CHAPTER 5

LIVING IN THE NEW ECONOMY

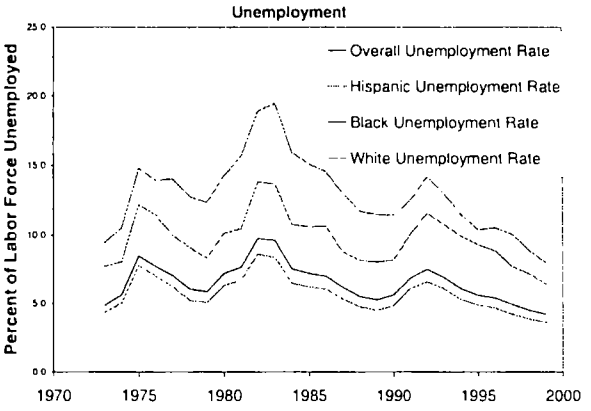
THE CLINTON ADMINISTRATION FIRST came to office on a platform of "Putting People First." And indeed that pledge has been met. While the phrase "the new economy" typically brings to mind technological innovation and globalization, arguably one of the most important outcomes has been the change in the 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

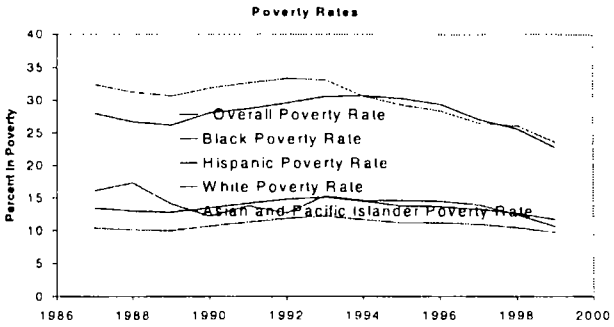
fallen to 3.9 percent, the lowest level since 1969 and black unemployment has reached 7.0 percent, the lowest level ever recorded.



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.

- Should mention the overall drop in poverty from 1993 - 1999 (15.1 → 11.8) ;)
Largest 6 yr. drop in many years
- also 1999 reports largest 1 yr drop in Child Poverty in more than 30 yrs. 18.9 → 16.9
22.7 → 16.9



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

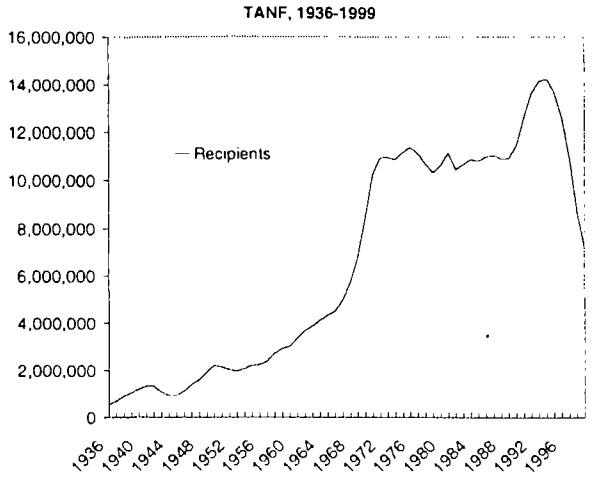
One of the most impressive achievements of the past eight years has been the reduction in the number of individuals receiving welfare. The administration began working towards welfare reform in 1993 by approving a number of waivers that allowed states to implement changes in their welfare programs on 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.

However, a new study comparing outcomes across counties in California finds that over the long term the results for the two methods appear to be similar.

Although the increases in employment were not as dramatic as the declines in case loads, the gains in labor force participation are still substantial. Data from studies of several different states show that approximately 55 percent of those leaving welfare were employed in any particular quarter in the year subsequent to leaving welfare. Of those who took a job, 40 percent remained employed for a year and 70 percent worked during at least one quarter in the first year off welfare. On a national level, the outcomes are equally encouraging. Data from SIPP show that of those observed for 12 months after leaving welfare, 66 percent were employed at some point and 62 percent of this group (41 percent of the total) had earnings in all four quarters of the year. A large fraction of workers not only have earnings in all four quarters, but were in effect, continuously employed, and many of these were employed full-time. Thirty-two percent of welfare-leavers worked 50 weeks or more during the year, and 40 percent of this group worked 35 or more hours in every week.

Importantly, the rates of employment increased even among those who remained on welfare. In 1999, 33 percent of welfare recipients were working, compared to just 7 percent in 1992. The development of an attachment to the labor market for those currently on welfare bodes well for future exits for these individuals. In both groups of workers, the importance of the new economy should not be understated: The longer the economic expansion continues, the more job skills former and current welfare recipients will accumulate, and the better prepared they will be to weather an economic downturn.

There is a concern that welfare recipients who get jobs are likely to lose them soon after. In the sample of SIPP leavers who were working at some point during the 12 months following exit, 48 percent did leave a job during that period. However, when examining reasons for leaving a job, the most common explanation was "left for new job" reported by 22 percent of respondents.

In addition to employment status, success after welfare can be gauged by the amount of earnings, and the potential for earnings growth. For the sample of SIPP leavers, median monthly household income plus food stamps for the year following exit was $1,401, compared to a statistically equivalent $1,468 in the two months preceding exit. For 44 percent of leavers, the total household income plus food stamp in the post-exit year was more than $50 higher than in the months before leaving, while for 49 percent it was at least $50 lower. One would not expect many of these new entrants to the labor market to have jobs that pay a very high wage, or even a wage that provides income above the poverty line. In fact, when looking only at earning and not household income, 48 percent of leavers who had any earnings at all had earnings below the poverty line in each of the 12 months following exit. When other sources of income are taken into account, however, this fraction with household income below the poverty line in every month falls to 29 percent. It is important to recognize that credits from the Earned Income Tax program (discussed in detail below) are not included in these calculations. While benefits from the EITC are not recorded in the SIPP data, the program provides a substantial subsidy to the earnings of low-income workers and would likely change incomes and poverty rates considerably.

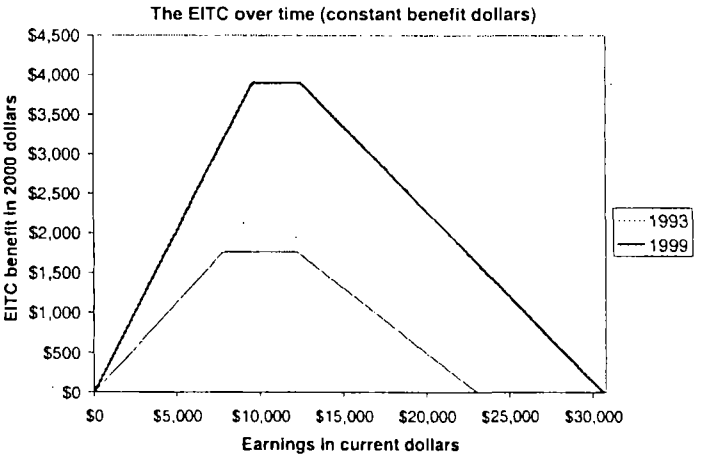
More important to assessing the potential success of the employment relationship is the extent to which earnings grow over time. Comparing outcomes over just the first 12 months after exit, 39 percent of leavers had monthly earnings in the second 6 months that were $50 or more higher than in the first 6 months. Only 28 percent had a $50 or greater reduction in earnings over the two 6 month periods. Thus, a large fraction of former welfare recipients find jobs that provide earnings growth through increases in hours or wages or both.

Making Work Pay

The transition from welfare to work is facilitated by a network of government support programs available to working families. In the past, families that left welfare often lost not only their cash assistance, but also faced other implicit taxes on their incomes through the loss of in-kind benefits, such as food stamps and Medicaid, and additional expenses incurred by working, such as the cost of child care and transportation. One study estimates that the implicit marginal tax rates—the decrease in the amount of government transfers for resulting from a one dollar increase in income--for AFDC recipients could range as high as 109 percent with the highest rates faced by those near the poverty line. In other words, earning one dollar more in the labor market would reduce benefits by $1.09 and total income by $0.09. PRWORA has attempted to reduce these "taxes" by expanding health insurance coverage to include many working families, increasing child care tax credits, and increasing the rewards from work through minimum wage policies and increases in the Earned Income Tax Credit (EITC). These programs also benefit low income working families who were not on welfare. By reaching out to this often neglected

group and providing financial assistance, help with affordable child care and health insurance, the administration has worked to ensure that no group is left behind.

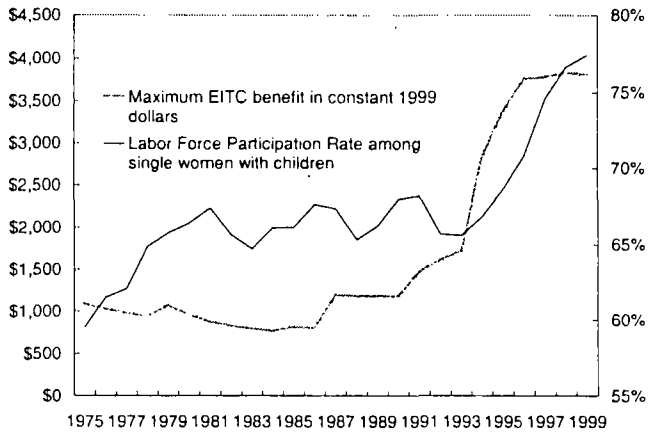
EITC: The EITC is one of the most successful programs targeted at low wage workers and is currently the largest cash transfer program in the country. Operating through the income tax system, the EITC provides a wage subsidy to low income workers with the amount of the subsidy depending on earned income and number of children. By increasing the wage rate the EITC creates stronger incentives for individuals to participate in the labor force. For a families with two or more children, wages are subsidized by 40 cents for every dollar of earned income until earned income reaches $9,540 (in 1999) for a maximum credit of $3,816. This tax credit is refundable so that even families who pay little or no tax can benefit fully from the program. Rather than eliminating the credit when earnings surpass this level, the credit remains at $9,540 for a period and then gradually reduced, phasing out completely at earned income of $30,565. This gradual reduction reduces the disincentive to work past the level at which the credit peaks.



The EITC has been expanded greatly since 1993 with increases in both benefits and in the scope of coverage. The 1993 expansions increased benefits for all eligible families, and particularly for those with two or more children. The expansion also allowed workers without

children to claim a tax credit. As a result of these expansions, benefits paid through the EITC program increased from $18 billion in 1993 to nearly $32 billion in 1999, and the number of families receiving assistance from the program increased by one-third, from 15 million to nearly 20 million.

The wage subsidy has been effective in attracting more workers to the labor market. One study in particular estimated that the EITC alone was responsible for 34 percent of the increase in annual employment of single mothers over the period 1992 to 1996.

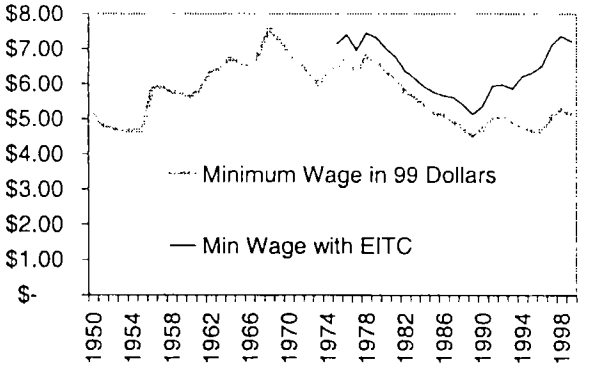


The EITC program also plays an important role in reducing the implicit marginal tax rate faced by those exiting welfare.

In addition to increasing the probability of employment, the EITC has done much to improve the well being of those who take advantage of the program. While the discussion above pointed out the difficulty former welfare recipients have in securing jobs that pay above poverty level wages, when the EITC is taken into account the earnings of many of these new workers increase substantially. In 1999, the EITC lifted 4.1 million individuals, including 2.3 million children, out of poverty. The program has also been effective in targeting benefits to the most

needy. Estimates are that over 60 percent of EITC benefits accrue to families who have pre-EITC incomes below the poverty line.

Minimum wage: Operating in tandem with the EITC is the minimum wage. Although the EITC provides a wage subsidy, the minimum wage laws ensure that the subsidy is based on a fair wage. The real value of the minimum wage fell in the early 1990s hitting just 61 percent of its 1968 value in 1995. Subsequent Administration-backed efforts led to increases in the minimum wage in 1996 and 1997 [edit later: and additional increase of one dollar passed just this fall.] With this most recent increase, the minimum wage reaches 68 percent [edit later] of its 1968 level.



However, when combined with a possible 40 percent EITC subsidy, the true minimum wage for low income workers is $7.21, a figure nearly as high as the peak minimum wage rates in the 1960s.

Child care: For many parents, one of the most difficult aspects of employment is affording [quality ~~adequate~~] child care. For low income families and new entrants to the labor market, the costs associated with child care sometimes make work impossible. In recognizing the cost of child care as barrier to work, PRWORA sought to increase the affordability of child care for low

income families and to provide for more families. In doing so it combined various child care assistance programs already in existence to create the Child Care and Development Fund (CCDF) and substantially increased the funding. The CCDF provides states with block grants to subsidize approved child care arrangements. In 1999 states had access to a total of over $8 billion to use to improve and quality and affordability of child care. Unfortunately, despite the generous funding, the majority of states have waiting lists for benefits and many who qualify for the subsidies do not receive benefits. Estimates are that only 10 percent of eligible children are receiving benefits. According to one study, only 30 percent of families who left welfare and are now working as also receiving assistance with child care. [edit later: Proposal for $1 billion more in funding] However, despite the shortages, the number of children benefiting is large. In fiscal year 1998, an average of 1.5 million children received CCDF assistance in each month.

Although common sense and economic theory suggest that these subsidies will increase the probability that parents participate in the labor force, little evidence of the labor force participation effects of the program is available. This difficulty exits because most experiments of the effect of child care subsidies have also included other support programs such as health insurance and assistance obtaining employment and the effects of the different programs cannot be disentangled. An important issue along these lines is the extent that the subsidies allow parents who could not otherwise obtain care afford to do so. It is possible that by subsidizing child care the CCDF program crowds-out, or replaces, unpaid care. A mother who may have used a grandparent as a caregiver might choose a paid provider when she is offered a subsidy. If this is the case than the change in labor market participation as a result of the program will be small.

It is also unclear how the CCDF program affects the quality of care. If paid care replaces unpaid care, are children better off? Alternatively with a reduction in price, do parents demand higher quality care? The theoretical predictions are unclear. However, it is worth noting that the CCDF subsidies can be used only to purchase care from approved providers. In this sense it might improve the overall quality of care if parents substitute away from unlicensed providers.

