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This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.
Fifteen percent of Americans live in poverty today—over 46 million people.¹ There’s a vast amount of untapped potential in our country. And this year marks the 50th anniversary of the War on Poverty, so it’s an especially apt time to rethink how to expand opportunity in America.

**Upward Mobility in America Today**

A key tenet of the American Dream is that where you start off shouldn’t determine where you end up. If you work hard and play by the rules, you should get ahead. But the fact is, far too many people are stuck on the lower rungs.

To be sure, most low-income families are better off than their parents. Of those raised in the bottom fifth of the income scale, 93 percent experience “absolute” upward mobility. After adjusting for family size and the cost of living, they make more money than their parents did at the same age.² In short, economic growth has raised living standards across the board.³

But “relative” upward mobility has been lackluster—in part because as a rising tide lifts all boats, the income needed to escape the bottom fifth rises too. Of all Americans raised in the bottom fifth, 34 percent stay there. And just 38 percent make it to the middle class or above. (See the chart below.)

In fact, rates of upward mobility are no lower or higher today than in the 1970s⁴ and perhaps even the 1950s.⁵

Even so, poverty is too high, unemployment is too high, labor-force participation is too low, and wage growth is too slow. So how do we increase opportunity and upward mobility? No family can get ahead without a strong economy. But there are many factors that affect upward mobility. On the personal level, growing up in a two-earner household, completing formal education, and developing a

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² Pew Economic Mobility Project, “Pursuing the American Dream,” 2012.
habit and a store of savings are all significantly associated with higher rates of upward mobility. In addition, the Brookings Institution has shown that a combination of family conditions and patterns of behavior and achievement is the key to joining to the middle class.

And at the neighborhood level, recent research has shown that areas with more two-parent households, a higher level of civic engagement, and fewer high-school dropouts enjoy higher average rates of upward mobility. Conversely, people who live in more geographically isolated areas, which often suffer from high levels of concentrated poverty and crime, are more likely to experience lower rates of upward mobility—even those who are not poor or do not engage in such activities themselves may be at increased risk of downward mobility.

In other words, there are many factors beyond public policy that affect upward mobility. But public policy is still a factor, and government has a role to play in providing a safety net and expanding opportunity for all.

Defining Measures of Success

In looking at these issues, there is a tendency to measure success by how much the government spends on programs or how many people it spends money on. That should not be the measure of success—because success goes beyond one’s income quintile. Success ultimately is in the well-being of people, their happiness. And research indicates that work, faith, family, and community are critical ingredients to people’s happiness. To quote Arthur Brooks, president of the American Enterprise Institute:

The right to define our happiness, work to attain it and support ourselves in the process — to earn our success — is our birthright. And it is our duty to pass this opportunity on to our children and grandchildren.

The first task is to determine how we should define progress. There are a number of broad measures that define the health of society—such as rates of mobility, marriage, or educational attainment—that one can use to measure success. With respect to poverty, the most widely available metric remains the Official Poverty Measure (OPM). By now, it is widely accepted that there are significant flaws in the federal government’s OPM. Most importantly, it doesn’t account for all the federal government does to relieve poverty, like the Earned Income Tax Credit, the Supplemental Nutrition Assistance Program, and other benefits. By omitting income from these programs, the OPM may overstate the number of people in poverty and thereby understate the efficacy of federal aid.

Despite its shortcomings, the OPM is useful because, in the words of American Enterprise Institute scholar Robert Doar, “in leaving out [nearly] all that government does to help the poor, the official measure focuses on what poor Americans are able to earn for themselves. It is a measure of their independence and ability to work and earn a sufficient amount to support themselves and their families on their own—which is what they want.”

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11 For a broader discussion of different measures of poverty, see Appendix 1 of the recent House Budget Committee report, “The War on Poverty: 50 Years Later.”
So the discrepancies between OPM and other more comprehensive poverty measures challenge both advocates and skeptics of federal aid. The federal government has helped decrease material deprivation. But despite increasing per capita spending on anti-poverty programs more than six-fold, we are still far from achieving Lyndon Johnson’s goal of “total victory . . . of prosperity over poverty.” Over 46 million Americans today aren’t earning enough for themselves or their families to live above the poverty line. Our true goal, then, is to spend these dollars more wisely. And our true measure of success is the number of people who don’t need government assistance. A minimum definition of success for our low-income programs—indeed, success for all of our programs—should be all able-bodied Americans earning enough money to place them above the poverty line and on a sustainable trajectory towards advancing their career.

On the 50th anniversary of the War on Poverty, then, we should reexamine the federal government’s role. For too long, the federal government has tried to supplant, and not to support, the people fighting poverty on the front lines—families, neighborhoods, community groups. In the fight against poverty, the people ultimately are the vanguard, and government is the rearguard. Government protects the supply lines. But it is the people themselves who take to the front lines.

An Agenda for Renewed Opportunity

In that spirit, this paper will put forth a number of ideas to make federal aid both more accountable and more effective.

• The Safety Net: Instead of helping people look for work, many federal programs end up discouraging people from finding work. This proposal would create a pilot program called the Opportunity Grant to coordinate aid for families in need. By allowing states and community groups to test different ways of fighting poverty, federal aid will help people not just avoid hardship—but build a successful career.

• The Earned Income Tax Credit: One of the most effective anti-poverty programs is the Earned Income Tax Credit, which provides a greater incentive for people to work by increasing its rewards. This proposal shifts funding from programs that don’t work to one program that does. It would expand the EITC for childless workers by eliminating ineffective programs and corporate welfare.

• Education: The federal government can expand opportunity by expanding access to education. But far too often it restricts that access, such as by stoking tuition inflation. This proposal would give states more flexibility with federal education and job-training programs in exchange for more accountability. It also would simplify the current pile of higher-education programs into one grant, one loan, and one work-study program. Finally, it would spur more innovation by opening up the accreditation process.

• Criminal Justice: A growing body of research exposes the high costs of incarceration. To help low-risk, non-violent offenders re-enter society, rebuild their families, and pursue careers, this proposal would revise mandatory-minimum guidelines and couple expanded enrollment in rehabilitative programing with an earned-time-credit system in federal prisons.

• Regressive Regulations: Many federal regulations—especially energy regulations—place a disproportionately large burden on low-income households. And occupational licensing—most often at the state and local level—too often protects incumbents instead of the public. This proposal would require

13 Scott Winship, Room to Grow, “Safety Net Reforms to Protect the Vulnerable and Expand the Middle Class,” 2014.
Congress to review any proposed federal regulation that would unduly burden low-income families. It also calls for states and local governments to revise their licensing laws.

• Results-Driven Research: This proposal calls for a commission to examine the best ways to encourage rigorous analysis of our safety-net programs. Specifically, the commission would consider the implementation of a new Clearinghouse for Program and Survey Data to enhance research capabilities and help us policymakers design more effective programs.

Poverty is a very complex problem, and Washington doesn’t have all the answers. This paper is not meant to serve as the final word, but to start a conversation all across the country. Anyone with questions or comments about this proposal can contact the committee at ExpandingOpportunity@mail.house.gov.

By opening up the debate, we hope to help the best ideas prevail and to empower our communities to expand opportunity in America.
Chapter 1: Reforming the Safety Net

The biggest snag in the safety net is that it discourages work. Many federal programs are means-tested, so as families earn more money, they get less aid. Any system that concentrates on the most vulnerable will face this tension. But the current system exacerbates it by layering on program after program without ensuring any coordination among them.

Take an example: a single parent of two children living in Colorado. As the Urban Institute’s Eugene Steuerle shows, the maximum available amount of federal benefits—totaling over $25,000—is provided when the family has no earnings. At key points on the income scale, the drop in aid is so abrupt that it creates an incentive to earn less in order to remain eligible. (For an illustration of this dilemma, see the graph below.\(^{14}\)) In short, the federal government effectively discourages families from getting ahead—especially those enrolled in multiple programs. Or take another example: a single mother with one child.\(^{15}\) Imagine that she earns $7.25 an hour working full-time year-round (or $15,080 a year). She will make just below the poverty line, which was $15,730 in 2014.\(^{16}\) Now imagine she’s offered a raise to $10.35 an hour (or $21,528 a year). If she accepts, she’ll hit the peak rate on the phase-out of federal aid. At this point, thanks to higher taxes and lower benefits, she will effectively keep only 10 cents of every extra dollar she makes. (For an illustration, see figure 3.)

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\(^{15}\) The following example is an adaptation of Figure 7 on page 26 of CBO’s report, “Effective Marginal Tax Rates for Low- and Moderate-Income Workers” with all the assumptions therein. For more information, see “Effective Marginal Tax Rates for Low- and Moderate-Income Workers,” Nov. 2012.

\(^{16}\) Department of Health and Human Services, “Poverty Thresholds.”
This single mother faces what amounts to a tax rate of 90 percent. (As a point of comparison, the top statutory tax rate for high-income taxpayers is 39.6 percent.) In other words, the welfare system creates a strong incentive to hover around or below the poverty line, unless you can hit a much higher rung on the income ladder in one short leap.

These marginal tax rates affect how much people work as well as whether they work at all. In a recent study, the Congressional Budget Office calculated the marginal tax rates for unemployed workers considering minimum-wage jobs. According to CBO’s estimates, a single mother with one child would face an effective marginal tax rate of 36 percent if she began to work part-time.17 And her tax rate would rise to 42 percent if she worked full-time.18 A single person with no children, meanwhile, would face effective marginal tax rates of 48 percent and 78 percent respectively. So despite working part- or even full-time, many families wouldn’t be that much better off. In fact, these figures may even understated the problem because they don’t include work expenses, like child care and transportation. Including these additional costs can push the marginal tax rates above 100 percent which means that individuals are actually worse off for earning more.

It should always pay to work. But fixing these incentives is no easy task. To phase out benefits more slowly would mean to subsidize millions of middle- and even upper-income families; in other words, it would be prohibitively expensive. But lowering the effective marginal tax rate at the bottom of the income scale by reducing the amount of aid would mean deep cuts for the most vulnerable.

The key, then, is to customize assistance to low-income Americans and incorporate work into the safety net. For the able-bodied, work should be a condition of assistance. But more broadly, federal aid shouldn’t just require people to find a job; it should put them on a path to build a career.

To get out of poverty, some people need just temporary assistance. But to stay out of poverty, many people need to develop skills and life habits. In administering aid, the federal government has a major influence on low-income housing, transportation, and child care—all of which can help or hinder people trying to get ahead. Far too often, federal aid is fragmented and formulaic; it doesn't coordinate these services to help people achieve their goals.

But there are organizations that do provide such comprehensive assistance, such as Catholic Charities. These groups focus on the unique needs of each family and help people develop their individual strengths. It is their intimate knowledge of the people they serve—as well as their ability to take the long view—that makes these groups so successful. They are more effective than distant federal bureaucracies for a simple reason: They don’t just relieve the pain of poverty; they give people the means to get out of poverty.

Inspired by their example, this proposal seeks to combine the resources of the federal government with the vast knowledge of states and local communities. By offering a more dynamic form of aid, the federal government can create a safety net that both catches the falling and supports the striving.
Congress began to incorporate work into the safety net when it reformed welfare in 1996. Passed with bipartisan support, welfare reform was a remarkable success. Most notably, it helped to significantly reduce poverty among children of single mothers—which fell from 55 percent in 1992, when state welfare waivers began, to 39 percent just before the recession in 2000—and many of those gains have persisted through the recent recession and a weak recovery.\(^{19}\) That said, the law was a limited victory. Cash welfare is just one part of safety net, and there have been few reforms since.

Even so, what led to that limited victory was a prolonged period of experimentation. Before 1996, the federal government allowed states to test different reforms for years. It then assessed those results, most notably in the National Evaluation of Welfare to Work Strategies. These experiments ultimately informed the federal legislation that became law. And today they show that the recipe for success is more flexibility in exchange for more accountability.

Stuart Butler and David Mulhausen raise an apt question: “Can government replicate success?”\(^{20}\) Poverty arises from multiple sources, and it’s difficult to link cause and effect. Pinpointing the exact cause, identifying the best solution, and properly scaling effective programs are all immense challenges. But as welfare reform showed, the best solutions don’t come from the top down but from the bottom up.

The federal government, therefore, should encourage innovation among the states and then test the results—because a more accountable system will be a more effective one. The more states can collaborate with local communities, the more they can learn from people fighting poverty on the frontlines. And the more we test these competing approaches and build upon the successful ones, the more we can learn about helping families in need. In short, if the federal government can’t fight poverty alone, then it’s time to bring in reinforcements.

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From Welfare to Work

The Aid to Families with Dependent Children (AFDC) program began in 1935. Although government had offered welfare benefits before, AFDC was the largest expansion of federal welfare up to that time. AFDC was originally meant for widows with children. But in the 1960s, concerns arose that the program was top-heavy, harmful to family structure, and harmful of work incentives. So Congress began to test different ways to reform the program.

In 1962, Milton Friedman proposed the idea of a “negative income tax,” which would provide assistance to low-income Americans without creating high marginal tax rates. This idea inspired a number of large-scale field experiments, including the New Jersey Income Maintenance Experiment, the Rural Income Maintenance Experiment (RIME), the Gary Income Maintenance Experiment (GIME), and the most famous, the Seattle–Denver Income Maintenance Experiment (SIME/DIME). 21

The SIME/DIME experiments tested the idea of a guaranteed income with different effective marginal tax rates. Generally, a more generous income guarantee had a negative effect on work. 22 And, as Johns Hopkins economist Robert Moffit has said, “The policy lesson is that a negative income tax may increase labor supply for some groups and not others; at some levels of guaranteed income levels and implicit tax rates and not others; for some income distributions and not others.” 23

States continued to experiment. For example, the National Evaluation of Welfare-to-Work Strategies (NEWWS) began after the Family Support Act (FSA) took effect in 1988. The FSA began to require the government to provide education and training to AFDC recipients, while recipients had to participate in the Job Opportunities and Basic Skills Training (JOBS) program. 24 The NEWWS programs had a number of different emphases, including job-search first; education-focused programs; and a “hybrid” program which focused on employment, but also enrolled some recipients in education programs.

The NEWWS findings were crucial to the rise of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) because it found that “employment-focused programs generally had larger effects on employment and earnings than did education-focused programs” 25 and that “employment-focused programs are more effective than education-focused programs at increasing employment and earnings.” 26 The employment-focused programs were also much less costly. These findings bolstered the claims of welfare-reform proponents. Interestingly, the most effective NEWWS program—the Portland program—had both a job-first focus and provided assistance for education and training.

