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New Hope: Fulfilling America's Promise to "Make Work Pay"

The Hamilton Project seeks to advance America’s promise of opportunity, prosperity, and growth. The Project’s economic strategy reflects a judgment that long-term prosperity is best achieved by making economic growth broad-based, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments. Our strategy—strikingly different from the theories driving economic policy in recent years—calls for fiscal discipline and for increased public investment in key growth-enhancing areas. The Project will put forward innovative policy ideas from leading economic thinkers throughout the United States—ideas based on experience and evidence, not ideology and doctrine—to introduce new, sometimes controversial, policy options into the national debate with the goal of improving our country’s economic policy.

The Project is named after Alexander Hamilton, the nation’s first treasury secretary, who laid the foundation for the modern American economy. Consistent with the guiding principles of the Project, Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that “prudent aids and encouragements on the part of government” are necessary to enhance and guide market forces.





New Hope: Fulfilling America's Promise to "Make Work Pay"

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This discussion paper is a proposal from the authors. As emphasized in The Hamilton Project's original strategy paper, the Project is designed in part to provide a forum for leading thinkers from across the nation to put forward innovative and potentially important economic policy ideas that share the Project's broad goals of promoting economic growth, broad-based participation in growth, and economic security. The authors are invited to express their own ideas in discussion papers, whether or not the Project's staff or advisory council agree with the specific proposals. This discussion paper is offered in that spirit.

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Abstract

Despite the political rhetoric of “making work pay,” in 2005 some 3.7 million households included a full-time worker and yet lived in poverty. Our paper makes the case for a national program offering the kind of work supports that were part of the New Hope program, a policy experiment that operated for three years in Milwaukee, Wisconsin in the mid- to late-1990s. New Hope was created by a coalition of community activists and business leaders. It provided a set of work supports for full-time workers—parents and nonparents, men and women—that would lift them out of poverty, ensure that they had access to quality child care and health insurance and, if needed, provide a temporary community service job to help get them on their feet.

A random-assignment evaluation of New Hope showed that the program reduced poverty, increased employment and, perhaps most importantly, boosted the achievement and positive behavior of children. We estimate that a scaled-up New Hope program would cost roughly \$3,300 per participant per year and that, with reasonable assumptions regarding the valuation of child impacts, would yield benefits well in excess of costs.

Evidence from other states and two Canadian provinces suggest that New Hope could be implemented by states. Given the different ways in which states would likely implement the New Hope model to fit their unique needs and delivery systems, we propose a five-year demonstration and evaluation in five states.

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1. The Problem

Despite the political rhetoric of “making work pay,” poverty continues to be widespread among full-time working adults and their children in the United States. In 2005, some 3.7 million households, with or without children, included a full-time worker who earned too little to lift family income above the poverty line. Many American children—5.2 million—lived in families in which an adult worked full time but the family was nevertheless poor. More than 3 million children with full-time working parents lacked health insurance in 2005.¹

For many working poor, particularly single mothers, lack of time can be as problematic as lack of money. Parents at all income levels find it difficult to balance family and work demands, but the challenges are all the more daunting for parents employed in low-wage jobs with few if any benefits. Many work irregular hours or take on a second or even third job, yet take home a paycheck that fails to provide the resources needed to juggle the responsibilities of earning a living and giving their children the love, parental support, and supervision they need to foster their future academic development and success as productive citizens (Bianchi 2000; Bryant and Zick 1996; London, Scott, Edin, and Hunter 2004; Moore and Driscoll 1997; Yoshikawa, Weisner, and Loew 2006).

Our paper makes the case for a national program offering the kind of work supports that were part of the New Hope Project, a policy experiment that operated for three years in Milwaukee, Wisconsin. New Hope was created by a coalition of community activists and business leaders who believed that

work is the best route out of poverty.² Our policy, like New Hope, would provide a set of work supports for full-time workers—parents and nonparents, men and women—that would lift them out of poverty as well as provide essential benefits in the form of health insurance and child care subsidies for people who need them.

By stipulating that participants must document full-time (minimum of 30 hours per week) work to qualify for benefits, our New Hope policy is a social contract rather than a welfare program. It is designed to increase the incentives and reduce the barriers to full-time work. For parents burdened with extensive overtime work or second jobs, it provides an opportunity to cut back to a more manageable level of full-time work hours without a proportionate drop in income. If a participant is unable to find a job owing, say, to lack of work experience or a criminal record, the program provides opportunities for temporary community service jobs (CSJs; often called transitional jobs programs) that pay the minimum wage but that still entitle that person to program benefits. While we make the case for a New Hope policy for full-time workers, we also want to be clear that such a policy is not intended as a replacement for America's social safety net programs like food stamps, particularly in the case of adults who are unable to sustain full-time work.

In terms of values, New Hope hits the trifecta: (i) its full-time work focus resonates with the business community, the broader public, and participants themselves; (ii) it “makes work pay;” and (iii) its social-contract nature is at once respectful and demanding of participants.

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1. Estimates of the working-poor population are based on the authors' calculations from the 2006 Current Population Survey (CPS; U.S. Census Bureau 2006). The numbers apply to adult householders ages 18–64 who worked 30 or more hours in the week prior to the survey. We use the U.S. government's official definition of poverty. Child data apply to individuals younger than age 18. We define a child as living in a working-poor family if family income is below the poverty line and either the head of the family or the spouse of the head of the family reports 30 hours or more of work in the prior week. These estimates are based on pre-tax cash income, not including the EITC, taxes paid, or in-kind benefits. If after-tax income is used, the count of working-poor households decreases from 3.7 million to 3.2 million.
 2. For a history of New Hope and a summary of its impacts, see Duncan, Huston, and Weisner (2007).

The heart of the policy case for New Hope rests on the program's proven experimental impacts on family well-being and children's achievement. Among all of the people offered the chance to participate in the New Hope program—including single men—work increased and poverty rates fell. Children in New Hope families performed better in school, were more cooperative and independent, and had fewer behavior problems and loftier schooling expectations than children in the control group. Because boys have a higher risk of school failure and behavior problems than girls do, it is noteworthy that New Hope was especially successful in improving boys' school performance and behavior.

New Hope was a small, experimental program run in a state with a culture of welfare reform and work-focused initiatives, which raises issues about replication. Fortunately, additional experimental evidence supports the success of New Hope-type programs. During the period of New Hope's operation, Minnesota and two Canadian provinces also tested employment policies that shared some of New Hope's key features, particularly earnings supplements. Minnesota's program emphasized training welfare caseworkers to support work efforts rather than simply to process assistance claims. Both Minnesota and Canada evaluated their programs using random assignment. Both produced strikingly similar impacts—more work, less poverty, and higher child achievement.

Overall, New Hope accomplished its goals of increasing full-time work, lifting workers out of poverty, and providing families with the tools to help balance work and family needs. With its positive effects on children's achievement and behavior, a scaled-up New Hope program may well help to break the cycle of poverty for a sizeable number of American families in the next generation. With reasonable assumptions about the long-term value of New Hope's positive impacts on children, New Hope easily passes a cost-benefit test.

How do we turn the New Hope model into policy? Given the different ways in which states would likely implement the New Hope model to fit their unique needs and delivery systems, we propose a five-year demonstration and evaluation in five states. States would compete for the opportunity to test the New Hope model in one or more urban or rural service-delivery sites. Five states, selected in part on the basis of geographic and economic diversity, would run random-assignment demonstrations. States would contract with independent evaluators to assess labor market, family well-being, and child development impacts both during and at the end of the five-year trial period. The scope of our proposed trial leads to expected costs of \$50 million per year for each of the five years—\$250 million in all, two-thirds of which would be financed by the federal government.

2. The New Hope Model

In the New Hope model, participants commit themselves to full-time work, and New Hope in turn promises them a package of work supports ensuring that they will not be poor and their families will be able to afford health insurance and licensed child care. Like the original vision of New Hope, our package of benefits would be open to low-income adults (family income below 150 percent of the poverty line), regardless of family circumstances.

Specifically, when New Hope participants provide pay stubs or other proof of full-time work (30 or more hours per week), they would be eligible for three sliding-scale benefits: (i) an earnings supplement that raises income above the poverty line; (ii) subsidized child care; and (iii) subsidized health insurance. Individuals unable to find full-time work would be eligible to apply for a temporary CSJ. All participants would receive respect and help from New Hope staff. Details about these components are provided in our discussion of a national New Hope program.