Food stamp program: The food stamp program supplements family incomes to ensure that low income families receive adequate nutrition. Benefits are available to families with incomes up to 130 percent of the poverty line. The vast majority of benefits, 90 percent in 1999, go to families with children or elderly individuals. In 1999, 32 percent of benefits went to working families. Over the past few years, enrollment in the food stamp program has fallen dramatically from a high of 27.5 million participants in 1994 to 18.2 million in 1999. This decline is notable even among families with children. Only 51 percent of children in families with incomes below the poverty line received food stamps in 1999. Even among the very poorest---children in families with incomes below 50 percent of the poverty line---only 58 percent received food stamps in 1999, a decrease of 47 percent since 1993.

This decline would be good news if families were becoming self-sufficient and did not need government assistance. However, there is a concern that many eligible families are not receiving benefits that they need. In particular, it is hard to imagine that those with incomes below 50 percent of the poverty line have sufficient resources that food stamps would not be a valued supplement. The decline in food stamps may connected to the decline in welfare

participation. When families leave the welfare rolls they may believe that they are no longer eligible for food stamps, or alternatively they may not be informed of their eligibility by state welfare agencies. Newly working families may also find it difficult to retain benefits if they must miss work to be re-certified or if they have difficulty filling out the forms required to report changes in income. While a good deal of anecdotal evidence exists about the importance of various explanations for the decline in participation, we know of no study that has quantitatively assessed the validity or importance of these explanations. However, based on the sample of leavers in the SIPP data there does appear to be a sudden drop in the use of food stamps. Sixty-eight percent of those who exited welfare were receiving food stamp benefits while on the TANF rolls, compared to just 44 percent in the month immediately after exit. However, perhaps surprisingly, a similar decline is observed for those who leave welfare in the 1993 SIPP panel, well before the implementation of welfare reform. This comparison suggests that the drop in food stamp participation is not due to the institutional changes enacted by PROWRA.

Despite the drop in food stamp participation, there has been a sharp decline in food insecurity and hunger among Americans. Results from a recent survey found that the fraction of households in which someone went hungry fell to its lowest level ever recorded, 2.8 percent of the population--24 percent below the level in 1995 when the survey began. There is, however, a cautionary note: food insecurity (defined as being uncertain of having adequate food) for those with incomes between 50 and 130 percent of the poverty line actually rose. Furthermore, approximately one-third of those households with incomes below 130 percent of the poverty line—the income limit for food stamp eligibility--experienced food insecurity at some point, and over 10 percent experienced hunger. The figures are even larger for households with children.

Health Insurance Expansions: In the past, welfare participants who were successful in obtaining a job and exiting welfare typically lost their Medicaid coverage. This loss is likely to be costly and provides a strong incentive to remain on welfare. One of the important features of PRWORA was the expansion of Medicaid coverage and the creation of the State Children's Health Insurance Program (SCHIP), both of which provide health insurance coverage for children in low income working families. Because of the importance of these programs, they are discussed later in the chapter.

Reaching out to Underserved Communities

Providing opportunity and independence for American families, often requires more than a strong national economy and responsible welfare policy. In some areas poverty is so entrenched and the local economy so weak that programs specifically targeting these regions are needed. Some of the most intractable poverty in the country has been found in central cities. In 1967 when statistics for central cities were first recorded, the poverty rate for these areas was 15.0 percent compared to a nationwide rate of 14.2 percent. By this measure then, central cities were nearly as well off as the rest of the country. In contrast, poverty in non-metropolitan areas in 1967 was over 20 percent. Since that time, there has been a substantial shift in the incidence of poverty, with a worsening of conditions in the central cities, and an improvement in non-metropolitan areas. By 1993, the percent of central city residents living in poverty had reached 21.5 percent, its highest level ever, while the poverty rate in non-metropolitan areas declined somewhat to 17.2 percent.

Several factors are offered as explanations for the plight of central cities. The first is that central cities have social and demographic characteristics that make their populations particularly susceptible to poverty: The population of central cities is more likely to be illiterate, have low job skills, live in female headed households, and have little education, than the population of non-central cities. Secondly, residents of central cities often lack the social connections to help them find the jobs necessary to escape from poverty. These factors are associated with high levels of poverty regardless of area of residence and current policies to make work pay, discourage out of wedlock child-bearing, and improve schools in poor neighborhoods, are addressing these issues.

What appears to distinguish the situation in central cities from that in other areas are the limited job opportunities. Recent research has shown that the majority of job creation is taking place in suburbs rather than in inner cities. One study compared the number of low-skilled jobs in central cities and surrounding suburbs, with the number of low-schooled workers in each area, for four different cities. It found that the fraction of new job openings in the central cities and in the suburbs matched well with the fraction of people living in each area, but that once skill differences were taken into account, there was a spatial mismatch: the vast majority of new low-skilled jobs were concentrated in the suburbs, while the majority of low-skilled workers were in the central cities. Estimates from one study based on a small sample of cities found nearly 3 times as many new jobs per low-skilled worker in suburban areas than in central cities. For African Americans the situation is especially severe. Only 4 percent of low-skilled jobs were African American areas in central cities while 67 percent of low-skilled African Americans lived

in these areas as did 42 percent of impoverished female-headed households. Furthermore, a recent HUD study found that between 1992 and 1997 not only was job growth was slower in the cities than in the suburbs, but that the job mix in cities is shifting toward high-tech jobs that are unavailable to low-skilled workers.

The difficulty central city residents face in finding employment is further heightened by transportation problems. Low-income workers, and welfare recipients in particular are unlikely to own cars. They must therefore rely on public transportation to commute to jobs. The suburbs are not well served by public transportation. The same study found that nearly half of low-skilled jobs in the suburbs were not accessible by public transportation. Furthermore, a reverse-commute, if possible at all, is extremely time consuming. While some cities and employers have chosen to provide transportation from the inner city to jobs in the suburbs, a more permanent solution is likely to be found in rebuilding the economies of central cities.

The administration has taken on this challenge and has developed a package of programs designed to improve the economic opportunities in distressed communities. The three main components of this package are the New Markets Initiative, Empowerment Zones (EZs) and Enterprise Communities (ECs), and the Community Development Financial Institutions Fund (CDFI fund). These programs provide an alternative means to helping American families. While TANF, food stamps, and other parts of the social safety net provide direct and often immediate assistance to needy families, these community redevelopment programs work towards longer term solutions to poverty and unemployment by assisting in the rebirth of distressed communities. The benefits from such programs, like the benefits from some employment based

programs, take time to be realized. Despite the long term nature of expected gains, preliminary evidence from some of the earliest programs finds is just starting to be assessed. This evidence points to **[HUD can you help us get the early results on this?]**

Community Redevelopment Programs

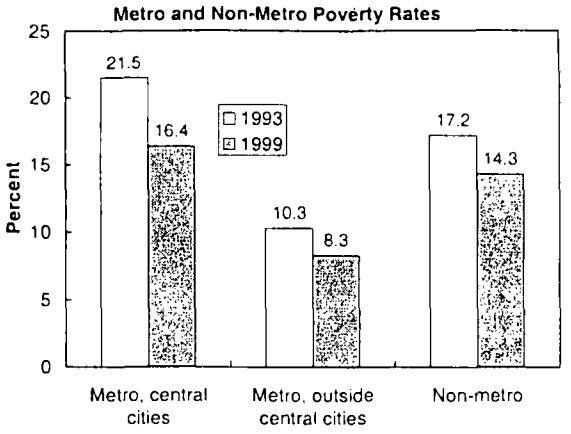
The administration's community development policies aim to assist distressed communities by encouraging investments from the private sector. These programs provide incentives such as tax credits and improving access to credit markets. At the foundation of this policy are empowerment zones and enterprise communities, typically referred to as EZs and ECs. In 1994, when these programs began, 105 cities were designated as EZs or ECs. The EZ and EC programs give communities substantial flexibility in developing new initiatives under the belief that problems can best be assessed and solved on a local level. The federal government helps by providing tax benefits and technical assistance to businesses expanding or locating new facilities in the target zones. It also provides grants to the communities themselves to support activities such as job training programs, day care centers, and community technology centers. Finally EZs and ECs can apply for waivers from federal regulations to help address specific economic problems.

The Community Development Financial Institutions Fund (CDFI) is similarly designed to encourage the development of new private markets in distressed communities. The CDFI does so by expanding the amount of capital available in these areas. CDFIs include community development banks, credit unions, venture capital funds and business loan funds. These

institutions provide credit and other banking serves to a diverse set of clients including home buyers and small business.

Much of the New Markets Initiative is still before Congress [edit later]. However, an important component of the Initiative is the New Markets Tax Credit. This program offers a 25 percent tax credit designed to stimulate investments in distressed communities. It is anticipated that a wide variety of businesses will benefit from the program including retail stores, shopping centers, and small technology firms.

Through the combination of policies addressing both the long term and short term needs of the urban population, the quality of life for those living in central cities has improved dramatically. The unemployment rate in central cities has fallen from 8.2 percent in 1993 (July) to 4.8 percent in 1999 (July). This increase in employment has brought with it a reduction in poverty and an increase in median income. The poverty rate in central cities declined from 21.5 percent in 1993 to 16.4 percent in 1999, with the largest drop, a decline of 2.1 percentage points, coming in the past year. In fact, 80 percent of the total reduction in poverty from 1998 to 1999 was due to the reduction in central cities.



Median household income in central cities has also increased, rising 5 percent from 1998 to 1999 compared to a 2.1 percent increase for median incomes in metropolitan areas as a whole. For African Americans the gains were particularly striking. Median income for African American households in central cities increased by 13.9 percent in the one year period. Along with these economic gains has come a decline in the number of individuals on welfare. Case loads in central cities have declined by 40.6 percent from 1994 to 1999.

Despite these dramatic improvements, there is more to do. Poverty rates and unemployment are higher in central cities than elsewhere. In 1999 the national poverty rate was 11.8 percent compared to 16.4 percent in central cities. Furthermore, although dramatic, the 40.6 percent reduction in welfare was substantially smaller than the 51.5 percent decline nationwide. And there continues to be a mismatch between the skills of the urban work force and the demands of urban jobs. The administration's New Markets Initiative, EC/EZs and the CDFI fund provide hope for a fundamental change in the plight of inner cities, but these initiatives must be backed with other programs that focus on the future. As our new economy demands a more highly trained work force we must invest in our schools, where sufficient jobs cannot be brought

to the inner cities we must provide transportation systems to move workers to jobs, and finally, we must continue to support policies that make work pay.

Education in the New Economy

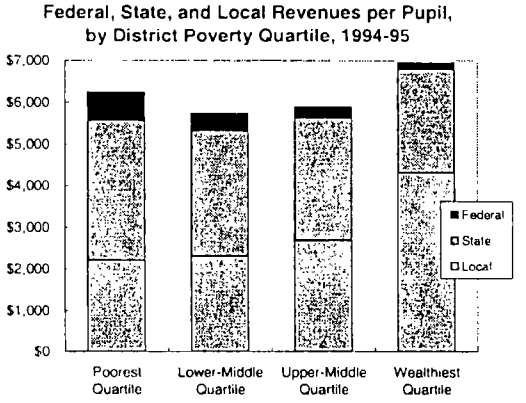
The rapidly expanding economy that has permitted these improvements in the well being of Americans is based in large part on information and technology growth. Continued growth therefore depends critically on a well-trained work force. The 2000 Economic Report focused on the demand for educated workers and the increasing economic returns to education. This year we examine America's public schools, noting recent changes in the ways in we educate our children and how we might best improve the quality of schooling we offer our children.

A Role for Federal Education Policy

In the United States, responsibility for elementary and secondary education has traditionally been left to the states and to local school districts. As a result, our public education system is extremely decentralized, and the federal role is limited. Given the structure, the federal government can best help local school districts by strategically targeting funds to where they will be most effective and by supporting and publicizing promising initiatives developed at the local level. In particular, the federal government has sought to improve access to education for the nation's poorest children and to help states improve the overall quality of their public schools. While economic incentives ought to induce parents to invest optimally in the education of their

children, many poor families and communities lack the economic resources to do so. In these cases federal funds can play an important role.

Excluding school-based nutrition programs, the Federal government provides just over 6 percent of the funding for K-12 education. However, these funds are primarily targeted to new programs and to schools and school districts serving poorer students and can therefore have a larger impact than their magnitudes would suggest. While federal spending in the poorest schools does reduce the inequalities across districts it does not fully compensate for funding disparities related to local property tax bases and state funding for schools.



The largest single federal program for kindergarten through 12th grade (K-12) education is Title I, which allocates funds based on child poverty rates. The targeting of Title I funding towards schools serving poorer children increased significant with the passage of the 1994 Elementary and Secondary Education Act. In the 1997-98 academic year, 96 percent of schools in the highest-poverty quartile received federal Title I funds, up from 79 percent in 1993-94. This quartile of schools contained 49 percent of the nation's poor children in 1997-98, and received 43 percent of all federal funds for K-12 education. These redistributional aspects of

Title I funding are typically significantly larger than any redistributional efforts on the state level.

There are many components to a quality education. While certainly parents, family, and communities play a crucial role, the discussion here is limited to features of the educational system more directly under the control of federal, state and local governments. We highlight in particular those aspects which current research suggests are most important and which are the subject of recently policy initiates. The analysis discusses the effect of class size on learning, teacher quality, the infrastructure of schools and equipment, and curriculum changes.

Reducing class size

Over the past decade, mounting evidence has shown that reducing class size can improve academic achievement, especially for students from disadvantaged backgrounds. Teachers in smaller classes can spend more time on individual instruction and review, and spend less time on student discipline and routine administrative tasks. Teachers of small classes may know their students better, interact with them more frequently and individually, and provide more frequent and in-depth feedback.

The effects of smaller class sizes appear to be significant and long lasting. A recent study of an experiment on class size in Tennessee found that students who were enrolled in smaller classes in kindergarten through grade 3 did better than students who were not in smaller classes

even after returning to larger-sized classrooms in later grades. These students also did better on their SAT and ACT exams, and were more likely to take such college-entrance exams than students who never had the benefit of a small class. The results were especially strong for minority students—being in a small class in elementary school narrowed the difference in black/white probability of taking a college entrance exam in high school by 54 percent.

While the majority of research has concluded that students do better in smaller classes, reducing class sizes is expensive. Fully funding reductions in class size nationwide to 18 students per class would cost more than 5 billion dollars per year. Yet given the relationship between test scores and future earnings, the economic benefits of reducing class sizes will exceed these costs even if they lead to improvements of only 0.1 of a standard deviation in standardized test scores. Alternatively this $5 billion could be spent on other improvements such as raising teacher salaries, renovating schools, lengthening the school year or upgrading textbooks and materials.