The emphasis on work is also evident in the Earned Income Tax Credit, which has been expanded a number of times—most notably in 1990 and 1993. In fact, the EITC is now the third-largest means-tested program, behind Medicaid and SNAP. The consensus among labor economists is that the EITC is an effective tool for encouraging work among lower-income individuals, particularly single mothers. Numerous studies have shown that the EITC encourages people to enter the labor force, though it doesn’t appear to increase the number of hours worked.

In short, work worked. Combined with a strong economy, work-first programs reduced child poverty in female-headed households to the lowest levels on record. According to the Congressional Research Service, the federal government has “sustained” these gains even through the Great Recession. 27 But since 1996, the landscape of federal aid has fundamentally changed. SNAP and the EITC are now the second- and third-largest low-income-assistance programs. Section 8 now spends more money than TANF does. And neither Section 8 nor Food Stamps has a strong work requirement. Congress has not conducted large-scale experiments in this area for nearly two decades. As we work to reform welfare, rigorous evaluation must be a part of any new approach.

22 Ibid
25 Ibid.
26 Ibid.
In that spirit, this proposal would create a new pilot project in a select number of states. In participating states, the federal government would consolidate a number of means-tested programs into a new Opportunity Grant (OG) program. The largest contributions would come from SNAP, TANF, child-care, and housing-assistance programs,28 and the funding would be deficit-neutral relative to current law.

It is important to note that this is not a budget-cutting exercise—this is a reform proposal. This consolidation does not make judgments about an optimal level of spending. Instead, this proposal is concerned with our ability to use resources effectively and to find out what works. It allows the federal government to leverage its strengths—vast resources—while also allowing states, localities, and communities to leverage theirs—deep knowledge of their population and the unique challenges they face. Therefore, this proposal seeks to create the space and flexibility necessary for local, state, and federal government to add value without making judgments about the right level of spending.

Like welfare reform, the Opportunity Grant program would begin in a handful of states committed to fixing the status quo. Because the program would be deficit-neutral, the state would receive the same amount of overall funding from the federal government. But by giving states more flexibility, the federal government could test a variety of approaches.

<table>
<thead>
<tr>
<th>OG Funding Stream</th>
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<tbody>
<tr>
<td>• Consolidates several means-tested programs into a new Opportunity Grant program.</td>
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<tr>
<td>• Each participating state gets the same amount of funding they receive from the programs listed in Appendix I.</td>
</tr>
<tr>
<td>• The proposal is deficit-neutral relative to current law.</td>
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<tr>
<td>• Within the Opportunity Grant, states would have flexibility in accommodating housing-aid recipients, the elderly, and the disabled—either by maintaining the current programs or dedicating the same amount of resources to them in the new program.</td>
</tr>
</tbody>
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28 For a full list of the consolidated programs, see Appendix I.

Robert Woodson, President of the Center for Neighborhood Enterprise
Testimony to the House Budget Committee, 4/30/14

“I think it is a false dichotomy to assume that if you care for the poor, you spend more, if you do not, you spend less. I think what we must do is begin to talk about how do we invest more wisely with the purpose where we measure success of the poor by how many people are helped, as opposed to how many people are served.”
The Opportunity Grant wouldn’t be a blank check. Instead, the federal government would require each participating state to develop and submit for fast-track approval a concrete plan to develop a new aid program. To get approval, the plan would have to meet four conditions.

First, the plan must demonstrate how the funds would be used to move people out of poverty and into independence. The state could not use the Opportunity Grant to fund other priorities, such as highways. And the plan must, at a minimum, direct assistance first toward people below the poverty line.

Second, the new program would have to require all able-bodied recipients to work or engage in work-related activities in exchange for aid. The elderly and the disabled would be exempt from this requirement.

Third, the state would need to use some funds from the consolidated programs to encourage new approaches by innovative groups as well as non-governmental organizations with a proven track record. It would also need to show how it would give low-income Americans more service providers to choose from.

And fourth, the state and the federal government would have to agree on measures of success and evaluation by a third party to conduct an objective assessment of the plan.

If approved, states would take the funding for these programs and provide a fixed funding stream to competing local service providers, including nonprofits, for-profits, and state agencies. In some cases, each person might apply directly to the service providers for assistance, and providers could provide customized aid through case management.

Since federal housing programs can affect the broader housing market and the OG program would allow consolidation of a number of those programs, states would have greater flexibility to ensure the least disruption in their housing markets.

Today, eligible households may seek assistance through one of several federal housing programs. The Section 8 voucher and Public Housing programs are typically run by local public housing agencies. Housing assistance is not an individual entitlement; some qualifying households receive hundreds of dollars a month in aid, but many others receive no assistance at all. Under this proposal, states could choose either to keep many of the large rental-assistance and project-based programs in current form or to consolidate these programs into the OG program. States that chose the latter would be required to fund existing contracts until they expired.

### Coordination

- Consolidates multiple forms of federal aid into a single payment directed to an individual by their provider of choice.
- Coordinates benefits at the federal, state, community, and even individual level.
- Encourages non-profit and for-profit providers, as well as community groups, to both compete and collaborate with the government to expand opportunity.
- Evaluates new state strategies to assess progress and share information and experience.

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29 According to HUD, the average monthly federal subsidy provided through the Housing Choice Voucher program in 2013 was $647. See HUD’s [FY15 Congressional Budget Justification](https://www.hud.gov/offices/hsg/pd/av/docs/hudclp_fy15.pdf), pp. G-16.
**The Elderly and the Disabled**

On the one hand, the Opportunity Grant would allow participating states to develop new ways to help the elderly and disabled. On the other hand, these are two especially vulnerable groups, and they need specific kinds of care. The elderly currently receive a significant share of federal aid. In fiscal year 2012, for example, 24 percent of SNAP funding went to the elderly and disabled, while nearly 50 percent of Section 8 Housing Choice Voucher funding did.

Abruptly changing the safety net for these groups may have adverse consequences. As a result, states will have two options. The first would be to allow the elderly and disabled to continue receiving assistance through the traditional programs. If a state chose this option, its OG funding would be reduced by the amount of money expected to go toward the elderly and disabled through these programs.

The second option would allow states to receive the full OG funding with the requirement that they spend the same amount of money on the elderly and disabled that the traditional programs do now. States then could use these funds to create innovative ways to improve health and other outcomes for these beneficiaries. Assistance programs could serve as targeted interventions to help low-income seniors maintain cognitive functions and physical health. But to do this, states would have to get clearance through the federal government.

Similarly, states could work to place disabled recipients with vocational rehabilitation programs and other interventions designed to improve health, depending on the level of disability. Service providers could potentially help recipients reengage with the broader society, especially young adults who are transitioning from children’s Supplemental Security Income to adult Supplemental Security Income. Both approaches would protect these vulnerable populations, while the second option offers the possibility of improvement. In both cases, these populations would not be subject to the same work requirement or time limits that would apply to the able-bodied.

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**A Flexible System**

Poverty takes many forms. Different people need different types of aid—and what works in one place may not work in another. Some people have fallen on tough times and just need temporary assistance. Then there are the elderly and disabled who require long-term assistance. Others need rigorous case management to provide structure and a customized multi-year plan. And still others—such as those who are addicted to drugs or alcohol—need a level of personal attention that federal programs often can’t provide. The OG program is meant to be flexible so as to help as many people as possible.

The goal is to make it easier for low-income families to get the assistance they need and to find work. Right now, families must visit a variety of offices and providers to get aid. Under this proposal, they will work with a single provider for all their needs.
In the envisioned scenario providers would work with families to design a customized life plan to provide a structured roadmap out of poverty. When crafting a life plan, they would include, at a minimum:

- A contract outlining specific and measurable benchmarks for success
- A timeline for meeting these benchmarks
- Sanctions for breaking the terms of the contract
- Incentives for exceeding the terms of the contract
- Time limits for remaining on cash assistance

The OG program will also be more responsive to different needs. For example, it makes little sense to provide a household with a consistent stream of SNAP benefits when what the household may need most is reliable transportation to and from work. Giving providers this kind of flexibility will allow them to intervene early on with targeted benefits in cases where short-term assistance can prevent someone from falling into deeper poverty.

States, localities, and service providers should also test the best ways to move people from welfare to work. They should use the additional flexibility to try alternative methods of providing assistance. In exchange for this flexibility, service providers will have to undergo rigorous evaluation to determine what programs are working, and if they prove ineffective, they will no longer be eligible for funding.

### Consequences and Work

- Condition providers’ funding on the number of people they help move off welfare.
- Require recipients to sign contracts outlining their responsibilities and hold them accountable.

Today, depending on the state, those working with welfare recipients are required to provide an individual-responsibility plan to recipients of assistance. However, many of these plans are not tailored to individuals; rather, they are simply a generic checklist. In participating states, case managers will provide or contract with others who provide services to individuals that will include financial assistance, mentoring programs, drug-treatment assistance, or any number of other programs.

“"What we do is we build a relationship and government agencies cannot do that, they are a number, they are a ticket... But when you come into facilities like mine, you are not a number, you are not a statistic you are a person. And so we partner with them. "Now tell me your story."

Bishop Shirley Holloway, Founder of House of Help City of Hope
Testimony to the House Budget Committee, 4/30/14

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In this case, eligible providers should be judged and selected on their merits, not their connections. So the OG program will require that states keep track of several key metrics for each participating provider:

- The number or percentage of people who find work.
- The number or percentage of people who get off assistance.
- Other metrics such as:
  - High-school graduation rates;
  - The number of people who move above the poverty threshold; or
  - Wage and compensation growth among low-income households.

The service providers would be subject to work requirements similar to those in Temporary Assistance for Needy Families (TANF), with exceptions for the disabled and elderly. Time limits would also apply to individuals who receive assistance.

**States, Service Providers, and Accountability**

Service providers must not only get results but treat their clients fairly. The OG program requires state governments to provide oversight by:

- Writing contracts with providers
- Developing performance standards
- Measuring results
- Monitoring progress
- Renewing or terminating the contract

Success will ultimately depend on a number of decisions made by states and localities, such as:

- Will the contract be open-ended?
- Will the state want to provide statewide, regional, or local contracts?
- Should services be provided *a la carte* or holistically—that is, by a single provider?

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**Counter-Cyclicality and Welfare Reform**

One of the major criticisms of welfare reform was that the Temporary Assistance for Needy Families block grant didn’t have a counter-cyclical component, whereas other programs, such as SNAP, were very responsive during the last recession. A pilot project, by its nature, could not include a counter-cyclical component. But if the Opportunity Grant program were expanded, it would benefit from increasing assistance during recessions.

Currently, the TANF program includes a contingency fund, which allows states to supplement their block grant during recessions and other periods of poor economic growth. During the recent recession, Congress authorized an additional amount of money for the TANF contingency fund.

There are a number of possible options for designing a block grant that would be counter-cyclical. First, the block grant could vary based on the level of unemployment in a state. If unemployment rose beyond 6.5 percent, there could be an automatic increase in the level of the Opportunity Grant funding, which would automatically fall with unemployment.

A second option would be to require states to set aside a certain percentage of their OG funds and to save them for future expenditures. That way they could vary the amount spent each year depending on where they were in the business cycle—decreasing the amount of the OG during good times, and increasing the amount of the OG during times of economic distress.

Finally, the OG grant could create a contingency fund similar to TANF’s, but one more responsive to economic conditions. The TANF contingency fund has placed very complex rules on states. Rather than creating a complicated rule, use of the contingency funds could be contingent solely upon the unemployment rate in a specific state.
There are pros and cons to each option, and the states will ultimately decide. It may make the most sense to have service providers offer holistic assistance to low-income Americans. On the other hand, it may make sense to have a primary provider, who then subcontracts with other providers to address specific areas where individuals may need more assistance. At a minimum, however, states must contract with at least two providers to encourage competition.

Similarly, states should rigorously test the results via randomized controlled trials when possible. The federal government should partner with states and contract with independent evaluators in order to find out what works. States must work with the third-party evaluator to evaluate any benefits or problems with a new program. With a number of different approaches, we can find how best to expand opportunity.

Although the state will help design the new assistance programs, the service provider must show results. To the extent that the state allows non-profits or for-profits to use new techniques, then they need to be held accountable. The state should work with evaluators to ensure that they can measure the performance of all service providers.

In addition, states would still be able to provide services directly, if they feel that they can serve families best. Under this proposal, using a state agency remains an option, so long as there is at least one other provider.

In short, the federal government will maintain the supply lines, while state and local communities will take on the frontlines. States will be able to integrate federal dollars into existing state, local, and private programs (subject to appropriate maintenance-of-effort requirements) to make sure that federal aid supports community efforts more broadly.
Providers must be held accountable, and so should recipients. Each beneficiary will sign a contract with consequences for failing to meet the agreed-upon benchmarks. At the same time, there should also be incentives for people to go to work. Under each life plan, if the individual meets the benchmarks ahead of schedule, then he or she could be rewarded. For example, if the goal of an individual’s plan is to find a job within six months, and he or she starts working within three months, he or she could receive a bonus. Bonuses could take a number of creative forms, such as a savings bond.

The OG system will promote a more holistic form of aid to move individuals and families out of poverty. One promising method this proposal envisions is the use of case management. Here’s an example of the number of steps illustrating the OG in practice:

- First, each state will approve a list of certified providers that are held accountable for providing quality service and achieving results (such as moving people to work, out of poverty, and off of assistance).
- Next, a person will select a provider, and the provider will conduct a comprehensive assessment of that person’s needs, abilities, and circumstances.
- Then, the two of them will develop a customized plan to address the recipient’s needs. The plan could take the form of a contract—with sanctions for failing and bonuses for exceeding expectations. The plan would offer financial assistance to address immediate needs, like food, clothing, child care, and housing. But it would also work on setting goals, learning skills, and developing a broader support system.
- At the most basic level, successful completion of a contract will involve an able-bodied individual obtaining a job and earning enough to live above the poverty line. Each state may choose to define success slightly differently insofar as those basic conditions are met.

The way the federal system is designed, clients receive services for each of their needs independently from other problems they’re facing. Case management helps transform interventions from an array of stand-alone services to a comprehensive plan to get families to achieve their fullest potential.

Heather Reynolds. President and CEO of Catholic Charities Fort Worth
Testimony to the House Budget Committee, 7/9/14

Unlike formulaic federal programs, case management can provide a holistic kind of aid—one that takes a fuller view of each person’s wants and needs. To better illustrate the benefits of this approach, consider the following hypothetical situations based on real-life examples:

31 The following poverty vignettes of Andrea and Steven and the ensuing “opportunity plans” were constructed in collaboration with Catholic Charities of Fort Worth.
Each person’s needs are interconnected. Andrea needs help paying for food. She also needs some form of transportation and child care so she can go to work. But she doesn’t just need to find a job. She needs to build a career. And she must avoid stopgap measures (in, say, transportation or child care) that could lock her in to a low-paying job. By working one-on-one with a case manager, Andrea can put together an integrated plan to build a successful career.

