not enough room in lower Manhattan, so people are moving to upper Manhattan. So there a number of different – if someone now is a property owner there, I can tell you it’s expensive in New York City now, but it’s even expensive up in Harlem.

But I mentioned it only to say that, as we talk about tax cuts and tax incentives and vouchers, the other interesting thing I found about most hardworking poor people where I’m from is that they all love the idea of education vouchers. I mean, if people who actually would be impacted by it, if you poll them, the parents whose kids are in these really bad schools, they don’t know – and here’s where I think you’re absolutely right, Mr. Carmona. They don’t know what a voucher is, they just know you’re going to get their child out of the setting their in that’s not teaching them right. And if there’s an opportunity for something better, then you’ve got to be willing to support it.

The reason I think the Hamilton Project is so critical to all of this, and the reason this panel is so important, the conversation is so important, is that we need to begin to sort of transcend all of this kind of partisan political boundaries because as you stated so eloquently and powerfully and simply, people that we’re trying to serve, they don’t think about all of this. I mean, they don’t think about who they’re paying taxes to, if it’s local, state or federal; they don’t think about whether it’s a Democrat or Republican idea; and as you said so well, Bob, there’s a plan that’s been in place for 12 years that the people who we want to take advantage of it aren’t taking advantage of it.

Now, I happen to think tax cuts and incentives work. I now work on a street –

MR. KEMP: Careful, now. Careful.

MR. FORD: I actually work on a big street up in New York now, where it serves as an incentive. And a group of people where I work, who form these organizations and
alliances now, to come down on Wall Street to prevent Congress from raising a tax on a source of income – they won’t call it that, my friends up there don’t, but in a lot of ways it is. I don’t know, as you describe, what you get on the up and investment shouldn’t be taxed in a certain way. I’m going to leave that discussion for my friends here in Washington, and the group that get paid to make the argument.

If we treat rich people that way, treat poor people that way. And the only reason I’m not totally sold on all of the specifics of Chairman Kemp, chairman of Kemp Partners and Secretary Kemp’s ideas, but I do like the idea of taking, as you indicated, taking the same architecture we have for those at the top and applying it elsewhere, and helping people to understand.

I was with a group of people in Washington – Chuck Schwab and John Rogers at Aerial Capital sponsored a thing called the Black Investor Conference. And they were explaining how similarly situated black men and similarly situated white men work at a company for the same number of years; the black man has four times less savings than their white counterpart. Not that has anything to do with the racial part, it’s just important because of the differences. And it was amazing to me because as it was being explained, even when it was explained to black workers that your employer will match X percent of what you put in, most people still thought they would lose, not realizing that you already had a hedge against whatever you may lose because your employer is putting money there.

So this financial literacy, I think, is vital to this overall process or whatever we overlap – however we address these challenges, be it a combination we talked about up here, or none of this. Whatever the issue may be, you got to look at it and treat people, I think, exactly the same way because if you work and make $300,000 a year or $30,000 a year, as my friend, one of my employers at Fox News said to me so well, Rupert Murdoch, he said, we have one mantra at our station and I’ll you why we think it works. He said, we don’t believe that anybody that watches Fox News comes home on Friday when they get their paycheck and say, doggone it, I wish I could have paid more taxes this week, regardless of where you fall on the income ladder. And we’ve got to figure out how we make that fairer, I think, for everyone.

So having made a speech, in a lot of ways, trying to sort of jumpstart a little bit as we talk, to come back to your point, pay-go, Mr. Greenstein, how do you – I mean, it’s easy to say, and I agree with my director wholeheartedly, we got to find ways to pay. Where would you make some of these changes with regard to the overall poverty work-for-pay and strengthening opportunities for people. Where would you make changes in that government outlay right now to ensure that we have resources for some of the other ideas that have come up here?

MR. GREENSTEIN: Well, just to sharpen the discussion, I wouldn’t start by lowering capital gains taxes, which to me are not something that benefits people at the bottom; it benefits the owners of capital who are making the investments, who are primarily people at the top. If we want to give more tax breaks for people at the bottom
we could, you know, make the earned income tax credit get more robust. But that wasn’t really the question.