Paying for the needed reductions in class size is hampered by the current distribution of students and resources. A disproportionate share of the cost of class size reductions would be borne by schools serving poor students, since these schools currently have larger classes than more wealthy schools. Furthermore, there is little room at the state level for a reallocation of funds to assist poor schools. The majority of the inequality across school districts is attributable to differences in resources at the state level. Such cross-state differences can be best addressed through federal programs. In 1998, the administration proposed a seven-year Class Size Reduction Initiative to reduce class sizes nationwide to 18 students per class. In its first year, the program spent a total of $1.2 billion. These funds enabled school districts to hire 29,000 new

teachers, reducing class sizes from an average of 23 students per class to an average of 18 students per class for 1.7 million children. In its second year, the program spent $1.3 billion.

The need for well-qualified teachers

Reducing class sizes requires an increase in the number of teachers. This increase in demand is in addition to an already predicted surge in the number of teachers needed over the next decade. Between July of 2000 and July of 2008, the population aged 5-17 will increase by more than a million, while about three-quarters of a million teachers are expected to retire. Other teachers will leave the field of teaching for other occupations. Ignoring the effects of class size, the United States will need approximately 2 million new teachers over the next 8 years. Currently most occupations are seeing much sharper increases in starting salaries than the teaching profession, leading to an increase in the gap in starting salaries for new teachers those for other occupations also requiring a college degree. This trend will make it difficult to find qualified applicants for the millions of new positions becoming available.

One would expect the learning experience of a child to depend substantially on the quality of the classroom teacher. With sudden increases in the demand for teachers due to reductions in class size, it is difficult to maintain a consistently high level of quality in all classrooms. In 1996 California began a massive class-size reduction program, spending $1.5 billion per year with the goal of reducing class sizes statewide from an average of 28 students per class to a maximum of 20. By the 1998-99 school year, over 92 percent of California's students were in classes of 20 students or fewer. However, in grades K-3, where the class size reduction

program was targeted, the percentage of teachers who were fully credentialed fell from 98 percent in the 1995-96 school year to 87 percent in the 1998-99 school year. This fall in the credentials of teachers was even greater in schools with the largest proportions of low-income children. Success of nationwide reductions in class size thus depend on the ability to attract and retain qualified teachers.

Box 5 Teacher Compensation

Changes in teacher compensation are a possible way to attract more highly motivated and skilled teachers to the profession, improving academic performance. The level of teacher pay is often cited as a problem in recruiting and retaining highly qualified teachers. In theory, higher pay will increase the pool of applicants for teaching positions, especially among the highly skilled and motivated, resulting in better teachers. However, simply raising teacher pay will also encourage lower skilled teachers already employed to stay in teaching positions.

Researchers have also examined proposals for altering the structure of teacher pay, such as paying teachers based on effort and skill, as measured by student performance. Performance based pay would mean a significant departure from the traditional teacher pay systems, which base teacher pay on uniform schedules, providing higher pay for higher education, experience, and extra responsibilities. Under traditional pay systems, pay scales are based on objective criteria, and teachers with identical education levels, experience, and workloads receive the same pay. While this does eliminate potential disparities based on administrator's subjective criteria,

it does not reward exceptional teachers—even with the same education and experience levels, different teachers are likely to have different results. In theory, providing compensation tied to the performance of the teachers or their students will spur teachers to higher performance, and attract people who feel that they are likely to benefit from such a system to the teaching profession. Performance awards would also provide clearer guidance to teachers who have been operating with unclear or multiple competing goals. Developing and implementing a school-based incentive pay system may complement the standards movement—since educational objectives are being more clearly defined and progress towards them is being more clearly assessed, linking pay performance is much more feasible than it used to be.

Yet, such performance-based pay systems for teachers must be very carefully designed. Student learning in a school involves the cooperative effort of many people. Incentives must be designed to create cooperative, not competitive, environments between teachers within a school. Educational achievement is also based on factors over which teachers have little or no control—such as family circumstances and previous education. Thus, incentive systems must reward teachers for the progress of students during the period they teach them, rather than absolute achievement levels. Incentives may also too narrowly focus attention on a few easily measurable indicators of educational achievement, when what is really desired is broader progress in many areas, some very difficult to measure. Yet another issue is whether incentive pay is effective at all, as it may undermine intrinsic motivations that effectively motivate teachers now.

The Need for New Schools

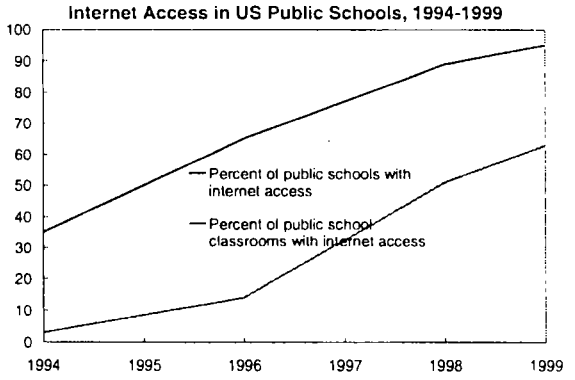
All students need safe, healthy, and modern places to learn. Communities across the country are struggling to address urgent safety and facility needs. The average public school was built or most recently renovated 40 years ago, and schools with more minority or poor students are more likely to be housed in older buildings. Many such older buildings require extensive upgrades of their electrical systems in order to install computers, upgrades made even more expensive by the widespread presence of asbestos in their walls.

Increasing enrollments will put further pressure on aging educational facilities as will reductions in class size. The Department of Education estimates that $127 billion is needed to bring American's schools in good overall condition. Already, 39 percent of public schools in the U.S. contain temporary additions, one-fifth of which are in less than adequate condition. Schools with more minority students and schools with more poor students—the very schools whose students would benefit most from reduced class sizes—are more likely than other public schools to have temporary buildings. Their temporary buildings are also most likely to be in less than adequate condition. To help address these problems, the current federal budget includes $25 billion in school modernization bonds and $6.5 billion in loans and grants for urgent school renovation to modernize 6,000 schools and make emergency repairs to another 25,000 over the next five years.

New Educational Technology and Internet Access

As workplaces require more computer literacy from their workers, schools must prepare their students to enter the labor force with increasing familiarity with these technologies. Internet access can also be a tremendous resource in classrooms, giving students new incentives for learning and communicating, and connecting them to the resources of libraries, museums, and educational materials from around the world.

Between 1994 and 1999, tremendous strides were made in connecting public schools to the internet. The number of public schools with some connection to the internet nearly tripled between 1994 and 1999—by 1999, 95 percent of public schools had some connection to the internet and 98 percent of public secondary schools were connected. The increases in internet connectivity were even sharper for classroom connections: increasing from 3 percent of public school classrooms in 1994 to 63 percent in 1999.



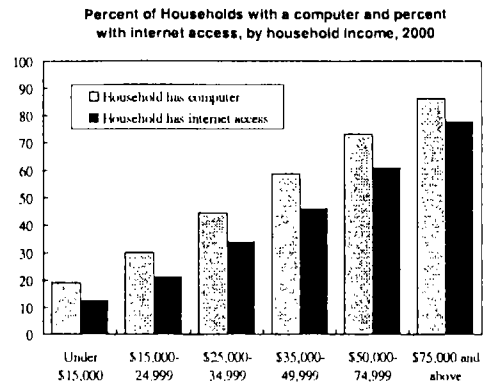
For computers to improve the quality of instruction teachers must know how to use the machines and how to integrate their usage into classroom instruction. Approximately one-half of the public school teachers with computers or internet access in their schools report using these resources for classroom instruction. Teachers who have received more professional development

in using computers and the internet, younger teachers, and teachers in schools with fewer poor students were more likely to report using computers and the internet. Only one-third of teachers with access to computers and the internet said that they felt well or very well prepared to use computers and the internet and only one-fifth felt very well prepared to integrate educational technology into the classroom. Clearly, more investment in teacher preparation is needed.

The Federal government has helped local school districts make the transition to the digital age. Through its e-rate program, the Federal government has spent $5.3 billion as of September 2000 to connect school and library computers to each other and to the internet. These funds have been targeted to poor students: Schools with 75 percent or more of their students receiving free school lunch receive approximately ten times as much funding per student from the program as schools with the smallest percentage of poor students. Most of the funds have gone to establishing within-building connections between computers.

Schools are 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 and computer knowledge and access is becoming increasingly important for success in today's society. Currently more than one-half of all US households have computers, and more than two-fifths have internet access in their own homes. However, internet access is not spread evenly among Americans. Its use varies greatly with income and education--people in households earning more than $75,000 per year are almost 4 times as likely to use the internet as people in households earning less than $15,000 per year.

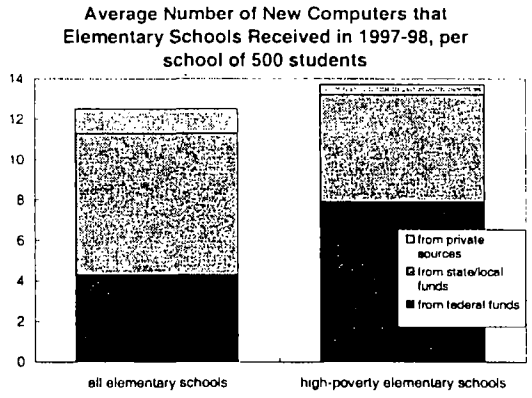


Adults with college degrees are nearly 6 times as likely to use the internet as adults who have not completed high school. There are also large differences by race. African Americans and Hispanics are substantially less likely than white and Asian Americans to use the internet. While some of this difference is due to differences in income and education, a recent study finds that approximately one-half of the difference in access is unexplained by these factors. As the level of technological literacy required by employers rises, there is an increased risk that individuals from disadvantaged groups who already face obstacles in the workplace will fall even further behind.

There is, however, good news along this front. African American, Hispanic, and lower-income Americans are connecting to the internet at faster rates than whites, Asians, or wealthier Americans. The most notable changes are occurring among school aged children, suggesting that the widespread availability of computers in the classroom is playing a role. Across all income and demographic groups, children aged 9-17 are more likely to use the internet than are older Americans. 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 higher income households. Between 1998 and 2000, the gap in internet usage between black and white children decreased by 9 percent,

although the gap in internet usage between Hispanic and white children grew by 9 percent. The gap between internet usage among children from households earning less than $35,000 per year and children from more wealthy households was unchanged.

Other federal programs also helped schools purchase new educational technology. In 1997-98, the most recent year for which such data is available, the federal government spent $688 million on increased access to technology in schools. These funds were used primarily for the purchase of computers and for professional development in using new technology. During the 1997-98 school year, federal funds paid for one quarter of new computers in schools. Federal funds were especially important in the acquisition of technology in high poverty schools, accounting for nearly 60 percent of funds for new computers in high-poverty elementary schools.



Institutional Change

Large investments in education are taking place—in hiring new teachers, in educational technology, in connecting schools nationwide to the internet, and in professional development for teachers. Yet the changes in American public schools which have happened over the past

decade go far beyond increasing these investments. Dramatic changes are also taking place in the way that school resources are used. Organizational change has become a permanent part of the educational environment. The nature of change has moved from top-down mandates to site-based innovation and system restructuring including new ideas like schools as learning communities, the importance of professional development for teachers, and the central role of meaningful parental involvement. In the last decade, four major system level strategies for delivering education have emerged: standards-based accountability, whole-school reform, market strategies, and shared decision-making. Each represents an attempt to address differing interests from a wide range of stake-holders including children, parents, teachers, school administrators, and legislators.

The dominant state-level strategy today is standards-driven accountability. It is hoped that establishing clear performance outcomes and systematically testing student progress, will stimulate teachers and students stimulated to focus their efforts in the right direction. Despite the popular appeal of standards and the widespread efforts to implement it, many observers are reserving judgment on its ability to generate widespread change. State after state has implemented standards for what all students need to learn in school. These standards have been followed by an increase in standards-based assessment, giving policymakers, parents, and students themselves more information for decision making.

Forty-nine states now have adopted statewide standards for what students should be studying in English, mathematics, science, and history and the social studies—thirty of the state implemented these standards after 1994. Forty-eight states have adopted state tests to assess

student performance against these standards in reading and math—seventeen also assess student performance against science and social studies standards. Thirty-six publish some form of report card for each school, measuring school performance against a number of indicators, including assessment tests.

By implementing challenging tests with consequences that are enforced, schools can raise the expectations—and the motivation levels—of students, teachers, and parents. For many years, opinion surveys have shown that Americans believe our nation's schools are doing poorly—but that their own local schools are doing far better than the average. Experts warn that parents may not realize when their own children are falling behind. Standards-based assessments can give parents, teachers and other local decision-makers with objective information about how well students are learning—not only in comparison to other students in the same school, but to students at other schools as well. Furthermore, evidence suggests those countries and regions with standards and external assessments of student achievement have historically done better on comparison tests of student achievement.

The Federal Government has played an important role in spurring the standards movement by providing funds for developing voluntary national standards granting more than $1 billion to help state and local education agencies in every state implement school reforms through the 1994 Goals 2000 Act. In addition, the Elementary and Secondary Education Act (ESEA) tied state standards implementation to continued receipt of Title 1 funds for poor schools. The legislation required that standards used in schools receiving Title I funds are the same standards used in schools not receiving Title I. This meant that states had to implement

standards for all schools, or risk losing millions of dollars in Title I funds. The Federal government has also increased its assessment of American students' progress, better enabling us to evaluate these state-level reforms. In recent years, the Department of Education has expanded the National Assessment of Educational Progress (NAEP) to track student performance in each state. From the NAEP, we now have a tremendously valuable set of baseline indicators for 1990-1996 against which we will be able to measure student progress this decade and in future. This will help us evaluate student performance across states with widely differing state tests.

Along with implementing standards, schools and teachers have also made progress in developing and refining curricula. Over the past decade, educational researchers have formed a consensus on how best to teach reading to young children, ending the unproductive "reading wars". This consensus was summarized in the National Reading Panel's recent "Teaching Children to Read," and in the National Research Council's "Preventing Reading Difficulties in Young Children." These reports stress the importance of explicit instruction in the building blocks of written language (phonics), within the context of a broader educational program that interests children in reading for a variety of purposes and gives them ample opportunities to practice their reading skills.

Giving Schools the freedom to innovate

A persistent thread in the last decade of educational change has been the call for parental choice. Critics have argued that public schools have little incentive to improve, because they have a near-monopoly on schooling. Allowing parents to choose among alternatives would

create a marketplace for education in which competition for per-pupil funds would force schools to improve.

