CHAPTER 5

LIVING IN THE NEW ECONOMY

This Administration came to office on a platform of "putting people first." The Administration has kept that pledge.Although the phrase "New Economy" typically brings to mind technological innovation and globalization, arguably one of the most important changes from the old economy to the new has been an improvement in the well-being of the American people. By virtually any measure, Americans are better off today than they were 8 years ago.

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~~On its own the New Economy, for all its entrepreneurial dynamism and technological sophistication **{I wanted here to sharpen the focus between private markets and public action}**, cannot solve all the Nation's problems. Many of our most difficult challenges require government intervention, through policies that assist individuals and communities in danger of being left behind. One of the guiding principles of our Nation is that all people deserve the opportunity to create a better life for themselves and their children. New policies designed to reform welfare, improve our educational system,, and expand health insurance coverage seek to extend the benefits of the booming economy and of technological change to those Americans who have not already felt them directly. For the most part these policies have been successful. In particular, many of these policies have benefited populations that historically have been among the hardest to reach.~~

~~Under this Administration, the Federal Government has made investments in America that focus on the country's future. Programs that help people enter and remain in the labor force, and that invest in the education of our youth, help individuals acquire the skills they need to be successful and ensure that our economy will have the skilled, productive labor force it needs to continue growing. Investments in smart growth in rapidly developing regions will help sustain economic development and the quality of life Americans enjoy.~~

~~**[Except for welfare to work, the examples in this section don't show how policy has effected change. Simply adding "Policies to . . ." will correct that problem in the last three examples.]** The Administration's policies reflect both the technological and the organizational~~

innovations of the New Economy. Our system of providing for the poorest Americans has been fundamentally changed. No longer are families punished financially for leaving welfare and returning to work. Programs that make work pay have dramatically reduced the number of families receiving cash assistance while increasing the number of people employed. **[Sentence is vague—it can be made more specific by citing, say, use of computers in schools.]** The education sector has become much more technologically advanced and set higher standards for learning. In the health care sector, innovations in information technology and managerial **{and financing?}** practices have increased the quality of care and helped lower costs. Our communities are taking advantage of new techniques to combat problems of congestion and pollution and ensure smart growth practices. These and similar policies are working to train and grow our work force, sustain strong economic growth, and improve the quality of life for all Americans.

Good News from the American Economy

Record-setting gains in the stock market and growth in the net worth of wealthy individuals have received wide media coverage. But the most noteworthy aspects of the recent economic expansion are its duration and its reach. The last few years in particular have brought tremendous gains to all segments of our society.

Employment gains have been dramatic. Between January 1993 and October 2000, 22.4 million new jobs were created.[1] In 1999 the unemployment rate reached 4.2 percent—the lowest level since 1969. Just as important, it has stayed low, remaining below 5 percent for 41 months at the time of this writi {**~~just as important, it has stayed low—backing up the "duration" point just above~~**} At the same time wages have been increasing. After declining steadily from 1986 to 1994, real hourly wages for private sector workers rose by ~~7.2~~ ~~8.9~~ 7.0 percent between 1994 and 1999.[2] These gains in employment and wages are echoed in growth in income and decreases in poverty. The median household income reached a new high of $40,800 in 1999, an increase of 2.7 percent in real terms since 1998 alone, and a total increase of 13.3 percent from 1993. In 1999 the poverty rate fell to 11.8 percent, its lowest level since 1979, and 3.3 percentage points below the 1993 rate of 15.1 percent.

many
Unlike ~~in~~ ~~many~~ previous expansions, these gains were shared by Americans at all income levels. Between 1998 and 1999, real income grew by 4.4 percent for those **[households?]** (yes) at the 20th percentile and by 3.5 percent for those at the 80th percentile. (A household at the 20th percentile is one whose income is higher than that of the poorest 20 percent of all households, and lower than that of the richest 80 percent.) From 1993 to 1999 the respective growth rates were 15.0 percent and 14.2 percent.[3] In addition, the most disadvantaged groups tended to experience the greatest improvements in financial well-being. * ¶ In 1999 Unemployment for African Americans and Hispanics fell to the lowest levels on record ~~between 1993 and 1999~~. African Americans saw their unemployment fall from 13 percent in 1993 to 7.0 percent in 1999,[4] while Hispanics saw their ~~jobless~~ unemployment ([illegible]) rate drop to ~~5.6~~ 6.4 percent.[5] Earnings have also increased, particularly for African Americans. Between 1998 and 1999 the median earnings for full-time African American male workers increased by $2,379, or 8.6 percent—a dramatic rise for a single year. With this sharp increase, the earnings ratio for African American males compared with white American males rose to 0.81, the highest level ever recorded (Chart 5-1).[6]

move to * above (in same paragraph, start new ¶ w/ Unemployment.

* Household incomes for African Americans and Hispanics have also risen to all-time highs. The median income for African American households increased 7.7 percent between 1998 and 1999 (it is up 23.9 percent since 1993), climbing to $27,910. The median for Hispanics rose to $30,735, an increase of 6.1 percent between 1998 and 1999 (and 16.5 percent since 1993).[7]

Along with these record increases in income have come record declines in poverty (Chart 5-2). In 1999 ~~1998-99~~ the poverty rate for African Americans reached an all-time low of 23.6 percent, and the decline in poverty between 1998 and 1999 was the largest one-year decline ever recorded. Hispanics also experienced a record drop in poverty. At 22.8 percent, the poverty rate for this group is now at its lowest since 1979.[8]

In the past, economic gains have often had ~~little effect~~ limited impact (sounds less strong) on households headed by women. During this Administration, however, the strong economy and a social welfare policy that emphasizes work have brought substantial benefits to this group. In March 1993 just 56.8 percent of women maintaining a family on their own were employed; this figure rose to 63.4 percent in March 1998 and 65.2 percent in March 1999.[9] This increase in employment corresponded to an increase in income. Between 1993 and 1999 the median income for these households increased by 22.4 percent, with 4.9 percentage points of that increase occurring between 1998 and 1999 alone.[10] The poverty rate for households headed by females also fell, dropping from 38.7 percent in 1993 to 33.1 percent in 1998 and 30.4 percent in 1999.

Within this group are those most likely to have been affected by welfare reform: low-income single mothers and their children. (Low income is defined here as an income below 200 percent of the poverty line.) Analysis of a recently completed survey indicates that ~~According to a recently released survey~~, between 1997 and 1999 the ~~number~~ percent of ~~working~~ low-income single mothers who were employed increased from 59.7 percent to 65.2 percent. P ([illegible]) Children as well as their mothers benefited from this change.[11] Between 1998 and 1999 the poverty rate for children fell by 2 percentage points, to 16.9 percent, the lowest level since 1979 and the largest percentage-point decline since 1966. Poverty among African American children declined by even more in absolute terms, falling by 3.6 percentage points to 33.1 percent. Since 1993 the ~~overall~~ all poverty rate for children has fallen by 5.8 percentage points.

(there aren't really [illegible] policies [illegible] not [illegible] Social Sec[illegible])

Our oldest Americans have also benefited from economic growth ~~and supportive policies~~. In 1999 the poverty rate among the elderly fell below 10 percent for the first time ever. With the elimination of the Social Security earnings test for those aged 65 and over, older Americans will likely participate in the labor force in greater numbers, further improving their financial status. For years, residents of our ~~inner~~ central cities {**Emily and I are unsure whether it should be "inner" or "central" here and later; "inner" is more familiar but may not fact-check (or be the same thing)**} (Use central throughout) have seen little change in their poverty levels, yet here, too, the situation is improving. [**Dates? Figures?**] ~~Inner~~ Central-city residents experienced an above-average increase in median income and the largest declines in poverty of any geographic category.[12]

The gains experienced by Americans over the past 8 years have not been limited to financial gains but include a long list of improvements in the quality of life. Low interest rates and a strong economy have helped more Americans than ever before become homeowners. In the third quarter of 2000, 67.7 percent of American families owned a home, up from 63.7 ~~64.7~~ percent in the first ~~same~~ quarter of 1993 and surpassing the Administration's goal, set in 1995, of 67.5 ___ percent ~~[give figure?]~~.[13][14] Improvements in job opportunities, in combination with Administration initiatives to hire additional police officers, strengthen gun laws, and increase local resources to improve public safety, have contributed to a dramatic reduction in crime, with the overall crime rate falling to its lowest level in 26 years.[15]

Incorrect statement

Our public schools today are also showing improvements on several fronts. Si~~nce 1992, reading and mathematics scores on the National Assessment of Educational Progress (NAEP) examination have increased for fourth, eighth, and twelfth-graders, including those students in schools with the highest poverty rates {is this what a "high poverty school" is?}~~.[16] More young people are graduating from high school than ever before, and more are attending college.[17] Average math scores on the Scholastic Aptitude ~~{isn't the A for "Achievement" nowadays?}~~ Test (SAT) ~~math scores~~ have reached their highest level in 30 years, and average verbal SAT scores have held steady [~~maybe this is not a good thing to say? Be more specific~~] even though the number of non-native English speakers taking the exam has increased.[18] Minorities have also made notable academic achievements. Among high-school graduates aged 18-24, the proportion of African-American and Hispanic students continuing their education at a 4-year college is at a record high.[19]

Improvements have also been made in the public health arena.
The health of Americans has also been improving. The birth rate among teenagers declined 17 percent between 1993 and 1999 ~~{is this a "health" issue?}~~.[20] * Between 1997 and 1999 Smoking among teenagers declined. This was the first time ~~for the first time~~ in nearly a decade ~~from 1997 to 1999~~.[21] The proportion of high school students that said they had smoked a cigarette in the preceding 30 days declined ~~fell over that period from 36.4 percent to 34.8 percent~~. * move bracketed text to * [Infant mortality is down from 8.4 deaths per thousand in 1993 to 7.1 ~~7.2~~ per thousand in 1998.] Death rates from heart disease, cancer, stroke, and AIDS are all down, and life expectancy has improved. A child born in 1998 can expect to live nearly 76.7 years, up from 75.4 in 1990 ~~74.9 years just 10 years earlier~~.[22]

Although these statistics present a glowing picture of the New Economy and the well-being of the Nation as a whole, more work remains to be done. Despite the recent gains, the incomes of minority groups remain significantly below those of whites and their poverty rates significantly above. Infant mortality and life expectancy rates also differ substantially by race and ethnicity, as does access to a quality education. Certain areas of the country continue to experience unemployment rates of more than 10 percent and distressingly high {~~**there will always be "above-average" poverty somewhere**~~} levels of poverty. ~~As America moves~~ into ~~the new millennium, we must confront these issues~~.