I think we’re going to need to do several kinds of things. Hamilton has talked about this in other contexts. I mean, the two biggest issues for the fiscal health of the country going forward, which means both avoiding crushing levels of persistent deficits that could really hurt the economy in future decades, and having the resources for high-priority things, such as those we’re talking about here today because we got to have major reform of the healthcare system and we’re going to need to bring in more revenue. We’re not going to be able to have a society that is older, and where healthcare advances continue to break through at an enormous pace, with healthcare costs rising; they’ll rise even after all the reforms we do. You can’t get there from here with revenues at 18.5 or 19 percent of GDP.

Now, you can have lower levels of revenue and more inefficiency, and more harm from the tax code, and you can have higher levels of revenue and actually more efficiency if you construct the tax system right. A reformed tax system, in my view, you have the broadest ratio you can, then the rates don’t have to be that high and we need to bring in some more revenue. On the spending side, as one example, in the healthcare area of the sort of thing we can do right now, we have a unanimous recommendation from Congress’s own advisory commission on the Medicare program, probably the fastest-growing program in the federal budget in terms of out-weighs, that we’re losing huge amounts of money through overpayments to private insurance companies that participate in the Medicare Advantage part of Medicare. Not that we shouldn’t have private companies; we should, but they should be paid the same as it costs regular Medicare entry people, not 12 percent more. Unanimous recommendation of the Medicare payment advisory commission, congressional budget offices, it would save $150 billion over 10 years. That’s way beyond the costs of the things we’re talking about on this panel.

Having said that, just to inject a current note that I’m very sad about, there’s a bill on the Hill to do some very modest things in Medicare. And they’re talking about not $150 billion in savings for Medicare Advantage, but maybe five or $10 billion in savings for Medicare Advantage over the next five years. And the White House is saying, you take one dime; we veto the whole bill.

Now, we have to be in a situation where we’re willing to make hard choices, in areas from Medicare to the tax code, and other areas. If we can make the hard choices, we can have fiscal stability and fund the kinds of priorities we’re talking about here today. If we can’t make those choices, hardly anything that we’ve talked about here today will happen. You know, everybody will say we can have people in both parties of goodwill saying, these are good ideas, and we get down and we hit the budget wall. There’s no money; sorry, can’t do them.

MR. KEMP: Well, preventing a recession is absolutely of paramount importance if you want revenue to keep coming in to the federal government. Going into a recession,
people getting unemployed, your revenue base goes down. And clearly, preventing a recession is so important and I think Harold, what you have proposed in your op-ed articles, expanding EITC, flattening out and making the tax code fairer, but I want to make one hopefully pithy point. Capital gain tax is not ordinary income, Bob. It’s income from investment, and if you punish investment you’re not hurting the rich; all they’d do would sit on an asset and collateralize bit, borrow against it, and get access to capital.

If you raise capital gains to ordinary income levels you’re going to, in my opinion – I told Barack Obama – I didn’t tell Barack Obama, I wrote him a letter. It’s not ordinary income; you can’t get rich on wages. The only way to get wealth is to earn, save and invest, and if you punish working and punish investment, you’re not hurting rich people, who are already rich. And most of the wealth in America, in white America, was made when tax rates are low.

So now, as African Americans and people are color are coming into their God-given, natural civil and human rights, we are punishing – I saw Whoopi Goldberg, that’s my secretary of Treasury in the Kemp administration, Whoopi Goldberg. She said, I don’t want my death to cause my taxes to be paid at 55 percent after I’ve already paid them at 40 percent my whole life. Whoopi Goldberg for Treasury secretary.

MR. FORD: We have questions from the audience, can we turn to on the – on Secretary Goldberg, on that note.

MR. GREENSTEIN: Well, in the absence of questions, could I just say is tax reformers across the political spectrum have long pointed out, when the differential gets large between capital gains income and ordinary income, it creates powerful incentives for people to use tax shelters to convert ordinary income in the capital gains, even when that’s not the most efficient use of the resources. So it can actually create significant distortions, and what better example than the current carried-interest loophole, which is driven by the capital gains differential.

So again, I think the principle of the ’86 tax reform act was the right principle: try to have a broad-based tax on all forms of income the same, and that allows you to have lower rates than you otherwise would. And the lower rates give you more economic efficiency than a very low capital gains rate than a big differential will.

MR. KEMP: I don’t want a big differential, I want a low differential. It’s not ordinary income, though. You get taxed on your income; you save it, you get taxed. You invest it; you get taxed again. It’s unindexed, you get taxed on the inflated value of the asset and if you die, you’re taxed at 55 percent, starting in 2011.