Many states have answered these critics by allowing parents, teachers, or other interested parties to establish independent schools chartered by state or local education agencies. These charters give schools autonomy over their operations, and exempt them from certain state and local regulations (although not from standards-based assessment). Beginning with Minnesota in 1991, the number of states allowing such charter schools swelled to 36 states and the District of Columbia by the end of 1999. **[Could the Dept of Ed or anyone help use get more current numbers on schools and enrollments?]** By the beginning of the 1999-2000 school year, there were 1,605 charter schools in operation nationwide, and the number of such schools was growing by more than 40 percent per year.

Although charter schools represented less than 1 percent of all US public schools in 1999-2000, their rapid growth has made them the recipients of a great deal of attention, especially in areas where a significant percentage of students now attend these schools. Charter schools tend to be about a third the size of nearby public schools. Most enroll students of similar race and ethnic backgrounds as the students in their surrounding districts, although school districts with charter schools tend to have larger minority student populations than the national average. Most reported that they became charter schools to "realize an alternative vision of schooling." Nearly 90 percent reported that their students' achievement and their finances were monitored by their chartering agencies.

Charter schools have great potential as laboratories of educational innovation, allowing individual schools to experiment with a variety of different educational methods and student populations. It is hoped that successful charter school innovations will eventually spread back to the broader public education community.

Innovation and Access in Health Care

Another important aspect of any individual's well being is his health status. The quality medical care available in the United States is the best in the world, and recent medical innovations have further enhanced the quality of care. In addition to the benefits of a longer and healthier life accruing to individuals, improved health can also feed back to help the economy by reducing the number of sick days for employees and improving productivity. In this section we will illustrate a few of the more recent medical innovations, and discuss issues relating to access to health care.

Innovation

The past decade has seen dramatic innovations in medical care and treatment of individual conditions, and on a broader scale, in the relationship between patients and the medical system as a whole. A number of biomedical, pharmaceutical, and information technology advances have led to significant changes in the methods of treating people and in the health outcomes of individuals with those conditions. Health statistics reflect the impact of these advances. The treatment of heart attacks provides a powerful example of the role of innovation in

improving health outcomes. Clinical trials of alternative acute heart attack management techniques have led to major changes in the treatment of heart attacks, and these changes directly accounted for approximately 55% of the decline in heart attack mortality between 1975 and 1995.

Not only are people living longer, but they are doing so with a lower incidence of disease and a higher quality of life. For example the rate of functional impairment has decreased. For the elderly there has been a significant decline is functional disability over the last xxx period and 24-41% of this decline has been attributable to innovations in medical care.

The health care industry has spawned dramatic technical changes in the last few decades. The number of new drugs that have been approved has increased rapidly: from 1995 to 1998, an average of 37.5 new drugs were approved each year, an increase of nearly 50 percent over the average rate of approval between 1989 and 1994, and a 65 percent increase over the period from 1985 to 1989. New biomedical knowledge has led to treatments for conditions that medicine could not previously address, to less invasive procedures, and to more accurate diagnostic techniques.

A few examples illustrate the benefits of these changes: More than four million Americans have Alzheimer's disease, the most common form of dementia. For centuries, people had to accept the progressive loss of intellectual and social abilities as an inevitable process for those afflicted. However, in 1976 a specific neurotransmitter was found to be associated with the incidence of Alzheimer's disease. Since that time there has made substantial progress in the

treatment of Alzheimer's disease with many of the gains coming in the last 5 years. New drugs such as donepezil, introduced in 1996, are now widely available, and act to temporarily enhance cognitive functioning and delay disease progression. This development has brought new hope to many Alzheimer's elderly and their families. The value of such treatment is great; and potential savings generated from reduced formal or informal care-giving services, and delayed or avoided institutionalization can be as large as $63,000 annually per patient. A potential cure for Alzheimer's disease may be within reach as scientists identify the genes associated with Alzheimer's disease.

Cataract surgery provides another example. In the 1960s, cataract surgery required a large incision and, therefore, postoperative hospitalization for as long as a week. The invention of phacoemulsification, a process that breaks the cataract into tiny pieces that can be extracted by a small incision, has now made cataract treatment a ten-minute outpatient procedure. In addition, the change from eyeglasses, to contact lens, to inserted optic lenses (IOL) on operated eyes has greatly enhanced patients' post-operative vision. This advancement resulted in not only a better treatment, but the simplification of the process means that cataract surgery is performed by more physicians and is available to people who would previously have gone untreated. The increase in the number of cataract surgeries is substantial; among residents of one county studied in Minnesota, the rate of cataract extraction for individuals over 65 increased by four times from 1980 to 1994.

Not only were there important innovations in the treatment of diseases, but there were also significant improvements in the ability to diagnose disorders. The recent development of

Functional Magnetic Resonance Imaging (FMRI) provides an example of such a diagnostic advance. FMRI is an extension of MRI, which was developed in the late 1970s and widely diffused in the U.S during the 1990s. MRI, like CT-scans and X-rays, enables the observation of internal anatomical detail. However, FMRI improves significantly on these older diagnostic tools in that it does not use potentially harmful radiation and provides better resolution and greater contrast between normal and abnormal tissues. FMRI enables observation of entirely new internal processes. For example, physicians can obtain information about the functioning of the central nervous system, such as subtle increases of blood flow associated with activation of parts of the brain. The newer generation of MRI can detect chemical concentrations, and metabolic and water interaction; all of which can aid brain mapping and biochemical change mapping caused by different diseases. However, MRI, and FMRI are expensive improvements: MRI costs XX times as much as CT.

These examples provide specific illustrations of the value of recent medical innovations. A number of other critical advances have been made. For example, doctors can now transfer organs including hearts, lungs, livers and kidneys, none of which were possible a few decades ago, and the use of immonosuppresants has greatly increased the success of grafts. Modern telecommunication devices and speech recognition programs have been applied to compensate people with visual, hearing, and physical impairments, improving the quality of life of many people.

Pharmaceutical Innovation and Costs

While medical advances open the doors for new and improved treatments, they also contribute significantly to the increases in health care costs. Pharmaceutical innovations illustrate this phenomenon. The rate of pharmaceutical innovations has been accelerating: the number of new drugs introduced per year increased from 23 in 1990 to 53 in 1996, and an estimated 100 new drugs in 1998. These new drugs improve existing drug therapies or provide entirely new options for treating conditions. A few examples of the benefits of drug advances are new immunosuppressive agents that increase graft survival, and cholesterol reducing drugs that reduce the risk of heart attack. However, the accelerating innovation rates have been accompanied by an accelerating cost of drugs: spending on prescription drugs increased at an annual rate of 12 percent between 1993 and 1998, far faster than the 5 percent increase in overall health expenditures.

This growth in spending is due to a number of factors. One of these is that these new drugs are replacing cheaper older drugs. New drugs are priced two to four times higher than old drugs within the same disease subcategory. This higher cost of new drugs accounts for about 40 percent of the increase in drug costs. A second factor is that new drugs have very high utilization rates, and thus even without a price increase, they push medical spending higher. This accounts for about 40 percent of increased drug spending. Higher prices for existing drugs accounts for about 20 percent of the increase in the drug spending.

Because drugs provide improved health benefits while at the same time escalating costs, an important issue is how to evaluate whether those extra costs are better spent on drugs or other alternatives. Medical researchers attempt to estimate the cost effectiveness of a drug by measuring the benefits in terms of quality adjusted life years (QALY), which capture the gains from both longer life and quality of life. By comparing the cost per QALY of alternative treatments, the treatments can be ranked by their cost effectiveness. One study reviewed 228 cost-utility analyses and found that median cost per QALY was $11,000. While there is no standard threshold for cost effectiveness, $50,000 to $100,000 has often been used as a benchmark in the U.S.

However, cost-effectiveness does not mean cost saving. It appears that pharmaceutical innovations have concentrated on new and more expensive remedies, whether or not they are cost-effective. This continues to put pressure on health care costs, and thus on health insurance, pushing access to the benefits of pharmaceuticals out of the reach of some. Thus, the health care system must develop a greater understanding of how to create incentives that will spur cost-saving innovations, making improved health more affordable for all.

The challenge of improving health insurance coverage

As noted, the health care system in the United States is capable of providing the highest quality health care in the world. However, that health care can also be very expensive, particularly treatments for non-routine health care. Even routine health care costs are beyond the means of some people. Thus, there is a strong need for health insurance to allow people to benefit from this high quality health care.

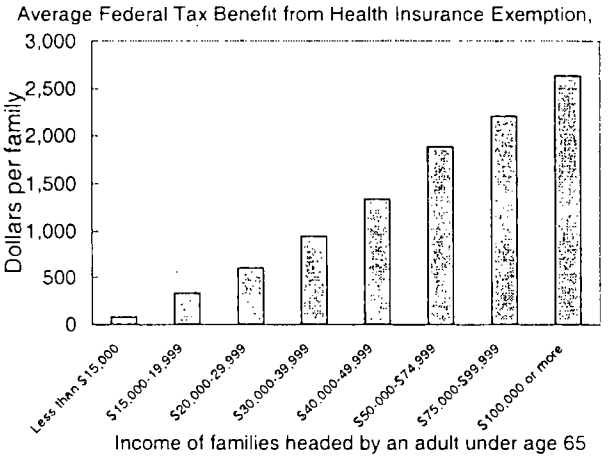
The health insurance system and its coverage

The American health insurance system relies primarily on employer-provided health insurance--about 63 percent of all Americans (74 percent of all insured people) are covered by an employer-based program. One reason for the dominance of employer-based group insurance is that the Federal tax code favors employer-based insurance. Insurance premiums paid by firms on behalf of employees are not included in the employees' taxable income, and employees' shares of health insurance premiums can be made with pre-tax dollars in firms with flexible spending plans. Because equivalent subsidies do not exist for employees who obtain insurance outside of work, this system encourages employer-sponsored plans.

There are several valuable aspects of this system. One benefit is that it encourages substantive risk pooling among a firm's employees, making insurance affordable and available for employees of all risk categories. In addition, firms can hire benefits administrators, who can evaluate different health insurance policies and act on behalf of the employees to ensure quality plans are offered to workers and that quality is periodically monitored. Firms can also take advantage of economies of scale to lower the insurance company's administrative costs, and thereby obtain lower prices.

Unfortunately, this system also possesses some inherent weaknesses. One problem is that the tax-preferred treatment of health insurance provides little benefit to low-income people who are most in need of assistance in making health insurance affordable; households with incomes

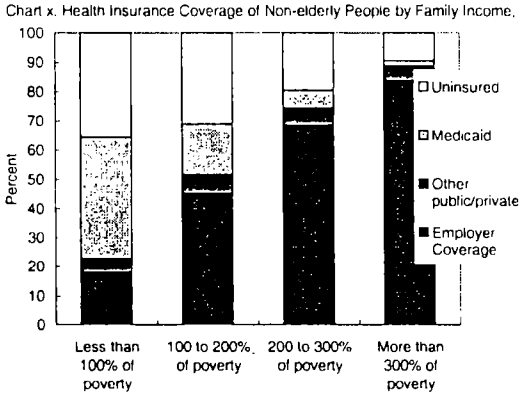
low enough to have no tax liability receive no tax subsidy (See chart). In addition, those who do not obtain health insurance through their employer must find an alternative health insurance source. This includes not only the unemployed and the self-employed, but also people whose employers either cannot afford, or choose not to offer health insurance, and those who, even though offered health insurance, are unable to enroll because their share of the premium is more than they can afford.



People without employer-provided health insurance and who do not qualify for publicly-funded programs must enter the individual insurance market if they want coverage. This market can present problems that limit affordable access. Some insurers may chose not to cover people with existing health problems, or sell policies that omit those problems from coverage. Insurers may also charge different premiums based on an individual's perceived risk; for example, older people may have to pay significantly higher premiums because they are more likely to experience health problems. In some cases, these premiums can be unaffordable. In addition, the cost of administering individual policies leads to higher administrative costs.

Publicly provided health insurance programs—Medicare, Medicaid, and SCHIP—provide an important source of coverage for many people. Created in 1965, Medicare and

Medicaid provide health insurance for elderly and low-income Americans. Over 36 million individuals received medical insurance through Medicare in 1998. Medicaid offers federal assistance to States that provide medical care to low-income Americans. Historically, eligibility for Medicaid was linked to eligibility for cash welfare. Beginning in the late 1980s, Medicaid has shifted toward a more general health insurance program that includes low-income working people. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act, particularly, allowed Medicaid coverage to low-income families. Medicaid served over 41 million people in 1998. In 1997, the federal government created the State Children's Health Insurance Program (SCHIP) to target the growing number of uninsured children in families that have too much income to be eligible for Medicaid but too little to afford private insurance. SCHIP provides states with funding to provide health insurance through Medicaid, a non-Medicaid program, or a combination of both.



This combination of employer-provided, individually purchased and publicly provided health insurance results in 42.6 million people without coverage. Not surprisingly, health insurance coverage is significantly related to income and employment characteristics. In families with income below the poverty line, 43 percent of adults did not have health insurance. In contrast, in families with income greater than 300 percent of poverty, only 9 percent of adults are uninsured. Fifty-six percent of uninsured non-elderly people are in families with incomes below

200 percent of poverty. The source of coverage also varies with income. More than 80 percent of families with incomes over 300 percent of poverty receive health care coverage through an employer. For families below the poverty line, meanwhile, Medicaid is the source of coverage for about X% of all families. Employees of small businesses (less than 100 employees) are also less likely to have insurance: one-fourth of small business employees are uninsured, compared to one-eighth of the employees in firms with 100 or more workers. This may be because small businesses are unable to take advantage of risk pooling as effectively as larger businesses. Part-time employees are much less likely to have coverage—32 percent of households with only part-time workers are covered. This decline is due in part to firms' restricting eligibility to exclude many part-time and temporary workers from health insurance coverage.

There are also significant differences in health insurance coverage across different racial and ethnic groups. Approximately 12 percent of non-Hispanic whites, 22 percent of blacks, 35 percent of Hispanics, and 21 percent of Asians and Pacific Islanders were uninsured in 1998.

Issues in health insurance reform

The need for health insurance reform is apparent from the large number of uninsured people. However, any proposal for reforming the health insurance system must address some specific challenges, including the possibilities of crowding out current health insurance, exacerbating adverse selection and difficulties encouraging participation by the uninsured.

"Crowding out" occurs when a policy that is designed to extend coverage to those currently uninsured cause some people who currently have insurance to switch to some other form of insurance. Another form of crowding out is when a policy causes an employer to stop offering coverage (or reduce its contribution) and thus forcing its employees to take advantage of the new government insurance or tax subsidy. When crowding out occurs, government dollars go not just to newly insured; some fraction of the money goes to those who had coverage and are now switching to a newly subsidized plan. If the new subsidy provides a much higher benefit than the value of the tax exclusion, then crowding out can be severe and the cost to the government of each net newly insured person can be pushed up substantially. Moreover, some employees may lose coverage and be unable to find replacement coverage, resulting in a smaller net increase in coverage, or possibly even a net decrease.