Add "Good News insert #1"

Helping Families Help Themselves

Replace with "Helping Families insert #1" on attached sheet

~~The New Economy is popularly characterized by new technologies, new methods of communication, and new avenues of trade. But it also brings innovative ways of providing for the least well off Americans. [**The rest of the paragraph does not show how the New Economy provides innovations. The information is also redundant to the paragraphs above.**] Low-income families are receiving help in becoming or remaining independent of public assistance through a network of programs designed to increase the benefits of work. By placing its emphasis on employment and investing in the skills of those who are less well off, the Administration has changed the tenor of American social welfare policy and helped ensure a more equitable distribution of the gains from the New Economy.~~

Welfare Reform

One of the most impressive achievements of the past 8 years has been the reduction in the number of Americans receiving welfare, along with an increase in e~~mployment among curre~~nt ~~and former welfare recipients~~ {**"the number of Americans who have moved from welfare to work"**} OK. The Administration has worked hard for welfare reform b~~egan working toward welfare reform in 1993~~. ~~One of its first steps was to allow States to~~ In doing so it allowed a record number of States to ~~**[re waivers: is "record number" correct? That is, had such waivers ever been granted before**~~]implement changes in their welfare programs on an experimental basis, through waivers from Federal welfare regulations and caseloads began to fall. As of August 1996, 43 states had received waivers and set up alternative programs that emphasized work and parental responsibility. ~~Caseloads soon began to fall~~.[23]

There were some waivers prior to 199[illegible]

These changes at the State level were followed by changes at the national level, in particular the bipartisan Personal Responsibility and Work Opportunity Reconciliation Act signed by the President in 1996. This act replaced the Aid to Families with Dependent Children (AFDC) program with one that provides needy families with temporary assistance, established time limits for receiving welfare benefits, and shifted the program's emphasis from simply providing assistance to helping families leave welfare and enter the labor market.[24] Policies that offer tax credits to subsidize the earnings of low-income workers, provide assistance with child care, and expand eligibility for health insurance support the welfare-to-work transition.

The new program, Temporary Assistance for Needy Families (TANF), differs from the AFDC program in three fundamental ways. First, it gives States much more discretion in using Federal

OK

funds {??}. Under the AFDC program, States set eligibility and benefit levels and received matching funds from the Federal Government to help with the cost of the program. The new program provides States with block grants that are used to finance cash benefits, job preparation, and other worker support programs. States now have much more flexibility in spending, and they have used this flexibility to meet the particular demands of their constituencies. [~~examples?~~] for example by allocating additional funds to child care subsidies by allowing welfare recipients to keep a greater fraction of their earnings. States are also eligible for performance bonuses for moving individuals into jobs, increasing participation in the food stamp, Medicaid, and children's health insurance programs, providing child care, and **[what does this phrase mean? It could be misinterpreted]** increasing f~~amily formation and stability~~ the percent of children in married couple families. States can also receive bonus awards for reducing out-of-wedlock births.

Second, the new system imposes time limits and work requirements on welfare recipients. In general, States can no longer use Federal funds to pay benefits to recipients who have received assistance for more than 60 months during their lifetime. States can exempt some recipients from this requirement, set even shorter time limits, or use their own funds to continue support beyond the 5-year limit. In 1999, 38 States used the 60-month time limit, and the remainder implemented other policies (8 states have shorter time limits, 3 currently have no time limit, and others intend to use longer periods).[25] Recipients must also work in some capacity after receiving benefits for 2 years, but States have flexibility in deciding how to implement this rule—, particularly in terms of strengthening it. In 1999, 28 States had welfare policies that imposed immediate work requirements rather than the 2-year requirement.[26]

Finally, States can now design the parameters of their program to suit the needs of their residents. Although States have always had the freedom to set benefit levels, the new program allows them to to set income and asset limits for eligibility as well and to establish their own methods of calculating the income of potentially eligible families. The majority of States have used this freedom to decrease the implicit tax on earnings. The AFDC program reduced benefits dollar for dollar for any earnings of more than $90 per month after 12 months of work. This 100 percent "tax" created a strong disincentive to work, as many participants did not see their income increase after they went to work. Many States now use a more gradual benefit reduction rate to encourage greater work force participation. They are also investing in a wide range of supports to help welfare recipients and other low-income working families enter the work force and succeed on the job.

The Effects of Welfare-to-Work Programs

Since August 1996, caseloads have fallen dramatically (Chart 5-3). The average monthly national caseload has declined by 6 million, a reduction of ~~40~~ 50 percent .[27] Including reductions that took place during the period of State waivers, caseloads have fallen by 7.8 million, or 56 percent, since 1993. Declines in some states have been even more dramatic. In Wisconsin, for example, the number of welfare recipients fell by 70 percent between 1996 and 1999, and it has fallen by 82 percent since 1993.

The 1996 reforms have undeniably been successful in reducing the number of people receiving welfare. But reductions in caseloads are not the only measure by which to judge the reforms: the well-being of the millions of former welfare recipients is also important. Much of what we know about outcomes for welfare leavers comes from studies undertaken in individual States. To date over 30 States have conducted studies monitoring the outcomes of those who have left welfare. In addition, some of the data from State waiver experiments undertaken before the nationwide welfare reform have implications for current programs.[28]

Available data on the results of welfare reform often differ from State to State and do not represent nationwide averages. This Report therefore supplements this information with new results from the {~~who conducts this survey?~~} U.S. Bureau of the Census's Survey of Income and Program Participation (SIPP),[29] providing some of the first evidence on the effects of welfare reform for a nationally representative sample. The ~~majority of these~~ results from SIPP are based on a sample of people who were observed for at least 12 months after leaving the welfare rolls. These individuals were first observed between December 1995 and March 1996 and were reinterviewed every 4 months until November 1998 or February 1999, depending on the month of the initial interview. The new data cover the experiences of some of the earliest beneficiaries of welfare reform and may not reveal the effects of the time limits on receiving benefits or the long-term impact on families.

P One of the most important issues in evaluating welfare reform is the incidence of recidivism--that is, the ~~number of individuals~~ cycling of individuals on and off the rolls. Both SIPP data and a synthesis of State studies show that approximately 25 percent of those who leave welfare returnwithin 12 months. (Most studies of recidivism, including those cited here, ~~exclude those who stay off the rolls for less than a month.~~ do not count transitions of less than two months as true welf. exits or entrances) The majority of those who do return do so quickly: the SIPP data show that 18 percent of those who exit return within the first 6 months of leaving and only 7 percent during the second 6-month window. Further, the number of those returning to welfare declines with time. In Maryland 25 percent of former recipients returned to welfare within 12 months, but only 10 percent returned in the next 12 months, and just ~~1~~ 1 percent in the third 12-month period.[30]

Helping Welfare Leavers Find and Keep Jobs

A key component to success after welfare is the ability to obtain a job and remain employed. The Administration provided a total of $3 billion in fiscal years 1998 and 1999 in the form of Welfare-to-Work grants[31] to help States and local communities move long-term welfare recipients and noncustodial parents into jobs. The Administration also implemented the Workforce Investment Act, which allows States to provide job assistance to low-income workers (Box 5-1).[32]

Box 5-1. The Workforce Investment Act

The Workforce Investment Act of 1998 was the result of a bipartisan effort by the Congress and the Administration. The law requires that basic job and career information and assistance be available to all Americans and creates a system developed around one-stop career centers in order to knit together multiple programs at the local level. The law also provides for intensive assessment, counseling, job search assistance, and training for low-income individuals and dislocated workers on a priority basis.

The law initiates three reforms that are designed to maximize training choices: individual training accounts, systems for identifying eligible training providers and their programs, and State and local Consumer Reports Systems containing extensive information on programs and their performance. These reforms were designed so that trainees will have the opportunity and the purchasing power to enter the training program of their choice rather than be channeled into one of a handful of locally contracted programs. The reforms provide a high level of reliable information that will empower trainees, allowing them to make informed choices.

Welfare-to-work programs generally use one of two approaches to helping welfare leavers find jobs. The "work first" approach aims to get people employed as quickly as possible. It assumes that work itself will ~~teach~~ give inexperienced workers the skills (human capital) they need to remain in the labor force, ~~after which they can~~ and move to increasingly better jobs. This approach focuses on maintaining an attachment to the labor force rather than on initial wages. The alternative approach relies on comparatively extensive education and training before welfare leavers enter the labor market. It keeps them out of the work force longer in the expectation that, once they enter the labor market, they will find better jobs than they could otherwise.

The work-first approach is by far the more commonly employed, and studies of initial ~~evidence indicates~~ outcomes indicated that it ~~is~~ was the more successful: employment levels and earnings ~~are~~ were higher in areas that have used it. However, a new study comparing outcomes across counties in California over a 9-year period finds that results for the two approaches are similar in the long term.[33] A separate study comparing the outcomes of 11 different welfare-to-work programs over a 2-year period found that the most successful approach combinedan emphasis on work with assistance in completing the General Education Diploma (GED). [34]

Employment levels among former welfare recipients have increased substantially since the 1996 reform.[35] Administrative data from studies conducted in several different States show that between 62 and 75 percent of those leaving welfare were employed at some point in the following year, and approximately 40 percent were employed in all four quarters.[36] Results are similar at the national level. SIPP data show that 66 percent of welfare leavers were employed at some point in the following 12 months, and 43 percent had earnings in all four quarters. However, many of those working all four quarters were employed less than full time. Only 32 percent of welfare leavers worked 50 weeks or more during the year, and just 40 percent of this group (12.8 percent of all leavers) worked 35 or more hours in ~~every~~ each week. Thus, although labor force participation has increased significantly among former welfare recipients, there is still considerable room for further gains.

Importantly, employment rates increased even among those who remained on welfare. In 1999, 33 percent of welfare recipients were working, compared with just 7 percent in 1992.[37] Developing an attachment to the labor market even while on welfare is important, because it increases the probability of success after welfare is no longer an option.[38]

The importance of the booming economy to these successes should not be understated. Theories of human capital accumulation and the tenets behind work-first programs suggest that time spent working increases productivity, job skills, and wages. The long economic expansion and historically low unemployment rates have given current and former welfare recipients the chance to accumulate work experience that ~~will~~ would be expected to serve them well in a future downturn. The longer the expansion continues, the better prepared they will be. to weather the consequences

Earnings

Although employment is important in and of itself, so, too, are earnings. Welfare leavers are unlikely to thrive in the workplace if they are no better off financially than they were before leaving the welfare rolls. Evidence from State studies indicates that, at least initially, few leavers are significantly better off. Median quarterly earnings for those who found employment varied from $2,000 to $3,000, or approximately $700–$1,000 per month. In Wisconsin the majority of leavers had lower incomes (earnings plus food stamp benefits) after exiting welfare than they had while receiving welfare benefits. For the sample of SIPP leavers, the median monthly household income plus food stamps for the year following exit was $1,605, compared with $1,509 in the 2 months preceding exit. For 44 percent of leavers, total household income plus food stamps in the year following exit was more than $50 per month higher than in the months before; for 49 percent it was at least $50 lower.

The idea behind work-first programs is that an initial job will lead to earnings growth over time. Because many former welfare recipients find employment in low-wage industries such as food services, their prospects for earnings growth may not seem extremely bright.[39] Yet 39 percent of SIPP leavers had monthly earnings in the second 6 months after leaving welfare that were $50 or more higher than in the first 6 months. Twenty-eight percent saw a reduction in earnings of $50 or more over the two 6-month periods immediately following exit. Thus, over one-third of former welfare recipients did find jobs that provide earnings growth through increases in hours, wages, or both.

Income gains from the Earned Income Tax Credit (discussed in detail below) are not included in these calculations. Although its benefits are not recorded in the SIPP data, the earned income credit provides a substantial subsidy to low-income workers, and including its effects would improve incomes and poverty rates considerably. Although its figures do not focus specifically on welfare leavers, the Census Bureau estimates that in 1999 the fraction of households with after-tax incomes of less than $10,000 a year falls from 9.9 percent to 9.3 percent when the Earned Income Tax Credit (EITC) is factored in.[40] At a maximum of $3,880 for a low-income worker with two children, the EITC could add up to $323 per month to a family's income.

Making Work Pay

A network of government support programs facilitates the transition from welfare to work. In the past, families leaving welfare often lost not only their cash assistance but alsoother benefits such as food stamps and Medicaid. At the same time they incurred explicit payroll taxes and additional expenses associated with work, such as child care and transportation costs. One study found that the implicit marginal tax rate—the net amount ~~lost~~ paid in ~~from a one-dollar increase in income to~~ taxes, forgone benefits, and expenses from a one-dollar increase in income—for AFDC recipients could easilyexceed 50 percent.[41] In other words, earning one dollar more in the labor market increased their disposable income by less than 50 cents.