It’s a terrible code, and we all agree it should be reformed. Even Jimmy Carter wanted to reform it and I think if Harold Ford, Jack Kemp and you, Bob, and I sat down we could come up with a simple, fair, low tax-rate system for America. But we got to have enterprise zones, or you’re going to leave a lot of people behind.
MR. FORD: Rob, did you want to come in? I heard you muttering underneath what – (laughter).

MR. CARMONA: Well, what I was muttering was, you know, the theme should be concentrated on tax code, and I want to bring it back to some of the discussion that I guess the previous panel had on – I forget the tax code, on investments in workforce and healthcare and things of that nature. I think they have a much more direct benefit to poor folks.

The other thing, too, and somebody mentioned community college – I can only look at my experience. I think that we have been, as a country, have been so concentrated on looking at the elite schools or, you know, to having our young look at the elite schools that we’re not looking at avenues that really are the ticket to the middle class. I know for me, growing up in the ‘60s, college was not on the radar; you know, you were black or Latino, you get out of high school hopefully and you went to get the job with the city. But I started out in community college, and people don’t realize that that’s like real college. You know, if you can keep your grade level up to, say, a 3-index and transfer into a state university or what have you. And to the extent that we can get our young folks – now we’re talking about the generation of the poor women and the men, the children of these men, to get them to look at community college and I know that once I got to a community college, it kind of whet my appetite to the possibilities.

There are so many things we could do through the community college: different skill training activities in collaboration with employers, you know, the kind of sectoral strategies that have been demonstrated to bring people’s wages up. There are a slew of things that we’ve talked about here, both this panel and my college, and clearly there’s no silver bullet and not one-size-fits-all. I just think that what we have not done – this audience, really, is we’re kind of preaching to the converted. Everybody here, on some level, has a commitment to those people less fortunate than us or you wouldn’t be sitting here.

But how do we take these arguments outside of the room in the context, and challenge our policymakers because we’d be back here – you know, certainly Harry and I have been seeing each other for years in forums like this. We have a lot of the answers, Becky knows this, to what needs to happen in poor communities. What we lack is political will, and I think it gets obfuscated sometimes by these discussions on tax policy and things like that, and we get away from what poor people on the ground really, really need, and what activities or programs already in place, that they’ll be taken to scale. And that’s – I mean, that would be my challenge to this body: How do we bring this outside of preaching to the converted because that’s what we’re doing here, in some respects.

MR. FORD: Let me ask Jason to come to the panel; I just want to close on one thing and get a response from everybody on the panel.
We are now a few years after Katrina, and the realities on the ground are arguably more depressing today than they were before, for no other reason that they have not improved at a dramatic pace. We talked about a range of things here from a much broader and macro sense. I know those on the panel have followed this close, and I’m going to make a presumption the audience has followed, at least at some level, what’s happening in New Orleans. The biggest challenge facing the government and addressing and improving the situation on the ground in New Orleans, Mr. Carmona, what would you do if you were a policymaker for one day, to not only have an impact there but make a statement about this government’s commitment to ensure that you and Harry don’t have to see each other five years from now, having the exactly same conversation about the exact same set of issues.

MR. CARMONA: I don’t think the government does have a commitment. Every time I think of, this is the country that rebuilt Europe, rebuilt Japan, and we can’t rebuild a small city of 500,000 people, is just appalling, criminal, whatever word we want to use for it. I would – and you know, hear the presidential candidates on either party really making any noise about that. I think that we need to challenge them to live up to the ideals of what America used to be. Even as a black man, you know, black guys are always skeptical about land of the free, home of the brave; that’s just our reality. But this is not even the America that I know as a black man, and it’s changed so significantly in the last – I would say in the last seven years, that this is gotten – it’s like the bizarro world, and I don’t think that we’ve lost the heart to challenge the immorality of where we’re going and where we are.

MR. FORD: Thirty seconds, Dean Blank, on your thoughts.

MS. BLANK: There’s so much you want to say about what should have happened, and you just got to put that aside. I mean, I am appalled at the fact that, you know, two years after the fact we still have not cleaned up the housing and cleaned up the neighborhoods that were affected by these hurricanes, and step number one is simply to go in, do the rehabilitation, work with the people who are down there trying to rebuild their homes, and, you know, housing is number one here, and work on that front.

MR. FORD: Director?