Taken together, our New Hope program would offer a cafeteria of benefits from which participants could choose—a feature that would allow families with diverse needs and circumstances to tailor the program to their own unique situations. New Hope services would be available in a single office to facilitate the time-consuming and confusing process of dealing with multiple agencies. Although many participants in the original New Hope program were only interested in the program benefits themselves, all had access to help from a caseworker who provided information about jobs, educational opportunities, child care, and other community resources in an atmosphere of respect. While the New Hope demonstration was limited to a period of three years, our national New Hope program

would be more akin to the earned income tax credit (EITC) by offering a permanent set of supports to low-wage full-time workers, as long as they met eligibility criteria.

Since it is designed to address the needs of full-time low-income workers, New Hope is not intended to replace safety net programs (e.g., the Food Stamp Program or Medicaid) for families unable to sustain full-time employment.³ For example, some adults with disabilities or those caring for dependents with disabilities may not be able to work on a full-time, permanent basis. New Hope would function more like the EITC by complementing rather than substituting for safety-net programs, and providing incentives and concrete work supports for individuals who want to make full-time employment work for themselves and their families.

Given the likely complexity of integrating such a program into existing state systems, or mounting one from the ground up, we propose a gradual roll-out across states, with five states initially chosen for experimental implementations.

New Hope's evaluation

Our case for a New Hope-style package of work supports rests on evidence from a random-assignment evaluation commissioned by the New Hope Board and conducted by the nonprofit policy evaluation firm MDRC. One-half (678) of the 1,357 individuals who applied for the program were randomly selected to participate in New Hope for three years. The other 679 individuals formed a comparison group that was excluded from New Hope. All lived in Milwaukee's two poorest zip codes and continued to be eligible for all other federal, state, and local programs (and to be subject to the rules of those programs) during a period of rapidly chang-

3. See Blank (2007) and Currie (2006) for discussions of the importance of the safety net.

ing welfare and poverty policies in Wisconsin and across the nation.⁴ Both groups enjoyed the fruits of Milwaukee's strong economy in the mid-1990s, and both could claim the increasingly generous federal and state EITC that supplements the earnings of low-income workers.

With work, poverty, and welfare dominating the public debate over welfare reform at the time, evaluators monitored the implementation of the program and tracked patterns of employment, earnings, and receipt of food stamps and cash assistance through administrative records. Two, five, and eight years after participants entered the program, surveys of participants, older children, and children's teachers provided additional information about job histories, family changes, economic circumstances, mental health, and child well-being. We concentrate on impacts found after two years of program operation.⁵

For a close-up view of how the program was affecting families, part of the evaluation team conducted in-depth interviews during three years of periodic family visits to a representative group of 44 parents and their children, selected at random from both New Hope families and families in the comparison group.

Program take-up and impacts

Program applicants. Despite extensive efforts to publicize New Hope in the two Milwaukee neighborhoods in which it was offered, only a small frac-

tion (about 5 percent) of income-eligible resident adults applied for the program.⁶ Were New Hope to be scaled up to the state or national level, the take-up fraction would undoubtedly be considerably higher, as more and more families learn about the program through outreach efforts and the word-of-mouth experiences of other participants.

All told, however, it is unlikely that the fraction of potentially eligible adults taking up New Hope benefits would be large. A survey of eligible residents in the Milwaukee neighborhoods in which New Hope was offered found that only half expressed interest in the program after reading and hearing about it. Even among those expressing an interest, more than two-thirds were not working and one-fifth reported no full-time work experience at all. Although New Hope would encourage employment among people not currently working, a realistic enrollment rate would nevertheless be about 25 percent. We take 40 percent as the upper bound for New Hope enrollment using national estimates of child care subsidy take-up rates as a barometer. We return to the issue of enrollment rates in our national estimates of New Hope program costs.

Benefit use. Among people enrolling in New Hope, the majority (88 percent) took up benefits for at least some portion of their three-year eligibility periods. Most spoke enthusiastically about both their interactions with program staff and the importance of the program benefits to them and their families. But despite the nearly universal taking up of at least some program services among families

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4. New Hope was in operation between 1994 and 1998, a time in which state and national policies to help the working poor were improving. By the time the program began, Wisconsin had abolished its general assistance program, put in place a diversion system in which applicants for cash grants were required to search diligently for work before being given cash assistance, and was sanctioning families for failing to comply with work requirements. Other state policies made working more attractive and feasible. Wisconsin provides a state EITC credit. Within a couple of years after the end of New Hope, Wisconsin also had developed a health insurance program for low-income parents and children, as well as child care subsidies for which all low-income workers are eligible. These policy changes, coupled with a strong economy, pushed tens of thousands of families off the welfare rolls and into the labor force and set a high bar for judging New Hope's success.
 5. Duncan et al. (2007) summarize the two-year results; Bos, Huston, Granger, Duncan, Brock, and McLoyd (1999) provide details. The relevance of the five- and eight-year results for our purposes is far from clear. Our proposed New Hope program would provide ongoing supports as long as participants met the eligibility requirements. Only the two-year impacts were measured during program operations. It is possible that families might alter their behavior in anticipation of the end of the three-year experimental period, although the day-to-day orientation of most families in the qualitative substudy and their surprise regarding the impending end of the program argues against much of this kind of strategic behavior (Duncan et al. 2007).
 6. Brock, Doolittle, Fellerath, and Wiseman (1997) describe the design and results of a neighborhood survey that provided these and other estimates of eligibility and take-up.

that volunteered for the program, relatively few took advantage of all of the benefits all of the time.

The survey and qualitative interviews showed that people used New Hope and other available programs in the context of their existing resources, everyday routines, and family demands (Duncan et al. 2007, Chap. 4). The New Hope offer made a big difference for some people, but it was not a good fit for everyone. Some parents refused to entrust their children to the care of anyone other than a family member. Many parents worked evenings and weekends, when few child care centers or licensed home settings were available. In such cases, the child care subsidy was of no use. Other potential participants had personal difficulties that prevented them from working regularly. The vagaries of low-wage jobs, in particular irregular and unpredictable work hours that fell short of the 30-hour weekly work requirement, made it difficult for some people to take advantage of New Hope's benefits.

A lesson from New Hope is that no matter how well intentioned and otherwise well designed a policy is, it must fit the context of people's lives if it is to make a positive difference. Adults who applied for New Hope were already trying to make ends meet, to sustain a family routine, and to provide some moral direction for their children's and their own lives. In order to be effective, New Hope had to contribute to these family routines and goals. The evaluation suggests that it did so for most families, but certainly not for all.

The selective nature of participants' take-up of New Hope's benefit can be viewed in both positive and negative lights. On the positive side, selective take-up reduces program costs and, provided that nonparticipants make informed choices, concentrates the program's resources on people who judge themselves most in need of them. On the negative side, some otherwise eligible families did not take up benefits, and no New Hope benefits (apart from the temporary CSJs and caseworker counseling) were extended to people unable to meet the full-time work requirement. By design, New Hope is

focused on making work pay rather than addressing all of the economic, mental, or physical health problems that cluster in some families.

We next turn to New Hope's impacts evaluated through comparisons of outcomes between New Hope families and children in the experimental group, and those families and children in the control group. Because of New Hope's random assignment design, we can attribute to the effects of the New Hope program (and not to individual, family, or other local factors) any differences we see in outcomes between families and children in the New Hope experimental group and families and children in the control group at a follow-up point.

Impacts on work and earnings. Averaged across the three years of program operation, New Hope increased employment relative to controls by about 5 percentage points and annual earnings by about \$500 (Table 1). New Hope attracted both nonworkers and full-time workers, so employment impacts varied accordingly. For adults who were working less than full time when they signed up for the program, New Hope boosted payroll-based employment by 7 percentage points and annual earnings by about \$1,000 (an increase of 13 percent over the earnings of controls). New Hope's CSJs played an important role in these impacts. For those already working full time when they enrolled, the program generally sustained employment, although fewer New Hope participants than members of the control group worked more than 50 hours per week, which suggests that some full-time workers used program benefits to finance reductions in overtime or multiple jobs.