Steven faces much tougher circumstances. He is struggling to avoid drugs, he doesn’t have a high-school diploma, and worst of all, he can’t rely on his family for support. Instead he will need to rely on others—preferably other people in his community who have overcome the same challenges. A case manager could connect him with addiction counseling and other support groups that could prove crucial to his success.

In a participating state, Andrea and Steven would go to one of their local providers to meet with a case manager. Then they would develop an “opportunity plan” to get their lives back on track. Each plan would identify individual strengths and opportunities for growth, as well as short-, medium-, and long-term goals that were specific, measurable, and time-sensitive.

If Andrea or Steven met one of their goals ahead of schedule, they could earn a bonus. The case manager could offer this bonus in a variety of forms. For example, to encourage savings and build a nest egg to weather economic setbacks, the bonus could be a savings bond. (For a discussion of the importance of savings and potential options to boost savings for low-income individuals, see appendix II). Likewise, the opportunity plan could stipulate consequences for breaches of its terms, most likely immediate sanctions and a reduction in benefits.

<table>
<thead>
<tr>
<th>Situational Poverty</th>
<th>Generational Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andrea is a 24-year-old woman. She has two children ages four and two. Her husband left the family six months ago, and she does not know how to contact him.</td>
<td>Steven is a single 19-year-old male and the father of one child, age 3. He does not have custody or pay child support. He has not seen the child in over a year.</td>
</tr>
<tr>
<td>Andrea graduated from high school. Her only work experience was a two-year stint in retail when she was 18. After she got married, her husband was the sole breadwinner for the family.</td>
<td>Steven lives with his 38-year-old mother and 55-year-old grandmother in his grandmother’s subsidized two-bedroom apartment; he sleeps on the couch. Both his mother and grandmother were single parents, and he does not know his father. His older brother, age 20, is in prison.</td>
</tr>
<tr>
<td>She and her children now live with her parents in a two-bedroom mobile home. Her parents can’t support her or the children over the long haul.</td>
<td>Steven’s grandmother receives disability payments, and his mother occasionally picks up odd jobs for cash. They have been welfare recipients throughout his life.</td>
</tr>
<tr>
<td>Andrea has been trying to find work for the last five months. She doesn’t have a car and can’t afford child care.</td>
<td>Steven has a history of substance abuse but checked into a treatment program three months ago. Both his mother and grandmother use drugs, and Steven says he needs to get away from that environment to stay sober. He is currently unemployed, and he did not graduate from high school. He would like to attend college and eventually get joint custody of his child.</td>
</tr>
</tbody>
</table>
Our current system of formulaic aid is focused on treating the symptoms of poverty. Case management, however, can see the potential in its clients and help them get out of poverty. By allowing for flexibility, the OG could empower state and local providers to give personalized, customized aid that mitigates the disincentives of high marginal tax rates and counteracts the federal government’s traditional one-size-fits-all approach.
<table>
<thead>
<tr>
<th>Andrea Situational Poverty</th>
<th>Opportunities for Growth</th>
<th>Strengths</th>
<th>Opportunities for Growth</th>
<th>Steven Generational Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick learner</td>
<td>Lack of work experience or skills</td>
<td>Strong desire to improve</td>
<td>Lack of education</td>
<td></td>
</tr>
<tr>
<td>Strong family support</td>
<td>No stable housing</td>
<td>Strong sense of self-determination</td>
<td>At risk of returning to substance abuse</td>
<td></td>
</tr>
<tr>
<td>Motivated to improve by her children</td>
<td>Depressed about the breakup of her marriage</td>
<td>Survivor</td>
<td>Lack of parenting skills</td>
<td></td>
</tr>
<tr>
<td>Interested in becoming a teacher</td>
<td>Lack of child care</td>
<td>Strong communication skills</td>
<td>No stable housing</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interested in job in the medical field</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Short-Term Goals**

- Begin to receive Opportunity Grant assistance through her provider.
- Apply for child support.
- Meet with college counselor.
- Find a full-time retail job.
- Enroll in depression counseling.
- Find safe child care during work hours.

**Medium-Term Goals**

- Move to independent housing.
- Enroll in college with parent’s assistance for child care in the evenings during class.
- Get a job in the education field, such as a teaching aide, to gain experience and increase income.
- Expand social circle to new friends outside of those shared by ex-spouse.

**Long-Term Goals**

- Graduate from college.
- Pass the teaching-certification exam.
- Find a teaching job.
- Build up savings equal to three months’ worth of living expenses.

**Completion of Contract**

- Assistance phases out as situation has stabilized, client is working, and client is on track to achieve lasting self-sufficiency.
Chapter 2: The Earned Income Tax Credit

One of the federal government’s most effective anti-poverty programs is the Earned Income Tax Credit (EITC). Low-income families can receive the credit as long as at least one member holds down a job. The consensus among independent economists is that in most cases the EITC makes low-income families more likely to work by increasing work’s rewards.\(^3^2\) CBO also finds that it encourages households to enter the labor force.\(^3^3\)

The EITC began when the Tax Reduction Act of 1975 became law. Since then, Congress has significantly expanded the credit—most notably in 1986 and 1993—and today it is one of the largest anti-poverty programs in the budget, totaling $59 billion in fiscal year 2012. In 2001, Congress adjusted the credit to mitigate the marriage penalty. And in 2009, the stimulus package temporarily expanded the EITC for families with three or more children, among other changes. The fiscal-cliff deal later extended these expansions until 2017.

Childless workers, on the other hand, receive relatively few benefits from the EITC. In 2011, for example, they received just 3 percent of all EITC funding.\(^3^4\) Under current law, childless workers can receive a maximum credit of only $496, whereas a single earner with three or more children can receive as much as $6,143.

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Not surprisingly, the EITC has significantly reduced poverty among families with children, but it has done relatively little to reduce poverty among childless workers. (See the chart35 below).

![Figure 5](image)

**THE IMPACT OF EITC ON POVERTY RATES, 2012**

*By Marital Status and Number of Related Children under the Age of 18*

<table>
<thead>
<tr>
<th>Family Characteristics</th>
<th>Percentage of Families in Poverty Using an Alternative Measure of Income</th>
<th>Percentage Change in Poverty Rates from EITC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EITC Excluded from Income</td>
<td>EITC Included in Income</td>
</tr>
<tr>
<td>Marital Status</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Single</td>
<td>22.29%</td>
<td>22.26%</td>
</tr>
<tr>
<td>1</td>
<td>29.11%</td>
<td>24.74%</td>
</tr>
<tr>
<td>2</td>
<td>33.97%</td>
<td>28.31%</td>
</tr>
<tr>
<td>3</td>
<td>48.03%</td>
<td>41.26%</td>
</tr>
<tr>
<td>Married</td>
<td>4.44%</td>
<td>4.38%</td>
</tr>
<tr>
<td>1</td>
<td>5.27%</td>
<td>4.17%</td>
</tr>
<tr>
<td>2</td>
<td>6.10%</td>
<td>4.46%</td>
</tr>
<tr>
<td>3</td>
<td>10.04%</td>
<td>7.09%</td>
</tr>
</tbody>
</table>


As a result, there’s a growing consensus to expand the EITC for childless workers—for a number of reasons. Most importantly, labor-force participation among young adults has dropped precipitously in recent years. In addition, labor-force participation among men with a high-school degree or less has declined by 14.2 percentage points since 1973 and about 8 percentage points since 1990,36 though some of this decline may be the inevitable result of an aging population. The unemployment rate for those with less than a high-school degree is 9.1 percent—well above the norm. Given the EITC’s success in boosting work among families with children, a larger EITC should have a similar effect on childless workers. Given these troubling trends for young workers, there is a real need to consider lowering the age of eligibility for the EITC, which currently does not serve this population. The sooner young adults join the workforce, the more experience they will gain and the stronger their attachment will be.

John Karl Scholz has argued that increasing the EITC for childless workers could lower unemployment rates, increase marriage rates, and reduce incarceration rates.37 President Obama also has called for an expansion of the EITC, and his proposal outlines a number of benefits: By increasing work’s rewards, the expansion would

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35 Christine Scott and Margot Crandall-Hollick, CRS, “The Earned Income Tax Credit (EITC): An Overview,” 3 Apr. 2014. According to the authors, “This analysis does not reflect income as calculated for the official poverty measure, but instead reflects a more expansive definition of income that includes the value of tax and transfer benefits. In addition, among married families, it is not necessarily the case that both spouses work.” (See page 18.)

36 Executive Office of the President and U.S. Treasury Department, The President’s Proposal to Expand the Earned Income Tax Credit, Mar. 2014.

encourage formal work over informal work, make non-custodial parents more likely to pay child support, and possibly draw more people with disabilities into the workforce.\(^{38}\)

Another consideration relates to the burden of payroll taxes and difficulty of EITC compliance. In addition to the payroll taxes individuals must pay, employers also pay their share of these taxes for these employees. Economic evidence shows that these taxes are passed on to workers in the form of lower wages. And there are a slew of regulations that employers must meet that further raise the bar and put downward pressure on wages and reduce the attractiveness of hiring workers, particularly younger workers with less education.

The EITC provides a means to help offset these barriers and to make work more attractive. However, the current EITC has flaws. Its complexity requires low-income individuals to either negotiate a complex maze of rules and forms or to pay tax preparers to file the necessary paperwork with the IRS to receive the credit. The IRS instructions run 39 pages, involve 15 “rules,” and include 12 separate forms that could apply in filing for the EITC.\(^{39}\) The credit is received as much as 15 months after the individual earned his or her pay. Negotiating the IRS tax code is an intimidating experience for a well-educated individual who has work experience and has dealt with the IRS forms and taxes before. A childless adult age 25 and older who works a minimum-wage job full-time year-round and manages to negotiate this complex web of rules and forms will receive only $7 from the EITC. In this example, the cost of preparing a tax return outweighs any benefit from filing one. Its complexity also contributes to high error rates for the EITC. In many cases people just don’t know whether they qualify or not.

Therefore, another potential area of reform should focus upon EITC simplicity and delivery. If families received the credit with their paychecks, the link between work and the EITC would be that much clearer.\(^{40}\) This reform would also allow low-income to keep more of their money if it could reduce improper payments (which amounted to $13.3 billion in fiscal year 2013 alone\(^{41}\)); they wouldn’t have to rely on tax-preparation firms to get the credit.\(^{42}\) The most recent attempt at creating a periodic EITC was through the Advance EITC, which experienced low take-up rates and extremely high rates of fraud and noncompliance.\(^{43}\) This proposal, therefore, would direct the Treasury Department to investigate further how to provide a work-based tax credit that may appear on a worker’s paycheck.

An expanded EITC would help working families without the drawbacks of raising the minimum wage. A higher minimum wage would increase some working families’ take-home pay, but it would also price some people out of the labor market. Businesses would pass their higher labor costs to consumers by raising prices. And some businesses would simply hire fewer workers. Some research suggests the number of working families that fall into poverty because of a minimum-wage hike is larger than the number of families that escape poverty.\(^{44}\) In addition, the minimum wage is poorly targeted to low-income families. Research by Richard Burkhauser and

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\(^{38}\) Executive Office of the President and U.S. Treasury Department, The President’s Proposal to Expand the Earned Income Tax Credit, Mar. 2014.

\(^{39}\) Internal Revenue Service, Department of the Treasury, “Earned Income Credit (EIC),” Publication 596, for use in preparing 2013 returns.


Joseph Sabia shows that 85 percent of low-wage workers lived in low-income families in 1939 (just after the creation of the federal minimum wage in 1938) in contrast to only 17 percent in 2003.45

A preponderance of evidence confirms that increases in the minimum wage harm employment, though it’s unclear by exactly how much. In a recent literature review by David Neumark and William Wascher, the authors found “very few—if any—studies that provide convincing evidence of positive employment effects of minimum wage . . . [and] the studies that focus on the least-skilled groups provide relatively overwhelming evidence of stronger disemployment effects for these groups.”46 CBO recently found that raising the minimum wage could reduce employment by approximately 500,000 workers.47

Because the EITC helps low-income households while encouraging work, this proposal would expand the credit for childless workers. Specifically, it would double the maximum credit, phase-in, and phase-out rates for childless adults, and it would lower the eligibility age for workers from 25 to 21, assuming they are not a dependent or qualifying child for another taxpayer.

A larger EITC will help low-income workers trying to make ends meet and draw more people back into the labor force, promoting economic growth for everyone. To offer a better picture of the new EITC schedule, consider the table and graph below, which contrasts current law in 2015 with this proposal.

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There is bipartisan support among researchers and policymakers for improving the EITC—specifically for childless adults.

- Senator Marco Rubio of Florida has called for replacing the EITC with a wage subsidy, which “would apply the same to singles as it would to married couples and families with children.”\(^48\)
- Senator Patty Murray of Washington has introduced legislation that would, among other things, increase the maximum EITC for childless workers to about $1,400, increase the income eligibility threshold to about $20,000, and reduce the eligibility age for childless workers from 25 to 21.\(^49\)
- President Obama has proposed the same expansion of the childless EITC shown here (with the exception that his proposal increases the maximum age to 67).\(^50\)

Unfortunately, Senator Murray and President Obama both would pay for their proposals by raising taxes. Higher taxes would harm economic and job growth. If the best welfare program is a job, then raising taxes is a mistake.

By contrast, this proposal adopts a simple principle: Stop programs that don’t work and support programs that do. To pay for an expanded EITC, this proposal would eliminate a number of ineffective programs, such as the Social Service Block Grant, the Fresh Fruits and Vegetables Program, the Economic Development Administration, and the Farmers’ Market Nutrition Program. It also would reduce fraud in the Additional Child Tax Credit by requiring the use of Social Security numbers.

\(^50\) Executive Office of the President and U.S. Treasury Department, The President’s Proposal to Expand the Earned Income Tax Credit, Mar. 2014.
To make up for any shortfall, this proposal would further eliminate corporate welfare. For example, the Department of Agriculture’s Market Access Program costs taxpayers billions merely to help the interests of a select few businesses. Energy companies also receive a number of subsidies. The Department of Energy, for example, spends billions annually to subsidize corporations’ efforts to commercialize favored energy technologies and sources picked by the Congress and the bureaucracy. Corporate executives and shareholders reap the benefits, and the taxpayer picks up the tab. Congress should scale back corporate welfare and use those savings to support effective programs and reduce the deficit. The federal government should give aid to the most vulnerable in our country, not the most powerful in Washington. And if we follow this simple rule, everyone will benefit from a healthy economy.
Education creates opportunity; it kindles the desire to learn. The more people learn, the more they can do—and as a result, the farther they can go. Those with four-year college degrees are three times more likely to rise from the bottom of the family-income ladder to the top. In fact, the late Gary Becker argued that upward mobility “would increase significantly” if only more people finished high school.