Studies of the Medicaid child eligibility expansions of the late 1980s and first half of the 1990s found that about 10 to 20 percent of the increase in Medicaid coverage was due to a reduction in private insurance coverage. Most of these studies examined Medicaid expansions that did not contain anti-crowd-out provisions. Because Medicaid covers mostly low-income people who are less likely to have private insurance, crowding out might be expected to be modest. The amount of crowding out will likely increase as eligibility for subsidies is extended up the income scale.

A second issue that any policy must consider is the risk of adverse selection. Adverse selection occurs when relatively low-risk individuals believe they do not benefit from the risk pooling provided by insurance, and therefore leave the risk pool. As these healthier people with

lower health care costs leave the original pool, the average cost per person remaining in the pool will increase. When the costs and therefore the premiums for insurance begin to climb, still more people will elect not to purchase health insurance and there can be a spiral of rising premiums and declining enrollments. This could lead to prohibitively high premiums for those still desiring to purchase health-care insurance. Adverse selection can affect both the group and the non-group markets. The existing tax subsidy for employment-based group health insurance encourages healthy workers to remain in the group pool, because the subsidy for individually purchased insurance is smaller. If an alternative policy makes individual insurance more attractive, healthy people may decline employer-based coverage for individual coverage priced to suit them, leading to adverse selection in the group pool. In response to restrictions on individual rating, healthy people may also leave the individual market and not carry any health insurance, leading to adverse selection in the individual market. Even if young, healthy individuals find low-premium policies that reflect their lower risk rather than choosing to drop insurance altogether, higher risk people might still face prohibitively high premiums because the market becomes segmented into different risk pools.

Studies of insurance choices by employees offered multiple health insurance plans have shown that adverse selection occurs in the health insurance market. One study of government employees found that premiums for plans with more generous benefit levels increased much faster than premiums for plans with lower benefit levels, and found that this change was due to the worsening health status of the people selecting the generous benefit plan. A study of a second example where employees were offered a choice of several plans observed that healthy

employees were less likely to choose the more generous benefit plan, and that the premium for the most generous plan became so expensive that the employer dropped it from the options.

A final consideration in designing any policy to extend health insurance is encouraging participation by the targeted group. For example, a policy with a modest co-payment may be implemented to prevent over-utilization by the insured. However, for individuals at low-income levels, even such modest costs may dramatically decrease enrollment and utilization. This may especially affect families without health-insurance problems, who could risk remaining uninsured to pay for more pressing needs such as food and housing. In addition, a complex application process designed to determine eligibility may have the unintended side effect of dramatically reducing coverage for otherwise qualified individuals. A subsidy that is received only after expenses have been paid may also deter individuals who do not have the funds to pay the insurance premiums up front.

Meeting the challenge of covering more people

The Administration has taken steps to extend coverage to more people. Particularly noteworthy successes have been the expanded eligibility for Medicaid, and the creation of the SCHIP. In addition, the Health Insurance Portability and Accountability Act of 1996 limits exclusions for pre-existing conditions in employer health insurance plans and for people converting to individual insurance. The Administration's Family Care proposal would enable more low and moderate income families to be covered by extending publicly provided insurance to the parents of children covered by SCHIP.

Although much has been done to ensure access to health care for millions of individuals, a number of challenges lie ahead. Prescription drugs have become a significant health care expenditure for many, particularly for the elderly. Helping individuals afford needed prescription medications is a priority. We must also contend with the growing elderly population and the forecasted increase in the need for long-term care. And finally, we must continue to work towards providing access to the health care system for the millions of Americans who remain uninsured.

Building Livable Communities

As the new economy presents greater options and opportunities for Americans, it also poses critical challenges for ensuring the sustained livability of our developing communities. Throughout much of the 20th century the population has shifted from central cities to suburbs and this trend has accelerated in the last decade. From 1990 to 1999 the suburban population grew by nearly 19 percent, compared to population growth of only 6 percent for central cities. This rate of increase is striking, relative to the rates of growth during the 1980s: 19 percent in the cities and only 6 percent in the suburbs. However, the new economy has witnessed a change in the pattern of job location as well. Inner cities are no longer the source of the majority of job growth. Rather, new jobs and new industries are springing up on the fringes of cities, often in "technology parks" or "research corridors." In 1997 57 percent of metropolitan-area jobs were located in suburbs, up from 55 percent in 1992.

These new "edge cities" have the potential to offer the best of both worlds to American families: the amenities and quality of life people seek from the suburbs, and the availability of jobs formerly associated with the central city. However, there are also drawbacks to this trend, and a satisfactory outcome requires that communities invest now in developing plans to channel this growth along avenues that ensure that the attractive aspects of the area are not spoiled by rapid growth. With this new growth comes the need to balance economic considerations with their social and environmental consequences.

Economic Forces Driving Suburbanization

Economists have noted the positive relationship between the density of economic activity and a region's productivity. In the past, many of the gains from agglomeration were due to access to natural resources and means of transportation. In contrast, the agglomeration economies of today are often based on a clustering of firms in the same industry that gain from the sharing of ideas, consumers, and specialized pools of skilled workers. Familiar examples include the mutual funds cluster in Boston, the oil and gas cluster in Houston, and the computer and related electronics cluster in Silicon Valley. **[Add evidence.]** Often freer from traditional ties to specific locations, new economy firms are able to choose from a wider array of potential business sites.

The outcome of their choices has led to a further distinction from past periods of industrialization. With current development occurring on the outskirts of cities, rather than in the central cities themselves, development is consuming land at a rate twice that of population

growth. An average of 2.3 million acres of land is being consumed annually, and a significant share of this is residential development on lots of one acre or more in fringe suburbs or smaller cities. Such growth is commonly known as "urban sprawl."

Sprawl, defined as dispersed development beyond metro centers, often stretches along established highways and throughout rural areas. Identified by low-density residential and commercial settlements, sprawl often requires reliance on automobiles for transportation, including long-distance commutes. Powers over land-use and transportation are often fragmented among different local and regional governments, resulting in little coordinated influence on land use decisions. Often sprawling communities are divided by great fiscal disparities and distinctly zoned land uses.

Several economic explanations exist for this form of suburbanization. First, for many of these young, growing firms, urban areas may exhibit diseconomies that offset any benefits associated with the central city. The building stock in most central cities is old, and it may be costly to upgrade existing facilities to current technological standards. Rents in revitalized or redeveloped urban areas may be too expensive for new firms to afford to locate there. Similarly, existing building codes may make new construction prohibitively expensive, and in many cases it may be more cost effective to "start from scratch" in a new area. **[Does HUD or anyone else have good data on this?]** The drawbacks of urbanization may also accrue to potential employees. Firms in the new edge cities may be more attractive to workers seeking to live near work and yet avoid the congestion and pollution of an urban area. Finally, by locating near similar firms, firms can generate new externalities and benefit from shared resources. In the

most well-known examples, firms in Silicon Valley, California; Cambridge, Massachusetts; and the Research Triangle of North Carolina benefit from access to pools of specialized high-tech labor.

Challenges of new growth.

The rapid economic growth of technology centers in edge cities and suburban areas provides benefits to local communities in terms of jobs and tax revenues. For example, between 1995 and 1999 sales tax revenues in the city of San Jose increased by 40 percent. However, if left unchecked this growth can also bring significant costs. Many suburban communities are becoming increasingly congested and in danger of losing the very attributes that made them attractive places to live and work. Increasing population strains existing public resources like schools and parks. Affordable housing is moving farther away from available jobs, increasing average commuting distances. The resulting traffic problems, worsened by limited public transportation, make commuting difficult and time-consuming and increase the demand for new road construction. Car ownership and the availability of public transportation can help; however, the problems of spatial mismatch persist.

The effects of rapid growth affect the environmental quality of these regions, as evidenced in their water quality, air quality, and land use patterns. Increases in paved surfaces, including roads, buildings, and parking lots, can contribute to a deterioration of water quality as well as to an overall loss of greenspace. This loss of greenspace leads to a less effective natural drainage, poorer water quality, and a dramatic increase in the potential for flooding in some

areas. For example, residents along California's Russian River have witnessed their fourth major flood in three consecutive years. Hydrologists attribute such events in part to urbanization's effects on stream flow: downstream runoff into streams and rivers increases as impervious surfaces from development increase. **[EPA or others, can you share further specifics or statistics, perhaps on a national level?]** Increased traffic not only affects commuting and quality of life, but also ambient air quality, as emissions can lead to elevated levels of ozone and particulate matter. While national air quality trends have improved over the last 10 years, as of September 1999, 121 metropolitan areas still did not meet the national standards for air pollutants. This pollution in turn affects the health of residents, especially those in sensitive segments of the population. For example, incidence of pediatric asthma, aggravated by particulate matter, SO_2, and ozone, has increased 55 percent between 1982 and 1996.

Economic Dimensions and Solutions

One of the difficulties with ensuring appropriate development is that the costs and benefits of the development are typically borne by different entities; decisions benefiting private individuals may have adverse public effects, but these social costs are unlikely to be weighed by private decision makers. For example, individuals may prefer homes on large private lots, distant from both city centers and major highways. However, these homes require new roads, more driving, and the installation of public utilities. If a large number of individuals chose to live in such homes, the negative externalities that the decision generates – increased traffic, air pollution, and impervious surfaces – can outweigh the benefits each individual receives. The

results of such decisions are evident in many areas of the country, and are particularly vivid in Atlanta Georgia, despite planning efforts to remedy them.

Atlanta, Georgia: Challenges to Smart Growth

Ranked by some as the nation's most sprawl-threatened large city, Atlanta continues to expand at a phenomenal pace. From 1980 to 1998 Atlanta's population grew almost 68 percent, with almost all of this growth occurring beyond the city limits. According to some studies, the Atlanta metropolitan area loses 500 acres of greenspace, forest, and farmland each week. This means that greenspace is disappearing to development faster than in any metropolitan area in history, and the city is suffering its consequences: water quality of the Chattahoochee River and Lake Allatoona is deteriorating, and air quality is in violation of clean air standards. Traffic congestion costs from lost time and wasted fuel are estimated at an overwhelming $1.5 billion a year. With an average work commute by car of 37 minutes (which is estimated to stretch to 45 minutes in 20 years, given continued growth), Atlanta residents may enjoy new economy benefits, but are clearly suffering the resulting costs of seemingly boundless sprawl. Motorists in Atlanta lead the nation in miles driven per person per day, totaling over 100 million miles daily.

The Atlanta Regional Commission is attempting to limit and coordinate this expansive growth. These governments are opposing a perimeter highway proposal for the reason that it threatens urban investment and encourages further sprawl. The ARC, supported by the state government, is trying hard to provide and encourage alternatives to single-motorist car transportation.

However, the momentum of sprawl continues and Atlanta faces a serious challenge to channel future growth toward building sustainable, attractive communities.

Economists would argue that the true cost of building a new home should include the costs of the associated externalities. However, quantifying these social and environmental burdens is considerably more difficult than merely identifying the private costs of development. There are, however, positive steps that can be taken in this direction. For instance, many studies have found that the additional tax revenue received from new development does not necessarily cover the installation of roads and utilities and the provision of public services to new residents. If new development were required to bear the full cost of services, including infrastructure, the resulting pattern of development would be less likely to have the characteristics of urban sprawl. Many governments have begun to assess impact fees on new construction to correct these subsidies.

Communities are beginning to use other kinds of economic incentives to achieve outcomes more consistent with smart growth. For example, some communities, such as South Bend, Washington, have imposed fees on impervious surface area to encourage development that has a less detrimental effect on water quality and flooding potential. Other communities are using toll roads to improve traffic patterns. San Diego charges motorists on I-15 higher prices during congested times than for driving during off-peak hours. The use of electronic transponder technology to identify motorists and collect tolls makes this system possible without the significant slowdowns caused by toll collection plazas. Other communities use transferable

development rights to provide incentives for maintaining land in agriculture and other uses that maintain open space and provide ecological benefits.

The Clinton-Gore Administration's $9.3 billion Building Livable Communities program is encouraging "smart growth." It has set forth several principles to help guide policy efforts on a local level and to encourage greater planning and coordination over larger regions to resolve existing negative externalities. The Livable Communities initiative seeks to sustain prosperity and expand economic opportunity, to enhance the quality of life, and to build a stronger sense of community. Dedicating funds for regional smart growth efforts including Better America Bonds for state, local, and tribal governments, the initiative aims to preserve green spaces, ease traffic congestion, restore a sense of community, promote collaboration among neighboring municipalities through regional governance, and enhance economic competitiveness. As demonstrated by what Vice President Gore termed "a wave of local innovation," initiatives on the state and local levels are beginning to have real impacts on communities. Examples of such progress include the State of Maryland and the City of Chattanooga, Tennessee.

Examples of Smart Growth

Many governments are making significant efforts to encourage smart growth. For example, Maryland has established the following goals in its smart growth program: to preserve its most valuable remaining natural resources, to support existing communities and neighborhoods by targeting state resources to development in areas where the infrastructure is

already in place, and to save taxpayer dollars by avoiding the unnecessary cost of building the infrastructure required to support sprawl. The program also ensures that the State will regularly evaluate the program's effectiveness. Earning federal grant money, reprioritizing within the state budget, and designing financial incentives for businesses, local governments, and homeowners, the State has been able to leverage funds necessary to emerge as a leader in the smart growth community, while preserving local decision-making authority.

Similarly, the smart growth success of Chattanooga, Tennessee, affirms the conviction that Americans can enjoy both economic prosperity and a high quality of life. Chattanooga was once home to heavily polluting iron foundries, textile mills, and chemical plants. However, through thoughtful economic development efforts, Chattanooga has become a model for other cities seeking environmentally sound urban renewal. The city now prides itself as a "laboratory" for sustainable development projects involving rezoning, reclamation, revitalization, and redevelopment. Illustrating how older cities can thrive in the new economy, Chattanooga boasts a 22-mile "Riverwalk" with picnic areas, a sculpture garden, waterfront housing developments, an electric-bus public transit system, footbridges, and an arts district.