The Administration's welfare reform proposals have attempted to reduce these implicit taxes by increasing the rewards from work, through a higher minimum wage and an increased Earned Income Tax Credit, through increased subsidies for child care, and through expanded health insurance coverage to include working families not previously eligible for public programs.[42] The Administration has also worked to help single parents collect the child support paymentsdue them. These programs do more than help ease the transition from welfare to work; they also benefit working families who may have never received welfare. By reaching out to both groups, the Administration has worked to ensure that no working family is left behind.

The Earned Income Tax Credit. Operating through the income tax system, this credit provides a wage subsidy for low-income workers. The amount of the subsidy depends on how much the family earns and on ~~the number of dependents~~ whether there are ~~zero~~, one, or two or more children. By effectively increasing the wage rate, the Earned Income Tax Credit offers those eligible an added incentive to participate in the labor force. In 2000, families with two or more children received a subsidy of 40 cents for every dollar of earned income up to ~~$9,720~~ $9,700, for a maximum credit of ~~$3,888~~ $3,880. This tax credit is refundable, so even families who pay little or no income tax can benefit fully from the tax provision. Rather than falling to zero when earnings surpass this level, the credit remains at ~~$3,888~~ $3,880 until earnings reach ~~$12,690~~ $12,700 and then gradually declines. It is phased out completely when earned income reaches $31,152 (Chart 5-4).[43] The gradual reduction reduces the disincentive to earn income beyond the level at which the credit peaks.

more than 2 children does not give a higher benefit; [illegible] dependents other than children yield no increase

The Earned Income Tax Credit has been expanded greatly since 1990, with increases in both benefits and scope of coverage. The 1993 expansions increased benefits for approximately 15 million families, in large part by raising the subsidy for families with two or more children.[44] The

1993 {~~1993 correct?~~ yes} expansion also, for the first time, allowed workers without children to claim a tax credit.[45] As a result of both the 1990 and 1993 expansions, credits paid through this provision increased from $15.5 billion (~~in 1999 dollars~~) in 1993 to nearly $32 billion in tax year 1999.[46] At the same time the number of families receiving assistance from the program increased by one-third, from 15 million to ~~nearly 20~~ just over 19 million.[47] The program now pays out more than the combined amounts distributed through the TANF and food stamp programs.[48]

This wage subsidy has been effective in attracting more workers into the labor market (Chart 5-5).[49] According to one estimate, i~~n 1992–96~~ the Earned Income Tax Credit alone was responsible for 34 percent of the increase in [~~what is annual employment as opposed to just employment?~~] annual employment among unmarried mothers.[50] between 1992 and 1996

(Need to be [illegible] 34% of total [illegible] [illegible] the year)

In addition to increasing the probability ~~that~~ of employment for low-income people ~~will find jobs and keep them,~~ (doesn't help job search) the Earned Income Tax Credit has done much to improve the well-being of those who take advantage of it. Many former welfare recipients have trouble securing jobs that pay enough to raise ~~them~~ their incomes above the poverty level. But when the credit is taken into account, the earnings of many of these new workers rise substantially. In 1999 the credit lifted 4.1 million individuals, including 2.3 million children, out of poverty. The provision has also been effective in targeting benefits to the most needy. Estimates are that between 50 and 60 percent of its benefits accrue to families with incomes below the poverty line.[51]

Minimum wage. The minimum wage operates in tandem with the Earned Income Tax Credit: the credit provides an effective wage subsidy, and the minimum wage laws ensure that that subsidy is based on an acceptable wage. The real value of the minimum wage declined substantially from 1992 to 1995, falling to just 71 percent of its peak value in 1968 ~~value~~.[52] Subsequent Administration-backed efforts led to increases in the minimum wage in 1996 and 1997. Even with these most recent increases, however, the minimum wage in ~~2000 was equal to only 77~~ 1999 was equal to less than 80 percent of its 1968 level (after controlling for inflation).

However, when the minimum wage is combined with a possible 40 percent subsidy from the Earned Income Tax Credit, the true minimum wage for workers with two or more children and earnings of less than ~~$9,540 is~~ $9,700 $7.21 an hour (Chart 5-6). This hourly rate is nearly as high in real terms as the peak minimum wage rates of the 1960s. Even so, an individual working full-time at the minimum wage would have a yearly income of just ~~$14,116~~ $14,188 (including the credit), well below the poverty line of $16,895 for a family of two adults and two children.

<insert Chart 5.6: Minimum wage with EITC chart here>

Child care. For many parents, one of the most difficult barriers to employment is finding affordable, good-quality child care. For low-income families and new entrants to the labor market, the costs of child care may make working impossible. Recognizing these costs as a barrier to work, the Administration has fought to make child care more affordable for low-income families and to provide assistance with child care expenses to a greater number of families. As a result, funding for child care has ~~more than doubled [dates?]~~ increased by XX percent since 19XX, and the various existing child care programs have been combined to create the Child Care and Development Fund. The fund provides States with block grants for the purpose of subsidizing approved child care arrangements. In fiscal year ~~2001, under the Administration's proposed budget~~ 2000, States ~~will have~~ had access to more than $3.5 billion through this program. These funds ~~can be~~ are used not only to make child care more affordable but also to improve the quality of that care.[53]

Estimates suggest that ~~over 2~~ 1.75 million children ~~will benefit~~ benefited from the Child Care and Development Fund in ~~fiscal year 2001~~ 1999. Despite this substantial investment, however, many States have waiting lists for benefits, and many families who qualify for the subsidies do not receive benefits. According to one study, only 30 percent of families who have left welfare and are now self-supporting are receiving assistance with child care.

Food stamp program. The food stamp program supplements family incomes to help ensure that low-income families receive adequate nutrition. Benefits are available to families with incomes up to 130 percent of the poverty line. In fiscal year 1998 the vast majority of benefits (nearly 90 percent in dollar terms) went to elderly individuals and families with children.[54] In 1999, ~~32~~ 27 percent of ~~benefits went to working families~~ participating households had earned income. Since 1994 enrollment in the food stamp program has fallen dramatically, from a high of 27.5 million participants to 18.2 million in 1999. Of

concern, however, is the fact that the participation rate for eligible families declined from 71 percent in September 1994 to 62 percent in September 1997.[55] This decline is particularly marked for families with children. **[~~The rest of the paragraph was phrased to suggest~~ that** Not correct it is children we were referring to
~~children receive food stamps. Are the changes to "families with children" correct?]~~ In 1999 only 51 percent of f~~amilies that included~~ children in families with ~~and had~~ incomes below the poverty line received food stamps. Even among the very poorest f~~amilies with~~ children in families ~~whose~~ with incomes less than 50 percent of the poverty line—only 58 percent received food stamps in 1999, down from 76 percent in 1993.[56]

Several factors could be responsible for the decline in participation. Changes in the laws governing the program have excluded some immigrants from the program and restricted the amount of benefits that able-bodied workers may receive. Limitations on the value of assets an eligible family may hold may also exclude some needy families. And the strong economy and the growing number of workers with jobs may have helped reduce the need for food stamps. But these factors alone cannot explain all of steep decline in participation rates, and it is likely.. that some eligible families are not receiving the benefits they need (and are entitled to receive), especially families just leaving the welfare rolls. Rules governing participation in the program are often a factor here. ~~Some~~ States require that wage-earning food stamp recipients have their incomes recertified at regular intervals, typically ~~sometimes~~ as often as every three months and even more frequent in some states. For low-wage earners without much time off, this requirement could well be a substantial deterrent to participation. A recent study underscored this concern, attributing a large portion of nonparticipation ~~largely~~ to the costs to recipients of regular recertification.[57] (largely implies it was the most important factor)

In response to these recent trends, the Administration has implemented a series of changes in the regulations governing the food stamp program. These changes substantially reduce the need for recertification for those leaving welfare and the newly employed, and streamline the application process. States can also receive bonus awards under the TANF program for **~~[raising?]~~** high participation rates for low-income working households and for overall increases in participation. To date, $20 million has been allocated for these awards. Finally, the Administration has provided funding for educational and outreach campaigns aimed at e~~nhancing~~ **~~[Can this term~~ be ~~simplified, perhaps to "improving nutrition, especially for children"?]~~** ~~nutritional security~~.[58]
improving nutrition for low-income families and the elderly

awards exist for both level and change

Child support programs. Child support payments from noncustodial parents are an important source of income for poor children. In 1997 child support lifted an estimated half a million children out of poverty.[59] Child support is particularly important for families leaving welfare. Women who leave welfare and do not receive child support have more than a 30 percent chance of recidivism after six months. For those receiving even small amounts of child support (0-$100 per month) that figure drops to ~~9~~ 10 percent.[60]

An important component of the Administration's policies to help working families is ensuring that single and divorced parents receive the child support payments they are entitled to under the law.. Between fiscal years 1992 and 1999 the dollar value of child support collections increased in real terms by more than two-thirds, from $9.5 billion to nearly $16 billion (in 1999 dollars). During the same period the number of child support cases involving collections increased from ~~2.8~~ 2.6 million to 6.1 million.

However, much of the money collected never reaches the custodial parent. Many States reduce TANF benefits dollar for dollar when a noncustodial parent provides support, reducing the incentive for noncustodial parents to provide for their children. The President has proposed legislative changes that would make it easier for States to pass along a portion of child support payments to custodial parents receiving assistance. This change would give parents an incentive to cooperate with the system. Some States, such as Wisconsin, are already experimenting with this type of policy, with some success. Results show that noncustodial parents are more willing to pay child support when they know that at least some of the money will ~~go to the custodial parent.~~ benefit their child Utlimately more wide-spread use of this policy should increase collections of child support payments.

(Not an incentive, just a help) ~~As an added incentive for cooperation with laws governing child support,~~ The Administration has also put in place policies that reach out to low-income noncustodial parents. Some $125 million has been requested for grants designed to help fathers find and keep work **{is this correct?}** ("Fathers Work" grants). Responsible fatherhood initiatives funded through the Department of

Labor complement this policy, helping noncustodial parents not only find work and pay child supportbut also reconnect with their children.

Access to health insurance. Historically, individuals and families leaving the welfare rolls have lost their Medicaid coverage as they did so. During the 1980s a series of Medicaid expansions and the introduction of Transitional Medicaid Assistance ~~Coverage~~ began providing health insurance benefits to former welfare recipients and low-income families, easing the transition to work. Prior to the 1996 welfare reform a Federal mandate required that States cover all pregnant women and ~~allowed~~ some children not receiving welfare to enroll in Medicaid. This group included children under the age of 6 in families with incomes below 133 percent of the poverty line, and children between the ages of 6 and 19 in families with incomes below 100 percent of the poverty line. Many States opted for even broader coverage, setting higher income thresholds and covering children of all ages. Adults could obtain Medicaid for up to 12 months under the Transitional Medicaid Assistance ~~Coverage~~ program or through State programs for the medically needy. The 1996 legislation expanded Medicaid coverage to single parent and ~~unmarried [mothers?]~~, some two-parent families, and families leaving welfare provided their incomes were sufficiently low. In 1997 the State Children's Health Insurance Program (SCHIP) was created to provide health insurance for ~~target all~~ children in low-income families. The SCHIP program is ~~These programs are~~ discussed in detail later in the chapter.