The federal government, then, can expand opportunity by expanding access to education. Today, federal aid takes a number of forms, including Head Start, Title I, and Pell Grants. Some of these programs work in some cases. But in too many others, they fail. Frequently, the federal government doesn’t expand access so much as restricts it, whether by supporting failing schools or stoking tuition inflation.

And so opportunity begins to fade for low-income students before they even enter school. Though understanding what exactly should be done requires more research, there are some important developmental milestones that, when met, show promise and when missed are a lost opportunity. Kerry Searle Grannis and Isabel Sawhill find that 67 percent of students in higher-income families meet the academic and behavioral standards in early childhood described in Figure 8. But only 45 percent of students in lower-income families do (see Figure 9).

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The gap persists even through college. Martha Bailey and Susan Dynarski find that students from high-income families have captured most of the recent gains in college graduation rates: Over a 20-year period, completion rates for the top quartile have risen by 18 percentage points; for the lowest quartile, they have risen by just four.\footnote{Martha J. Bailey and Susan M. Dynarski, “Gains and Gaps: Changing Inequality in U.S. College Entry and Completion,” National Bureau of Economic Research, Dec. 2011.} Five percent of children born into the lowest income quartile in the 1960s earned bachelor’s degrees; by the 1980s cohort, that rate had climbed to just 9 percent.\footnote{“Fraction of Student Completing College, by Income Quartile and Birth Year,” Accessed 9 July 2014.}
The skills gap has also continued to grow. Today, good-paying jobs usually require more than a high-school degree, but low-income students are far more likely to drop out. And Harry Holzer notes that “the ability of less-skilled workers to obtain high-wage jobs has been diminishing.”

The Federal Role in Education

The federal government hasn’t closed the achievement gap, though it’s not for lack of trying. Today, the federal government offers dozens of job-training programs, 45 programs supporting early learning and child-care, more than 80 K–12 programs, 82 teacher-quality programs, and 37 provisions to support higher education. These programs follow strict rules while dispensing aid and yet their outcomes don’t always help families in need.

Take, for instance, tax expenditures. The federal government offers 14 tax benefits for higher education; they cost over $36 billion in forgone revenue in fiscal year 2014. By their very nature, most of these tax benefits are ineffective for low-income families. Families must pay tuition before they file their tax returns, so these credits and deductions don’t help cash-strapped students. And research finds that some of these benefits have little effect on enrollment—most recipients would have enrolled without them. Even more disconcerting is that states take advantage of these benefits by spending less on higher education or student aid. So not only is the federal government shortchanging other priorities, but these tax benefits are making college more expensive for everyone.

The federal government’s role in other levels of education sometimes takes a back seat to that of state and local governments. For instance, the federal government plays a large role in the funding of public support for children ages 2 and under; it also is a source of assistance for post-secondary financial aid—a source schools are increasingly relying upon for operating revenue.

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65 See Appendix I.
69 Chairman Dave Camp’s tax-reform proposal would repeal most of these tax expenditures and expand the refundability of the American Opportunity Tax Credit while lowering the income thresholds at which it phases out.
States, on the other hand, fund the majority of public educational aid for children ages 3 through 5, despite federal investments like Head Start, as well as elementary and secondary education (see figures 10-13).


This shared responsibility means the federal government cannot solve all the problems in education. Whenever the federal government grows too large—too cumbersome and too obtrusive—it becomes less of a conduit and more of an obstacle. States, local governments, and other community groups must take the lead in reforming elementary and secondary education. And, of course, the greatest responsibility for a child’s education lies with the family. That’s why public policies that encourage work and a stable home life are key.

But the federal government can do a better job. Kerry Searle Grannis and Isabel Sawhill argue that direct aid at key moments in children’s lives can help close the achievement gap. To make the federal aid intended to close this gap more effective, this proposal focuses on areas of intervention where the current system is broken and local reforms are not sufficient to fix it. Aid is concentrated on those who will benefit most from help: the disadvantaged and vulnerable. Funding is distributed to individuals when possible, then to local and state governments, to ensure those closest to the problem are empowered. Reforms are intended to disrupt the status quo’s shortcomings and encourage innovation while ensuring flexibility for individuals and states. By engaging in reforms along these principles, the federal government can help close the achievement gap by expanding access to education.

**Early Education**

- Incorporate the Child Care and Development Fund into the Opportunity Grant.
- Convert Head Start into a block grant.
- Test competing models of early education.

**Elementary and Secondary Education**

- Allow for portability of federal dollars.
- Consolidate fragmented programs into a flexible block grant.
- Empower states to determine which schools in their communities need assistance and what kind of assistance they need.

**Higher Education**

- Simplify the Free Application for Federal Student Aid.
- Modernize and reform the Pell program.
- Cap federal loans to graduate students and parents.
- Consider reforms to the TRIO programs.
- Expand funding for federal Work-Study programs.
- Build stronger partnerships with post-secondary institutions.
- Reform the accreditation process.

**Job Training**

- Consolidate duplicative job-training programs into one flexible block grant.
Early Education

The federal government has a long history of funding early education—but a spotty record of getting results. Today, it oversees 45 programs that can either provide or support early learning and child care.\footnote{Government Accountability Office, “Federal Funds Support Multiple Programs with Similar Goals,” 5 Feb. 2014.} Twelve of these programs provide services directly; they alone cost over $14 billion in fiscal year 2012—about as much as the Title I-A grant program of the Elementary and Secondary Education Act (ESEA).\footnote{“Budget History Tables,” Department of Education, 15 Nov. 2011.} And of these programs, the two largest are the Child Care and Development Fund (CCDF) and Head Start.

The Child Care Development Fund provides formula grants to states to help pay child-care expenses for low-income families with children ages 13 or younger.\footnote{More information on the Child Care and Development Fund can be found in the House Budget Committee Report, “The War on Poverty: 50 Years Later,” 3 Mar. 2014.} Parents can select a child-care provider, either by choosing a provider that contracts with the state or, as is more commonly the case, by using a voucher to pay a provider of their choice. Studies show these subsidies make single mothers more likely to join the labor force or pursue education.\footnote{David Blau and Erdal Tekin, “The Determinants and Consequences of Child Care Subsidies for Single Mothers,” National Bureau of Economic Research, \textit{Journal of Population Economics}, Oct. 2007.} That said, the program is vulnerable to fraud, and participating children may exhibit poor academic and health outcomes.\footnote{“Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse,” U.S. Government Accountability Office, 22 Sep. 2010.} Moreover, some providers do not meet recommended safety standards.\footnote{Eric Weddle, “Death Toll of Children at Indiana Day Care Hits 31,” \textit{USA Today}, 9 Mar. 2014.} Reforms to boost safety must be made in such a way that isn’t heavy-handed and doesn’t restrict access.\footnote{Janet Currie and V. Joseph Hotz, “Accidents Will Happen? Unintentional Injury, Maternal Employment, and Child Care Policy,” National Bureau of Economic Research, NBER Working Paper Series, Jan. 2001.}

Head Start, on the other hand, sends money directly to local agencies—both public and private, both for-profit and non-profit—to provide early learning and development services for low-income children typically ages five or younger. These providers must comply with an extensive set of regulations formulated by the federal government and operate under the direct supervision of regional offices of the Department of Health and Human Services. Although certain Head Start centers have made a positive difference for select beneficiaries, the program overall has a disappointing record. The Department of Health and Human Services found Head Start has little to no lasting impact on cognitive and social-emotional skills, parenting, or health because program-year impacts fade by the time former Head Start students complete kindergarten.\footnote{“Head Start Impact Study: Final Report,” Westat, Chesapeake Research Associates, Abt Associates, Ronna Cook Associates, The Urban Institute, American Institutes for Research, Decision Information Resources, Inc. for U.S. Department of Health and Human Services, Jan. 2010.} A follow-up study by Michael Puma and others found the program had “few impacts on children in kindergarten through 3rd grade.”\footnote{Michael Puma, Stephen Bell, Ronna Cook, Camilla Heid, Pam Broene, Frank Jenkins, Andrew Mashburn, and Jason Downer, “Third Grade Follow-Up to the Head Start Impact Study: Final Report,” U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, Oct. 2012.}
So how can the federal government do better? Heather Schwartz warns, “There is no consensus in the research on the links between particular measures of program quality and children’s development.”87 In fact, David Armor and Sonia Sousa add that “we aren’t exactly sure what kind of program would succeed in leveling the playing field for low-income children.”88 Tennessee’s Voluntary Pre-K program, for instance, boasts many features thought to be effective: licensed teachers trained specifically in early education, a ten-to-one child-to-provider ratio, a class size of 20 children, and an approved curriculum. Yet the program has limited effects on cognitive ability, and these effects disappear by first grade.89

Head Start’s defenders point to the High Scope Perry Pre-School Study, a costly, intense intervention involving 123 low-income children that took place between 1962 and 1967.90 In this study, participants who “received a high-quality preschool program based on High Scope’s participatory learning approach” were more likely to graduate from high school and earn more money through age 40 than children in a comparison group who weren’t in pre-kindergarten. They also were less likely to be arrested five or more times by age 40. Another nearly 40-year-old, small, intensive study, the Abecedarian Project, also showed positive long-term results for participants.91

Why hasn’t Head Start been as successful? Perhaps these small interventions are unique cases. Rick Hess notes the Perry study had “an enthusiastic staff, high-touch attention from experts hoping to see positive results, community buy-in, the Hawthorne effect92, or any number of tough-to-scale factors.”93 As Lelac Almagor writes, “concluding on [the] basis [of Perry and Abecedarian] that early-childhood interventions are effective is like concluding from my school’s results that polo shirts make kids smarter.”94

In response, the program’s champions have argued Head Start’s impact study is flawed: Students acquire “sleeper” learning skills that the study doesn’t fully capture, or because there is wide variation in quality among Head Start centers that isn’t captured in the average effect, or because many children in the control group also participate in preschool, albeit not Head Start. But some research shows that, even after controlling for these variables, the positive effects still vanish by first grade.95

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92 The Hawthorne effect refers to the notion that participants in an experiment or under observation react because they are being observed, rather than because of some experimental change.
Research dating back to 1969 has raised questions about the program’s effectiveness, yet the federal government has continued to spend billions of dollars on it. And some propose to double-down on these missteps, pushing for massive expansions in early learning. The key, rather, is to look for results—to test alternative models of early education and see which programs, and which program characteristics, work for which children.

- Incorporate CCDF into the Opportunity Grant.

This proposal would consolidate CCDF funding into the Opportunity Grant program, so participating states could continue to design their own programs and low-income parents could work with case managers to determine customized child-care benefits that best meet their families’ needs. Providers would be subject to high safety and training standards, in line with current proposals by the Senate Health, Education, Labor, and Pensions Committee.

- Convert Head Start into a block grant.

States would receive funding for Head Start as a block grant on the condition that they use it to serve low-income children between the ages of three and five. In exchange for this greater flexibility, states would provide a plan to the Department of Health and Human Services explaining how they would integrate Head Start and its comprehensive services into their other pre-K services (if applicable) and increase the number of high-quality providers. Head Start’s ongoing re-competition process would continue at the state level. Outcome-based data would be distributed to parents, enabling them to shop around, finding the program that best fits their needs and, as a result, reward the best early-learning providers and identify the poor performers. States would maintain the Head Start Act’s current child-safety requirements.

- Test competing models of early education.

The history of early education is a school of humility. It’s unclear which programs work best. Are there certain program characteristics that work for all children, everywhere, and we just haven’t found them yet? Or does such a design simply not exist? To find out, this proposal would create a demonstration project at select Head Start and state pre-K centers to investigate a number of models that might work for low-income children in different communities. These programs would participate in randomized experiments that would follow students for a number of years to determine which early-education methods have lasting, positive effects. The experiment would track cognitive, social-emotional, and health outcomes. The demonstration project could also include experiments in funding methods such as providing tuition money directly to parents rather than directly to providers. And outcome-based data would be shared with parents: More information will encourage shopping, unleashing the forces of choice and competition to improve quality. Effective models could be expanded to more centers with similar populations, while continuing rigorous evaluation along the lines of the Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program.

98 “United States Senate Quality Child Care for Working Families: The Child Care & Development (CCDBG) Act of 2014.”
99 Early Head Start would continue to operate as it does currently.
MIECHV, begun under the George W. Bush administration and expanded under the Obama administration, is a home-visiting program that focuses on family health, child safety, school readiness, and the economic independence of the family. Grantees—which include states, territories, and tribes—must spend 75 percent of their MIECHV grant on programs with a track record of success. Up to 25 percent of funding can be used on other programs that show promise. HHS also provides technical assistance to grantees to improve evaluation and implementation.

Jon Baron at the Coalition for Evidence-Based Policy notes that “rigorous studies have identified several home visiting program models that are highly effective.” He also highlights that Nurse-Family Partnerships, for instance, have the “strongest evidence of effectiveness” and are implemented by almost two-thirds of MIECHV grantees. Congress is still waiting for a full evaluation of the MIECHV program. But RAND’s Rebecca Kilburn notes MIECHV’s effective practices—e.g., concentrating funding on proven models and providing technical support—“raise the likelihood that MIECHV will . . . produce the best results possible for at-risk families.”

In short, this proposal would lay the groundwork for Head Start to eventually work more like MIECHV: Spend the bulk of money on proven methods, evaluate other approaches through experimentation, and pursue solutions that demonstrate results. By encouraging innovation and holding providers accountable, this proposal will give low-income parents more—and better—choices. Parental choice will allow the best providers to rise to the top, improving quality for children.

102 Jon Baron “Statement of Jon Baron, President, Coalition for Evidence-Based Policy,” House Ways and Means Committee, Subcommittee on Human Resources, 2 Apr. 2014
103 M. Rebecca Kilburn “Evidence on Home Visiting and Suggestions for Implementing Evidence-Based Home Visiting through MIECHV,” RAND Office of External Affairs, Testimony before the House Ways and Means Committee, Subcommittee on Human Resources, 2 Apr. 2014
Elementary and secondary education is ultimately a local responsibility: classroom decisions are best made by teachers in the community, not Washington bureaucrats. But every taxpayer contributes to this effort and therefore has a right to demand greater accountability.

- Allow for portability of federal dollars.

Building off the work of Chairman John Kline’s House Education and the Workforce Committee, Congressman Eric Cantor and Senator Lamar Alexander, this proposal would convert Title I-A funding into a flexible block...
grant, on the condition that states spend the money on low-income children. But they would be able to let the funds follow the child. States that chose this option would report to the Department of Education the academic progress of all participants each year.