Many of the areas of new and rapid growth are characterized by the combination of an educated workforce that places emphasis on the quality of life, and favorable economic conditions. Therefore, they have both the constituency to demand change, and the resources necessary to implement it. There is evidence that business and community leaders are already recognizing the costs and impacts of sprawl and acting to mitigate the negative effects. In areas

such as the Washington, DC Beltway, Boston, San Francisco, and Seattle, leaders are acting to improve land use and transportation decisions and enhance environmental quality. The success of these endeavors will depend on the ability of these communities to make hard choices and find creative solutions to the challenges of urban sprawl.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

THE CHAIRMAN

December 9, 1999

MEMORANDUM FOR THE HONORABLE BRUCE REED
ASSISTANT TO THE PRESIDENT FOR DOMESTIC POLICY

FROM: MARTIN N. BAILY MNB

SUBJECT: 2000 Economic Report of the President

Attached are second staff drafts of relevant chapters of the 2000 Economic Report of the President for your review. As you know, the Council of Economic Advisers is mandated by the Employment Act of 1946 to prepare and transmit to Congress an annual Economic Report of the President (the "Report"). The Report presents the Administration's interpretation of recent economic events and its assessment of the U.S. economy in both the short and long term.

CEA is working under a strict statutory deadline for publication of the Report. For this reason, **it is critical that we have your agency's comments on the enclosed material by 5:00 p.m., Wednesday, December 15.** Your consolidated agency comments should be delivered to Audrey Choi, CEA Chief of Staff, Room 314, Old Executive Office Building. All comments will be very carefeully considered as the next round of draft chapters of the Report are written.

Please note that this draft is for Official Use Only, should be held closely, and should not be made public in any way.

I want to thank you in advance for your help in ensuring that this year's Report of the Clinton Administration will be an important and useful economic source document in the years ahead.

Attachment: Chapter 5
Second Staff Draft

The Changing American Family

Much about the American family has changed over the course of the century. In 1900 forty percent of children lived on a farm with both parents. Another 40 percent lived in a two-parent nonfarm family, where the father was the breadwinner and the mother was a homemaker. Today, by contrast, few children live on a farm; and almost half of all children live in families where both parents are in the paid labor force. More than a quarter of children today live in single-parent families. The majority of workers in 1900 were employed on the farm or in factories, doing manual labor with (by today's standards) relatively little technological help. The kinds of jobs available, particularly for women, were limited as much by custom and law as by the physical demands.

Home technology has also changed. In 1900, electricity was rare. Many of the labor-saving appliances we now have in our homes didn't exist. Prepared foods, clothing, and other goods were less available to the average household; the necessity to produce at home many more of the goods and services that today can be purchased limited the supply of women in the workforce.

Despite being limited by the availability of jobs and demands at home, many wives did work, particularly immigrants and poor wives. In addition, women on the farm worked in great numbers, and there was a far greater proportion of the population living on farms in 1900 than there is today.

Families today enjoy a much higher standard of living than their counterparts in 1900 and their members are living longer and healthier lives. Nevertheless, the rise of the two-earner couple and the single-parent family have created a new set of challenges to balance the need to and rewards from work against the needs and rewards of family life that are measured more in time than in money.

This chapter examines the changes in the American family and the challenges these pose. It begins with an overview of four key trends that have transpired over the century: female labor force participation, marriage and divorce rates, out-of-wedlock births, and life expectancy and health. It then describes how the combination of these trends affect the individuals' ability to balance work and family. Notwithstanding substantial increases in living standards over the course of the century, American families continue to face substantial financial concerns. Most families are able to meet the basic needs of food, clothing, and shelter, but many find themselves strapped when it comes to meeting other needs like child care, education expenses, and, increasingly, care for older relatives. At the same time, families find themselves facing a "time crunch," as more family time is devoted to earning a living, leaving less for other family activities. For many single-parent households, the time crunch is compounded by a "money crunch" as they struggle to find the resources to meet even basic necessities. The chapter concludes with a discussion of policies that this Administration has pursued over the past several years in an effort to address the challenges Americans face as they try to balance work and family in the 21st century.

KEY TRENDS SHAPING THE AMERICAN FAMILY

The past century has seen a number of changes that have helped shape the American family (see box 5-1). In 1900, a woman began her married life at age 22—and typically married a man who was four years her senior. Women gave birth to more children, as infant mortality was near 10%. Family size was also bigger, as a large number of children aided work in the farm economy. Life expectancy at birth was low, about 48 years for women and 46 years for men. The fraction of the

population that was divorced was also low, with the fraction widowed substantially higher (e.g., 17 percent of women aged 45-54). And families tended to stay put -- over three-fourths of individuals lived in the state in which they were born. While most people today experience marriage at some point in their lives, the median age at first marriage for women has risen to 25. Life expectancy at birth has increased substantially, in part due to declines in infant mortality, with women and men having life expectancies of 79 and 73 years, respectively. The relative importance of widowhood and divorce has changed; today about 17 percent of women aged 45-54 are divorced.

Box 5-1 – Contrasting American Families Then and Now		
	1900	1999
Age at Marriage of Women	21.9	25
Age at Marriage of Men	25.9	26.8
Infant Mortality Rate, percent	9.99[b]	2[d]
Number of polio cases, per 100,000	5.5[a]	0
Life Expectancy of Women at birth	48.3	79.4[f]
Life Expectancy of Men at birth	46.3	73.6[f]
Life Expectancy of Women at age 65	12.2	19.2[f]
Life Expectancy of Men at age 65	11.5	15.9[f]
% of women aged 35-44 widowed	9.0	1.3[g]
% of women aged 35-44 divorced	1.0	14.7[g]
% of people born in current state of residence	78.2	61.8[f]
% of people born in current region of residence	90.8	73.3[f]
Probability of being in a 7 or more person HH	20.4	5.1[d]
Probability of being in a one-parent family	8.5	27
Labor force participation rate of women, percent	20.0	60.2
Notes: due to data availability, not all series range from 1900 to 1999 -- (a) 1912; (b) 1915; (d) 1970; (e) 1990; (f) 1997		

FEMALE LABOR FORCE PARTICIPATION

The substantial increase in the proportion of women working for pay (see Box 5-2) has been one of the most important economic changes to affect the American family over the past century.

Today the portion of women in the labor force is three times what it was at the beginning of the century. Women's labor force participation rose sharply after World War II, but the movement of women into the labor market was well underway before then and varied across demographic groups by race, ethnicity, marital status, age, and income. By 1998, overall female labor force participation had reached 59.8 percent. These increases have occurred both when one considers women of the same age over time (e.g., comparing 30 year-old women in 1950 versus 30 year-old women in 1998) and women within a birth cohort (e.g., following women born at a specific point in time as they age).

Box 5-2.—Labor Force Participation

Current statistics on the employment status of the population and related data are compiled by the Bureau of Labor Statistics using data from the monthly Current Population Survey (CPS). The concepts and definitions underlying these labor force data have been modified, but not substantially altered, since the inception of the survey in 1940. For earlier periods, *Historical Statistics of the United States, Colonial Times to 1970* contains information from the decennial censuses that is not directly comparable with annual data based on the CPS, but it also contains unofficial scholarly estimates that were prepared on as comparable a basis as possible.

Employed persons are those who did any work at all as paid employees, worked in their own business or profession, or on their own farm, or who worked 15 hours or more as unpaid workers in an enterprise operated by a member of the family. *Unemployed persons* are those who had no employment, were available for work, except for temporary illness, and had made specific efforts to find employment in the 4-week period ending with the reference week of the survey. The *civilian labor force* comprises employed and unemployed persons. The rest of the civilian non-institutional population (persons 16 years of age and older residing in the 50 states and the District of Columbia who are not inmates of institutions such as penal or mental facilities and who are not on active duty in the Armed forces) are classified as *not in the labor force*.

Importantly, these concepts treat homemakers who do not work for pay and are not looking for paid work as not in the labor force. Thus, much of the increase in female labor force participation described in this chapter represents increasing numbers of women taking on paid work. In principle, women working as unpaid family workers on farms should have been

included in the labor force, but it is unknown how well estimates for periods before 1940 reflect such work.

While women with children under age 18 have had somewhat lower labor force participation rates than other women age 25-44 (Chart 5-1), they experienced a parallel dramatic increase, from 47.4 percent in 1975 to 72.3 percent in 1998; during this time period, the percent of these employed full-time has fluctuated between 68 and 74 percent. A myriad of factors has contributed to this growth in women's participation in the paid labor market, including increases in female wages and changes in family structure. As a result of higher labor force participation rates and later marriages, a higher proportion of women than ever before experience a period of independent living and employment before marriage, leading to greater labor force attachments that could affect family obligations traditionally assumed by women.

CHART 5-1: Labor Force Participation for Women

FAMILY FORMATION AND DISSOLUTION

A second major trend that has shaped the current state of American families is a change in family formation and dissolution. Today, individuals are spending a smaller fraction of their adult lives within marriage (Spain and Bianchi 1996, p. 25). However, despite considerable changes in the institution over the past century, and differences across racial and ethnic groups, marriage remains a fairly universal experience. Throughout the century, over 90 percent of all women aged 45-64 have been married at some point in their lives, and in 1998, that proportion stood at 93.8 percent. Among women aged 35-44, only 12 percent had never been married in 1998. The percent

never married differs substantially by race, especially at younger ages. For example, in 1998 among 35-39 year-olds, 14.3 percent of non-Hispanic whites, 36.8 percent of African-Americans, and 20.4 percent of Hispanics had never been married. These numbers suggest that in the future, the universality of marriage may no longer hold. Nonetheless, the median duration of marriage rose during the latter half of the baby boom, then declined with the baby bust, and has again increased modestly over the last two decades (chart 5-3).

Nonetheless, the patterns of family formation and dissolution are different now than they were in 1900. One reason is a change in the way marriages end; for younger and middle-aged couples, the relative importance of divorce has increased, while that of the death of a spouse has declined (chart 5-2). While there is some evidence that the fraction widowed may have been over-reported early in the century because of the social stigma associated with being either unmarried or divorced, it was nevertheless much more common for younger women to be widowed than to be divorced. In 1900, about 1 percent of women aged 35-44 reported being divorced, while 9 percent reported being widowed. The two rates were almost the same in 1950 (just under 4 percent), and by 1997 the relative magnitude of the two groups was completely reversed from 100 years before. In either case, however, the end of marriage tends to be associated with large declines in economic well-being, particularly for women and children, as discussed below.

CHART 5-2: Percent of Population Widowed or Divorced, Aged 35-54

An examination of divorce rates provides a further perspective on how family structures have changed. Particularly notable are the sharp spike in the divorce rate immediately after World War II and the prolonged and significant increase in the rate between the mid-1960s and the early 1980s

(see Chart 5-3). Since the 1980s the divorce rate has declined slightly but remains historically high. One possible explanation for the rise in the divorce rate is the growing economic independence of women, as described in the previous section, which has both created tensions within marriage and made divorce economically possible. At the same time, however, the change in labor force participation may be a response to a greater chance of being divorced and having to survive on one's own. A recent study found that changes in state divorce laws in the 1970s and 1980s, which include the movement from "fault" to "no-fault" divorce, also have played a role (Friedberg).

CHART 5-3: Divorce Rates and Median Duration of Marriage

Two other changes in family formation are important in noting how families have changed over the last few decades. The first is an increase in the age at first marriage, which also contributes to individuals' spending less time in marriage. Half of all women in 1900 began their first marriage by age 22; by 1950 this age had dropped to 20 (chart 5-4). Starting in the 1950s and 1960s, however, the median age at first marriage for women began to increase, and is now up to almost 25. Men have traditionally married at a later age than women but their median age at first marriage exhibits the same U-shaped pattern over the century.

CHART 5-4: Median Age at First Marriage for Males and Females

Second, the fraction of individuals choosing to live together outside of a formal marriage has risen dramatically in the latter half of this century. One study reports that only 3 percent of women born between 1940 and 1944 had ever lived in a nonmarital cohabitation by age 25, while for women born 20 years later, 37 percent had cohabited by that same age (Bumpass and Sweet 1989). In addition, the number of married couple households in the U.S. increased by 2 percent from 1994 to

1998, while the number of umarried partner households increased by 11 percent. Thus despite the lower marriage rates and a higher age of first marriage now versus several decades ago, the evidence actually indicates that individuals are still forming coresidential relationships at about the same point in their lives (Bumpass, Sweet, and Cherlin 1991).

FERTILITY PATTERNS AND OUT-OF-WEDLOCK CHILDBEARING

Changes in childbearing behavior and, more specifically, the increase in out-of-wedlock births represent a third transformation that has shaped the American family. Immediately after World War II, the average number of children born to a woman over her lifetime began to increase. At the start of the baby-boom in 1945, the number of live births per 1000 women ages 15-44 was 85.9. The peak of the baby boom occurred in 1957 when this figure reached 122.9. In more recent years, the number of births is down and women are having children later in the life-cycle. These large changes in fertility behavior and the corresponding changes in population have important implications for the U.S. economy and policies such as Social Security and Medicare as the ratio of working-age individuals to elderly fluctuates with these demographic trends.

CHART 5-5: Birth Rates and Percent of Birth, by Marital Status

An important change in fertility behavior is the rise in out-of-wedlock births. For unmarried women aged 15-44, the number of births per 1,000 increased from 7.1 in 1940 to 44 in 1997 (see Chart 5-5). There are significant racial differences in this behavior. The birth rate for unmarried African-American women aged 15-44 has fluctuated over this time period, increasing quite substantially from 1940 to 1970 and again from 1980 to 1990, but declining more recently from 93.9

in 1990 to 73.4 in 1997. The rate for white women aged 15-44 also increased after 1980, rising from 17.6 to 37.5 in 1995 (Blau, et. al) and declined to 25.9 by 1997. As a result of these trends, the percent of overall births that were to unmarried women of all ages increased eightfold, from 4 percent in 1950 to 32.4 in 1997. Some of this increase also reflects the changes in marriage patterns noted above; in fact, the birth rate per 1,000 unmarried women has decreased by 2 percent between 1991 and 1998.

Similar trends in out-of-wedlock births are evident for very young women, especially unmarried teens. While from 1980 to 1990 the overall birth rate to teens aged 15-19 rose from 53.0 to 59.9 (per 1,000 teens); the birth rate of unmarried teens climbed from 16.5 to 30.6 for whites and 87.9 to 106.0 for African-Americans over the same period (also per 1,000). However, in more recent years, these trends are improving. Overall teen births declined nationwide by 18 percent from 1991 to 1998, and have fallen in every state and across ethnic and racial group. By 1997, the birth rate to teens aged 15-19 was 52.3 and the unmarried teen birth rates had declined to 86.4 for African-Americans, reversing the large increases of the 80s (the unmarried teen birth rate for whites also declined, to 25.9). For younger girls, aged 15-17, the 1998 birth rate is at its lowest in four decades. In addition, teen pregnancy rates are at the lowest since we first began collecting data in 1976. Despite recent improvements, teen pregnancy remains a problem, since the resources of unwed teens are significantly less than those of other families. Administration efforts to address this problem are discussed later in this chapter.