MR. GREENSTEIN: Housing is definitely number one. Part of the problem is that low-income workers from New Orleans can’t move back because they can’t find housing they can afford. The supply of affordable housing has been greatly reduced because of the impacts on many of the physical structures, and so the rents are way up; I think there are parts in New Orleans where the rents are double or more than double what they were pre-Katrina. And so we don’t have these low-income workers moving back. We need a crash program to make more of the – there is housing that is there that is not affordable to low-income people without vouchers or other subsidies. There needs to be a whole program of subsidies; some are vouchers, some are certain kinds of loans to owners, that we help them rehabilitate their homes if they agree to open a portion of the units to low-income people.
And then, while we’re doing that so that people can afford to move back there, we clearly need a big program to help low-income and minority home owners, Ninth Ward and elsewhere, be able to rebuild homes they can own and live in them, and that’ll take a little longer to do. The most immediate thing, I think, is opening up affordable rental housing so low-income workers can move back.

MR. FORD: Secretary Kemp, I wanted you last just because of the president and what we’re faced with. I think 10 years from now, I will be married – hopefully, if she doesn’t leave me before our wedding in April, and I have kids, and they reach middle school and they look back and they’re going to ask me, Daddy, what took you so long to do something about these people living here. Statements have been made about America; what would you have done as Secretary of Housing and Urban Development, how would you have organized a better network?

MR. KEMP: First of all, I agree with everybody up here, but particularly Bob. It’s a disgrace to our country; it’s a moral stain on our republic, and particularly the Republican Party, for not coming up with something bold. Every displaced homeowner should have been given a voucher instead of a FEMA trailer. People are still living in trailers after Hugo in Florida; disgraceful. Every single family should have had a Section 8 voucher where they could move, and I would have added it to an education voucher. But, putting aside that debatable subject, only Harold and I believe –

MR. FORD: Don’t say capital gains in the final – (laughter) – just so we get – we want to end on a high note.

MR. KEMP: This is my problem. No, I wrote a letter to O&B and I said, look – I talked about Roosevelt and Lincoln, and what they agreed on: a homestead act. Take land that the federal government owned or was in possession of, and grant it to residents, grant it to people who would homestead it. The rhetoric is in there, the go-zone is in there, but it’s full of little tax credits. I was suggesting they should have really been bold in the go-zone. New Orleans, throughout Mississippi, Alabama and Louisiana, they just had little tiny tax incentives, and I think it should have been driven by rewarding men and women who would put their capital at risk. And I can’t even mention capital gains, but they didn’t touch it; they didn’t touch it, I’m embarrassed that they didn’t touch it. And they used all the good language.

Vouchers, education and attract capital would have been my beginning of an answer.

MR. FORD: Give this panel a round of applause, and we thank them for their time and expertise.

(Applause.)

MR. FORD: I’m going to let him close.
And turn back over to Director Furman.

MR. FURMAN: I will, just for one second actually, add a comment to this panel and then thank you, and let you go.

I think the conversation about wealth creation was very important. And when I think of one of the most important steps for wealth creation, it’s individuals saving and building up their own wealth. And if you look at a low-income family, chances are their job doesn’t have a 401(k); chances are if they do, as Rob said, they may not really understand it and sign up for it. Even if they do, they won’t actually get any tax breaks from that 401(k); if they don’t have taxable income, the tax deduction or tax exclusion doesn’t mean anything to them. And finally, if they overcome all of those they’ll accumulate a bunch of assets, and end up losing their food stamps as a result and facing, in effect, some of the highest tax rates on savings in the tax code, as Bob Greenstein has written about, are on low-income families.

So when you think about that form of wealth creation, and another thing that I’d like to put on the table, and no one will be allowed to rebut it, are ideas that the Hamilton Project and then the Retirement Security Project at Brookings and Georgetown have talked about, at a minimum automatic IRAs so everyone would have an IRA that their money would automatically be in, so some of this financial literacy wouldn’t be as important if you set up the options in the right way in the first place, the defaults in the right way.

Something more ambitious, something like an automatic 401(k) with more generous matching funds, the people like Jean Spurling have written about and advocated for years, and then reforming the asset tests in public programs so that when people do save and accumulate wealth, they don’t lose out as a result of that. So I’d like to add that, but I see everyone nodding their heads, so we don’t even need to do a rebuttal and can end this. I thought this was a really great discussion today; there was a lot of comedy. It was much better than the time we had the president of AFSMI (ph) describe the CEO of General Mills as “cereal man;” here, everyone was directors and secretaries and ultimately agreed with my nomination in terms of wealth creation and asset building.

So, thank you very much for coming.

(Applause)

(END)