New Hope was designed to reduce some of the barriers to employment faced by people with low skills. Using the information gathered when people first signed up for the program, evaluators formed an employment barrier index—a list of obstacles to finding work—that New Hope supports might help to reduce. These barriers included no high school degree, a spotty employment history, an arrest record, and the presence of many children or very

TABLE 1

New Hope Impacts on Annual Work and Poverty During the Three Years of Program Operation

	Control-group average	Program Impact
Employment (%)		
All	67	+5*
Not working full time at baseline	61	+7*
Working full time at baseline	82	+1
All adults with young children	68	+7*
All adults with young children and one potential employment barrier	67	+9*
Men not living with young children	62	+8*
Women not living with young children	70	0
Annual earnings before New Hope supplements (2005\$)		
All	9,259	+497
Not working full time at baseline	7,178	+965*
Working full time at baseline	13,952	-597
All adults with young children	9,292	+935*
All adults with young children and one potential employment barrier	9,089	+2,546*
Men not living with young children	8,674	+997
Women not living with young children	9,695	-852
Not poor: Administrative record income above the poverty line (%)		
All	34	+8*
Not working full time at baseline	25	+10*
Working full time at baseline	53	+3
All adults with young children	34	+14*
All adults with young children and one potential employment barrier	29	+25*
Men not living with young children	27	+6
Women not living with young children	39	-1

Source: Duncan et al. (2007); see Box et al. (1999), and Huston et al. (2003) for a detailed description of these results.

Note: "Employment" refers to the fraction of quarters that an individual appeared in Wisconsin's payroll records and are averaged over the three program years. "Earnings" come from the same source, are inflated to 2005 dollars, and are averaged over the three program years. "Administrative record income" includes the participant's earnings as recorded in Wisconsin's payroll records, cash assistance from Wisconsin's AFDC/TANF program, the value of food stamps paid out by Wisconsin's Food Stamp program, state and federal EITC, and New Hope earnings supplements. It omits earned income from self-employment or informal employment as well as any income received by spouses, partners, and other family members. "All adults with young children" refers to families with at least one child under the age of 10 when they signed up for the chance of getting into the program.

* denotes a statistically significant difference between New Hope and control averages at $p < .05$ (one-tailed test).

young children in the family. About one-fifth of the total participant pool faced several barriers, making it less likely that a package of economic benefits would be sufficient to boost their employment. At the other end of the spectrum were workers with none of these employment barriers, who appeared able to sustain employment on their own without help from New Hope.

A third group facing only one or two significant but not insurmountable barriers to full-time employment was expected to profit most from New Hope's package of benefits—and indeed they did. The impacts on employment and earnings for this group, who collectively made up nearly one-half of the entire set of applicants, were both large and enduring. During its three years of operation, New Hope boosted employment by 9 percentage points and annual earnings before New Hope supplements by \$2,500 (an increase of nearly 30 percent) relative to controls. In the case of the group facing one barrier, but not the other groups, employment and earnings impacts continued for at least five years after the program ended.

These remarkably long-lasting results show the important niche that a program such as New Hope can fill. For the nearly one-half of those attracted to New Hope's voluntary work supports who were already close to being able to sustain higher levels of employment and earnings, New Hope appeared to arrive at a crucial time in their work careers. In the absence of program supports, they would probably have increased both work and earnings modestly. With New Hope, these work and earnings increases were much larger and longer lasting.

New Hope included men because its designers believed that all adults deserved the opportunity to escape poverty through work. Although many of them were fathers, they did not fit any single demographic profile. Most were in their 20s and 30s and had never married, but many were living with partners or other family members. Their work efforts were often limited by an assortment of employment barriers: more than one-third had been

arrested, only one-half had a high school diploma or GED, and only one-third had access to a car. During the three years of New Hope, the employment rate of New Hope men was higher than that of control-group men, on average, by about 8 percentage points, though it was not quite statistically different from zero.

In contrast, the employment and earnings of women who were not living with children were not greatly affected by New Hope. There were no significant program impacts on either the employment rates or the earnings of these women during the three program years, and there appeared even to be some signs of negative impacts on their earnings a few years after the program ended.

Impacts on poverty. Based on administrative sources of earnings and transfer income, poverty rates were dramatically lower for New Hope than for control families with young children—17 percentage points lower in the first year, 12 points lower in the second and third years, and 8 points lower in the two years after New Hope benefits stopped. Although New Hope failed to eliminate poverty among all of its families, it was clearly more successful in lifting families out of poverty than was the collection of programs available in Wisconsin in the mid-1990s.

Impacts on children's achievement and behavior. Arguably, New Hope's greatest success was its positive impact on school achievement and positive behavior among children, especially boys. Expressed in SAT-type standard deviation units, teachers ranked the average child in a New Hope family 25 points higher in achievement than the average child in a comparison family (Table 2). The impact on boys' achievement (+33 points) was considerably larger than the impact for girls (+12 points). Teachers also rated the boys in New Hope families much more favorably than boys in control families on "positive social behavior"—obeying rules in school, being admired and well-liked by other students, and being self-reliant. They reported fewer disciplinary problems and less frequent behavior problems—

TABLE 2

New Hope Impacts on Children's Achievement, Motivation, and Social Behavior Two Years After the Beginning of the Program

	Program impacts (standard deviation units)		
	All	Boys	Girls
Teacher ratings			
Overall achievement	+0.25*	+0.33*	+0.12
Classroom behavior (study skills, attention)	+0.15	+0.38*	-0.04
Positive social behavior	+0.25*	+0.50*	+0.05
"Externalizing" problem behavior	-0.10	-0.51*	+0.27*
"Internalizing" problem behavior	-0.10	-0.22	+0.07
Child reports			
Expects to finish college	+0.23*	+0.46*	+0.01
Expected job prestige	+0.19*	+0.24*	+0.05
Parent ratings			
Positive social behavior	+0.03	+0.22*	-0.17
"Externalizing" problem behavior	-0.05	-0.15	+0.06
"Internalizing" problem behavior	-0.04	-0.13	+0.09

Source: Duncan et al. (2007); see Box et al. (1999), and Huston et al. (2003) for a detailed description of these results.

Notes: "Positive social behavior" includes compliance, social competence, and autonomy. "Externalizing behavior problems" include aggression and disobedience.

"Internalizing behavior problems" include sadness and social withdrawal.

* denotes a statistically significant difference between New Hope and control averages at $p < .05$ (one-tailed test).

less arguing, disturbing others, social withdrawal, or sadness. Impacts for girls were often small and not statistically significant; indeed, teachers rated New Hope girls as somewhat more disobedient and aggressive than girls in control families.

In the qualitative substudy, parents appeared to worry more about their boys than about their girls, especially when they reached early adolescence. There was experimental evidence that New Hope's child care supports were more likely to be used for boys than for girls. Mothers often said that their boys were vulnerable, and they used any resources they had to counteract negative influences. As one mother said, "It's different for girls. For boys, it's dangerous. [Gangs are] full of older men who want these young ones to do their dirty work. And they'll buy them things and give them money." New Hope boys were more likely than girls to be in organized after-school programs where they received help with homework and had opportunities for recreation (Duncan et al. 2007,

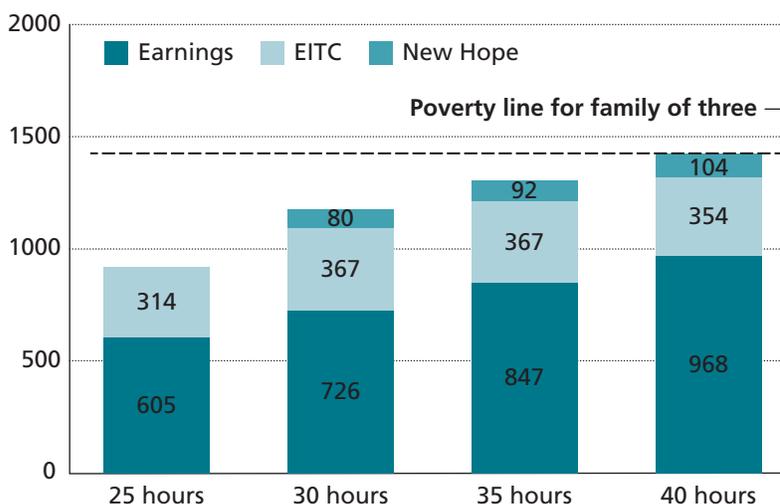
78). The larger impact on boys may be explained by the fact that boys had much more to gain from an intervention than did girls. Remarkably, New Hope's child impacts were enjoyed by all type of families enrolled in the program. It might have been thought that only children in the subset of families with the largest gains in family income would have benefited the most. Recall, though, that some parents entered the program already working full time (or more than that) and used the New Hope benefits as a way to cut back on overtime hours and second jobs, even at a cost of some reduction in income. The impacts on children in these families were no different from impacts on children in the families with the largest income gains. Attempts to isolate the single component of the program that fueled the beneficial impacts on children were not successful. It appears that the combination of benefits, available on a voluntary basis in a menu from which participants could match benefits with their particular needs, was the key to New Hope's success.