Combined with the changes in family formation and dissolution already discussed, these trends in childbearing behavior have led to large increases in the percent of children living in single

parent households. The share of children less than 18 years of age living in one-parent families rose from 7.8 percent in 1950 to 27 percent in 1997 (Chart 5-6). About half of all African-American children under age 18 live in single mother households, up from 30 percent in 1970. The fraction of white children living in single mother households rose from 8 percent in 1970 to 17.3 percent in 1998. The percentage of children living with grandparents has also been increasing in recent decades, as grandparents play a role both as primary guardians and in helping out the child's parents (see Box 5-3).

CHART 5-6: Percent of Children in Various Living Arrangements, by Race

Box 5-3: The Role of Grandparents

Over the last three decades, the share of children under age 18 living in a household headed by a grandparent has risen by more than 70 percent (chart 5-7). The driving force in the 1990s has been an increase in the share of children living in households with neither parent present. Between 1980 and 1990, by contrast, the increase came from children living in grandparent-headed households with just a single parent present. The share in such households with the father as the single parent present, while small, continues to grow in the 1990s.

Chart 5-7: Grandchildren in Grandparents' Homes by Presence of Parents

The rise in female labor force participation has created a greater overall demand for grandchild care that extends beyond living arrangements. Of grandparents caring for grandchildren in a non-custodial relationship, over 60 percent cited the employment of the grandchild's parents and/or the desire to help the grandchild's parents financially as reasons for providing care. In addition, in a sample of working mothers aged 19-26 with a youngest child under 5 years old, nearly 25 percent utilized grandmothers as the principal caregiver (this share rises to almost 39 percent among full-time working mothers aged 19-26).

LIFE EXPECTANCY AND HEALTH

The life expectancy and health of Americans has increased dramatically over the century. Major public health initiatives and medical advances have led to the virtual eradication of numerous

diseases that earlier contributed to high death rates and low life expectancy. As a result of improvements in maternal and infant health, the infant mortality rate dropped by more than 90 percent, from 100 per 1,000 live births in 1915 to 7.2 per 1,000 in 1997. Technological innovations, better health and nutrition of mothers, greater access to prenatal care, and greater use of vaccines and antibiotics all contributed to these tremendous improvements. Maternal health is a similar success story. In 1915, 6 to 9 women died because of pregnancy-related complications for every 1,000 births. By 1997 this rate dropped to 0.1 deaths per 1,000 live births – a 99 percent decline. Advances also have been seen in other areas. The rate of death from coronary disease and stroke has declined by 51 percent since 1972, infectious diseases like typhoid and cholera have been greatly reduced because of improved sanitation and living conditions, and the widespread use of vaccines has eliminated diseases like smallpox and polio.

These improvements have meant longer lives for most Americans. Over the century, the average lifespan in the U.S. increased by more than 30 years with five-sixths of that increase being attributed to improvements in public health (MMWR 4/2/99). Life expectancy at birth for a woman rose from 48.3 in 1900 to 79.4 by 1997. For men it rose over the same period from 46.3 to 73.6. Older Americans now have longer life expectancies as well. The life expectancy of men at age 65 rose from 11.5 years in 1900 to 15.9 years in 1997. Combined with the recent declines in fertility behavior, the changes in life expectancy have led to an increasing share of the population that is elderly – a trend that will continue as the baby boom becomes old.

An important implication of increased life expectancy is a change in the extended family. Over 70 percent of adults aged 30-54 in the early 1990s had relatives that spanned three or more

generations; over 40 percent of adults aged 50-59 were in four-or-more-generation families. In addition, nearly 2.4 million households are now have more than two generations living under one roof. Longer life expectancy has meant that more grandparents are able to watch their grandchildren grow to adulthood. And younger generations are facing caregiving responsibilities for older relatives; a 1997 survey estimated that 25 percent of all U.S. households provide care for an elderly person. These trends all point to an increasing need to balance work and family, as working individuals may face multiple caregiving responsibilities for elderly parents, infirm spouses, and grandchildren.

CHALLENGES FAMILIES FACE

Over this century, the American family has experienced many positive changes that have resulted in richer lives for parents and their children. In monetary terms, average family income has increased and poverty has decreased. In non-monetary terms, individuals live longer and are much healthier. However, these gains have not been evenly spread across all families. In particular, the growing number of single-headed families has benefited less than married couple families from the overall economic growth of this century.

This section examines the ways in which the trends discussed above have co-mingled to create two challenges that families face today—what can be called the "money crunch" and the "time crunch." The first refers to having enough monetary resources to meet basic family needs and is most pronounced in single-parent families and those with less education. The time crunch too is a problem for these families, but it also affects families where both parents work and therefore have

less time for child care and home-care. In addition, working people may need to spend more of their incomes on the care of their children or aging parents, or to use their non-employed hours to provide care.

THE "MONEY CRUNCH"

Between 1948 and 1973, real (inflation-adjusted) median family income more than doubled. (the Census definition of a family excludes single individuals). While its level in 1993, at $41,500, was about the same as in 1973, the recent strength of the economy lifted real median family income to $46,700 in 1998. These figures are based on an inflation adjustment using the CPI-UX1. For various reasons, this indexing may have overstated inflation and understated real income gains. However, the general patterns of growth described in this section would be the same if an index incorporating methodological improvements were used instead. While most groups have benefitted from this expansion, those left behind are the focus of the money crunch.

The money crunch is felt by different family types for different reasons. Median family income varies substantially with female labor supply and family structure (chart 5-8). For married couples in which the wife is not in the paid labor force, median family income in 1998 is approximately the same as the median level in 1971, despite a recent increase. Similarly, the median income of female-headed families has been nearly flat since the early 1970s, despite signs of improvement in the current economic expansion. In contrast, the median income for married couples with an employed wife has grown markedly since the early 1970s, with pronounced growth in recent years.

Chart 5-8: median family income by family structure

As we consider these income trends by family structure, we also must remember that more families are headed by single parents. Corresponding to the family groups in chart 5-7, the share of families that are headed by a single person has increased significantly over time, since 1951 from 12.9 percent to 23.4 percent of all families (Census income book) in 1998 (see Chart 5-9). The share of all families that are married couples with a wife in the paid labor force has risen from 19.8 to 49.4 from 1951 to 1998, while the share that are married couples with a wife not in the paid labor force has declined from 66.9 to 27.2. Thus, though the overall share of families headed by married couples has declined from 86.7 percent to 76.6 percent from 1951 to 1998, the composition within this group has shifted dramatically towards families with dual earners. Given these shifts in family composition and differential earnings patterns, each of these three demographic groups is considered in turn. But before doing so, we summarize two relevant issues— income distribution and family needs.

Chart 5-9: share of families by family structure

Income Distribution

Earlier chapters have described how, after rising markedly in the 1970s and 1980s, income inequality has stabilized since 1994, but pronounced differences in wage levels across workers with differing education levels remain. The gap between wage levels for the well-educated and those for the less-educated continues to contribute to income disparities across demographic groups. In recent years, however, the rise in overall income inequality has been offset by relative declines in race and gender inequality. Wage gaps are discussed in more detail in Chapter 4.

Rising Family "Needs"

As incomes have risen this century, consumption patterns have changed. In 1950, the typical family spent 30 percent of its income on food and 9 percent on clothing. By 1995, those percentages had fallen to 14 and 5 percent, respectively. The typical family spends a greater share of its income on housing than in the past; moreover, entirely new forms of consumption have become standard. Today, over 80 percent of households have automobiles, up from roughly 50 percent in 1950, and the typical family has two automobiles and two television sets. As technological change has lowered the relative cost of food and made other expenditures feasible, consumers have had the discretionary income to buy such goods as CD players, VCRs, and personal computers. It is estimated that in 1997, more than 33 percent of households owned a personal computer, 61 percent had a cordless phone, and 88 percent had a VCR.

Thus, as the typical market basket affordable by most families changes, it may be appropriate to change our notion of family needs, from traditionally basic purchases such as food and clothing to the additional acquisition of standard consumption goods like automobiles, TVs, and telephones. When families feel they cannot afford these standard goods, they too may feel a money crunch.

Finally, the changing trends in the labor force participation of family members have given rise to increasing costs of working outside the home, such as child care, additional work expenses (e.g., purchased meals, services), and transportation costs. It is estimated that from 1986 to 1993 direct expenditures on child care have risen from 6.3 to 7.3 percent of family income. Given the

importance of education, as discussed in Chapter 4, financing the higher education of their children has become an important expenditure for families.

Female-Headed Families

Both rising non-marital child-bearing and rising divorce rates have increased the percent of children living in a family headed by a single parent, rising from even faster than the share of such families, which has risen from 11.9 percent in 1970 to 28 percent in 1997. For the most part, these children live in families headed by women (chart 5-9); however, though a relatively small proportion, the percentage of single-parent families headed by fathers has fluctuated in recent years, dropping from 12.4 percent in 1960 to 8.5 percent in 1980, and in 1998 was 15.9 percent.

Female-headed families are the ones most likely to suffer from inadequate financial resources. Despite rising median hours of work from 1969 to 1998 (chart 5-10), median income for this group remained essentially stagnant over the last thirty years (chart 5-8).

Chart 5-10: Annual Hours of Work by Single Parents

The effects of divorce and bearing a child out of wedlock contribute directly to lower incomes for female-headed families. It is estimated that 22 percent of women who get divorced experience a 50 percent or more decline in family income. Also, never-married mothers are much less likely to have a child support award than divorced mothers (44.1 percent versus 75.6 percent in 1995) and for those who received payments, the annual amount received by never-married mothers is much less than that received by divorced mothers ($2,271 versus $3,546 in 1995 – Census P60-196). Overall, roughly half of all women who are single parents receive public assistance.

Reflecting these low income levels, poverty rates for female-headed families are very high—the rate of poverty was 38.7 percent for this group in 1998, compared with a substantially lower 6.9 percent for married-couple families with children. These poverty rates are based on a definition of income that does not include food stamps, the EITC, and other non-cash income. The overall poverty rate for all families was 12.7 percent in 1998. Elevating the economic status of these families in poverty has been a particular goal in the policy initiatives of this Administration (including raising the minimum wage, expanding the EITC, and strengthening child support enforcement) -- and in recent years, poverty rates have been declining since 1993. These initiatives are discussed at the end of this chapter.

Married-Couple Families

The entry of wives into the labor force has been a major reason for the substantial increase in the average family income in the post-war period, but not all families have experienced equal growth in income. Many of these families allude to an increasing money crunch, which occurs when the increasing hours of paid work of wives has not produced sufficient income to keep pace with the perceived rising costs of family needs. Thus, the families who are most likely to feel this money crunch are those in the lower quintile of the income distribution, where 20th percentile family income has grown by only 7.3 percent since 1970 (income tables – Census), despite gains from the current economic expansion of the 1990s. In contrast, for those families at the 80th percentile of the income distribution, average income has grown by 36.5 percent. As mentioned above, however, these upper-tier income gains may have been partially eroded through rising expenses.

Among those families with wives not in the paid labor force, median annual income is only slightly more than half that of families with wives in the paid labor force. Thus, the families with wives not in the paid labor force are not necessarily the higher income families, but are instead families from across the income spectrum. In fact, this group is fairly diverse and includes families without children – including young couples where the wives are in school and older couples where wives have had traditionally little attachment to the labor force or are retired. This group also includes women with children, particularly young children; these families may be allocating the wife's time to child-care even though it can result in a "cash-poor" lifestyle. In contrast, the married-couple families with children where the wives participate in the paid labor force have considerably more disposable income on average, which in many cases is likely to remain higher even after subtracting the additional expenses associated with working.

THE "TIME CRUNCH"

While the choice to enter the labor market provides more material goods for families, it also takes away home time. Evidence that families are feeling a "time crunch" comes from a 1995 national survey asking individuals whether they "always feel rushed, even to do the things you have to do," in which 33 percent said yes, up from 24 percent in 1965. The analysis of evidence of changes in parents' allocation of time in this section provides a closer look at how patterns of family care have changed as women have entered the labor force.

The demands of maintaining a family while in the paid labor market can create a tremendous strain on individuals' time—in both single-mother and married-couple families. Because almost

three-quarters of current caregivers in the home are women and because our data indicate that husbands have not increased their time in caregiving, the rise of women in the labor force has meant that the difficulties associated with maintaining a balance between work and family are especially pronounced for women.

Time Use and Child Care

Because they are spending more time in the paid labor market and because the share of families with a single parent is growing, families have less total time to devote to unpaid activities, including time with children. Using data from the Current Population Survey of individuals, chart 5-11 shows the time parents potentially have available to spend with all their children, after subtracting time spent at paid work and allowing eight hours per day for sleep. We emphasize the fact that this is only time potentially available in the home; there is no information in the CPS about how parents actually spend their time outside paid work. From 1969 to 1999, both married-couple and single-parent families experienced a decrease in time not spent on paid work. The overall decrease is greater than the decreases within either family type because the proportion of single-parent families increased over this period..

Chart 5-11: Available Time of Custodial Parents Outside Paid Work and Sleep

It should also be noted that changes in family size would affect the parental time potentially available per child. Statistics indicate that despite increases in paid work hours for each type of family, the amount of non-market time potentially available *per child* has increased for both married-couple and single-parent families since 1969. This measure is obviously misleading because it

assumes that a single child who spends time with a parent gets twice as much parental attention as each of two children who spend that same time with a parent. In any event, the rise in the number of single-parent families has meant that overall, the average amount of family time potentially available per child has remained relatively constant when single-parent and married-couple families are considered as a whole.

Our best source of information on time use comes from a study that makes use of the Time-use Diary studies that have been conducted from 1965 to 1995. These surveys ask individuals to keep a daily record of how they spend their time during a specific day. Though rich in detail on time use, these studies survey a fairly small number of individuals and thus cannot be used to examine trends for subgroups of the population.

This time diary data can be used to investigate the time crunch for working mothers. Employed women spend about one-third less time on child care and household tasks than do women who are not in paid employment. The primary change in time use for women in the paid labor force is that their increase in paid hours has been nearly equally offset by a reduction in housework. Men have also increased their hours in housework by 5.0 hours per week (though the data does not separate fathers from all men). Nevertheless, despite the assistance of husbands and purchased inputs into home care, employed women still have 25 to 30 percent less free time today than in 1965, in part due to commuting costs.