Consistent with the House-passed reauthorization of ESEA, this proposal would make no changes to most formula-based spending in the law, preserving, for example, Title II-A, which funds teacher and principal training, and Impact Aid, which reimburses local educational agencies for lost revenue due to the presence of the federal government—e.g. military bases; as well as other programs like the Charter School Programs authorized under Title V-B; and Title VII, which supports Indian, Native Hawaiian, and Alaska Native Education.

- Consolidate fragmented programs into a flexible block grant.

This proposal would consolidate the remaining programs authorized under ESEA and not eliminated under the House-passed reauthorization of that law into a second flexible allotment directed to states. Educators and administrators would be empowered to use these funds to support the programs that would best bolster academic achievement in their community.

- Empower states to determine which schools need assistance and what kind of assistance they need

This proposal would empower states to hold their schools to a smarter standard than the current Adequate Yearly Progress regime, by empowering families and teachers at the local level, rather than Washington bureaucrats. Consistent with current law, states would be responsible for determining content and performance standards for at least math, reading, and science. They could develop the same for other subjects, if they so choose. To measure student performance, states would be required to conduct math and reading assessments for every student every year for grades 3–8 and once in high school. In addition, states would be able to modify their assessments for students with significant developmental disabilities. States would annually report the results to the Department of Education and provide the secretary with a plan to show how poorly performing schools receiving Title I-A funding would improve. States would also have to continue to provide annual report cards for each school. These report cards would include measurements of student performance and graduation rates, compared to state and district averages.

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In total, these reforms would rebalance the scales after years of well-intended, but lopsided federal interventions. By giving states more control over their funding, we can create the space for local innovation. States like Florida and Arizona and cities like Milwaukee have all made strides for low-income students by developing programs that work best for their residents.\footnote{Lindsey Burke, “The Value of Parental Choice in Education: A Look at the Research,” The Heritage Foundation, 18 Mar 2014.}

Of course, there’s also room for improvement outside the classroom. Patrick Sharkey, for instance, has found that, in Chicago, African American children who lived in a neighborhood where a homicide had occurred within the previous week scored lower on cognitive tests than other African American children who lived in the same
neighborhood but were tested at a different time.\textsuperscript{110} If this trend persists, then students could suffer in the long term, no matter how successful their schools are.

Community leaders in Milwaukee, for instance, are doing their part to keep kids in school and fight poverty on the front lines. Pulaski High School’s Violence-Free Zone program hires recent alumni who grew up in the inner city to serve as youth advisers. These advisers understand what the students are going through because they’ve had the same struggles. In other words, they have the most important qualification: credibility. In the two years since the program started, suspensions at Pulaski High are down by 60\% percent, and daily attendance is up by nearly 10\% percent. Fourteen gangs used to roam the school grounds; today, they’ve all but disappeared. This is one example of a program that worked. And state and local leaders could take advantage of this proposal’s increased funding flexibility to implement their own programs directed toward their own at-risk populations.

States should also make a special effort to encourage low-income students to finish high school. Although national high-school graduation rates have never been higher, students from low-income families are still dropping out at a higher rate than their peers.\textsuperscript{111} Consequently, they are less likely to work or get married—and more likely to make less money.\textsuperscript{112} And despite higher graduation rates, math and reading achievement levels remain stagnant for those about to graduate.\textsuperscript{113} If this trend continues, then the value of a high-school diploma could decline precipitously. If high school doesn’t teach students that much, then employers might think high-school graduates can’t help them that much.

According to a 2006 poll, nearly 70\% of high-school dropouts said they were “unmotivated”—they didn’t see the value of graduation.\textsuperscript{114} And programs that educate students about the direct link between education and employment have proven to be good motivators.\textsuperscript{115} The greater flexibility granted under this proposal could be used by schools for innovations that improve high-school graduation rates, and coordinate with local workforce-development initiatives, especially dual-enrollment and technical-education programs.


Federal aid for higher education has grown more varied over time; it’s also grown less focused: Instead of directing aid to the neediest families, the federal government now gives aid to families up and down the income scale, chasing ever-higher tuition with ever-larger subsidies. In 2006, for instance, Congress authorized unlimited loans to graduate students of any means. In 2012, the federal government expanded the size and eligibility of higher-education tax credits, so even families making up to $180,000 a year could qualify for what economist Caroline Hoxby has described as “an inefficient means of distributing middle-class tax cuts.”\(^{116}\) Expanding aid for higher-income families jeopardizes the federal commitment to lower-income students: It diverts resources and distorts markets.

Furthermore, there is growing evidence that these federal subsidies are actually fueling tuition inflation. Between the 2002–2003 and 2012–2013 award years—a period in which federal aid grew by 105 percent—tuition and fees at public four-year schools, for instance, grew at 5.2 percent beyond inflation, a faster rate than during either of the two preceding decades.\(^{117}\) Economists such as Richard Vedder have argued that colleges and universities would have raised tuition at a more reasonable rate if the federal government had not stepped in so often to subsidize them.\(^{118}\) Stephanie Riegg Cellini and Claudia Goldin find that for-profit institutions eligible for federal aid “charge tuition that is about 75 percent higher than that charged by comparable institutions whose students cannot apply for federal financial aid.”\(^{119}\)

Although how much federal aid is driving tuition inflation is still an open question, it is clear that the federal government is failing to maximize access and affordability.\(^{120}\) In 2012, President Obama himself declared, “We can’t just keep subsidizing skyrocketing tuition; we’ll run out of money.”\(^{121}\)

Moreover, the wealthy are capturing most of the recent gains in academic performance. Postsecondary Education Opportunity found that in 2009, “a student born into the top quartile of family income is ten times more likely to earn a bachelor’s degree by the age of 24 than is another student born into the bottom quartile of family income.”\(^{122}\)

The Higher Education Act will soon be up for reauthorization, so now is the time to review and reform the federal government’s role in higher education. Under this proposal, reforms focus on improving accessibility, affordability, achievement, and simplicity. The federal government should direct critical—and finite—financial support to the neediest families. To make college more affordable, the federal government should promote choice and competition. It should break down barriers so new institutions can enter the market and provide students more choices. And finally, it should measure success by outcomes, not inputs.

\(^{120}\) More information on the effect of federal higher education subsidies on tuition can be found in the House Budget Committee Report, “The War on Poverty: 50 Years Later,” 3 Mar. 2014.
\(^{121}\) “President Barack Obama’s State of the Union Address,” The White House, 24 Jan. 2012.
• Simplify the Free Application for Federal Student Aid.

To qualify for federal aid, every student must fill out a form called the Free Application for Federal Student Aid. The current document is very complicated, so much so that research has shown help from tax professionals actually makes students more likely to attend college.123

Besides simplifying the application, the federal government should also inform students about their aid packages sooner. Students apply to schools in January, but they don’t know whether they can afford the tuition until April.124 Since institutions often adjust their prices according to each student’s federal aid package, it is very difficult for potential students to shop for the best deal.

This proposal would adopt a recommendation from the Commission on the Future of Higher Education to ensure students “have information about federal aid eligibility (such as need or ability to pay) sooner and with early estimates of likely aid available as soon as the eighth grade.”125 The federal government could speed up the process by looking at previous years’ records from the Internal Revenue Service, as suggested by House Committee on Education and the Workforce Chairman John Kline and Reps. Bucshon, Kelly, Royce, Tierney, Bishop, and Polis as well as Senators Alexander of Tennessee and Bennet of Colorado.126,127,128

• Reform and modernize the Pell program.

Pell grants help more students go to college. But Congress has grown the program so large that it is at risk of financial collapse. Without reform and assuming current appropriation levels continue, the program will face a shortfall of over $2 billion by 2017. By 2024, the cumulative shortfall will total $38 billion. In analyzing the rapid growth in the program between 2008 and 2011, the Department of Education attributed most of the growth to legislative expansions.129 Congress must reform this program to make sure it’s there for families who need it.

This proposal would make up for part of the shortfall by redirecting funding for the Supplemental Educational Opportunity Grant program (SEOG) to Pell. SEOG is a campus-based aid program—that is, each college administers and partially funds the program. Even the Department of Education admits SEOG’s financing structure is flawed and “grossly [distorts] the allocation of funding among institutions than would otherwise be the case, preventing a more equitable distribution of funds to institutions based on student need.”130 For instance, a large amount of aid goes to non-profit private colleges, which typically enroll a much smaller share of low-income students than public or proprietary schools. The New America Foundation points out that “Bunker Hill Community College receives about one-tenth the amount of SEOG funds than Harvard University,

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127 Education and Workforce Committee, “Committee Members Introduce Legislation to Strengthen America’s Higher Education System,” 26 June 2014.
but Bunker Hill’s share of Pell Grant recipients enrolled is nearly four times larger than Harvard’s.”131 Moving
SEOG funding into Pell would help shore up the finances of the latter program and ensure aid is better targeted.

As proposed by the Education and Workforce Committee, Pell would be modernized to provide a more flexible
source of funding.132 A student’s award over a six-year period would be available for her to spend as needed
until her program is completed or her grant is exhausted. This “flex fund” would allow Pell to better support
today’s students—many of whom are older and working at a different pace than “traditional” students. It would
also encourage students to shop around for affordable options while including protections for changes in
financial condition.

Finally, to increase transparency and market information, schools would be required to report on the
completion rates of Pell recipients.

• Cap federal loans to graduate students and parents.

The federal direct-loan program is also in need of reform. Today, the federal government allows graduate
students to take out loans with no total limit (Grad PLUS), in contrast to the strict aggregate limits placed on
Stafford loans.133 Jason Delisle of the New America Foundation writes that undergraduate and graduate degrees
“are really quite different and warrant different types and levels of public support. . . . [Older, more informed
graduate students] shouldn’t need a lot of public support to finance their next credential.”134 Senator Tom
Harkin of Iowa, chairman of the Senate HELP Committee, has also expressed concern about a lack of a cap on
federal loans for graduate students.135

The federal government also allows the parents of dependent undergraduate students to take out loans with
no aggregate limit (Parent PLUS). These loans are available regardless of income, and parents typically resort to
them after exhausting all other forms of aid. Although parents are subject to a credit check, that check doesn’t
fully assess their ability to pay back the loans. And this debt could cross generations: Retirees who took out
these loans for themselves or their kids could face reduced Social Security benefits if they fall behind in
repayment.136 As Marian Wang and her colleagues note, “Colleges, eager to raise enrollment and help families
find financing, often steer parents toward the loans, recommending that they take out thousands of dollars with
no consideration as to whether they can afford it.”137 Rachel Fishman writes, “Now institutions are saying that
Pell Grants aren’t enough, and that student loans aren’t enough, but they need parent loans too (preferably
with no cap, almost no restrictions, and no accountability). That’s not college access, that’s institutional self-
interest.”138

131 Stephen Burd, Kevin Carey, Jason Delisle, Rachel Fishman, Alex Holt, Amy Laitinen, and Clare McCann, “Rebalancing Resources and
132 Education and the Workforce Committee, “Strengthening America’s Higher Education System: Republican Priorities for
133 David Smole, “Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal
Program, Mar. 2014.
138 Rachel Fishman, “PLUS Loans are not Grants,” Ed Central, 3 Apr. 2014.
New proposals to forgive more student loans would make things worse. They would do nothing to lower costs and everything to encourage reckless borrowing: If students know that all their debt will eventually be forgiven, they have no reason to shop for the best deal. And colleges will have no incentive to keep prices low if they know the American taxpayer will ultimately pick up the check. Moreover, blanket loan forgiveness fundamentally changes the nature of the loan program into what Andrew Gillen calls “a delayed grant program.”

Instead, this proposal proposes a cap on graduate and parent loans. The cap—which should differ depending on whether it is a loan to a parent or a loan to a graduate student—could be set at a fixed dollar amount. For instance, graduate PLUS loans could be capped at $138,500, the level at which independent graduate students are capped in the Stafford Loan program. Parent PLUS loans could be capped at $57,500, the loan limit that currently applies to independent undergraduates. The cap could also be set as a portion of a program’s average tuition across similar institutions. Either method would result in downward pressure on college costs.

In addition, the proposal would consolidate and simplify repayment options. Options that don’t increase access and affordability for low-income students—particularly income-based repayment and the administration’s Pay As You Earn program—should be restructured. Options for a redesigned financing program could include more private financing of education such as income-share agreements.

- Consider reforms to the TRIO programs.

Research shows it is not enough to get into college: A student must complete college to reap the rewards. That’s why support services—especially those that help students enroll and graduate—are crucial. The student-serving TRIO programs all primarily target low-income individuals who are the first in their families to go to college. Yet the results have been mixed at best. The Student Support Services program seems to have small, positive effects, but Educational Opportunity Centers have not demonstrated results. Building off the work of Ron Haskins, Harry Holzer, and Robert Lerman, one way to reform these programs would be to collapse them into a single grant program, allowing schools to use “any of the college preparation approaches now allowed by the separate programs but would base funding decisions on performance” outcomes such as enrollment, graduation rates, and use of best practices such as data collection and rigorous analysis. Students and colleges may have other suggestions to improve these programs as well. Suggestions are welcome and can be sent to ExpandingOpportunity@mail.house.gov.

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139 Beth Akers and Matthew M. Chingos, “Drop Student Loan Forgiveness, Pare Income-Based Repayment Programs Back to Core Purpose,” Real Clear Education, 18 Apr. 2014.
144 More information on the TRIO programs can be found in the House Budget Committee Report, “The War on Poverty: 50 Years Later,” 3 Mar. 2014.
• Expand funding for federal Work-Study programs.

According to the Department of Education, authorization for the Perkins Loan program will expire, at the latest, at the end of fiscal year 2015. The Perkins Loan program is a campus-based revolving loan fund: federal funds were added to institutional funds to create a resource to provide loans to low-income students. Upon the program’s expiration, post-secondary institutions will have to return the federal share of program assets to the Department of Education. This proposal would allow institutions to keep that funding and combine it with funding from the Federal Work-Study program. Institutions will be able to use this new fund to provide work-study—which has been found to improve college persistence—for those with exceptional financial need at their discretion.146

• Build stronger partnerships with post-secondary institutions.

To make sure aid flows to the most vulnerable, post-secondary institutions must work to ensure federal aid supplements, not supplants, their own efforts to support low-income students. Stephen Burd says there is extensive evidence that “many schools are engaged in an elaborate shell game: using Pell Grants to supplement institutional aid they would have provided to financially needy students otherwise, and then shifting these funds to help recruit wealthier students.”147 Matthew Quirk reports on a growing habit among enrollment managers:

[Enrollment managers try to increase] the ‘yield rate’ for the most desirable prospects—typically academic stars and those willing to pay more or all of the tuition (‘full pays’). . . . In the least desirable categories (usually poor students with lower test scores) accepted students are often ‘gapped’—given a fraction of what they would need to attend, even after the maximum possible contribution from their families. . . . Called ‘admit-deny,’ this practice allows a college to keep poor students out while publically claiming that it doesn’t consider a student’s finances when making admission decisions.148

Post-secondary institutions and the federal government must work together to ensure both of their financial-aid practices make college more affordable. Colleges should also have skin in the game, to further encourage their commitment to outcome-based learning.