FIGURE 1

New Hope Increases Income to the Poverty Line

Benefit calculation for family of three (parent and two children)

Minimum wage	7.25
Yearly hours	2,080
Pre-tax earnings	15,080
Estimated EITC	4,252
Income tax rate	15%
Income taxes	2,262
Payroll tax rate	8%
Payroll taxes	1,154
Net income	15,916
Poverty level	17,170
Earnings supplement	1,254
Monthly supplement	104
Family monthly income	1,431



Source: Authors' calculations.

Cost-benefit analysis of New Hope, presented more extensively later in the paper, revealed that the program was beneficial to participants and, depending on how child benefits were valued, worthwhile to very worthwhile for taxpayers. In the next section, we consider how the program could be extended across the United States in a manner that is mindful of geographic and demographic differences among states.

Key elements of our proposed New Hope program

The earnings supplement. The New Hope earnings supplement has two components: a wage supplement, directly aimed at increasing the wage rate of low-wage workers, and a child allowance, which supplements the income of families that have one or more children. The combination of these two components produces an earnings supplement that maximizes work incentives for individual workers,

while effectively supporting families of different sizes.

The New Hope earnings supplement was designed in the early 1990s to fit its local context. Our proposed earnings supplement stays close to the original design, which was found to be both affordable and effective. Because of the significant increases in the size of the EITC since New Hope was first conceived, the relative size of the earnings supplements is smaller than in the original demonstration project.

Within its overall operational framework it is possible to vary the details of the phase-in rate, the phase-out rate, the maximum benefit amount, and the ratio of the direct wage supplement and the child allowance portions of the overall supplement.⁷ Figure 1 shows how the earnings supplement works to bring the income above the poverty line of a family of three with an adult employed 40 hours per week

7. Our earnings supplement calculations are calibrated to lift a family of one adult and two children out of poverty at full-time minimum wage. With such a wage, this requires a monthly supplement of \$104. This supplement comprises a direct wage subsidy of \$20 and a child supplement of \$84. The child supplement is \$45 for the first child, \$39 for the second child, \$30 for a third child, and \$25 for a fourth child. There are no supplements for more than four children. The direct wage subsidy is phased in from \$0 at 30 hours to \$12 at 35 hours to \$20 at 40 hours. It is phased out, together with the child supplement, to \$0 at \$21,500 in earnings. This phase-out results in a marginal tax rate of approximately 2 percent for this particular New Hope component.

BOX 1

New Hope's "Social Contract"**What New Hope requires**

Proof of 30 or more hours of work per week

What New Hope provides

An earnings supplement that raises income above the poverty line
 Subsidized child care
 Subsidized health insurance
 If needed, the right to apply for a temporary community service job
 Respect and help from New Hope staff

Who is eligible for New Hope

All adult men and women, regardless of family status, with low family incomes

at the minimum wage (soon to be \$7.25). It shows that a monthly supplement of \$104 is sufficient to achieve this objective.

The figure also shows that the earnings supplement declines as hours of work decline, to \$80 a month at 30 hours of work. This phase-in of the supplement is designed to maximize the program's full-time work incentive. Once the adult increases her or his work hours beyond 40 or starts earning an hourly wage higher than \$7.25, the supplement begins to be phased out until earnings reach \$21,500, or 125 percent of the poverty level, at which point the supplement disappears.

For families with more children or more adults the earnings supplement calculation is similar to the one shown for the three-person family in Figure 1. Since the poverty line for larger households is higher, the earnings supplement is designed to be larger, and the phase-out range is longer for these families. However, for families larger than four persons, the maximum earnings supplement falls short of lifting that family out of poverty at full-time minimum wage. This limitation reflects the fact that the earnings supplement is a combination of a child supplement and an individual wage supplement. Although the former increases with the number of children in the household, the latter does not. Coupled with

the fact that the poverty line shifts upward rather quickly with increases in family size, this design feature limits the program's ability to help larger families work their way out of poverty.

For two-earner families, the calculation of the wage supplement is based on the individual earnings of each working family member, one of whom must work at least 30 hours a week and the other at least 15 hours a week. The phase out of the earnings supplement is based on the joint earnings of the two family members who are working; all cash benefits phase out when total earnings reach \$35,000 or 200 percent of the poverty rate, whichever comes first.

The health insurance benefit. Compared with the earnings supplement, the administration of the New Hope health insurance benefit is relatively straightforward. As long as a family maintains its eligibility for New Hope benefits, all family members automatically qualify for enrollment in a comprehensive health insurance plan if they do not have access to such a plan through their employer or through a public program such as Medicaid or the State Child Health Insurance Program. Participants pay modest premiums on a sliding scale that ranges from approximately \$10 to about \$150 a month, depending on family size and income. If participants have access to employer-provided health insurance with premiums larger than those offered by New Hope, they do not have to switch plans: New Hope will instead subsidize the insurance premiums, which is almost always less expensive than providing health insurance directly. Participants lose their eligibility when they stop working a minimum of 30 hours a week, although eligibility would be extended for a month when participants lose one job and are looking for another.

The child care benefit. New Hope's child care subsidy was the most expensive component of the experimental program, although it would cost considerably less now since most states have used funds from Temporary Assistance for Needy Families (TANF) and other funds to expand dramatically their child care assistance programs; many

have implemented pre-kindergarten programs, as well (Zedlweski and Zimmerman 2007). In line with the original New Hope program, our rules for child care subsidies would be simple. As long as at least one parent met the work requirement, New Hope would either assist families to apply and utilize existing state child care subsidies, or would rely on its own funds to subsidize care in any state-licensed or county-certified center or family child care home for all children younger than age 13. Parents choose their own child care setting and are responsible for paying the provider for their share of the child care cost. In our program, participants would not lose subsidies altogether until their incomes reached either 200 percent of poverty or \$30,000 annually, whichever is higher—which is slightly above the current income eligibility cap in most state child care assistance programs. Parents qualifying for the child care subsidy would qualify their children for the remainder of the current school semester, even if they fall below the 30-hour work threshold during the period.

Similar to the health insurance benefit, child care payments are calculated on a sliding-fee scale and would range from a low of \$50 per child per month when earnings are equivalent to full-time employment (or less) at minimum wage, and increase to the full child care cost as earnings approach \$30,000 a year, or twice the poverty level, whichever is less.

Community service jobs. CSJs would be available to participants who were unemployed or whose jobs offered only part-time hours, but only after they have spent eight weeks searching for a non-CSJ job. Many of New Hope's CSJs were office support jobs, but also included employment in property maintenance, construction, child care, and food service. CSJs are not guaranteed: participants would have to interview successfully for them and could be fired for cause. They would last no more than six months, with the option of a second job of the same duration. CSJs are specifically designed

not to substitute for private-sector employment; the New Hope program paid minimum wage for CSJ positions and offered no sick days, holiday compensation, or vacation pay. CSJs may be particularly useful to participants who face behavioral or legal impediments against employment such as a failed drug test, a poor credit record, or a criminal record. For these participants, the CSJs can offer an opportunity to build a résumé and accumulate work experience, which can then lead to better employment opportunities. About one-third of the participants in the original program used a CSJ at some point during the three-year program.

The operational feasibility of this component depends on the context in which the program is implemented. There are areas in the United States where unemployment is so high and full-time full-year jobs are so scarce that a large proportion of potentially eligible New Hope participants would have to rely on CSJs to accumulate 30 hours of employment every week. Implementation of the program in those areas might be too expensive to be feasible. However, versions of CSJ programs have been successfully implemented around the country in rural and urban settings, by community organizations and state governments, and for varied disadvantaged populations, including welfare recipients and youth.⁸

Scaling up

A distinguishing characteristic of the initial New Hope program was its close integration with the existing social service infrastructure in Milwaukee. The program's earnings supplements were designed to complement the existing EITC, which, in Wisconsin, includes both a federal and a state component. Similarly, the health insurance subsidy was designed around an HMO offer that was similar to that available to Wisconsin welfare recipients at the time. This made for seamless transfers from one system to the other when welfare recipients enrolled in New Hope, leaving welfare for full-time

8. For more information on transitional jobs programs around the country, see the Web site of the National Transitional Jobs Network at <http://www.transitionaljobs.net/default.htm>.

BOX 2

New Hope in Minnesota

Minnesota offers an interesting contrast to Wisconsin, its neighboring state and the original site of New Hope. Though poverty rates are well below the national average, roughly 60,000 low-income Minnesotan households have a full-time, full-year worker; another 40,000 of such households include someone who worked full time at least part of year (U.S. Census Bureau, 2006). Almost half of low-income working adults and one-fifth of low-income children lack health insurance (National Center for Children in Poverty 2007a).