Add "Helping Families Insert #2"

Reaching out to Underserved Communities

(Change inner city to central city)

Providing opportunity and independence for American families sometimes requires more than a strong national economy and responsible welfare policy. Areas where poverty has become entrenched and the local economy is weak may need additional assistance. Some of the most intractable poverty is found in America's central ~~inner~~ cities and rural areas. Because these areas are home to large numbers of Americans—in 1999, yes ~~[correct year?]~~ 30 percent of the country's population lived in the central ~~inner~~ cities and 20 percent in rural areas[61]—this situation is cause for great concern.

In 1967, when statistics for these areas were first recorded separately, the poverty rate for inner cities was 15.0 percent, compared with a nationwide rate of 14.2 percent. In contrast, poverty in rural areas was over 20 percent. By this measurethe inner cities were nearly as well off as the rest of the country, but rural areas suffered from disproportionately high rates of poverty. Between 1967 and the early 1990s, however, the incidence of poverty shifted: conditions in the central ~~inner~~ cities worsened, and nonmetropolitan areas saw a slight improvement. By 1993 the proportion of central ~~inner~~-city residents living in poverty had reached an all-time high of 21.5 percent, and the poverty rate in rural areas had declined slightly to 17.2 percent— well above the national poverty rate of 15.1 percent ~~in both cases~~ OK. Since 1993, however, the situation has improved dramatically. In 1999, the poverty rate for central ~~inner~~ cities was 16.4 percent and that in rural areas stood at 14.3 percent. Yet these rates remain well above the national average [of 11.8 percent ~~give national average here?~~].

The strong national economy and current policies to make work pay, discourage out-of-wedlock births, and improve schools in poor neighborhoods can be expected to provide some relief, [no ~~especially in inner cities?~~]. But given the persistently high poverty rates in these areas, additional strategies may be required. To reach out to residents of these areas, the Administration has enacted a series of programs that directly target communities.

Central *~~Inner~~ cities*: Central ~~Inner~~ cities are often more attractive to low-income workers than outlying suburbs. Inner-city residents have ready access to public transportation and shopping, and city governments often provide more generous support services than governments in other locales.[62] But cities often have one key drawback(?) ~~limitation~~: limited (not necessarily fewer, just not enough or not the type needed) ~~fewer~~ job opportunities. Recent research shows that most job creation today is taking place in the suburbs. One study by the Department of Housing and Urban Development (HUD) found that from 1992 to 1997 job growth was slower in the cities than in the suburbs ~~in 1992–97~~ and that the job mix in cities is increasingly shifting towardhigh-technology industries, which works against low-skilled workers.[63]

The difficulty central ~~inner~~-city residents face in finding employment is further heightened by problems with discrimination and transportation ~~transportation and by discrimination~~. Low-income workers, and welfare recipients in particular, are unlikely to own cars and must rely on public transportation. Yet a recent study found that nearly half of all low-skilled jobs in the suburbs are not accessible by public transportation.[64] Compounding this situation is the fact that minority workers in the inner city still face discrimination in housing and employment markets. A recent study found that minorities have difficulty renting and purchasing housing in the suburbs and are less likely to be hired by the white-owned firms that predominate there.[65] The cost of housing in the suburbs may also make it difficult to move to homes near suburban jobs.

From a policy perspective, several approaches are available to address the mismatch between where low-skilled workers live and where they can find work. The first—and perhaps most difficult—is to rebuild the economies of our ~~inner~~ central cities. The second involves seeking ways to overcome the transportation hurdles that ~~inner~~ central-city commuters face. The third approach is to help low-income families obtain housing in areas where jobs are available. Providing training is yet another way to address this issue—that is, improving workers' skillsand thus their employability at a range of jobs. The Administration has pursued policies that incorporate all four approaches.

When this Administration took office, a number of programs already addressed underserved communities. The long-standing problems in these areas, however, clearly called for additional policy measures. The Administration developed a number of strategies for rebuilding inner-city economies, including Empowerment Zones and Enterprise Communities. Since 1995 over $1 billion has gone to 78 designated urban areas under these initiatives, supplemented by over $10 billion leveraged through other Federal grants, State and local government spending, and private sector funding. The Empowerment Zone and Enterprise Community programs aim to assist communities by encouraging investment from private businesses through tax credits, wage subsidies, and improved access to credit markets.

To help solve commuting problems, the Administration's Transportation Equity Act for the 21st Century established a new Job Access and Reverse Commute Program designed specifically to connect low-income persons to employment and support services. Similarly, the Bridges to Work program provides placement, transportation, and retention services in a select group of cities. In addition, the Administration has made owning a car easier for low-income families receiving temporary assistance or food stamps, by givingStates the flexibility to raise the limit on the value of a car counted as an asset for welfare eligibility purposes[66].[67] HUD programs also address transportation problems by subsidizing low-income families in both public and private sector housing. HUD's housing voucher program helps over 1.6 million families pay the rent for apartments in the private market. This portable form of assistance helps families locate near jobs.

Two Administration housing initiatives focus on improving employment outcomes for low-income families. The Moving to Opportunity demonstration program combines intensive counseling with voucher assistance to help families move from high-poverty public housing projects to private housing in low-poverty areas. The Welfare-to-Work voucher program provides housing subsidies and services to families eligible for temporary assistance to help adults in the family obtain and keep jobs.[68] Limited preliminary evidence from Moving to Opportunity programs in Baltimore and Boston suggests that the program also helps children as has ~~is successful in~~ been successful in improving educational outcomes ~~for children~~.[69].

Rural communities: Like the inner cities, many of America's rural communities face high rates of poverty and unemployment.[70] But these communities also face a number of unique problems. First, they tend to have smaller, less diversified economies than do the central ~~inner~~ cities and thus can be severely affected by the closing of only one or two industrial plants.[71] Second, many rural communities are geographically isolated from major markets, making it hard for residents to find jobs and for businesses to reach their customers.[72] Third, rural communities often offer little in the way of public transportation, so that commuting problems are likely to be more acute than in urban areas. Although recent advances in telecommunications promise to reduce some of ~~this~~ these disadvantages rural communities also lag behind urban communities in access to this technology.[73] Finally rural governments often lack the economies of scale needed to make investments in public services economical.[74]

A variety of programs exist to help these communities. Technical assistance, grants, and loans offered through the Rural Utilities Service provide assistance with basic infrastructure needssuch as electricity, telecommunications, and water and waste facilities. The Rural Housing Service assists rural communities with community facilities and housing. Its programs provide housing assistance to families with moderate and low incomes; it also helps communities develop and improve facilities such as fire stations, libraries, and hospitals.

The Rural Business-Cooperative Service cultivates partnerships between the private sector and community-based organizations.[75] It also provides technical assistance and funding for projects that generate employment. Rural businesses also get a boost from the Empowerment Zone and Enterprise Community initiative, as many of the areas these programs target are located in rural communities. Finally, the Telecommunications Act of 1996 is addressing the digital divide by providing funds to help schools and medical facilities in low-income communities (both rural and urban) develop modern communications infrastructure.[76]

At the regional level the Administration has supported several initiatives addressing the problems of rural development, including a Task Force on the Economic Development of the Southwest Border, the Mississippi Delta regional initiative, and the Denali Commission in Alaska. These initiatives coordinate Federal, State, and local development assistance to areas with historically high poverty rates and limited employment opportunities.

Results: These programs, coupled with the strong national economy and policies aimed at making work pay, have led to substantial improvements in the quality of life for those living in inner cities and rural areas. The unemployment rate in the Nation's inner cities fell from 8.2 percent in 1993 to 5.3 percent in 1999, while unemployment in rural areas declined from 5.9 percent to 3.7 percent.[77] Increased employment has meant reductions in poverty and increases in
As noted above, the poverty rates in both central cities and
median incomes (Chart 5-7). ~~The poverty rate in the inner cities fell from 21.5 percent in 1993~~ to rural
in central cities in central city rates areas fe
~~16.4 percent in 1999~~, with the largest drop, 2.1 percentage points, occurring in the last year. significantly
This change was so large and affected so many people that it between 199
~~These figures have a significance that goes far beyond the affected neighborhoods~~: ~~inner cities~~ and 1999
accounted for 80 percent of the total reduction in poverty from 1998 to 1999 .[78] ~~Poverty in rural areas also fell substantially, from 17.2 percent in 1993 to 14.3 percent in 1999~~.

central
The median household income in the ~~inner~~ cities has also increased, rising 5 percent in real terms from 1998 to 1999—more than double the 2.1 percent increase in the median income in
As was the ~~ee~~ situation for the gains for the nation as
metropolitan areas as a whole.[79] ~~For~~ African Americans ~~the gains~~ were particularly striking. a whole, th
in central cities gains in incon
After adjusting for inflation, the median income for African American households in inner cities for
between 1998 and 1999
increased by 13.9 percent ~~in 1998–99~~. These economic gains have been accompanied by a
central
decline in the number of people on welfare. Caseloads in the largest ~~inner~~-city areas declined by

40.6 percent between 1994 and 1999.[80] Increases in the median household income in rural areas were less dramatic than those in the cities, rising just 0.9 percent in real terms ~~in 1998–99~~ between 1998 and 1999.

Despite these clear improvements in the well-being of our poorest communities, much remains to be done. Poverty rates and unemployment are still higher in our inner cities and rural areas than elsewhere. It is too soon to judge the effectiveness of the Administration's community-based policies,, but reaching out to these communities demonstrates a willingness to seek creative solutions to some of the Nation's most pressing problems. Un-italic.

Education in the New Economy

~~Educatio~~ Education insert #5

Investments in human capital play an important role in the New Economy. By investing in our young people, we support continued growth of the economy. T~~he most direct way to invest in human capital is through education and training {what other ways are there??}~~. Last year's *Economic Report of the President* focused on the demand for educated workers, postsecondary education, and training. This year's *Report* examines America's public elementary and secondary schools—institutions crucial to the development of our future work force. Not all communities can afford to offer their students the best possible education. In reducing this inequality, the Federal government can play a crucial role. And by promoting educational innovations such as more standardized curricula and the increased use of technology in the classroom, the Federal Government is working to improve the quality of schooling and to create the more productive work force needed for future economic growth.

Many factors go into producing a quality education. Parents, families, and communities rank among the most important contributors to the education of children. But the discussion here focuses on those components of the education system that are more directly under the control of Federal, State, and local governments, and highlights the effects of class size, teacher quality, and school infrastructure and equipment. I~~mproving the quality of~~ Strengthening these inputs to the education process is key to improving educational outcomes.

A Role for Federal Education Policy

Insert "Education Insert #1"

The Federal Government has long sought to improve access to education for the Nation's poorest children and to help States ensure that their public schools are of high quality. Federal funds target ~~primarily~~ local communities, where they primarily help implement needed reforms, expand new programs,[81] provide access to new technology,[82] and pay part of the cost of education for students with disabilities.[83] Many Federal education programs are targeted to schools and school districts serving students from lower-income families.[84] By directing funds to these important areas, the Federal investment in schooling can have an impact greater than the expenditure itself would suggest.