• Reform the accreditation process.

The federal government has focused most of its attention on the demand-side of the education market. To make college more affordable, it should also work on the supply side. Important changes are already underway: The rise of massive online open courses (MOOCs), for instance, has the potential to provide convenient, lower-cost educational opportunities for millions.149 But for innovative models to succeed, they need greater credibility. Students who build a customized plan of study need some sort of credential to show employers they have learned the necessary skills. And one way to develop these credentials is to reform the accreditation process.

To qualify for federal aid, a school must receive accreditation from an organization—an accreditor—certified by the Department of Education. David Smole notes that the accreditation process assesses schools’ “student achievement, curricula, faculty, and student support services.” But the Heritage Foundation reports that the process also places a premium on nonessential factors like “the number of library books in the university library, the school’s disciplinary code, and its mission statement.” The American Council of Trustees and Alumni sums up, “If the accrediting process were applied to automobile inspection, cars would ‘pass’ as long as they had tires, doors, and an engine—without anyone ever turning the key to see if the car actually operated.” Not only does the current accreditation process fail to truly assess quality, its emphasis on high-cost inputs makes it more difficult for fledgling institutions to get off the ground, shielding established schools from competition. The federal government needs to welcome new entrants into higher education. It can do so by disrupting the accreditation status quo.

First, the federal government should make it easier for new accreditors to gain recognition from the Department of Education. New accreditors currently must certify institutions before getting approval from the Department to demonstrate their credibility. The costs and uncertainty related to this serves as a significant barrier to entry and protects the current accreditation monopoly from challengers. Allowing accreditors to gain recognition from the Department before accrediting an institution would increase competition.

Building on the reforms offered by Senator Mike Lee of Utah, new accreditors would submit to the Department certification standards as well as reporting requirements, credit transfer plans, and outcome-based standards. They would also be empowered to accredit specific, high-quality courses rather than just schools or programs. As a result, students would be able to build an online program of their own, the sum of which could add up to a fully accredited degree. David Bergeron and Steven Klinsky describe such a system in which “students who complete the preapproved, tuition-free MOOC and also pass the confirmatory [new accreditor’s] assessment would earn accredited course hours from [the accreditor] itself. Enough such courses in the right scope and sequence (say physics from MITx, poetry from Harvard, theology from Notre Dame and so on) could lead to a fully accredited . . . degree.”

Moreover, the Secretary of Education should encourage accreditors to expand their boards so they’re not just composed of academics, but of employers and workers too. Employers then would have a bigger say in developing curricula and credentials, which would help students find employment.

Finally, the Department of Education should expand the President’s fiscal year 2014 Pay for Success proposal to include industry-recognized certificates. According to the administration, the Pay for Success proposal would “reward non-accredited providers of free 2-year degrees that can demonstrate their interventions yielded successful outcomes, such as demonstrated competencies, passage of field-appropriate licensing tests, job placement, or other indicators of positive results.” Extending this program to industry-based workforce development and other post-secondary institutions would generate the raw data new and current accreditors need to adequately assess these programs and to give students the credentials they need. It could also aid in

the development of accreditation “off-ramps.” For instance, schools or programs that meet certain thresholds for licensing exams could gain Title IV eligibility through that method.

Shaking up the accreditation status quo by allowing new post-secondary institutions to offer education—and allowing their students to receive federal aid—would expand opportunity. As Bergeron and Klinsky argue, these reforms could “enable a whole field of academic innovations to bloom, including blends of ‘bricks and clicks’ and new types of federal financial aid models,” expanding access to education for students and workers.  

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But education can’t stop at the classroom door. Just as the world economy is creating new jobs, American workers have to learn new skills. And there are clear signs of a skills gap: The Bureau of Labor Statistics reports that over 9.5 million Americans are unemployed, yet there are 4.5 million job openings. Reformed federal job-training programs could help close that gap.

In January 2011, GAO identified 47 federal job-training programs spread across nine agencies. In fiscal year 2009, these programs spent $18 billion, including stimulus funds. Since GAO’s report, the House Education and Workforce Committee investigated further and added to the list, identifying more than 50 duplicative programs (see figure 15).

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While recent Congressional action represented a first step towards consolidation, more can be done to help workers and taxpayers. Harry Holzer notes that “roughly half a century of experience with job training programs for the poor, along with enormous amounts of rigorous evaluation, have generated quite mixed results on their effectiveness for this population.” A study found that one such program, Job Corps, has produced more costs than benefits for students overall.

Members of both parties have taken notice: Senator Tom Coburn of Oklahoma has highlighted the challenges with calculating cost effectiveness of these programs, while President Obama has called publicly for an overhaul.

That said, Congress has made progress. In March 2013, the Education and Workforce Committee reported the SKILLS Act, which the House passed later that month. Then, in July 2014, Congress passed a bipartisan agreement on the Workforce Innovation and Opportunity Act, which incorporated several provisions of the SKILLS Act. The new law will eliminate 15 programs, reform Job Corps, expand access to customized, on-the-job training, and evaluate all core job-training programs against the same set of standards.

Building on these reforms, this proposal would:

- Consolidate duplicative job-training programs into a flexible block grant.

Three programs, Workforce Investment Act—Adult, Wagner–Peyser Employment Service and Senior Community Service Employment Program, would be reformed into a flexible allotment to states. States would use this funding—nearly $1.9 billion in fiscal year 2014—to design their own programs and provide different types of aid, such as career scholarships, to those seeking job training. In exchange for greater flexibility, states would have to show results. States would have to report to the Department of Labor what types of training they provide, how much each trainee costs, what type of employment each trainee secures, whether that trainee secures a job in his or her preferred field, how many trainees gained work within 60 days of enrollment, and how many were still employed after 180 days.

States could also request to consolidate funding for WIA Youth, Job Corps, and State Vocational Rehabilitation Grants into this stream of funding. If states chose this option, they would have to give the Department of Labor a plan to show how they would provide the same quality service to the same population, so people with special needs would still receive greater attention.

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161 Education and the Workforce Committee, “Overhaul of America’s Job Training Programs Headed to President’s Desk Following Strong Bipartisan Support from Congress,” 9 July 2014.


165 “President Barack Obama’s State of the Union Address,” The White House, 28 Jan. 2014.


The Trade Adjustment Assistance and Veterans Employment and Training programs would continue unchanged. But states would be able to move funds among the different veterans’ workforce-development programs. Funding for WIA Dislocated Worker, meanwhile, would be redirected to localities as part of the Opportunity Grant. Trainees would work with case managers to develop a plan to learn new skills and find employment. Case managers would report to the Department of Labor the above criteria to ensure clients are finding work in the fields in which they trained.

This streamlined approach would give workers more options and taxpayers more accountability. Increased flexibility would help support innovative programs, like Wisconsin Fast Forward, which empower employers to develop job-training curricula themselves, so employees learn the skills they need. States could also expand access to technical education, like Career Academies, which educate high-school students and have shown to increase earnings for participants. Apprenticeship programs in Europe (and in European-owned factories in the U.S.) have a long track record of helping both employees and employers. Coupled with accreditation reform, this reform would allow states to develop training programs that could receive industry-recognized certification. In short, we could help close the skills gap by expanding the range of options.

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168 Trade Adjustment Assistance is scheduled to expire at the end of calendar year 2014.
172 Dustin Reid, “Why an Apprenticeship May Be a Faster Ticket to the American Dream than a College Degree,” PBS NewsHour, 5 June 2014.
About 2.2 million people are currently behind bars—a more than 340 percent increase since 1980. As a result, we spend about $80 billion on corrections at all levels of government—an inflation-adjusted increase of over 350 percent in that same period. This growing cost burden on society is a cause for concern. But perhaps what’s most troubling is the effect on individuals and families.

Research suggests that incarceration severely harms a person’s labor market prospects. The Pew Economic Mobility Project estimates that a person’s incarceration “reduced subsequent [hourly] wages by 11 percent, cut annual employment by nine weeks, and reduced yearly earnings by 40 percent.” According to their estimates, after serving time, a person can expect to make $179,000 less during his lifetime.

In addition, the Pew researchers were able to determine that 67 percent of ex-convicts recorded in the bottom earnings quintile in 1986 were still there 20 years later. By contrast, only 33 percent of their peers who didn’t serve time stayed there with them. When people are in prison, their skills and social networks deteriorate. And when they get out, certain laws and business practices make it even harder for them to find a job. In short, having a prison record makes it very difficult to move up the economic ladder.

Minority men are much more likely to serve time and therefore feel the weight of these effects. In 2008, about one in 87 working-age white males were incarcerated, as compared to one in 36 working-age Hispanic males and one in 12 working-age African-American males. High-school dropouts are especially likely to serve time. (See the graph below.)

![Graph: Working-Age Men Behind Bars](image)

Source: Pew Economic Mobility Project, Figure 2. “Collateral Costs: Incarceration’s Effect on Economic Mobility,” 2010.

176 Ibid.
177 Ibid.
In addition to the individual consequences of a prison record, inmates’ families also suffer. Over 2.7 million children (one in 28) have an incarcerated parent. This translates into one in 57 white children, one in 28 Hispanic children, and one in nine African-American children.\textsuperscript{178}

There’s a growing body of evidence that a parent’s incarceration may influence the child’s future. Specifically, besides contributing to family instability through increased rates of single parenthood and altering the living arrangements of children, a parent’s incarceration can significantly reduce a family’s income—all of which may act together to influence the upbringing of children. Although not yet conclusive, research suggests that children with an incarcerated parent may experience setbacks in school readiness and may be more likely to act out and be expelled from school.\textsuperscript{179} The matter of parental or spousal separation due to incarceration is also compounded by the high cost to maintain relationships with family members behind bars. Transportation costs to and from prison and the telephone rates are often prohibitively expensive and work to further sever familial bonds.

This proposal seeks to tap this overlooked potential and ameliorate the collateral impact on children and families. Although most offenders are in state prisons or local jails, successful reforms at the federal level could encourage states and local governments to follow their example. This discussion draft explores a number of reforms on multiple fronts—how we sentence individuals to prison, how offenders are treated inside prison, and how society helps them to reintegrate afterwards.

Public safety is priority No. 1, so these reforms would apply to only non-violent and low-risk offenders. The punishment should fit the crime, but in many cases the punishment of incarceration extends beyond prison time. Once people have paid their debt to society, they should be able to move on. In that spirit, this proposal suggests three possible reforms:

- Grant judges more flexibility within mandatory-minimum guidelines when sentencing non-violent drug offenders.
- Implement a risk- and needs-assessment system in federal prisons while expanding enrollment in rehabilitative programming to reduce recidivism. Allow non-violent and low-risk inmates to use enrollment to earn time off their prison stay towards prerelease custody.
- Partner with reforms at the state and local level.

\textsuperscript{178} Pew Economic Mobility Project, “\textit{Collateral Costs: Incarceration’s Effect on Economic Mobility},” 2010.
A lengthy sentence is often the appropriate punishment for a serious crime. Accordingly, most people sentenced to more than a year in state prisons are violent offenders. (State prisons house 85 to 90 percent of the total prison population.\textsuperscript{180}) It would be a mistake to assume that non-violent offenses do not harm communities. But not all non-violent offenses are alike, and a certain level of judicial discretion is necessary to ensure that the punishment fits the crime.

Unlike state inmates, only 6 percent of federal inmates are violent offenders, while another 15 percent are guilty of weapons offenses.\textsuperscript{181} In fact, most federal prisoners—nearly 51 percent—are serving time for a drug-related offense, and data from the U.S. Sentencing Commission shows that most of these federal drug offenders are in the lowest criminal-history category.\textsuperscript{182}

But under current law, a single gram of crack cocaine could be all that separates a convict from a less-than-five-year sentence and a 40-year sentence. Rigid and excessive mandatory sentences for low-level drug offenders, like these, may add to an already over-crowded prison system without appreciably enhancing public safety.

There are also economic and social consequences to unreasonably long sentences. Not only do they put undue burdens on families, but they may actually make people more likely to return to crime. As Justice Fellowship notes, “Rather than encouraging criminals to become peaceful, productive citizens, prison culture often has the opposite effect, operating as a graduate school for crime.”\textsuperscript{183}

The federal government should follow the lead of several states and consider how sentencing guidelines, including alternative forms of detention, can both prevent crime and steer non-violent, low-risk drug offenders away from the addictions and networks that make them more likely to reoffend.

- Grant judges more flexibility within mandatory-minimum guidelines when sentencing non-violent drug offenders.

The federal government instituted mandatory-minimum sentences for drug offenses in response to the rise in crime during the 1970s and 1980s. Crack cocaine became the symbol of this crisis, and in 1986 Congress passed the Anti-Drug Abuse Act, which set a mandatory-minimum sentence of five years for first-time possession of five grams of cocaine. The law also created a 100:1 disparity between powder- and crack-cocaine sentencing.

Over time, the use of mandatory minimums continued to grow. The Congressional Research Service reports that the number of mandatory-minimum sentences in the federal code increased from 98 in 1991 to 195 in 2011.\textsuperscript{184} Offenders who ran afoul of mandatory minimums are serving longer sentences today than they were in 1990.\textsuperscript{185} In addition, a longstanding requirement that other sentences be proportional to mandatory minimums

\textsuperscript{180} Bureau of Justice Statistics, “Prisoners in 2012 – Advance Counts” July, 2013. p.10
\textsuperscript{181} Year-end 2011 data from BJS’s Federal Justice Statistics Program website (http://bjs.ojp.usdoj.gov/fjsrc/).
\textsuperscript{182} U.S. Sentencing Commission: Sourcebook 2012, Table 14; an individual’s criminal-history category is determined by the number of criminal-history points earned, which in turn reflect previous convictions.
\textsuperscript{183} Justice Fellowship, “Sentencing Reform: Early Release, Mandatory Minimums, and Life Without Parole”
\textsuperscript{185} Ibid
meant that other offenders are serving longer sentences as well. (The Supreme Court overturned this requirement in 2005.)

Although crime rates have fallen since the 1980s, the unintended consequence of these mandatory minimums is that some low-risk, non-violent offenders serve unreasonably long sentences. As the chair of USSC, Judge Patti B. Saris, testified to the Senate Judiciary Committee in September 2013:

> The bipartisan seven-member Commission unanimously agrees that mandatory minimum sentences in their current form have led to unintended results, caused unwarranted disparity in sentencing, and contributed to the current crisis in the federal prison population and budget. We unanimously agree that statutory changes to address these problems are appropriate.