Minnesota's employment and social services are devolved to counties that ultimately carry the authority over management and administration of the state's services. Cash assistance programs are overseen by the Department of Human Services, while employment services are a mix of cross-agency and public-private partnerships. Minnesota's 47 workforce centers are a product of collaborations between the Minnesota Department of Employment and Economic Development and local community agencies. The centers are managed through 16 local workforce councils and are overseen at the state level by the Governor's Workforce Development Council.

While it will take the high-level endorsement of state-level agencies or the governor's office for New Hope to be a viable option in Minnesota, our discussions with state officials indicate that the nuts and bolts of delivering New Hope will inevitably vary by county. Below we offer three examples.

Anoka County. Anoka, the fourth-most-populous county in Minnesota, a suburban neighbor of Hennepin County (where Minneapolis is located), with unemployment and poverty rates around 5 percent each, hosts a highly centralized service delivery system that is located at the Anoka Department of Human Services (U.S. Census Bureau 2006). The county operates child-care assistance and a workforce center that includes job training, basic education, outreach to community colleges, and assistance with income maintenance through the Anoka County Community Action Program. By integrating into this existing centralized set of services, New Hope could fill gaps in work supports such as child and medical care.

Hennepin County. Hennepin County, the urban home to Minneapolis and a county of 1.1 million, has historically delivered its social services through a fragmented and evolving system, largely through public-private partnerships. Child care is administered through Hennepin County Human Services and Jewish Vocational Services. Health care is delivered through Hennepin County Human Services and the Public Health Department. Clients can apply for assistance at several outreach offices that range from community and family resource centers to community emergency assistance programs and clinics. Job seekers in the city have access to the Minneapolis Employment and Training Program, while suburban Hennepin County job seekers turn to Hennepin County Human Services Department and its service partners. The county is home to five workforce centers. Here, a New Hope program may offer a fresh alternative either built from the ground up or expanding from existing services at county workforce centers.

Pine County. Northeast of Hennepin County is Pine County, with a population of 26,000, unemployment rates of 5.7 percent, and 11.3 percent of the population living below poverty (U.S. Census Bureau 2006). Pine County Health and Human Services takes sole responsibility for delivery of health, child care, and related cash-assistance programs. Employment services are available through an employment and training center at Pine Technical College in Pine City that includes child care resources and referrals, and a workforce center located 30 miles away in Cambridge, Minnesota. One of these offices can serve as an administrative anchor for a New Hope program with links to the other office to ensure accessibility to those who live farther away.

In some counties, such as Hennepin, New Hope can step in as an appealing and efficient alternative for existing services; in others, New Hope can extend outreach for families to receive the financial assistance they need. Minnesota's commitment to state-funded programs like early childhood education and medical assistance, and its presence of a state-funded dependent care income tax credit, are likely to alleviate the per person cost of New Hope. Perhaps the one exception is child care assistance, the demand for which will inevitably increase, putting additional pressure on already long waiting lists (Larson 2007).

work. Sliding-scale subsidies on program benefits were set so that workers always increased their net income when earnings rose.

In scaling up the New Hope model, we foresee similar levels of integration between the New Hope programs operated by the 50 states and the District of Columbia, and the existing benefits and services available in each locale. The availability of such benefits has increased significantly since New Hope was first implemented—increased not just in Wisconsin, but also in most states throughout the United States. Although many of these state efforts are not fully funded and take-up rates are sometimes low, a well-integrated New Hope program could build on these existing services, increase their take-up by participants, and provide a cafeteria-style benefits package like New Hope at a lower incremental cost than implementation of the experimental program in the mid-1990s. In this regard, it is notable that the Wisconsin New Hope program was found to significantly increase take-up of the EITC by its participants. Hence, a considerable share of its net income effect was due to increased take-up of existing services rather than being due to net program contributions.

To accomplish integration of New Hope with existing services and to maximize utilization of existing services and funding streams, it is critical that New Hope be implemented effectively and with community support. Research on the New Hope intervention and subsequent comparisons with Wisconsin's W-2 welfare program underscored the importance of building the correct program infrastructure to provide services and administer benefits (Brock,

Doolittle, Felerath, and Wiseman 1997; DeParle 2005; Duncan et al. 2007).

We propose that the program be administered by existing state and local agencies and not-for-profit institutions. Depending on the specific infrastructure in each state, New Hope services could be delivered through the workforce development system, a health maintenance system, county public assistance agencies, or a network of not-for-profit agencies. In a large state, the program could use a combination of these delivery systems tailored to the specific infrastructure of local areas.

One delivery system that has particular promise as a home for a national New Hope program is the one-stop system funded by the Workforce Investment Act (WIA). At the time when New Hope was studied in Wisconsin, this system was not yet fully developed, but after passage of the WIA in 1998, One-Stop Career Centers have become a key feature of the workforce investment system.⁹

In Boxes 2, 3, and 4 we illustrate the diverse ways in which New Hope might be implemented with case studies of three states—Minnesota, California, and Florida. In addition to their obvious geographical dispersion, these states differ with respect to state versus county administration of social services; labor market features; and demographic characteristics. Florida is an interesting case study of the role that New Hope can play in expanding and streamlining supports in southern states that, historically, have been more cautious in their investment and delivery of social services and benefits.¹⁰

9. In addition to traditional U.S. Department of Labor (DOL)-funded services for dislocated workers, unemployed youth, and other relatively narrowly defined groups, the One Stops are supposed to expand access to DOL services for a range of other groups, including employers and incumbent workers, who would be able to access training and advice to improve their employment stability and long-term prospects for career growth. Unfortunately, research on the implementation of Workforce Investment Act (WIA) in general and the functioning of the One Stops in particular has found that at the state and local levels the system is not always successful in achieving the objectives of WIA (Macro, Almandsmith, and Hague 2003; D'Amico, Kogan, Kreutzer, Wiegand, and Baker 2001). Partially this is because, aside from career advice and referrals to training, WIA One Stops do not have a great deal to offer those who already hold a steady job. This is where adding a New Hope program could help increase the relevance of the One-Stop system to incumbent workers, while taking advantage of a well-developed existing work-focused infrastructure.

10. The proportion of low-income adults and children without health insurance varies widely in the South, but Florida's high rates are matched by the other large southern states: Virginia and Texas. Also, Florida's policy environment is illustrative of the South generally, where most states have child care subsidy waiting lists and no state EITC (National Center for Children in Poverty 2007b).

BOX 3

New Hope in California

More than half a million Californian households are low income, despite having a full-time, full-year worker (U.S. Census Bureau 2007). A relatively high proportion (18.5 percent) of Californians lack health insurance, and waiting lists for state-funded child care are five times as large as those in any other state (DeNavas-Walt, Proctor, and Smith 2007; Schulman and Blank 2006). Because workers in most of California's major urban areas are more likely to have good job opportunities and earn a higher wage than their peers in rural areas, New Hope may be particularly beneficial to Californians who live and work outside major metropolitan areas. With an agriculturally based economy, many low-income Californians face seasonal and chronic unemployment in more than half of rural counties.* A well-run CSJ component would be in great demand in these areas. Established employment and training agencies on the edges of agricultural areas have helped rural workers make such transitions for many years (Miller, Bos, Porter, Tseng, and Abe 2005).

California administers most of its social programs in a decentralized fashion, allowing individual counties great leeway in the administration of state-funded programs such as CalWORKs, the Healthy Families Program (which is California's State Children's Health Insurance Program), and a variety of child-care assistance programs. New Hope may be best administered in a system that does not lend itself to county-by-county administration. One such system is the workforce investment system, which includes 271 One-Stop Career Centers. These Centers are managed by 50 local and regional Workforce Investment Boards that are not tied to counties. The Boards tend to be arranged in economic clusters, enabling them to develop coordinated responses to structural economic changes, such as the decline of the logging industry in Northern California or the growth of call center and distribution services in the area surrounding Bakersfield. According to a recent statewide evaluation, California has an effective system of One-Stop Career Centers, which have the management and infrastructural capacity to provide more services than are currently funded through the WIA (Campbell, Lemp, and Treiber 2006).

There are several competing factors to consider in assessing the costs of a New Hope-style policy in California. Because California's Healthy Families Program covers children under the age of one year who are up to 300 percent of the poverty level, and children ages 1–18 who are up to 250 percent of the poverty level, the health insurance component for children in New Hope-eligible families would have no net cost to the program. This is true although New Hope could increase take-up of the Healthy Families benefits by packaging these benefits with others that New Hope participants might access. While California has a generous child-care subsidy program, waiting lists are high and likely take-up will increase with New Hope. Large parts of California have higher-than-average unemployment, thereby increasing the need to develop CSJs to ensure that anyone willing to work 30 hours or more has access to such employment. On the other hand, with a state minimum wage of \$7.50 (rising to \$8.00 on January 1, 2008) and better job opportunities, the earnings of working families in metro areas would disqualify them for the earnings supplement and subject them to larger premiums and copays for other benefits.