In the United States, primary responsibility for elementary and secondary education rests with the States and with local school districts. Excluding school-based health[85] and nutrition programs, the Federal Government provides just a little more than 6 percent of all funding for kindergarten, elementary, and high school education.[86] Federal spending in the poorest schools reduces inequalities across school districts but does not fully compensate for the overall pattern of funding disparitiescreated by differences in local property tax bases and State funding levels (Chart 5-8). ~~[Give date] The~~ A study of 1994-1995 data found that the Federal Government spent more than four times as much per student in the poorest quartile of school districts as in the wealthiest quartile, but that the wealthiest school districts still had the highest level of expenditure per student.[87]

The largest single Federal education program for kindergarten through 12th grade (K-12) is Title I,[88] which ~~allocates additional~~ provides funds ~~[what are these funds in addition to?]~~ to schools based on the number of ~~[correct?]~~ poor children ~~enrolled~~ (not necessarily enrolled) and the child poverty rate in the local area.[89] [Correct?] Under the 1965 Elementary and Secondary Education Act, Title I funds are to be targeted to schools serving the poorest children. ~~But the mandate expanded~~ The targeting of funds to poor schools improve significantly with the passage of the Improving America's Schools Act in 1994, which reauthorized the 1965 law. In the 1997–98 academic year, 96 percent of the schools with the highest poverty levels received Title I funds, up from 79 percent in 1993–94.[90] In addition, in 1997–98 the ~~poorest~~ highest-poverty quartile of school districts received 43 percent of all Federal funds for K-12 education and 50 percent of Title I funds—amounts that reflect theshare of the Nation's poor children in these districts (49 percent). At the same time ~~the poorest~~ these school districts received less than a quarter of all State and local funds. Clearly, Federal funds in general and Title I funds in particular are a critical resource for improving equality in education.[91 92 93]

Replace with "Education inserted #2"

~~[Transition needed here. Would something like "How do schools and school districts use Federal funding to improve education? Among the priorities of both teachers and administrators are reducing class size, hiring new teachers and providing training for those already teaching, modernizing schools, accessing new technology, and developing standards and accountability. School choice?]~~

Reducing Class Size

For decades the merits of ~~broad-based~~ various educational spending programs, including those aimed at reducing class size, have been the subject of much debate. Are they in fact effective in improving student achievement? Mounting evidence ~~has begun to show~~ is showing that smaller classes are beneficial, especially for disadvantaged students and those in the early grades.

The most compelling evidence comes from the Project STAR (Student-Teacher Achievement Ratio) experiment in Tennessee. To determine to what extent smaller classes improve academic outcomes, Tennessee authorized and financed an experiment that randomly assigned students and teachers in grad. K-3 ~~randomly~~ to classes with a standard number of students (22–25) or to smaller classes (13–17).[94] The results showed ~~significant improvement~~ better performance for children in the smaller classes: ~~from kindergarten through grade 3~~ these children did better on standardized tests of reading and math than students in larger classes.

A follow-up study showed that the students enrolled in smaller classes in the early grades continued to do better on standardized tests in middle school than other students. These students al~~so scored higher on their standard college entrance examinations while in high school and~~ were also more likely to take ~~these exams~~ college entrance exams in high school. The results were especially strong for minority students. For example, white students have a higher probability of taking a college entrance exam than African American students. But when the probabilities were calculated for white and African American students who were placed in small classes in elementary school, this difference narrowed by 54 percent.[95] Some 46 percent of white students and 40 percent of African American studentswho had been in small classes took a college entrance exam; the corresponding figures for students in standard ~~traditionally~~ sized ~~traditional~~ classes were 45 and 32 percent.

The quality of the experimental design and the outcomes it generated {~~clear results from?} this experiment~~ persuaded many scholars that reductions in class size can improve educational outcomes for children. Teachers in smaller classes can spend more time on individual instruction and review, and less on student discipline and routine administrative tasks, than teachers in larger classes.[96] Teachers of small classes arealso more likely to get to know their students, interact with them frequently on a one-to-one basis, and provide frequent, in-depth feedback.[97] Results are now emerging from programs in other States (~~such as the SAGE program in Wisconsin~~) that reinforce the conclusions of the Tennessee study.

Reducing class size is expensive, however. Onestudy estimates that reducing class size in grades 1-3, to an average of 18 students, would cost an e~~stimated~~ $5 billion per year.[98] Despite the expense, the expected gains in students' future earnings appear to be large enough to make the investment worthwhile.[99] [In 1998 the Administration proposed a 7-year Class Size Reduction Initiative to reduce class sizes ~~nationwide~~ in grades 1-3. The current goal is for a maximum ~~maximum~~ ~~national average~~ of 18 students per class nationwide. In its first 2 years the program has enabled school districts to hire an estimated 29,000 new teachers, reducing class size for 1.7 million children.]

move up bracketed text

The Importance of Teachers

The quality of teachers may play an even more important role than class size in improving student outcomes. Parents, students, and professional educators agree that teacher effectiveness is a significant factor in student achievement, and several recent studies support this conclusion. These studies find that differences in teachers ~~characteristics~~ have significant effects.[100] Further, several of these analyses show that some measurable characteristics, such as holding a master's degree, are not necessarily indicative of a teacher's ability to enhance student performance. And although a teacher's effectiveness appears to increase with experience in the first years of teaching, these gains to seniority do not continue beyond three to five years. {~~so what characteristics do matter?~~} These results suggest that much of the difference in the effectiveness of teachers stems from differences in hard to measure attributes such as talent and motivation, indicating that direct observation may be the best way to assess teaching ability

Many schools are finding it difficult to attract and retain highly effective teachers. Some of this difficulty likely stems from the existing pay scales in public schools. In the last several decades, teachers' salaries have fallen relative to those in other occupations. A large majority of public school teachers are women, and for this group in particular, the rewards of teaching have fallen relative to other opportunities. In 1940 fewer than 40 percent of women with a college degree earned more than the average female teacher.[101] By 1990 this fraction had risen to 60 percent. This trend continued throughout the 1990s, ~~simply because~~ starting salaries in most occupations increased at a much sharper rate than did starting salaries in the teaching profession.[102] One study found that ~~F~~from 1994 to 1998 the average salary for people with a master's degree in nonteaching fields increased by 32 percent in real terms, while the real increase in the average salary for teachers was less than 1 percent.[103] Other factors that affect job quality for teachers, such as crowded classrooms, unsafe schools, and limited opportunities for professional development and advancement, also affect schools' ability to attract and retain teachers.

This challenge will become particularly difficult in coming years. Between July 2000 and July 2008, the number of children aged 5–17 will rise by nearly 1 million,[104] significantly increasing the need for teachers nationwide. Yet in this same period, about 750,000 teachers are expected to retire,[105] and many ~~others~~ are likely to leave the field to pursue other occupations. Given these statistics, the United States will need an estimated 2 million new teachers in the next 8 years.[106] The demand for teachers will be heightened by mandates to reduce class size. Decreasing the number of students per class to a nationwide average of 18 in grades 1-3 will require staffing an estimated 100,000 additional classrooms.[107]

These increases in the demand for teachers will make it increasingly difficult to maintain consistently high teacher quality in all classrooms. The magnitude of the challenge is already becoming clear. In 1996 California began a massive program designed to reduce class size in the early grades (K-3). Expenditures for the program, which seeks a statewide class size reduction from an average of 28 students to a maximum of 20, are running $1.5 billion per year. The State has been largely successful in achieving its goal: by the 1998–99 school year, more than 92 percent of California's students in the targeted grades were in classes of 20 or fewer students.[108]

But the percentage of fully credentialed teachers instructing these classes fell from 98 percent in the 1995–96 school year to 87 percent in 1998–99. [Although one study of the California experience found little impact of teacher certification on student outcomes, other analyses have concluded that credentials greatly ~~matter~~. Regardless of the importance of certification, however, increases in the demand for teachers may affect the availability of talented instructors.[109] The ultimate benefits of nationwide reductions in class size will depend on the ability to attract and retain greater numbers of highly qualified teachers and to providing mentoring, training, and other support to those just entering the profession.] [Box 5-2]

See Education insert #2 on attached page

This Administration has supported investments in teachers. Its Class Size Reduction Initiative requires that teachers hired with Federal funds available under the program be fully certified. The initiative allows school districts to spend up to 25 percent of their allocated funds ~~allocation~~ on professional development and testing for new teachers (for content knowledge, to meet State certification requirements, or both). Districts that have met the appropriate goals for reducing class size in the early grades have the option of using their entire allocation for activities to improve teacher quality. **[Correct?]**The Teacher Quality Enhancement Grant program helps states improve the quality of teaching ~~is aimed at reforming State licensing systems and establishing support systems for new teachers~~. To date it has helped prepare about 3,000 new teachers for high-need school districts, and it will help prepare many thousands more in coming years. Funding for this program—~~the largest Federal professional development program in the budget~~—increased from $275 million in 1993 to ~~$667~~ 335 million in fiscal year ~~2001~~ 2000.[110] [111]

[~~Please indicate where in the text this box should be referenced~~]

Box 5-2. Rewarding Effective Teachers

Replace with box on attached sheet

Some proposals for improving educational quality involve rewarding teachers with bonuses based on performance—a change from traditional systems that base pay on education, experience, and responsibilities. Performance-based pay systems may improve the quality of instruction by providing teachers with an additional incentive to achieve certain specific goals. In addition, establishing criteria for performance-based awards can help clarify and prioritize these goals, providing better guidance for teachers. Tying teacher compensation to performance may also help attract talented people to the teaching profession; such individuals may be more willing to become teachers if they know their hard work and skills will be rewarded.

Performance-based pay systems must be carefully designed. Because student achievement depends on many factors that teachers cannot control, such as family circumstances and previous education, teachers should be rewarded for gains in student achievement rather than for absolute levels of achievement. Furthermore, because learning involves cooperative effort, incentives must be designed to create a cooperative rather than a competitive environment for teachers. One way to foster such team spirit is to base awards on the achievements of an entire school rather than on the success of individual classes. Performance standards should not be based solely on a few easily measurable indicators of educational achievement but should focus on gains in important skills. The school can also coordinate its efforts to meet performance standards with other important goals.[112]

School-based performance awards were introduced in Kentucky and North Carolina in 1991 and in Maryland in 1996. Studies have found that the success of these programs varies according to how well they are designed and implemented. Well-designed programs were successful in focusing attention on goals, channeling organizational resources to meeting those goals, and motivating teachers. Even the best of these programs increased the pressure felt by teachers, however.

The Need for Modern Schools

Besides class size and teacher effectiveness, the physical condition of classrooms and educational materials may well affect~~s~~ the quality of the educational experience. In the most severe cases it co[uld] affect the safety of students. Communities across the country are struggling to address the problems of aging schools. In 1999 the average public school was 40 years old, and schools in largely poor or minority districts are even older.[113] Many of these aging buildings have outdated electrical systems that must be upgraded for computers, and asbestos in the walls of some schools increases the cost of such upgrades.[114] Some buildings need to be renovated extensively to accommodate disabled students. Many schools will need more classrooms as enrollments increase and average class size is reduced, putting additional pressure on aging facilities.