In response, a bipartisan group of legislators has worked over the past year to develop a sentencing-reform proposal. This proposal seeks to balance the interests of public safety with the needs of individual justice.

The Smarter Sentencing Act has been introduced by Senators Mike Lee of Utah and Dick Durbin of Illinois, and their counterparts in the House, Representatives Raul Labrador of Idaho and Bobby Scott of Virginia. The bill would modestly expand the federal sentencing safety valve, a mechanism through which judges can give sentences below the mandatory minimum for a narrow range of cases. The bill would also reduce mandatory-minimum sentences for certain non-violent drug offenders, from 20 years to ten years, ten years to five years, and five years to two years, while leaving maximum sentences unchanged. Finally, the Smarter Sentencing Act would make provisions of the Fair Sentencing Act (FSA) retroactive, allowing prisoners originally sentenced under the Anti-Drug Abuse Act to petition the court for a new sentence under FSA guidelines. No sentence would be shortened automatically.

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186 For example, according to the USSC, low-level drug couriers are the group most often subject to mandatory minimums. See March, 2014 speech by USSC Chair Judge Pattie Saris at the Georgetown University Law Center.

187 Statement of Judge Patti B. Saris, Chair, United States Sentencing Commission, before the United States Senate Committee on the Judiciary. September 18, 2013.

188 Sentencing laws actually provide a sentence range, with a floor (mandatory minimum) and a ceiling. The Smarter Sentencing Act would lower the floor but leave the ceiling unchanged.
A major challenge of criminal-justice reform is lowering the high rates of recidivism. High rates of recidivism are not only costly to the taxpayer and dangerous for society; they present a missed opportunity to bring more individuals into society as productive and contributing members.

Ninety-five percent of inmates are eventually released, and over 600,000 inmates are released every year from all federal and state prisons. (About 56,000 come from federal prisons alone.)

The Bureau of Justice Statistics has conducted the most recent national study of recidivism, tracking 404,638 prisoners in 30 states after their release from prison in 2005. In the 23 states that reported on re-incarceration (as opposed to re-arrest), “49.7 percent [of released prisoners] either had a parole or probation violation or an arrest for a new offense within three years that led to imprisonment.” At the national level, the recidivism rate appears to have remained relatively stable over time. But a recent analysis suggests that innovative reforms have led to marked declines in several states.

Research suggests that the system of corrections can facilitate ex-inmates’ re-entry into society. But many federal inmates who could benefit from rehabilitative services are simply not enrolled. Consider the following chart, which shows recent trends in inmate enrollment at the Federal Bureau of Prisons rehabilitative programs. Of the three major categories (work, education, and drug treatment), the share of enrolled inmates has been flat or declining for over a decade.

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Doris Layton MacKenzie finds that prison programming helps inmates in a number of areas, such as adult basic education, earning a GED, post-secondary education, vocational education, work programs, and drug-abuse treatment. Another more recent meta-analysis by RAND showed significant reductions in recidivism among inmates who participated in state-prison education programs. That said, several analysts have raised concerns with the quality of the data and research design in the studies used for the meta-analyses, which may limit our ability to draw definitive conclusions. Going forward, we should try to increase the rigor behind these study programs’ design.

One reason enrollment has declined is prison overcrowding, which restricts access and prolongs wait times. Federal prisons also have few ways to assess an individual’s risk of recidivism and link them to helpful programs. If federal prisons had such a tool, they could better direct resources to inmates most likely to benefit from the intervention.

- Implement a risk- and needs-assessment system in federal prisons while expanding enrollment in rehabilitative programming to reduce recidivism. Allow non-violent and low-risk inmates to use enrollment to earn time off their prison stay toward pre-release custody.

This proposal calls for the federal government to help inmates re-enter society by allowing certain low-risk non-violent offenders to earn time credits toward pre-release custody via successful program participation.

A bipartisan group of legislators has introduced legislation to that end. Representatives Jason Chaffetz of Utah and Bobby Scott of Virginia have introduced the Public Safety Enhancement Act (PSEA) in the House, and Senators John Cornyn of Texas and Sheldon Whitehouse of Rhode Island have introduced its companion in the Senate, the Recidivism Reduction and Public Safety Act (RRPSA).

Under this legislation, federal prisons would have to implement an assessment tool to classify all inmates according to their risk of recidivism—low, medium, or high—and to periodically reassess risk levels. The assessment tool would also measure inmates’ needs, so federal prisons could better match inmates with the appropriate programming. Such programming could include educational courses, faith-based services, prison jobs, drug-abuse treatment, and cognitive-behavioral treatment.

The legislation would create a tiered incentive structure in which inmates, by lowering their risk level, could earn privileges, such as phone time with family. They could also earn time in pre-release custody—such as home-confinement, halfway house, ankle monitoring, etc.—instead of imprisonment through the formal creation of an “earned time credit”. Prisoners who have committed serious crimes would not be eligible for the time credits.

195 Davis et al., RAND, “Evaluating the Effectiveness of Correctional Education: A Meta-Analysis of Programs that Provide Education to Incarcerated Adults,” 2013.
196 According to the Congressional Research Service, “the federal prison system was 36% over its rated capacity in FY2013, but high- and medium-security male facilities were operating at 52% and 45%, respectively, over rated capacity.” See: Nathan James, CRS, “The Federal Prison Population Buildup: Overview, Policy Changes, Issues and Options,” April 2014.
197 Under the Senate bill, violent offenders, sex offenders, terrorists, repeat federal offenders, major drug traffickers, organized-crime figures, criminals guilty of child-exploitation offenses, and major white-collar criminals with sentences longer than 15 years are prohibited from receiving credit. For more information on the House bill, see pages 11–19.
The “tiered” system would apply across the board. High-risk inmates would participate so they could move to the medium-risk designation. And medium-risk inmates would participate to move to the low-risk category, because they then could earn even more time in pre-release custody.

No one could “cash in” these credits automatically. The prison warden, the chief probation officer, and the relevant judge would review all cases individually. The credits also would not reduce sentence time. Instead, inmates would simply earn time in a different form of custody.

In sum, by assessing and classifying inmates based on their risk of recidivism, expanding rehabilitative programming, and creating an incentive structure, the envisioned system could facilitate re-entry into society, lower rates of recidivism, and improve public safety. For more information on these bills, see H.R. 2656 and S. 1675.198

198 113th Congress, HR 2656, “Public Safety Enhancement Act of 2013.”
Other Promising Initiatives

Many states and localities are experimenting and reforming their systems of justice with many lessons to offer.

- Partner with reforms at the state and local level. Look for promising interventions to study, evaluate, and scale.

Take Texas. Over the past several years, rates of imprisonment and crime have declined hand in hand—11 and 19 percent, respectively.\(^{199}\) As a result, the state was able to save over $2 billion in the expected costs of building and maintaining over 17,000 prison beds.\(^{200}\) In 2011, the state legislature approved the closure of two unnecessary prisons. Governor Rick Perry afterward ordered the first prison closure in state history.\(^{201}\)

Texas’s success stems from a combination of reforms that reflect the need to be both tough \textit{and} smart on crime. In 2005, the state directed additional funding to probation departments in order to reduce the per-officer caseload and allow for more immediate sanctions for parole violators.\(^{202}\) The state also invested in prison alternatives including substance-abuse treatment, drug courts, and programs for mentally-ill offenders. The state set aside funding to relieve waiting lists for parole slots and halfway houses, so fewer non-violent offenders would be stuck in state prisons longer than the law required. Finally, Texas expanded the use of time credits for good behavior, with a focus on educational achievement, monetary victim restitution, and substance-abuse treatment.

Texas isn’t the only one. In fact, between 2007 and 2012, most states experienced declining rates of both crime and prison population.\(^{203}\) For example, Georgia passed a major prison-reform bill in 2012, which included a sentencing safety valve for non-violent drug offenders and community-supervision alternatives for low-level offenders.\(^{204}\) All told, 48 states have passed some form of sentencing or pretrial reform, and 25 states have passed early-release provisions since 2007.\(^{205}\)

States are also trying out new ideas. For instance, among the most innovative programs today is Hawaii’s Opportunity Probation with Enforcement (HOPE) program. The program provides “swift, predictable, and immediate sanctions” to probation violators—instead of “sporadic, untimely, and severe”\(^{206}\) sanctions—and is a good way to lower recidivism rates for methamphetamine users.\(^{207}\) Though performed on a small scale, it proved to highly successful: “HOPE probationers were 55 percent less likely to be arrested for a new crime, 72 percent less likely to use drugs, 61 percent less likely to skip appointments with their supervisory officer and 53 percent less likely to have their probation revoked. As a result, they also served or were sentenced to, on average, 48 percent fewer days of incarceration than the control group.”\(^{208}\) These are the types of approaches we hope to see more of.

\(^{202}\) Ibid.
\(^{204}\) Right on Crime, “\textit{The Conservative Case for Reform: State Initiatives: Georgia},” 2012.
\(^{205}\) Pew Center of the States, “\textit{Sentencing and corrections Reforms in Justice Reinvestment States},” July 2013.
\(^{207}\) Hawai‘i State Judiciary, “\textit{Hope Probation},” 2008.
Beyond the state and federal level, it is important to consider the role that community-based initiatives can play in reducing crime and improving people’s lives.

For example, take the Running Rebels Community Organization (RRCO) in Milwaukee, Wisconsin. To deter youth gun violence, they seek out juveniles as young as 12 years old who have been charged with the possession of a firearm. Instead of sending the youth directly to a correctional arrangement, a court-ordered intervention can steer juvenile offenders towards RRCO’s intensive monitoring program. The program is a healthier alternative to incarceration and helps lower the risk of re-offense. According to the group’s website, the program “reflects a belief that even the most troubled youth have compensating strengths and capabilities that can be developed and enhanced through supervision, structure, and meaningful support. A major program objective is to help youth and their families develop their ability to function without routine contact with law enforcement and to live a positive life within their homes and community.” With an 80 percent success rate, the program has worked so well that it is estimated to have saved $64 million in reduced incarceration costs for the Milwaukee criminal-justice system and forever changed the lives of hundreds of participants.

Likewise, faith-based organizations can also help turn around people’s lives. In one of the toughest neighborhoods in Indianapolis, Pastor Daryl Webster runs a remarkable program that reconnects ex-inmates with their sons. At Emmanuel Missionary Baptist Church, Pastor Webster’s B.O.O.T. C.A.M.P (Because of Others’ Testimonies Christ Answered My Prayer) offers counseling for drug and alcohol addiction, job training, mentoring, marriage counseling, and other services. According to the church, “men are encouraged to nurture their spiritual lives, process complex issues, and engage small group discussions to form a brotherhood with spiritual peers.” Since 2005, the program has helped over 900 men, and nearly 70 percent of former addicts report success in staying clean.

And of course, it isn’t just Running Rebels or the B.O.O.T. C.A.M.P. that are doing good work. There are a number of community organizations working to turn people’s lives around. The federal government should encourage all community organizations that are doing good work.

Many successful ideas will come not from the top down, but spring from the bottom up. So state and federal legislators should be mindful of how they can support these efforts or, at the very least, remove the barriers so these services can reach more people.

In conclusion, these reforms seek to put a greater focus upon rehabilitation and reintegration. Although the federal government’s reach is limited, these reforms would give judges the discretion they need to prevent non-violent offenders from serving unreasonably long sentences; they would align inmates’ incentives to help reduce recidivism; and they would partner with states and community groups to expand their life-affirming work.

213 McKay Coppins, BuzzFeed Politics, “Paul Ryan’s Inner City Education,” 28 Apr. 2014.
In 2013, federal regulations cost the economy $1.86 trillion—or about $14,974 per household.\(^{214}\) Not all households are the same: They vary in size, income, location. But every household pays the costs of these regulations, regardless of income—especially regulations on the production and use of energy. In fact, these regulations are a disproportionately large burden on low-income families because energy costs make up a disproportionately large share of their budget.

The regressive effects of federal regulations are especially concerning. Unlike other federal programs, the costs of federal regulation are hard to discern. Even the regulatory process is itself opaque. But regulatory costs are baked into every good and service, and lower-income households have to contribute a larger share of their income to pay for cost increases resulting from these regulations. As Diana Thomas, an assistant professor of economics at Utah State University, points out, “[R]egulation has a regressive effect: It redistributes wealth from lower-income households to higher-income households by causing lower-income households to pay for risk reduction worth more to the wealthy.”\(^{215}\)

As a result, regulations come with a hidden but very real cost that can greatly exceed the benefits to low-income families. These expensive regulations eat up households’ disposable income and thereby crowd out their ability to mitigate risks that are far more imminent for them.\(^{216}\) For example, having less disposable income makes it harder for families to purchase healthy food, which is more expensive than junk food and can help mitigate the risk of heart disease and other health problems,\(^{217}\) or move their families to a safer, but more expensive neighborhood.\(^{218}\)


\(^{215}\) Diana Thomas, “Regressive Effects of Regulation,” Mercatus Center at George Mason University (Nov. 2012).

\(^{216}\) Regulatory Accountability Act of 2013: Hearing Before the House Committee on the Judiciary, Subcommittee on Regulatory Reform, Commercial and Antitrust Law, 113th Cong. (2013) (Statement of Diana Thomas, Assistant Professor of Economics at the Jon Huntsman School of Business at Utah State University).

\(^{217}\) Id.

\(^{218}\) Diana Thomas, “Regressive Effects of Regulation,” Mercatus Center at George Mason University (Nov. 2012); p.15.
This proposal does not call for comprehensive regulatory reform. Rather, it focuses on regulations that disproportionately burden low-income households. And it holds regulatory agencies accountable by requiring them to explain to the public—in layman’s terms—how new regulations will affect the most vulnerable among us.

Because agencies often fail to comply with similar mandates, like the Paperwork Reduction Act, without any threat of consequences, the proposal would provide a private right of action against any agency that failed to comply with this provision. If an agency violated this requirement, it would be barred from implementing that regulation until the analysis was completed, with exceptions made for rules that addressed an immediate risk to public health or safety.

- Require Congress to review regulations that would disproportionately affect low-income families.

The proposal would also add a much-needed check on a seemingly overzealous bureaucracy by requiring Congress to review regulations that would unfairly harm low-income families. Through their regulatory powers, agencies are increasingly usurping Congress’s law-making responsibility, taking actions unilaterally that have a huge impact on the public. Under this proposal, these regulations would receive approval only after Congress reviewed the benefit and costs to low-income families and approved the rule.