* There is significant seasonal variation in the caseloads of the state's Unemployment Insurance and CalWORKs (TANF) programs in rural areas (Public Policy Institute of California 2000).

BOX 4

New Hope in Florida

In Florida, nearly half a million households with a full-time worker are in or near poverty (U.S. Census Bureau 2007). Florida has some of the highest rates of uninsurance in the nation—more than 20 percent overall and more than 50 percent among working-poor households—and ever-expanding waiting lists for child-care subsidies (DeNavas-Walt et al. 2007; Schulman and Blank 2006). A New Hope-style program can be situated in Florida's existing and well-developed workforce development system, which includes 24 Regional Workforce Boards and 90 One-Stop Career Centers. In addition to job search and job training assistance, child-care subsidies are also administered through the One-Stop Career Centers. New Hope can build on this integration of services, as well as Florida's innovative ACCESS (Automated Community Connection to Economic Self-Sufficiency) program, which streamlines service provision to low-income families by providing information and applications for TANF, food stamps, and Medicaid online and at community partners, such as libraries and medical offices. These local networks of organizations helping low-income workers can be used to market the New Hope program.*

Florida is also in the enviable position of having experience administering work support programs with components that are similar to New Hope's. The Passport to Economic Progress Demonstration Program which was implemented in three counties from 2001 to 2005, offered earnings supplements and transitional services, including child-care and transportation assistance, to welfare recipients working full time (Workforce Florida 2005). Compared to New Hope, the program did not provide medical insurance coverage or CSJs, and served a much narrower population of workers. In contrast to New Hope, it is difficult to assess the success of Passport because it did not undergo a random assignment evaluation by an independent research organization. However, the program does provide a model for outreach to working poor families in Florida through One-Stop Career Centers, as well as lessons about building relationships with the business community and the importance of working with clients to achieve specific job-related goals.

Another program, the Greater Miami Service Corps uses public-private ventures to develop paid employment positions for young adults on projects that benefit communities in Miami. New Hope can build on lessons from these programs and on Florida's interest in supporting low-income workers by offering a more comprehensive package of supports to a broader population.

The per person cost of New Hope in Florida would be similar to other states, but large numbers of low-income workers, high rates of uninsurance, and long child-care subsidy waiting lists will result in a higher overall price tag on the program. Like many states, the case that New Hope's benefits outweigh its costs is key to gaining political support, particularly given the state's recent budget cuts of more than \$1 billion.†

* Florida has had success with several large voluntary programs for low-income families, including the pioneering Voluntary Prekindergarten program (<http://www.floridajobs.org/VPK/index.html>) and Healthy Start and Healthy Families programs (<http://www.doh.state.fl.us/family/mch/hs/hs.html>) that provides health care and relationships skills training to new parents and infants. These programs could also be part of outreach efforts for a state program like New Hope.

† J. Malernee, "Florida's \$1.1 billion in budget cuts kinder than first expected," *Sun-Sentinel*, October 13, 2007.

3. Costs and Benefits

With its comprehensive package of benefits and case management, the cost of operating our proposed New Hope program is far from trivial. This section provides an estimate of the annual costs of running a national New Hope program, coupled with a range of estimates of the benefits generated by the program. Our estimates of costs and benefits are based on the impact estimates of the Milwaukee-based New Hope demonstration, and use a similar cost-benefit methodology (Bos et al. 1999, Chap. 8).

Cost-benefit analysis typically distinguishes costs borne by and benefits accruing to participants and to the rest of society (referred to here as “taxpayers”). Summing across these two groups provides estimates of total social costs and benefits. Although policymakers sometimes choose to focus only on the taxpayers’ costs and benefits, economic logic stresses the need to compare total resource costs, regardless of the degree to which they are borne by taxpayers or the participants; and total benefits, regardless of whether they are enjoyed by taxpayers or only by participants. Although it is possible to weigh the costs and benefits of one

of these groups higher than the other, evaluations of net program benefits are usually based on a simple comparison of total resource costs and total benefits, regardless of the group to which they accrue.

Program costs. Table 3 provides our estimates of the annual benefits and costs of offering New Hope program services. New Hope’s collection of benefits would transfer considerable amounts of resources to participants. First, earnings supplements would average \$284 per year per participant, given the earnings supplement take-up rate from the New Hope demonstration.¹¹ Second, participants would receive health insurance subsidies on the order of \$875 per year, based on actual New Hope costs.¹² Third, participants would receive about \$470 in child care subsidies.¹³ These are averages across all participants, regardless of family status, with families with young children obviously reaping the bulk of the child care subsidies. In a cost-benefit analysis, these dollar amounts benefit participants at the expense of taxpayers, assuming no other benefits accrue to taxpayers and that taxpayers derive no utility from transferring resources to working families in need.

11. In the New Hope demonstration, the overall take-up rate of the earnings supplement among participants was 79 percent; those who took up the supplement did so in 9.1 out of 24 months, on average (Bos et al. 1999, 71). Thus, the overall monthly take-up rate was approximately 29 percent. Assuming an average monthly benefit of \$80 (it is difficult to systematically approximate this number), this results in an average expected benefit amount of \$23.66 a month, or \$283.92 per year.

12. Our health insurance cost estimate is based on actual New Hope costs, adjusted for inflation. There have been dramatic changes in health insurance policies, in particular the introduction of the State Children’s Health Insurance Program, since the mid-1990s, but counterbalancing reductions in coverage by private employers leaves us without strong reasons to adjust the original estimate in one direction or the other.

13. We assume that New Hope would not fund child care subsidies for families that are eligible to receive subsidies from existing state programs. However, as of early 2006, roughly 18 states had waiting lists for child care assistance or had frozen intake, leaving approximately 489,573 children eligible, applied, and waiting for care assistance (Schulman and Blank 2006). In fiscal 2005, the Child Care and Development Fund served 1,746,100 children (Administration of Children and Families 2007). This means that roughly 22 percent of children did not get assistance, but were eligible and became certified or applied for assistance. To obtain an estimate of likely incremental New Hope child-care funding, we double this estimate, for two reasons. A New Hope-style program is likely to increase demand for child-care assistance because it is likely to increase employment entry as well as hours of work among those who are already employed. Second, a New Hope-style program could also increase child-care assistance among those families who include full-time workers and who otherwise could not overcome bureaucratic or other eligibility criteria for receiving public child care assistance. Based on the annual (inflated) \$1,069 child care cost incurred in the experimental program, we estimate that child care benefits, on average, across all participants in our proposed New Hope program would amount to \$470 (i.e., we assume that about 44 percent will take up the child care benefit, hence we derive \$470 by multiplying 0.44 with \$1,069).

TABLE 3

Annual New Hope Costs and Benefits

	New Hope Participants	Taxpayers	Net to Society
Program Components			
New Hope earnings supplement	+284	-284	0
Health insurance	+875	-875	0
Child care	+470	-470	0
Program administration	0	-1,717	-1,717
Earnings, taxes, and transfers			
Pretax earnings (includes CSJ earnings)*	+497	0	+497
EITC less taxes paid	+40	-40	0
Cash transfers plus food stamps	-78	+78	0
TOTAL	+\$2,088	-\$3,308	-\$1,220
Prominent possible benefits			
Value of higher child achievement	+\$1,036	+\$259	+\$1,295
Value of better child behavior	Saving 1 in 16 New Hope boys from high risk: \$3,308 in taxpayer savings (see text) Saving 1 in 46 New Hope boys from high risk: \$1,220 in savings to society (see text)		
Other possible benefits	Increased self-sufficiency, improved physical and mental health of adults and children, the societal value of equalizing opportunity		

Source: Authors' calculations, based on Bos et al. (1999), Chapter 8.

* Pre-tax earnings for New Hope participants do not include the New Hope earnings supplements but do include CSJ earnings. There is no net taxpayer cost for CSJ earnings since it is assumed that the taxpayer expenditures for CSJ earnings are offset by the value to taxpayers of the goods and services produced by participants in CSJs.