The National Center for Education Statistics estimates that getting America's schools into ~~top~~ good physical condition will require an investment of $127 billion.[115] Some 39 percent of our public schools already have temporary additions, about one-fifth of which are in less than adequate condition. Schools with a relatively high proportion of poor and minority students[116] ~~—the very schools where students would benefit most from smaller classes~~—are more likely than other public schools to have temporary buildings, and thus will have the most difficulty housing additional classes. To help address these problems, current spending proposals provide $1 billion in grants for emergency school renovations. In addition, there is bipartisan support for $25 billion in school modernization bonds over the next 5 years.[117, 118]

New Educational Technology and Internet Access

Today's workers are increasingly required to be computer literate, and. schools must be able to teach students the skills they will need to work with computers and other new technologies. In addition, Internet access is becoming an important classroom resource, helping students learn by connecting them to libraries, museums, and educational materials around the world.[119] Internet access has become increasingly widespread in American classrooms over the past 8 years, and Federal programs, especially the E-rate program, have played a large role. The E-rate program provides up to $2.25 billion per year to off-set the cost of telecommunication services, internet access, and internal connections to schools and libraries. Between 1994 and 1999, tremendous strides were made in connecting public schools to the Internet (Chart 5-9). With the help of ~~this~~ program the ~~The~~ number of public schools with Internet access nearly tripled between 1994 and 1999, by ~~which year some~~ 1999 the E-rate 95 percent of all public schools were on line. Increases in Internet connectivity within classrooms were even more dramatic. In 1994 only 3 percent of public school classrooms had Internet hookups; by 1999 that figure had risen to 63 percent.[120]

<insert Chart 5.9: Internet access chart here>

The Federal Government has helped local school districts make the transition to the digital age, committing $5.7 billion over the last three years through its E-rate program to connect school and library computers to each other and to the Internet (Box 5-3).[121, 122] These funds have targeted schools with a high proportion of low-income students. Schools where 75 percent or more of students are eligible for free school lunches receive approximately 10 times as much funding per student from the program as schools with the smallest percentage of such students.[123]

Box 5.3 Reducing the Digital Divide

Since 1993, computer use in America has grown at an enormous rate, revolutionizing the way Americans communicate, work, and do business. Access to a computer—and knowing how to use it—are increasingly important for success in today's society. Currently more than half of all U.S. households have computers, and more than two-fifths have Internet access at home. But computer use varies greatly with income and education. People in households earning more than $75,000 per year are almost four times as likely to use the Internet as those in households earning less than $15,000 per year. Adults with college degrees are more than eight times as likely to use the Internet as adults who have not completed high school. Race is also a factor.. African Americans and Hispanics are substantially less likely than white and Asian Americans to use the Internet. A recent study finds that income and education explain only around half of this difference. Individuals from disadvantaged groups that already face obstacles in the workplace are at risk of falling even further behind if they lack computer know-how.

There is encouraging news, however: African American(s)?, Hispanic, and low-income Americans with access to ~~are connecting to~~ the Internet at faster rates than whites, Asian Americans, or wealthier Americans. Notable changes are occurring among school-age children, suggesting that the widespread availability of computers in the classroom is playing a role. Across all income and demographic groups, Internet usage among children aged 9–17 is higher than the national average. And over the last few years Internet usage has grown faster among African American and Hispanic children than among white children, and faster among children in households earning less than $35,000 per year than among children from wealthier households.[124]

Other Federal programs have also helped schools purchase new educational technology. ~~In the 1997–98 school year {correct?}, the most recent for which data are available, Federal education programs spent $688 million (in addition to the E-rate program funds) on increased access to technology in schools. Much of the funding ($425 million in the Technology Literacy Challenge Fund)[125] went to help States implement statewide technology programs~~. These funds were used ~~primarily~~ to purchase computers and train staff in using new technology (Chart 5-10). During the 1997–98 school year, Federal funds paid for one-fourth of all new computers in schools. Federal funds were especially important in helping elementary schools with high levels of low-income students acquire technology, accounting for nearly 60 percent of new computers in these schools.[126]

Replace with "Educat Insert B on attach sheet

For computers to improve the quality of instruction, teachers must know how to use them and how to integrate them into classroom instruction. A recent study found that ~~only half~~ 53 ~~the~~ percent of all public school teachers with computers or Internet access used these resources "t~~o a moderate or~~ l~~arge extent~~" for classroom instruction.[127] Teachers who have received more professional development in using computers and the Internet, ~~younger teachers~~, and teachers in schools with relatively few low-income students were the most likely to report using computers and the Internet. Newer teachers were also more likely to use computers "a lot" to create instructional materials

Despite the growth in the number of classrooms with computers Only one-third of teachers with access to computers and the Internet said that they felt well or very well prepared to use them, ~~and only one-fifth felt very well prepared to integrate educational technology into the classroom "to a moderate or large extent."~~[128 129] ~~Such studies~~ These results clearly show that more investment in teacher preparation is needed. The Federal Government has addressed this issue through its Preparing Tomorrow's Teachers to Use Technology grant program. This program supports 352 partnerships[130] among colleges, educational agencies, high-technology companies, and nonprofit organizations, ~~These partnerships are providing 3 years of training for 200,000 new teachers in integrating technology into the classroom. In its 2001 budget the Administration has requested an additional $150 million for this program.~~[131132] providing training for teachers in integrat technology into the classroom

Standards and Accountability

Over the last decade, changes have taken place in America's public schools that go far beyond increasing the investments just described. Among the most important changes are new ways of improving ~~{??}~~ OK accountability for educational outcomes and of giving parents and students more choice in selecting a public school. (Do you want the charter school section folded into the standards section? As of now they are separate but this place seems to put them together)

One of the most important strategies at the State level today is standards-driven accountability. Initiatives that establish clear performance outcomes and systematically test student progress aim to help teachers and students focus their efforts on those areas needing the most work. Spurred in part by legislation passed in 1994 (the Improving America's Schools Act and the Goals 2000 **{is this the full name?}** Act), State after State has implemented standards for what students need to learn in school. ~~Since that time 29[133] [134] States have implemented standards for core academic subjects.~~[135] As of October 2000, 48 States and the District of Columbia had adopted such standards statewide, with the majority of states adopting standards ~~after~~ since 1994 The establishment of these standards has been followed by an increase in standards-based assessment. Forty-eight states and the District of Columbia now administer tests to assess student performance relative to these standards in reading and math, and 17[136] States do so for science and social studies as wel. Thirty-six states currently publish some form of report card for each school, measuring school performance against a number of indicators, including student assessments, ~~tests.~~[137]

Both the standards themselves and the assessments based on them have been controversial. Many argue that classroom instruction is now geared toward preparing students for the exams--that teachers are, in effect, "teaching to the test." B~~road-based tests of these sorts are relatively~~ new ~~in the United States, but not in other countries. Cross-country comparisons show a positive correlation between student achievement and the existence of standards and external assessments and suggest that the imposition of standards may increase learning {OK?}~~.[138] OK

However, When implemented correctly, such assessments can help improve the quality of the educational experience--and educational outcomes--in several ways. First, tests that are challenging and well constructed can help raise the expectations of students, teachers, and parents. These expectations ~~put pressure on~~ can motivate all parties to improve their performance. Second, by clearly outlining the material to be covered and the degree of mastery required, these measures of accountability may help teachers focus on what are generally agreed to be the most important topics. Finally, these tests provide parents, teachers, and students with information that highlights those areas in which students are less than fully prepared.[139]

The Federal Government has played an important role in the standards movement. Since 1994 it has devoted more than $2.6 billion to helping agencies in every State implement school reforms through the Goals 2000 Act. Even before that legislation was passed, the government supported the development of voluntary national standards that States could use as a basis for their own standards.[140] In addition, the 1994 Improving America's Schools Act tightened Title I accountability at the school and district levels by requiring States to hold students in Title I ~~students~~ schools to the same challenging standards as other students and to assess all students against these standards.

The Federal Government has also increased its efforts to track student progress, undertaking evaluations that help in assessing State-level reforms.[141] In recent years the Department of Education has expanded the National Assessment of Educational Progress program to track student performance in each State. Thanks to ~~this program~~ these assessments, a valuable set of baseline indicators which can help researchers and educational profession. evaluate the effectiveness of new policie the teaching methodolog now exists for measuring student progress. [see box 5-4] The Individuals with Disabilities Education Act Amendments of 1997 further require that children with disabilities be included in State and district-level assessment programs, so that the performance of these children will be measured as well.[142]

[Please indicate where this box should be referenced in text]

New box, see attached sheet

Box 5-4 Ensuring That Gains are Maintained

~~Effective teachers, adequate facilities, and well-constructed standards can help students learn more, but it is equally important to ensure that students retain what they have learned. Recent studies have found that, during vacations and breaks, some students lose some of the skills and knowledge they have acquired. One study showed that although children from low-income and children from high-income families achieved similar gains on standardized tests during the school year, the former fell behind during summer break, while the latter maintained~~

the same test scores or continued to improve. These differences suggest an important role for public schools in helping children from low-income families succeed. By providing enrichment programs over the summer and after school, our public schools can help poor children overcome some of the disadvantages they face at home and in their neighborhoods.

These after-school and summer learning programs can also be a boon for working parents. Not only do they provide peace of mind for parents who know their children are in a safe, enriching environment, but they also allow working parents to invest more in their jobs, benefiting their own careers and further helping their children.

Neighborhood school facilities represent a large capital investment for any community, and they are often not used to their full potential. Many schools sit empty when they could be serving as community centers,offering access to theI Internet and adult education classes, for example. This Administration has worked to help communities develop after-school activities through its 21st Century Community Learning Centers Program. Through this program, the number of communities offering after-school activities in their classrooms has expanded from only a handful to over 3,600.

Increasing Public School Choice

A persistent thread during the last decade of educational change has been the call for parental choice in their children's education. Allowing parents to choose among different public school models would likely benefit students as each is offered a ~~type of insl~~ model of instruc most closel suiting their needs b~~enefit both educators and parents as well as the children themselves~~. In responding to parental demand, educators would offer the most effective educational models and innovations. Parents would be able to choose the school that offers the best fit for their child's learning skills and interests.

Many States have responded to the demand for choice by allowing parents, teachers, and other interested parties to establish independent public schools chartered by State or local education agencies. These charter schools are given autonomy over their operations and are exempted from certain State and local regulations (although not from standards-based assessment) in exchange for strict public accountability and results. Charter schools have great potential as laboratories of educational innovation, allowing individual schools to explore ~~experiment with~~ a variety of educational methods ~~and student populations~~ while remaining publicly accountable.

The Administration has strongly supported the development of charter schools, having overseen the passage of the first charter school law in 1994 ~~1998~~ ~~19xx.~~ and signing the Charter School Expansion Act of 1998. [~~add date~~] In 1991 Minnesota became the first state to allow charter schools, and by the end of 1999, 36 states and the District of Columbia allowed ~~had opened~~ such schools. At the beginning of the 2000–01 school year, 2,069 charter schools were operating nationwide, up from just 34 at the start of the 1993–94 school year.

Although charter schools currently represent only 2 percent of all U.S. public schools,[143] their rapid growth has brought them a great deal of attention, especially in areas where a significant percentage of students now attend these schools. Charter schools tend to be about one-third the size of nearby conventional public schools. Most enroll students from the surrounding neighborhoods, so that students are often of the same race or the same ethnic background {??}. School districts with charter schools tend to have larger minority student populations than the average school district.[144]

Helping Students Make the Transition from Secondary School to College

Federal programs are also helping students make the transition from secondary schoolto college or work ~~and beyond~~. The Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) bring together middle schools with a high proportion of poor students together with local colleges and universities. These partnerships helped prepare more than 250,000 students for college in fiscal year 2000. The programs provide entire classes of students and their families with academic enrichment programs; information about choosing a college, applying for financial aid, and preparing for college entry; and in some cases will provide college scholarships. TRIO {~~spell out?~~} programs such as Upward Bound are currently offering services to help ~~help~~ 730,000 low-income, first-generation college and disabled students prepare for and succeed in college [~~annually?~~]. And after 6 years of receiving seed money from the Federal Government, all States have instituted local school-to-work programs to benefit secondary school students as they prepare for their working lives.[145]

(sorry, it really is just called TRIO)

Over the past 8 years, Federal assistance to Americans investing in their college education has also increased. Direct Pell grants haverisen from a maximum of $2,300 per student per year to $3,300. The HOPE Scholarship ~~Hope {Scholarship? is it not "HOPE"?}~~ and Lifetime Learning tax credits have also reduced the cost of education for American families. Fees and interest rates on student loans have been reduced, and restructuring the Federal student loan program has saved billions in taxpayer dollars.[146]

Innovation and Access in Health Care

next page

The American health care system today reflects the successes and the promise of the New Economy. Americans are healthier now than they were just 10 years ago. Between 1990 and 1998 life expectancy at birth rose approximately 1.3 years, and life expectancy at age 65 rose more than half a year.[147] The rate of chronic disability among the elderly declined by 1.3 percent **{percentage pts?}** annually between 1982 and 1994.[148] Medical innovations are in part responsible for these improvements, as well as factors such as improved nutrition and exercise. Yet health care continues to present challenges that demand an ongoing role for the government.