When any agency proposed a new regulation, it would have to conduct a three-part analysis and provide the results in layman’s terms, subject to compliance with the Plain Writing Act, as a standalone section in the already-required Regulatory Impact Analysis.

First, the agency would have to conduct a distributive analysis of who would bear the cost of the proposed regulation and whether those costs would be regressive. This analysis would have to account for the willingness to pay among lower-income households, rather than assuming all households have an equal willingness to pay. Second, the agency would have to conduct a distributive analysis of who would benefit from the proposed regulation. Finally, the agency would have to produce a distributive analysis of jobs lost, both directly and indirectly, and jobs created (not just the net figure) above and below the median income in the regions affected. The analysis would also have to specify which industries would be affected.

Each distributive analysis would focus on two categories: “low-income households” or “low-income jobs.” The analysis would also analyze the effect on “non-low-income households” and “non-low-income jobs,” defined as any household or job that does not fall under the previous definition. The Office of Management and Budget’s Office of Information and Regulatory Affairs would review all of these analyses and send the regulation back to the relevant agency if it found any aspects of the analysis lacking.

If the proposed regulation was determined to have regressive effects, either through imposing a disproportionate burden on low-income households or by displacing a disproportionate number of low-income workers, the relevant agency would need to determine if there were an immediate risk to public health or safety (and make the necessary showing). If there were, the rule could proceed. If there were not, the agency would need to seek Congress’s approval before the rule could be finalized. If there were regressive effects, the proposing agency could either 1) modify the regulation to address the regressive effects; or 2) ask Congress to review and approve it. The agency would then send a draft of the regulation with no prescribed effective date,
along with a detailed report to Congress explaining the proposal’s regressive effects and why it should become law. If the agency pursued the regulation, the proposal would call on Congress to consider the regulation in a timely fashion.

If adopted, this proposal would help the public and the Congress better understand the tradeoffs of proposed regulations. It would force agencies to analyze exactly how each regulation would affect the most vulnerable and, if possible, to explore less costly alternatives. It would also protect low-income communities against an overzealous bureaucracy. And finally, it would allow Congress to reclaim some of the authority currently abused by some regulatory agencies.
Another category of rules and regulations that can hurt low-income families are state and local occupational-licensing regimes. These requirements often prevent workers from entering or advancing in the workforce. Government at all levels requires licenses to perform certain occupations. In some cases, such as medical doctors, this requirement is appropriate. But in other cases, these licensing requirements merely protect entrenched incumbents. For instance, the New York Times reports that state licensing laws require “more classroom time . . . to become a cosmetologist than to become a lawyer” in Minnesota. Louisiana, meanwhile, “requires licenses for florists” and forbids monks to “sell coffins because they were not licensed funeral directors.”\(^{219}\) Over the past 20 years, a growing number of occupations require some form of certification. Today, approximately one third of employees are in such a field.\(^ {220}\) This compares to the 1950s, when “less than 5 percent of the U.S. workforce was in occupations covered by licensing laws at the state level”\(^ {221}\) and the 1980s when “almost 18 percent”\(^ {222}\) were covered by state licensing laws.

Occupational licensing laws should protect the public—not incumbents. Morris Kleiner and Alan Krueger find that “licensing is associated with about 18 percent higher wages,”\(^ {223}\) and in many cases this higher compensation is hard to justify on the grounds of consumer protection or public safety. The risk to consumers is also hard to see: If the work is not satisfactory, they can easily go elsewhere.

And unfortunately, many licensed occupations employ many low-income workers. The Institute for Justice\(^ {224}\) reports that the licensing “hurdles are likely exceptionally burdensome for lower-income workers” as they “typically have fewer resources”\(^ {225}\) to pay for the large time and financial commitments that licensing demands.

Eliminating irrational or unnecessary licensing requirements would not be a panacea, but it would open up new opportunities for low-income families and reduce costs for consumers. The vast majority of these licensing requirements are the result of state and local laws. State and local governments should begin to dismantle these barriers to upward mobility.

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\(^ {220}\) See Kleiner, Morris and Alan Krueger “Analyzing the Extent and Influence of Occupational Licensing on the Labor Market,” Journal of Labor Economics, University of Chicago Press, vol.31(S1), pages S173 – S202. They find that 29 percent of employees are in occupations requiring licenses; 35 percent are in occupations requiring licenses or certifications and a total of 38 percent are in occupations that require or will require them to be licensed or certified.

\(^ {221}\) Ibid.

\(^ {222}\) Ibid.

\(^ {223}\) Ibid.

\(^ {224}\) Ibid.

\(^ {225}\) Ibid.
Learning from decades of experimentation which guided the welfare reforms of the 1990s, this proposal would place a renewed emphasis on experimentation, rigorous analysis, and the use of hard evidence in policymaking.

Both policymakers and researchers have an interest in understanding the impact of government programs. And these programs collect information on participants and the benefits they receive. This data is critical to answering important questions: Who benefits from these programs? Do they work? Are there unintended consequences? With today’s more sophisticated computing technology, data-collection and -storage capabilities, researchers could link data on individuals across multiple data sources.

Unfortunately, these data sources are usually off limits to policymakers or researchers and are rarely made available in a way that can facilitate program evaluation. These barriers prevent us from learning from our mistakes and designing better anti-poverty programs. Improved access and integrated data, with the proper privacy and confidentiality safeguards, could even facilitate studies which can help to illuminate the root causes of poverty and economic immobility.

The Commission on Evidence-Based Policy Making

This proposal would create a commission of leading economists, statisticians, program administrators, and privacy experts to advise Congress on:

1. Whether and how to create a Clearinghouse for Program and Survey Data. The clearinghouse, if established, would facilitate the merging of data on government programs with other administrative data so researchers could link anonymous participants across programs (such as unemployment-insurance records) and to respondents in surveys and thereby provide a more complete picture of program take-up, duration, benefits received, program impact, and other key pieces of information. In addition to programmatic data at the federal level, the commission would also consider the inclusion of state, local, and even educational datasets, such as the National Student Clearinghouse.

2. How to ensure that this data matching would not compromise the privacy rights of program participants or survey respondents. By addressing this issue, the commission can get out ahead of any privacy concerns that may arise in the future as well as a result from data-merging.

3. How to fund the Clearinghouse without adding to the federal budget deficit (such as through user fees for participating academic and other research institutions).

4. How to bolster the study of economic mobility by considering ways to improve and expand access to longitudinal data. This could include improvements in linking parents and children within datasets to facilitate intergenerational studies as well as linking datasets (such as the Panel Study of Income Dynamics and National Longitudinal Survey of Youth) to outside administrative sources.

5. How best to incorporate outcomes measurement and institutionalize randomized controlled trials into program design.

Congress would pay for the Commission with existing funding streams.
Appendix I: Streamlining Support

The following programs would be folded into the Opportunity Grant (OG) in participating states. Because the OG would be deficit-neutral, participating states would receive the same amount of funding as before.

- The Supplemental Nutrition Assistance Program (SNAP)
- The Temporary Assistance for Needy Families (TANF)
- Section 8 Housing Choice Voucher Program (HCV)
- Section 521 Rural Rental Assistance Payments
- Section 8 Project-Based Rental Assistance
- Public Housing Capital and Operating Funds
- Child Care and Development Fund
- The Weatherization Assistance Program
- The Low Income Home Energy Assistance Program (LIHEAP)
- Community Development Block Grant (CDBG)
- WIA Dislocated Workers
To get ahead, families don’t just need to make more money. They also need to save more money. Below is a sampling of strategies that help low-income families save. Case managers could draw upon these resources when working with families in need.

**Encourage the Use of Mainstream Financial Services**
Millions of low-income families don’t use mainstream financial services. Instead, they use more unconventional methods. Of the 12 million Americans who take out payday loans each year, 72 percent have annual household income of less than $40,000. Case managers should connect low-income families with efforts that encourage the use of mainstream financial services. There are numerous groups and programs across the country with this aim, including Bank On programs and San Francisco’s CurrenC SF.

**Increase Financial Literacy**
Case managers should also seek out community groups that help families manage their finances. The federal government runs 13 financial-literacy programs, but it’s unclear whether these programs work. GAO has indicated there may be “unneeded overlap.” Case managers, then, may be uniquely equipped to help families evaluate their options and find the program that works for them.

**Promote Saving with Financial Prizes**
Both private institutions and public agencies have encouraged families to save by offering prizes. Prize-linked savings products offer families the chance to win a prize if they meet certain savings targets. A recent proposal to make it easier for entities to use prize-linked savings products is worthy of consideration.

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226 “National Survey of Unbanked and Underbanked Households,” FDIC, Sept. 2012.
228 See the following for examples: What Is Bank On? and About CurrenC SF.
229 Financial Literacy: Overview of Federal Activities, Programs, and Challenges,” GAO, April 2014.
230 Ibid.
231 “Prize Linked Savings,” D2D Fund.
232 The American Savings Promotion Act (H.R. 3374 / S. 1597) would expand financial institutions’ ability to offer PLS products.
Appendix III: Federal Aid to Higher Education

- **Grant Programs**
  - Pell is a low-income grant program.
  - TRIO provides grants for outreach and support services.
  - Gear Up provides grants for outreach and support services.
  - Federal Supplemental Educational Opportunity Grant is a campus-based grant program.
  - Migrant Education Program provides grants supporting students of families engaged in migrant and seasonal farm work.
  - Teacher Education Assistance for Higher Education (TEACH) Grant program provides scholarships for college students who commit to teaching four years in elementary or secondary schools with a high concentration of poverty.

- **Loan Programs**
  - Federal Family Education Loan Program provided for private loans guaranteed by the federal government; FFEL’s authority to make loans ended in July 2010.
  - Direct Subsidized Stafford Loans are federal means-tested undergraduate-student loans.
  - Direct Unsubsidized Stafford Loans are federal undergraduate- and graduate-student loans.
  - Graduate PLUS provides federal loans for graduate students.
  - Parents PLUS provides federal loans for parents of dependent undergraduate students.
  - Consolidated Loans allows students to combine existing loans into a single loan.
  - Perkins is a campus-based loan program.

- **Work Study** is a campus-based program to provide part-time jobs to students.

- **Graduate Assistance in Areas of National Need** provides fellowships to graduate students pursuing degrees in areas of “national need,” as determined by the Secretary of Education.

- **Tax Benefits**
  - American Opportunity Tax Credit (replaces HOPE Credit until 2018) is a partially refundable tax credit for tuition, fees, and course-related supplies.
  - Lifetime Learning Credit is non-refundable tax credit for tuition and fees.
  - Deduction for Tuition and Fees is an “above the line” deduction for tuition and fees.
  - Business Deduction for Work-Related Education Expenses is an itemized deduction for tuition, fees, transportation, and other expenses.
  - Exclusion of Scholarships, Grants, and Tuition Reductions excludes from taxable income scholarships and grants used to pay for tuition, fees, and course-related supplies.
  - Exclusion of Employer-Provided Educational Assistance excludes from taxable income tuition, fees, and course-related supplies provided by employers.
  - Parental Personal Exemption for Dependent Students 19–23 years old exempts a fixed amount for a dependent under the age of 24 and enrolled full-time.
  - Student-Loan Interest Deduction is an “above the line” deduction of interest paid on a student loan.
  - Exclusion of Qualifying Cancelled Student Loans excludes from income a canceled student loan.
  - Qualified Tuition Programs (529 Plans) has earnings exempted from taxation.
  - Coverdell Education Savings Account has earnings exempted from taxation.
  - Exclusion of Interest on Education Savings Bonds has interest exempted from taxation.
  - Early Withdrawals from IRAs are not taxed at additional rate.
  - Uniform Transfers to Minors exclude from income tuition paid directly to an institution.
• Veterans Programs (administered through the Departments of Defense and Veterans Affairs)
  o Montgomery GI Bill—Active Duty provides for service members and veterans who entered active duty after June 30, 1985.
  o Montgomery GI Bill—Selected Reserve provides for reservists who enlist after June 30, 1985.
  o Reserves Educational Assistance Program provides for reservists who were on active duty after September 10, 2001.
  o Survivors’ and Dependents’ Educational Assistance Program provides for the spouse and children of service members killed or seriously disabled in service.
  o Troops to Teachers provides support to veterans who teach in high-poverty schools.
  o Iraq and Afghanistan Service Grants provide for the children of service members killed in Iraq or Afghanistan after September 10, 2001.
Appendix IV

The Budget Committee has held five hearings on the War on Poverty in the 113\textsuperscript{th} Congress. The first hearing was held on July 31, 2013, and focused on cataloguing how the War on Poverty has worked. The second hearing was held on January 28, 2014 and focused on how to expand economic opportunity. The third hearing was held on April 30, 2014 and focused on learning from leaders of civil society who work daily to alleviate poverty and promote upward mobility in their communities. The fourth hearing was held on June 10, 2014 and focused on learning from officials who have administered welfare programs at the state and local levels. The final hearing, held on July 9, focused on innovative private-sector approaches to engaging families in poverty.

**The War on Poverty: A Progress Report**

**Date:** Wednesday, July 31, 2013  
**Witnesses:** Eloise Anderson; Jon Baron; Douglas Besharov; and Sister Simone Campbell.  
**Link to Testimony:** [http://budget.house.gov/hearingschedule2013/hearing7312013.htm](http://budget.house.gov/hearingschedule2013/hearing7312013.htm)

**A Progress Report on the War on Poverty: Expanding Economic Opportunity**

**Date:** Tuesday, January 28, 2014  
**Witnesses:** Ron Haskins; Scott Winship; and Robert Greenstein  
**Link to Testimony:** [http://budget.house.gov/hearingschedule2014/hearing1282014.htm](http://budget.house.gov/hearingschedule2014/hearing1282014.htm)

**A Progress Report on the War on Poverty: Lessons from the Frontlines**

**Date:** Wednesday, April 30, 2014  
**Witnesses:** Bishop Shirley Holloway; Robert Woodson; Marian Wright Edelman  

**A Progress Report on the War on Poverty: Reforming Federal Aid**

**Date:** Tuesday, June 10, 2014  
**Witnesses:** Rep. James Clyburn; Robert Doar; Jason Turner; Olivia Golden  
**Link to Testimony:** [http://budget.house.gov/hearingschedule2014/hearing6102014.htm](http://budget.house.gov/hearingschedule2014/hearing6102014.htm)

**A Progress Report on the War on Poverty: Working with Families in Need**

**Date:** Wednesday, July 9, 2014  
**Witnesses:** Heather Reynolds; Jennifer Tiller; Tianna Gaines-Turner  

In addition, the Budget Committee recently put out a document cataloguing the number and cost of federal programs directed toward low-income Americans. That report can be found [here](http://budget.house.gov/waronpoverty/).