The administrative costs of running a New Hope program are also substantial, amounting to a little more than \$1,700 per year per participant. These costs include case management, setting up and monitoring CSJs, and general office expenses.¹⁴

Benefits from higher earnings. A key benefit of New Hope is its boost to the economic productivity of adult participants. Using earnings impacts as a measure of productivity, we saw in Table 1 that the annual earnings advantage of New Hope participants relative to the control group participants amounted to \$497, which is our best guess of the productivity gains associated with a national New

Hope policy. Although the earnings impacts were twice as high for the participants who were not working at the start of New Hope and more than \$2,500 per year for the subset of participants with some but not too many employment barriers, the overall productivity estimate of \$497 is most appropriate for our programwide estimate of costs and benefits.

The tax system both adds to the higher earnings through the EITC and subtracts from them through payroll and assorted other taxes. We estimate that the net effect of taxes is a modest \$40 per year in favor of the participants, paid for by other taxpayers.

14. The bulk of the administrative costs were incurred in providing services to participants. We inflate costs incurred by the experimental program for our estimate. We took 50 percent of the experiment's \$627 per participant general overhead expenses, since these costs will be spread over a much larger number of participants in a scaled-up program.

Based on our evaluation in Wisconsin, we estimate that New Hope's overall impact on cash transfer income (TANF and SSD) and food stamps would be modest, amounting to a reduction of \$78 per year. Potential reductions in public benefits could be much larger in other states, depending on state TANF rules, benefit amounts, and income disregards. Such reductions would benefit taxpayers at the expense of participants and would offset some of the cost of providing New Hope.

So far, the estimated costs and benefits sum to a \$2,088 gain for participants, a \$3,308 cost to taxpayers, and a net cost to society of \$1,220 per participant per year. However, society also benefits from New Hope's positive impacts on child achievement and behavior, particularly among boys. It is difficult to assign a dollar value to these impacts, but they are clearly important, since achievement has been linked to significant earnings gains (e.g., Neal and Johnson 1996), and behavioral improvement that reduces crime can generate very large taxpayer benefits (Anderson 1999).

Achievement benefit estimates for children.

Two years after their families enrolled in New Hope, children in New Hope families were judged by their teachers to have considerably higher achievement than children in the control group. The size of the impact—one-quarter of standard deviation—is nearly twice as large as the estimated impact on achievement of Tennessee STAR, an experiment in Tennessee that reduced class sizes (Krueger and Whitmore 2001).

Relying on methods for converting achievement gains into the monetary value of the future earnings gains they likely occasion, we estimate an annual value of the future earnings gains to be \$1,295, of which \$1,036 is enjoyed by the children themselves and \$259 accrues to taxpayers in the form of higher taxes paid.¹⁵ Note that the \$1,295 societal benefit is sufficient to cover the annual net (social) cost of the program.

Behavior improvement in boys. Teachers reported that, relative to control-group boys, boys in the New Hope program showed more positive behavior, exhibited fewer behavior and disciplinary problems, and were more compliant and less hyperactive in classrooms.¹⁶ Since impacts for girls were significantly less than for boys, we concentrate our benefit calculations on boys.

Almost all of the boys benefiting from New Hope were either black or Latino, and all lived in low-income families and high-poverty neighborhoods. In other words, many fit a high-risk profile for school dropout, crime, and adult unemployment.

How do we attach a dollar figure to the benefit from saving a high-risk youth from these fates? Based on published estimates of the dollar value to taxpayers of saving a youth from serious crime and drug abuse and from becoming a high school dropout, we calculate the taxpayer value of saving each high-risk New Hope child to be \$2.4 million, with crime victim and criminal justice costs accounting for the bulk of this total.¹⁷ Spread over 18 years of childhood, the an-

15. A first step in translating the 0.25 standard deviation (0.25sd) achievement gain for young children into a dollar value is to consider the likely achievement gain in a permanent program. On the one hand, the 0.25sd gain came only after two program years and might well grow with additional years of the program. On the other hand, early gains might not translate one-for-one into achievement gains later in adolescence. Not knowing the relative magnitude of these two possible biases, we continue to assume a 0.25sd achievement gain. Using procedures in Krueger and Whitmore (2001), including the assumption of a 1 percent growth rate in earnings and 4 percent discount rate, the present value (at age eight) of future earnings associated with a 0.25sd increase in achievement is \$28,128. Expressed as an annual amount over the 18 years of childhood in which families might potentially be eligible for New Hope, the average annual benefit per child is \$1,563. The ratio of children for whom the achievement impacts were estimated (1,125) to total families applying for New Hope (1,357) is 0.829, so the annual benefit averaged across all New Hope families is \$1,295. Assuming that 20 percent of earnings, on average, are taxed away, the \$1,295 can be divided into a \$1,036 annual benefit for New Hope participants, with a \$259 annual benefit for taxpayers.

16. Expressed as standard deviation units, the effect sizes reported in Bos et al. (1999) were the following: positive behavior (+0.50sd), fewer behavior problems (-0.51sd), compliance (+0.47sd), hyperactivity (-0.39sd), and disciplinary problems (-0.30sd).

17. Cohen (1998) provides the basis for our analysis. He assumes a 2 percent discount rate, bases his calculations on age 14, and eliminates duplication arising from the fact that some individuals are both career criminals and heavy drug users. We inflate his figures

nual value of this sum amounts to about \$135,000. Not all New Hope families will have preadolescent or adolescent boys, not all boys will fall into the high-risk category, and even New Hope's large impacts will not lift all of the high-risk boys out of that category. To value the behavioral improvement in boys, we can take the \$135,000 in annual benefits and ask what fraction of New Hope boys would have to be "saved" in order to cover the \$3,308 annual taxpayer cost and \$1,220 annual total social cost of the program. With details provided in footnotes, we estimate that about 1 in 16 New Hope boys would have to transition out of the high-risk category to pay for the entire taxpayer cost of the New Hope program, and fewer than 1 in 46 such transitions are required to pay for the entire societal costs of the program.¹⁸ It does not strike us as implausible that New Hope's large impacts on boys' behavior alone would be more than sufficient to cover all of the taxpayer's costs.

National costs. Despite its likely social profitability, New Hope's estimated average annual taxpayer cost of \$3,308 raises issues of aggregate costs and of the distribution of those costs across states. With details in footnotes, we estimate that 16.8 million families and single adults are potentially eligible

for the program.¹⁹ Single mothers, the group most commonly associated with poverty, make up only 22 percent of this total. Fully 44 percent are married couples, with and without children, and another 30 percent are single adults without children, split equally between men and women. Four million of the families in the eligible pool have at least one child under 13 years of age, the group that would be eligible for New Hope child care subsidies, with 20 percent of those having two or more children under six years of age. The eligible population is 74 percent white, 19 percent black, and nearly one-third Latino.²⁰ Despite full-time work, 57 percent of the heads of these working poor or near-poor households are not covered by health insurance, leaving nearly 6 million children uninsured.

Of course, only a fraction of the 16.8 million eligible families and adults would choose to participate in a national program such as New Hope. Because a comprehensive program like New Hope has never been implemented nationally or even at the state level, it is difficult to anticipate the take-up rate. Only 5 percent of the families in the neighborhoods New Hope served chose to sign up for the program, but a survey of community members indicated that most had never heard of the program (Brock et al.

to 2006 and take the midpoint of his estimated ranges. His estimate of victim and criminal justice costs average \$1.4 million. Taxpayer costs for a long-time drug abuser sum to \$850,000. In place of his estimate of the costs of a high school dropout, we substitute the \$182,000 estimate of Levin, Belfield, Muennig, and Rouse (2006) for the discounted value of tax revenues and lower public spending on health care, and welfare (we omit their crime reduction estimate since it has already been included above).

18. The ratio of boys for whom the behavioral impacts were estimated (563) to total families applying for New Hope (1,357) is 0.415. Thus, the potential annual benefits of saving a high-risk boy, spread across all New Hope families, is \$56,025 (or \$135,000 multiplied by 0.415) per family. The \$3,308 annual taxpayer cost of New Hope is 5.9 percent of the \$56,025 potential benefit. The \$1,220 total social cost of New Hope is 2.2 percent of the \$56,025 potential benefit.
19. It is relatively easy to estimate the potential pool of American families and single adults who would qualify for New Hope benefits based on employment status and family income. If we restrict our estimates to adults between the ages of 18 and 64, the 2006 CPS (U.S. Census Bureau 2006) shows that some 18.5 million families or single adults had incomes below 150 percent of the poverty line in 2005. In 7.8 million of those households, the householder, his or her spouse, or both worked 30 or more hours per week, making the family eligible for New Hope benefits. The actual eligible population is likely to be larger, however, because some proportion of adults who were not working full time will choose to increase work effort in order to take advantage of New Hope's supports. This was the case in the New Hope experiment. Participants were divided roughly in three groups between those working full time, those working part time or having a recent work history, and those without earnings in the previous 12 months. For the purposes of our cost estimate, we calculated that 4.5 million households with income below 150 percent of the poverty line did not have a householder or spouse working full time in the week prior to the CPS, but had worked at some point in the prior year. Given that approximately the same number of New Hope participants had recent work history as had no earnings in the past year, we doubled 4.5 and added the sum to 7.8 to arrive at an estimate of 16.8 million households.
20. The racial categories are white only, black only, and other or mixed race. The final category makes up 8 percent of the eligible population. "Latino" is an ethnic designation and can overlap with any of the racial categories. It is noteworthy that the distribution of the working poor by race differs from the welfare recipient population. In 2001, TANF recipients were 30 percent white and 39 percent black. The proportion of Latino families is roughly the same (U.S. Department of Health and Human Services 2001).