A stream of technological innovations has raised the quality of care and improved health outcomes. Innovative diagnostic tools and new treatments have improved the medical system's ability to treat many diseases. These innovations enable physicians to identify health problems more accurately and to offer treatments that are less invasive and promise better outcomes. One good example is the use of drug therapy to treat some conditions that formerly required surgery.

These improvements in treatment are expensive, however, and overall health care costs have risen as people demand more and better care. The pressures on rising expenditures are exacerbated by traditional fee-for-service insurance, which offers no incentives for patients or providers to limit their health care consumption. Managed care has evolved as an organizational innovation to control rising health care expenditures. It creates incentives for both patients and providers to make efficient health care consumption choices—to utilize treatments, especially costly technological innovations, only when they are medically necessary.

Replacement Text for Chapter 5:

<u>Introduction Insert #1 (add after first paragraph, delete the rest of the original introduction)</u>

The private sector has demonstrated great entrepreneurial dynamism and technological sophistication in bring us the New economy. But we need to recognize that for all their virtues, even in a New economy, private markets alone will not guarantee that all our national goals will be met. Private markets can create wealth, but they will not ensure that all citizens, even those able to find jobs, will have adequate incomes. Nor will private markets ensure that all citizens have access to quality education and healthcare. Similarly, while private markets can generate growth, they will not ensure that growth will reach all communities. Nor will purely private markets necessarily deal with the negative side effects of growth on the environment and urban congestion.

Many of our most difficult national challenges will require government intervention through policies that assist individuals and communities in danger of being left behind. In this chapter, therefore, we consider policy areas which have a major impact on the opportunities given to all Americans to create a better life for themselves and their children. In particular, we outline recent reforms in our welfare system, and policies designed to improve our educational system, expand health insurance coverage and ensure smart growth. In each case, we describe the considerable progress that has been made and present the tasks that remain to be accomplished.

While the New Economy may not automatically meet these challenges, the faster growth it has generate does make meeting them considerably easier. In addition, the innovations that have occurred in information technologies, organizational redesign and policy provide better tools with which to meet them. Accordingly, in each section of the chapter, we pay particular attention to the contributions such innovations have and can play in improving the quality of life for all Americans. For example, in the welfare system, new policies that make work pay have dramatically reduced the number of families receiving cash assistance while increasing the number employed. In education, schools have worked to implement higher standards for students and teachers and have brought aspects of the New economy into the classroom through the increased use of computers. In health care, innovations in medical technology and managerial practices have increased the quality of care and helped rein in costs. Finally, across our communities some are taking advantage of new techniques to combat problems of congestion and pollution and ensure smart growth practices. In this chapter we elaborate on these and similar policies than have helped grow our workforce, sustain strong economic growth, and improve the quality of life for all Americans.

Good News Insert #1

Many Americans lack health insurance coverage and access to adequate medical care.

Innovative policies have helped us share many of the gains of the New economy, reduce the number of individuals on welfare, and improve employment opportunities for all. But new policies may be needed to contend with future changes in the economy. A slowing of economic growth may be felt most severely by those who have most recently begun to share in its virtues. Those most recently employed may lose their jobs and accompanying benefits such as health insurance. State, local and Federal governments may feel pressure to cut back on investments in education if revenues decline. And localities currently willing to invest in smart growth policies may neglect these policies in times of fiscal tightness. Thus, continued improvements in the well-being of the American people depend on both sustained economic growth and active public policy. As America moves into the new millenium we must confront these issues.

Helping Families Insert #1

The New Economy is popularly characterized by new technologies, new methods of communication, and new avenues of trade. But it also brings innovative ways of providing for the least well-off Americans. Substantial changes have taken place in the organization of our welfare system and in the incentives it provides. These innovations, and in particular policies designed to increase the benefits of work, such as child care subsidizes, and increases in the earnings welfare recipients can keep, have changed the tenor of American social welfare policy. Public policy now emphasizes employment and investment in the skills of those who are less well-off. In doing so the Administration has helped low-income families leave welfare and enter the labor market thereby ensuring a more equitable distribution of gains from the New Economy.

Helping Families Insert #2

Our success in helping families leave welfare is tempered by the realization that many families are still dependent on public assistance. As time limits for TANF being to bind, we must focus on how to best help those who have been unable to secure employment. Furthermore, that many of those who have left the welfare rolls are no better off financially than they were while receiving benefits. Investments in job skills, a continued strong economy, and policies that ensure an acceptable wage can all help these individuals succeed in the labor force. Finally, when the economy does begin to slow, we must be prepared to help those who lose their jobs. If former welfare recipients are among the last hired, they may be among the first laid-off and run the risk of returning to public assistance. These challenges are not insurmountable but require the commitment of government and the help of the private sector to reach workable solutions.

Education Insert #1

As we seek to train young people to join the new economy, we must look for innovations in the provision of education that will increase the quality of the education that all experience. These innovations include a committed effort to reduce class size, investments in teachers aimed at increasing their effectiveness in the classroom, new higher standards for schools, the widespread adoption of computer technologies in classrooms, and new charter schools that provide parents with a choice with respect to their children's educations but retain public accountability.

Education Insert #2

The leadership provided by the Federal government and the funding made available to schools work to improve schools in a number of ways. Among the priorities of both teachers and administrators are reducing class size, hiring new teachers, providing training for both new and veteran teachers, modernizing schools, equiping schools with new technology and developing new standards and accountability.

Education Insert #3

In addition to the E-rate program, in 2000 the Federal government spent $766 million on education technology programs through Title III of the Elementary and Secondary School Act (ESEA). $425 million of this amount was provided through the Technology Literacy Challenge Fund. Schools also used portions of their Title I funding to invest in technology. These funds were used....

Education Insert #4 This decline indicates that the for well trained teachers is outstripping the supply and that continued increases in this demand will likely make it more difficult for schools to find qualified instructors. Ultimately the benefits of nationwide reductions in class size will depend on the ability of the profession to attract and retain greater numbers of talented teachers.

Education Insert #5 There are many excellent schools in the United States, however the quality of schools is not uniformly excellent. Because what students learn in schools is crucial in determining the options available to them after leaving school, and more broadly, to the productivity of our nation, we must provide *all* children with excellent opportunities to learn. We have therefore invested in a high quality public education system. While much of the financing for public schools comes from State and local governments, the Federal government has worked for a more equitable distribution of resources across schools, and to help states and localities provide high quality education.

Rewarding Effective Teachers

Traditionally, teacher salaries have been based on education levels, experience, and responsibilities. These systems leave little room to reward the most effective teachers. Recently some school districts and states have experimented with alternative performance based pay systems. These new methods of providing compensation to teachers may help improve the quality of instruction along several dimensions. First, by establishing specific criteria performance-based awards can help clarify and prioritize goals, thus providing better guidance for teachers. These rewards can also provide teachers with additional motivation to work to achieve these goals. And importantly, tying teacher compensation to performance may help attract and retain talented people to the teaching profession, if they know that their hard work and skills will be rewarded.

However, to be effective performance-based pay systems must be carefully designed. Because student achievement depends on many factors that teachers cannot control, such as family circumstances and previous education, fair performance-based incentive systems should reward teachers for gains in student achievement, rather than for absolute levels of student achievement. Furthermore, because student learning involves cooperative effort, incentives must be designed to create cooperative, and not competitive, environments among teachers. For example, team-spiritedness might be enhanced by basing **a portion of** the awards on school-wide achievement rather than the achievement of individual classes. Finally, the standards used to assess performance must be carefully constructed. Measures such as gains in student test scores, increases in attendance, and increases in graduation rates have all been employed.[i] [ii]

The design of these school-based performance awards systems varies widely across sites. In some cases awards are given directly to teachers, in other cases the rewards benefit entire schools. To provide a sense of the types of incentives used by districts we highlight two programs. In Charlotte-Mecklenburg, North Carolina awards were based on a broad array of student outcomes including subject mastery, drop-out rates, and absenteeism. Schools received points for meeting annual improvement goals and teachers in these schools benefited directly. In the highest performing schools (classified as "exemplary") certified staff members each received $1000. Certified staff in schools with slightly lower gains ("outstanding" schools) received $750. In contrast to the equal division of awards within schools in Charlotte-Mecklenburg program, the program implemented at the Vaughn charter school in Los Angeles results in awards that vary substantially across teachers. At Vaughn teachers are provided with the opportunity to receive cash bonuses in each semester for effective performance in a number of areas including the teaching of specific academic subjects and more general skills like classroom management and lesson planning. Performance is assessed through self-evaluations, peer review and reviews by administrators. For a veteran teacher, performance related awards can total up to $13,100 per year.

While little evidence is available on the effect of these programs on student outcomes, one study of a performance-based award program in Dallas, Texas does show positive effects on student achievement. Studies of the effect on teachers found that many school-based performance-based award systems helped improve cooperation among teachers but that programs varied in their effectiveness in increasing teacher motivation. Teachers in many programs also reported that they felt increased pressure at work and worked longer hours. The system at Vaughn has helped attract new recruits and many current teachers were pleased with the program. However, there are also some problems. One teacher complained that the peer review process with differing amounts paid to teachers, "pits teacher against teacher." These difficulties indicate that additional research and experimentation might be useful in attempting to develop optimal compensation strategies.

Ensuring Gains are Maintained

Effective teachers, adequate facilities, and well-constructed standards, can help students learn more, however, these investments are of little value unless students retain what they have learned. Numerous studies have demonstrated that knowledge and skills deteriorate while children are away from school, specifically during summer vacations. Drawing their conclusions from an analysis of many previous studies, one group of researchers found that children lost an average of one month's worth of learning over summer break.

Much of the federal government's role in educational policy has been aimed at helping children in low-income families receive a quality education, thus mitigating the effect of family income on schooling outcomes. Absent the effects of public schools, it appears that family characteristics play a larger role. Many studies have noted that the deterioration of skills associated with summer vacation was the largest for children in low-income families. These differences appear to be particularly large for reading: students from middle class families were found to have experienced a small gain in test scores over the summer while students from low-income families fell behind, creating a gap between the two groups in reading skills that is equal to approximately 3 months of schooling.

These differences suggest that public schools can do even more to help children from low-income families succeed. One possibility is to lengthen the school year. If students were to attend school year-round, there would be less opportunity for skills to depreciate. Alternatively summer enrichment programs targeting low-income communities can help poor children overcome some of the disadvantages they face at home and in their neighborhoods. In addition to changes in the school calendar, communities can offer after school enrichment programs.

Both after school and summer learning programs can also be a boon for working parents, particularly for lower-income parents who may have difficulty arranging alternative care for their children. Not only can such programs give parents peace of mind that their children are in a safe, enriching environment, but they can also allow working parents to invest in their jobs and gain important labor market skills that can further benefit their children through increases in familial income and exits from welfare.