1997). Information about the program would be more broadly distributed in a scaled-up version of the program. New Hope's earnings supplement bears some similarity to the EITC, a program with take-up rates in the 80–90 percent range, depending on how the eligible population is defined (Holt 2006). We would not expect such a high take-up rate among our potential pool of families eligible for New Hope because many would not qualify for New Hope benefits in any given month. Also, while receiving the EITC requires the completion of tax forms, it is a less cumbersome process than New Hope's required periodic meetings with caseworkers and recertification based on employment status. Another component of New Hope—child care subsidies—has been implemented nationally and provides a more reasonable upper bound on take-up. A national estimate of family take-up of

child care subsidies is around 40 percent. Based on this information, we take 40 percent as an upper bound on take-up rates, and 25 percent as a more realistic take-up estimate. Assuming a 25 percent take-up rate, New Hope's annual costs would amount to \$13.9 billion. The \$13.9 billion figure is the product of the 16.8 million eligible families and adults, \$3,308 taxpayer cost per participant, and a 0.25 take-up rate. By way of comparison, the most recent estimates show that we spent \$40 billion in 2005 on the EITC program, \$24.5 billion in 2001 on TANF, and \$21 billion in 2005 on the Food Stamp Program (U.S. House of Representatives 2004; Zedlweski and Zimmerman 2007). A 40 percent rate would increase annual costs to \$22.2 billion. These figures are obviously very tentative and would be revised as information from our proposed test of the program became available.

4. A Five-State Test of New Hope

Given the different ways in which states might administer a New Hope–style program, we propose a five-year test evaluation in five states. Many elements of our proposed test parallel those of the welfare-reform waiver experiments in the mid-1990s: in response to a federally initiated waiver provision, states as diverse as Florida, Minnesota, Indiana, and Connecticut developed welfare reform–program models and tested them in several counties or cities.²¹ In all of these cases, states randomly assigned participants to either receive the reform package of program services or continue to live under the rules of the existing Aid to Families with Dependent Children program. States contracted with independent evaluators to assess labor markets, family and child impacts, and costs and benefits of the programs.

We propose an analogous process for New Hope. States would compete for the opportunity to test the New Hope model in an assortment of urban and rural service-delivery counties or labor-market areas. Five states would be chosen to run demonstrations. They would be required to commit to an independent random assignment evaluation of the program and would assess both adult and child outcomes during and at the conclusion of their five-year trials.

Given the experience of state waiver experiments, recruiting 6,000 potential participants per state and randomly assigning half to receive New Hope program services should provide sufficient statistical power to detect meaningful impacts on work, family, and child developmental outcomes for sites (or at least clusters of sites) within the individual states. Our estimate of annual program costs amounts to \$3,308 per participant, which, with 3,000 participants per state, would cost almost \$10 million per state. Five-year costs would amount to about \$50 million per state, or \$250 million across the five states. To induce states to mount their demonstrations, we propose that two-thirds of this cost (\$167 million over five years) be financed by the federal government. We expect that the federal commitment for the demonstration and evaluation costs, adjusted for inflation, would be in line with the amount spent on the waiver experiments of the mid-1990s. High-quality evaluations, with a detailed implementation study, and data collected two and five years beyond random assignment, would probably add a total of about \$5 million per state to the total costs.

21. For results from the Florida, Minnesota, and Connecticut experiments, see respectfully Bloom et al. (2000), Miller et al. (2000), and Bloom et al. (2001). Indiana results are detailed in Beecroft et al. (2003) and Iowa results are detailed in Fraker et al. (2002).

5. Possible Objections and Responses

1. Since New Hope's trial in the mid-1990s, the EITC has been expanded, a large child health insurance program has been implemented, and states have used TANF and other money to provide child care subsidies for their working poor. Would a national New Hope program add anything that is not already in place in most states?

Although many states have used welfare reform funding to bolster their supports for low-skilled workers, none has come close to offering a comprehensive set of supports like New Hope in a single program. Few states extend any work-related benefits to adult men and women who are not living with children. None has structured a bureaucracy to place caseworkers and participants in a voluntary partnership similar to New Hope's. None links extra benefits to full-time work or provides health insurance to all low-income workers. Few have developed a system of wage-paying, but temporary, CSJs. Few have fully funded their child care and health insurance programs. As noted at the beginning of this paper, despite this increased spending, adults and children in full-time working families who live in poverty or lack health insurance in 2005 numbered in the millions.

2. New Hope has little to add to states' existing workforce development and One-Stop Centers.

Several features of a New Hope program distinguish its services and benefits from most existing workforce development services provided at states' One-Stop Centers. First, a New Hope-style program offers an earning supplement, guaranteeing that a low-income worker will have enough income to exceed the poverty level. Second, New Hope's philosophy of a social contract aims to break cultural and social barriers that have been found to reinforce generational cycles of poverty. Third, a New

Hope-style program will have an open door for all individuals who are willing and able to work, and will redefine the traditional caseworker role from that of "paper pusher" to that of "facilitator," addressing a client's (and his or her family's) needs. Because the goals of New Hope are broader than the traditional missions of current One-Stop Centers, a New Hope-style program can also be implemented in other existing state systems, including child care resource and referral agencies, health-care organizations, and other nonprofit systems.

3. State governments can't hope to match the nature and quality of New Hope's implementation.

In fact, a program similar to New Hope was successfully implemented by the state of Minnesota in 1994. The Minnesota Family Investment Program (MFIP) experiment implemented in seven Minnesota counties offers encouraging evidence that good client services and effective marketing and streamlining of benefits are not beyond the capabilities of state bureaucracies. The program specifically trained financial specialists who approached their job with enthusiasm, had close knowledge of MFIP's new rules, handled the paperwork, and processed welfare and related grants. While caseloads did not dramatically differ as compared with Minnesota's prior welfare system, caseworkers worked more intensively with recipients to develop and implement employment plans and to show them how MFIP can "make work pay." An evaluation of MFIP shows evidence of the favorable response to MFIP's benefits and requirements, particularly from long-term recipients of welfare, including those who are highly disadvantaged with either no or very little prior work experience, and low levels of formal education (Gennetian and Miller 2000; Gennetian, Miller, and Smith 2005; Knox, Miller, and Gennetian 2000).

New Hope can build on current state momentum to streamline existing capacities, and state level commitment to innovate and restructure delivery of social services. State early education and prekindergarten programs and State Child Health Insurance Programs are recent examples.

4. New Hope reduced work among some participants. Social policy should be directed toward increasing, not reducing, work.

The overall impacts of New Hope on work and earnings were positive. Some participants already working full time when they enrolled in New Hope cut back on overtime work and second jobs. For many policymakers, reductions in work hours signal the failure of a program, but they are usually thinking about people who are capable of work but who are either not working or not working enough. New Hope provides a guarantee that work will be rewarded by moving a family out of poverty. It also provides tools to help families with managing a work-family balance that is sustainable and beneficial for family well-being and child development. Overworked parents may use New Hope supports to rebalance their breadwinner and caregiver roles

toward the care side. Social policy goals for low-income working parents, in particular, who are juggling multiple jobs and 50- to 60-hour work weeks should be focused on work-family balance, and reducing the negative consequences of long and sometimes erratic work schedules on their children.

5. Can New Hope generate bipartisan support?

New Hope drew enthusiastic support from both liberals and conservatives in the Milwaukee community. The program would not have gotten off the ground without the help of Milwaukee's business elite, which loved the fact that New Hope's benefits were conditioned on proof of full-time work. Some of the state's most successful Republican fundraisers were willing to cash in some of their political chips in the Governor Tommy Thompson administration to ensure that New Hope was given a chance to show that it was more effective than the work reforms Thompson was putting in place. New Hope also shares many of the policy goals of the EITC, which has drawn bipartisan support for more than two decades.

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