The Administration has worked to assist local communities develop after school activities through its 21st Century Community Learning Centers Program begun in 2000. This program has funded more than 3600 after school and summer programs and the Administration has proposed significant increases in the program's budget for the 2001 fiscal year. Preliminary evaluations indicate that these programs have had beneficial impacts on the academic and social behaviors of participating children.

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[i] School-Based Performance Award Programs: Design and Administration Issues Synthesized from Eight Programs.

CHAPTER 5

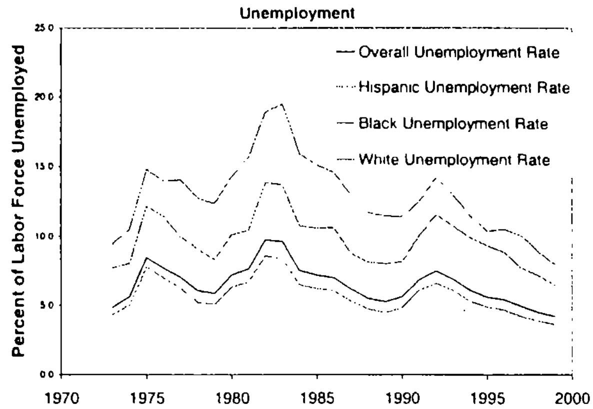
LIVING IN THE NEW ECONOMY

THE CLINTON ADMINISTRATION FIRST came to office on a platform of "Putting People First." And indeed that pledge has been met. While the phrase "the new economy" typically brings to mind technological innovation and globalization, arguably one of the most important outcomes has been the change in the well being of the American people. By virtually any measure, Americans are better off today than they were eight years ago. Furthermore, as we highlight in the chapter, many of these improvements have benefited those who have been among the hardest to reach. Yet despite the dramatic gains, there is still more to do. Through a combination of public policy and continued economic growth the country can build upon its recent successes and tackle the remaining problems.

Good News from the American Economy

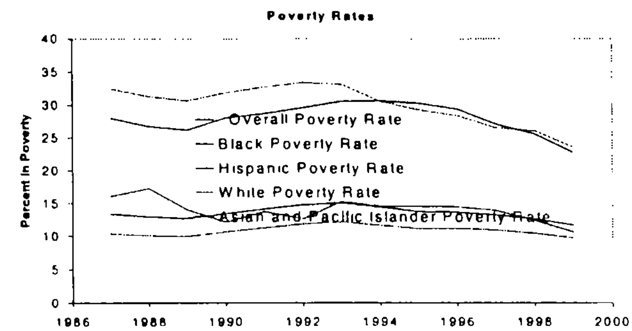
The record setting gains in the stock market and growth in the net worth of the wealthiest individuals have received much attention in the popular press. What is noteworthy about this economic expansion, however, is the breadth of its reach. The last few years in particular have brought tremendous gains to the poorest segments of our society.

• The gains in employment have been astounding. Since 1993, 22 million new jobs have been created and more Americans are employed than ever before. The unemployment rate has fallen to 3.9 percent, the lowest level since 1969 and black unemployment has reached 7.0 percent, the lowest level ever recorded.



At the same time, earnings increased substantially for African Americans. The earnings of full-time year-round black workers increased by $2,379 or 8.6 percent in just this past year, substantially closing the gap between the earnings of white and black males.

These gains in employment are echoed in growth in income and decreases in poverty. Median household income reached a new high of $40,800 in 1999, up 2.7 percent over the previous year, and 14.9 percent from 1993. Importantly, many of the most disadvantaged subgroups experienced the largest improvements. Median income for African American households increased by 7.7 percent in the past year and by 24 percent since 1993. The poverty rate for African Americans is now the lowest ever recorded. Female-headed households are another group that has often been left behind. This year, however, median income for female headed households increased by 4.8 percent for a total of 18.0 percent since 1993. For years poverty in central cities has seemed intractable, yet here too the situation is improving; residents of central cities experienced an above average increase in median income and the largest declines in poverty of any geographic area.



The strong economy coupled with Administration policies have lead to a long list of improvements in the quality of life for Americans. Low interest rates and a strong economy have helped more Americans than ever before afford a home. In the second quarter of 2000, 67.2 percent of American families owned a home up from 63.9 percent in the same quarter of 1993. Improvements in job opportunities, additional police officers, and tighter controls on guns have all contributed to a dramatic reduction in crime, with violent crime falling by 35 percent since 1993.

After years of decline, our public schools are improving. More young people are graduating from high school than ever before, and more are attending college. SAT math scores have reached their highest level in 30 years and verbal SAT scores have held steady despite an increasing number of non-native English speakers taking the exam.

Strides have also been made along the public health dimension. The number of teenage pregnancies has declined 14 percent since 1993, and smoking among teenagers declined for the first time in nearly a decade. The fraction of high school students who said they had smoked a cigarette in the preceding 30 days fell from 36.4 percent in 1997 to 34.8 percent in 1999. There is good news for both the youngest and oldest Americans. Infant mortality is down from 8.4 per thousand in 1993 to 7.2 in 1998. Deaths from heart disease, cancer, strokes and HIV are all down, and life expectancy is up. A child born in 1998 can expect to live nearly 76.7 years, up from 74.9 years just 10 years earlier.

While these statistics present a glowing picture of the new economy, more work remains to be done. Despite the tremendous recent gains, the incomes of minorities remain significant below those of whites and poverty is significantly higher. Infant mortality and life expectancy also differ substantially by race and ethnicity, as does access to a quality education. As the country moves into the new millennium, we must tackle these issues.

Helping Families Help Themselves

The new economy has been characterized by new technologies, new methods of communication, and new avenues of trade. However, it has also brought with it new ways of providing for the least well off Americans. With a strong economy and a policy of making work pay, more Americans than ever before are participating in the labor market, and the number on welfare has fallen dramatically. Low income families are receiving assistance in making the transition to independence through a network of social programs designed to help families bridge the gap from welfare to work. By placing the emphasis on helping working families, the administration has changed the tenor of social welfare policy.

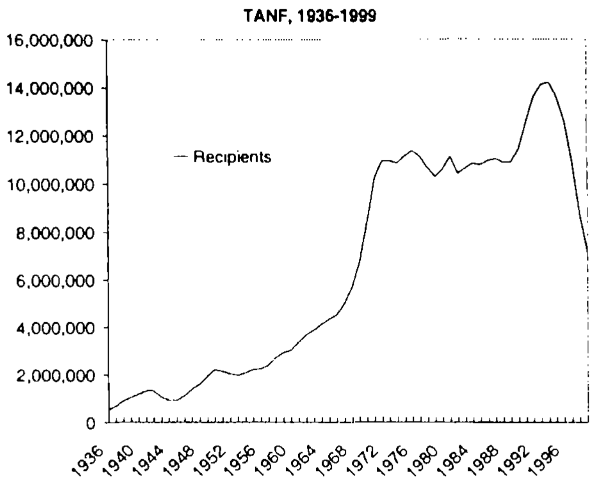
Welfare Reform

One of the most impressive achievements of the past eight years has been the reduction in the number of individuals receiving welfare. The administration began working towards welfare reform in 1993 by approving a number of waivers that allowed states to implement changes in their welfare programs on an experimental basis. As of August 1996, 43 states had implemented waiver programs and case loads had begun to fall.

These state level changes were followed by passage of the Personal Responsibility and Work Opportunity Act (PRWORA) in 1996. This Act dramatically changed the welfare system on a national level. It replaced the Aid to Families with Dependent Children (AFDC) program with a program of Temporary Assistance to Needy Families (TANF), established time limits on welfare receipt, and placed the emphasis on helping families leave welfare and enter the labor market. Families are aided in this transition through provisions that subsidize the earnings of low-income workers, offer assistance with child care, and ensure continued access to health insurance.

TANF differs from AFDC in several fundamental ways. Under the former AFDC program states set benefit levels, and received matching grants from the federal government to help with the cost of the program. In contrast, TANF provides states with block grants which they use to finance benefits and support other related programs. Under TANF states have much more flexibility in how the money is spent than they did under the former AFDC program. Second, the new system contains strict time limits and work requirements: Federal funds cannot be used to pay benefits to recipients who have received assistance for a lifetime total of five years, although states can exempt a small fraction of recipients from this requirement. Alternatively, states may set even shorter time limits. In 1999 38 states used the 60 month time limit. With respect to work requirements, TANF recipients must work in some capacity after two years of receiving benefits. Again states have a good deal of flexibility in implementing the rule and particularly in strengthening requirements. In 1999 28 states had welfare policies that imposed immediate work requirements in lieu of the two year limit. Finally, a third dimension in which TANF and AFDC differ significantly is the ability of states to design the parameters of the program to best suit their needs. While states always had the freedom to set benefit levels, TANF allows them to establish their own income disregards, income limits and asset tests. The majority of states have used this freedom to decrease the implicit tax on earnings. The AFDC program required reducing benefits dollar for dollar for any earnings above $90 per month if the individual had been enrolled in AFDC for one or more years. This "tax" creates a strong disincentive to work, as in many cases the AFDC participant could receive no increase in income from additional hours of work. Under TANF most states impose a more gradual benefit reduction rate to encourage greater workforce participation.

Following these changes, case loads have fallen dramatically. Since August of 1996 a total of 6 million individuals have left welfare. This represents a reduction of 49 percent



Looking back to 1993 to include the reductions that took place during the period of state waivers, the welfare caseloads fell by 7.8 million or 56 percent. Declines in some states have been even more dramatic. In Wisconsin, for example, the number of welfare cases fell by 70 percent between 1996 and 1999, and by 82 percent since 1993. **[Can anyone help us get estimated 2000 numbers before our deadline?]**

The 1996 reforms have undeniably been a success in reducing the number of individuals receiving welfare. However, reductions in case loads are not the only measure by which to judge the accomplishments of the policy. An important outcome is the well being of individuals once they leave the rolls. Because welfare reform was so recently implemented, little information exists about the outcomes of those who have left welfare. Much of what we know comes from studies conducted by a small set of individual states and counties, often including data from the state waiver experiments undertaken prior to PRWORA. This Report supplements this state-level information with new results from the 1996 panel of the Survey of Income and Program Participation (SIPP), providing some of the first evidence of the effect of welfare reform for a nationally representative sample. The majority of our results from SIPP are based on a sample of individuals who leave welfare and are observed for at least 12 months following the exit. Individuals are first observed in mos. of 1996 and survey data currently exists through the spring of 1998. We are therefore examining the experience of some of the early leavers after welfare reform, and are unlikely to observe the effect of binding time limits.

When considering the outcomes of the 7.8 million individuals who left welfare, one of the first issues that comes to mind is the incidence of recidivism—the number of individuals cycling on and off the rolls. Here again, the results are encouraging. Data from SIPP show that only 25 percent of the leavers in the sample return to welfare during the firsts 12 months after exit. The majority of those who do return do so quickly; 18 percent of those who exit return within the first 6 months of leaving while only 7 percent return during the second 6 month window. One would imagine that the probability of returning would continue to fall with the length of time off welfare.

A key component to successful exits from welfare is the ability to obtain a job and remain employed. Efforts to help individuals obtain jobs have tended to use one of two strategies. The first aims to get people employed as quickly as possible, assuming the work itself will teach the skills needed to remain in the labor force and eventually move to a better job. In this approach the focus is on maintaining some attachment to the labor force rather than on initial wages. The alternative approach uses more extensive training prior to entering the labor market. In this case labor market entry is delayed, but the initial job should be of higher quality. The first method is by far the most commonly employed, and initial evidence indicated that it was more successful.