These data display a reduction in home-based care for children. Women in the paid labor force spend an average of 6.7 hours per week on child care and women who do not work outside the home spend 12 hours per week. Within each of these two groups, the average weekly hours spent

on child care has not changed from 1965 to 1995. Similarly, the husband's weekly hours spent on child care have remained constant over the last thirty years at 2.6 per week. But what has changed over time is the number of employed women, so as these numbers have risen the average amount of time spent on child care in the home among all families has fallen from approximately 10 to 8 hours per week. However, it should be noted that these numbers refer only to time spent directly on child care—time spent on home activities that include the children is not counted here.

Undoubtedly the time crunch is worse for single-headed families (though our time use data cannot separately look at this group). These families are lower-income and thus are less able to purchase substitutes for their time in the home, such as home-based child-care or cleaning services or products to ease home efforts. They also lack the assistance that a spouse provides. Alternatively, they may rely more on intergenerational care, and this can be an important alternative for them. (see Box 5-3)

Time Use and Parental Care

As noted above, Americans are now healthier and are living much longer lives, so the elderly are now a much more vital part of their families and are providing extensive assistance to their families. However, because the elderly are an increasing share of the population, it is also anticipated that there will be a greater demand for their care in the future. Already in 1996, more than 5 percent of households spent over 20 hours a week in caregiving for the elderly (DOL book). And since nearly two-thirds of family caregivers are working, the need to balance work and family will likely increase in the next century. Caregivers of the elderly who are also in the paid labor force report making adjustments to

work schedules, passing on transfers or relocations, and passing on promotions, training opportunities and new assignments. The Families and Work Institute reports survey evidence from a sample of 2,877 employees aged 18 years and over from the full-time wage and salaried workforce; about 42 percent of workers expect to provide "special attention to or care for someone 65 years or older" by 2002 (DOL book). In the discussion above, we have focused on the time costs and money costs of raising children and the stresses that families bear because of these costs. Layered on top of this is the generational crunch – the time and money costs of eldercare that arise when families are already maintaining a delicate balance between work and family. With parents living longer and their daughters who traditionally provide their care now in the paid labor force, the costs of parental care and the generational crunch are likely to become even more substantial in the 21st century.

Over the last ten years, there has been an explosion of home-based care for the elderly, and this care has been provided largely by women. From 1987 to 1996, the number of US households that provided unpaid care to elderly adults more than tripled, from 7 million to 22.4 million (National Survey of Caregivers), or more than 20 percent of households. The average caregiver, then and now, is a married middle-class woman in her 40s with a high school education, and the average care recipient is most likely her mother or mother-in-law. However, while more women are providing in-home care, each is spending somewhat less time on that care. Today the average caregiver spends fewer hours per week, is less likely to be co-resident, and is more likely to use paid services than caregivers a decade ago.

While more families are providing in-home care for the elderly, the use of formal care has also increased substantially. From 1987 to 1996, the number of nursing homes increased 20 percent, and the size of the elderly nursing home population also increased 29 percent from 1980-1990. Rising life

expectancies have placed more elderly in formal care and the formal care population is becoming older and increasingly frail; the proportion of nursing home residents over age 85 increased by about 14 percent and the percent of residents with 3 or more ADL (Activities of Daily Living) limitations rose from 72 percent in 1987 to 83 percent in 1996. It is estimated that the lifetime risk of institutionalization for those reaching age 65 in 1990 is 43 percent.

Thus, while life expectancy has risen and the elderly are far healthier today than in the past, they are also much sicker towards the end of their lives and require more extensive care over more years. It is this care that often becomes the responsibility of their adult children.

The explosion in caregiving responsibility for parents is contributing to the overall "time-crunch" that the American family is facing; 43 percent of surveyed caregivers for the elderly say their caregiving has caused them to have less time for other family members. These changes surely arise in part because today's average caregiver is balancing work and family, with half of all caregivers working full-time outside the home. Another study noted that 40.8% of daughters and 29.6% of sons involved in caregiving had either quit their jobs or made work adjustments to accommodate care demands. Surveys of caregivers underestimate parental care needs, however, because they cannot measure the frequency with which employed potential caregivers choose not to provide care.

While the purchase of formal care may help to alleviate the time-crunch felt by families, it may instead contribute to a money-crunch. The average cost of a nursing home is now more than $40,000 per year, and of those admitted to a nursing home at age 65 or older, the average length of stay is 26 months for women and 19 months for men. In fact, nearly 50 percent of the costs of long-term care are paid out-of-pocket by nursing home patients and their families, and most of the

remaining costs are borne by Medicaid. The Administration's long-term care initiative, discussed below, attempts to address this crunch.

In the future, the time and money commitments associated with parental care may become even more severe, given the trends we have identified above. The increase in the labor supply of women has raised their wages and thus raised the opportunity cost of their time. Thus, as employed women age and their parents require more care, women's higher wages may make them increasingly reluctant to curtail their market work—thus they will face a greater time crunch in the care of their parents. To the extent that these women have had children later in life, they also experience the generation crunch of caring for both. And among those women who do not have children at home, they may instead have grandchildren to care for (see Box 5-2) — using data from 1992-94, it is estimated that over 40 percent of individuals aged 50-59 were members of families with at least four generations (this includes in-laws for married people). For the next century, the increasing cost of elderly care will also fall on fewer children--the declining fertility rates of the baby boom generation will result in half as many children available to take care of their elderly parents. This anticipated increasing "time crunch" may result in more substitution towards formal care, as the greater wealth of the baby boom generation and their children may make such care more affordable; however, if the cost of that care continues to rise at above-average rates, these same individuals are likely to experience an increasing "money crunch" as well.

The preceding section documents that while the care of elderly parents may exacerbate the "time crunch" and "money crunch" that many families now experience, the increasing health and longevity of the elderly also suggest that the elderly may be a potential resource that can help families balance these

other pressures. In recognition of the delicate balance that many American families are trying to maintain, the Administration has proposed a number of ways to help. Some of these are highlighted in the section below.

SUPPORTING EFFORTS TO BALANCE WORK AND FAMILY

Changes in American family structure and work patterns have created new opportunities as well as significant policy challenges for private employers and government. To the extent that today's workers demand more flexible work conditions or other non-wage-related benefits, employers may have to comply with these demands in order to attract and retain the kind of high-quality work force they desire. But real world labor markets do not always respond instantly to changing conditions. Government can facilitate change, not only by pursuing sound macroeconomic policies that foster high employment, but also by setting certain norms (such as the Family and Medical Leave Act) or providing an example (such as flextime, as discussed below).

INCREASING THE FINANCIAL RESOURCES OF FAMILIES

A strong economy is a critical prerequisite to the economic well-being of families. As discussed in Chapter 2, the labor market has performed exceptionally well in recent years. Since 1993, families in each fifth of the income distribution have experienced solid and roughly equal percentage gains in income. Low-wage workers have also experienced steep declines in unemployment. In 1993, 11.1 percent of workers without a high school degree were unemployed; today that rate has fallen to 7.2 percent. Among high school graduates (with no college), the rate has

fallen from 6.6 to 3.9 percent. Thus, the gains from this strong labor market are extending to low-wage workers, who must balance work and family on a modest paycheck. However, the long period of decline in average wages of less skilled workers from the 1970s to the early 1990s made it hard for many low-income working families to make ends meet, and this Administration, besides pursuing sound macroeconomic and budget policies to foster the expansion, has pushed for policies that make work pay for lower wage working families facing a money crunch.

Expansions in the Earned Income Tax Credit

The Earned Income Tax Credit (EITC), a refundable tax credit for low-income workers, has been expanded substantially since 1993. The EITC is not currently included in the definition of money income used to compute the official poverty rate, but calculations based on an alternative income concept that does include the EITC show that it lifted more than 4.3 million Americans out of poverty in 1998—more than double the number in 1993. In 1998, the EITC lifted more than 2.2 million children out of poverty, and over half of the decline in child poverty (computed using the alternative income concept) between 1993 and 1997 can be explained by changes in tax relief, most importantly the EITC.

Increases in the Minimum Wage

The minimum wage was increased from $4.25 in 1993 to $5.15 in 1997, boosting the wages of 10 million workers. The combined effects of the minimum wage and the EITC have dramatically increased the returns to work for families with children. For example, between 1993 and 1998,

families with one child and one earner who worked full-time at the minimum wage experienced a 14 percent ($1,303) increase in their income, after inflation, as a result of these two policies alone. Similar families with two children experienced a 27 percent ($2,699) increase in their income.

Welfare Reform

The 1996 Welfare Reform Law dramatically changed the nation's welfare system into one that requires work in exchange for time-limited assistance. The law contains strong work requirements, comprehensive child support enforcement, and support for families moving from welfare to work. Twenty-seven states were awarded bonus funds for their superior results in reforming welfare, and a government study found the following:

- More than 1.3 million welfare recipients nationwide went to work in the one-year period between October 1997 and September 1998.
- Retention rates are also promising: 80 percent of those who got jobs were still working three months later.
- States reported an average earnings increase of 23 percent for former welfare recipients, from $2,088 in the first quarter of employment to $2,571 in the third quarter.
- All 50 states met the work participation requirements, and the percentage of all welfare recipients working has nearly quadrupled since 1992, from seven percent in 1992 to 27 percent in 1998, with the remainder fulfilling their participation requirements through job search, education and training.

Independent studies confirm these conclusions, finding that nearly 70 percent of recipients left welfare for work. In addition, the Administration's initiative to reduce teen pregnancy (Box 5-2) also plays a role in breaking the cycle of dependency and increasing the well-being of families by reducing the number of children born to teen mothers.

Box 5-2 The National Strategy to Reduce Teen Pregnancy

Despite a consistent decline in the teen birth rate in recent years, teen pregnancy remains a significant problem. Each year, more than 900,000 pregnancies occur among American teenagers aged 15-19. The babies of these young women are often low birth weight and have disproportionately high infant mortality rates. On January 4, 1997, President Clinton announced a comprehensive effort to reduce teen pregnancy in this country. The new initiative, led by the Department of Health and Human Services, responded to a call from the President and Congress for a national strategy to prevent out-of-wedlock teen pregnancies and to a directive, under welfare reform, to assure that at least 25 percent of communities in this country have teen pregnancy prevention programs in place.

- **Implementing New Efforts Under Welfare Reform.** Under the welfare law signed by President Clinton on August 22, 1996, unmarried minor parents are required to stay in school and live at home, or in an adult-supervised setting, in order to receive assistance. The law encourages the creation of Second Chance Homes, supportive and supervised living arrangements that provide teen parents with the skills they need to become good role models and providers for their children, giving them guidance in parenting and in avoiding repeat pregnancies.

- **Supporting Promising Approaches and Building Partnerships.** The Clinton Administration continues to support innovative teen pregnancy prevention strategies tailored to the unique needs of communities. There are HHS-supported programs supporting teen pregnancy prevention in about 34 percent of the 4,752 Census-defined communities in the United States. In addition, HHS has built partnerships aimed at reducing teen pregnancies with national, state, and local organizations.

- **Disseminating Information on Innovative and Effective Practices.** On October 25, 1999, Secretary of Health and Human Services Shalala unveiled a comprehensive guide, developed in partnership with the National Campaign to Reduce Teen Pregnancy, to help communities and non-profit organizations establish successful local teen pregnancy prevention programs.

- **Improving Data Collection, Research, and Evaluation.** The national strategy is working to improve data collection, research, and evaluation to further our understanding of the magnitude, trends, and causes of teen pregnancies and births; to develop targeted teen pregnancy prevention strategies; and to assess how well these strategies work.

- **Sending a Strong Abstinence Message.** The welfare law also provides $50 million a year for five years in new funding for state abstinence education programs.

Other Administration initiatives to move low-income individuals from welfare to work and to support working families address a range of logistical and financial problems typically faced by such families.

- More housing vouchers and increased funding for child care assistance have been provided for families moving from welfare to work.

- The creation of the Children's Health Insurance Program (CHIP) extends health care coverage to uninsured children, and new rules allow states to expand Medicaid to cover more low-income families who work, including more two-parent families.

- States and communities have access to grants to help move long-term welfare recipients and certain noncustodial parents into lasting, unsubsidized jobs. To encourage hiring and retention of long-term welfare recipients, employers are eligible for a tax credit equal to 35 percent of the first $10,000 in wages in the first year of employment, and 50 percent of the first $10,000 in wages in the second year.

- States and communities have access to grants to develop flexible transportation alternatives, such as van services for welfare recipients and other low-income workers. New guidance makes it easier for low-income working families to own a car and still receive food stamps.

- Finally, Individual Development Accounts (IDAs) empower low-income families to save for a first home, post-secondary education, or to start a new business.

Social Security and Medicare

Social Security is a key source of income for those over age 62: in 1992 it was the majority source of income for 63 percent of beneficiaries, represented over 90 percent of income for 26 percent of the beneficiaries and was the sole source of income for 14 percent of beneficiaries. These benefits are an especially important component of income for households in the lower income brackets and are the largest single source of income for all but the highest income quintile of the

elderly. The President has proposed using the benefits of fiscal discipline and debt reduction to strengthen Social Security, extending its solvency from 2034 to at least 2050.

Medicare is the main source of health insurance for the elderly, insuring nearly 99 percent of those aged 65 and older. Nevertheless, rising health care costs have meant that the percentage of enrollees' per capita income needed to cover out-of-pocket health care costs has increased. The Administration is exploring ways to ensure that Medicare continues to meet the needs of its beneficiaries.

Other Policies to Help Families

The Administration has addressed the money crunch facing middle class families with children as well. In 1999, 27 million families with 45 million children received the $500-per-child tax credit enacted in 1998. Tougher child support enforcement has helped to ease the economic burden on single mothers and enforce both parents' responsibility for the economic support of their children. In 1998, federal and state child support enforcement collected an estimated $14.3 billion from non-custodial parents, nearly an 80 percent increase since 1992. 4.5 million families received child support in 1998, an increase of 59 percent since 1992. Other policies, such as the substantial expansions in support for vocational education, community college, and skill development, including the creation of Hope Scholarships, increases in the maximum Pell Grant, and the passage of the Workforce Investment Act of 1998 were discussed in more detail in Chapter 4.

INCREASING THE FLEXIBILITY OF PAID WORK

In shifting from work in the home to work in the market, many women find themselves with less flexibility in responding to family needs. This shift has also called upon men to take a greater role in childcare and in helping with other family needs. The result is that flexibility on the job is becoming increasingly important to families.

The Family and Medical Leave Act

The Family and Medical Leave Act (FMLA) of 1993 requires employers with 50 employees or more to provide up to 12 weeks of unpaid, job-protected leave a year to eligible employees to care for a newborn, newly-adopted or foster child, a child, spouse or parent with a serious health condition, or for the serious health condition of the employee, including maternity-related disability. The FMLA also requires employers to continue health benefits during leave. Employees are eligible to take leave if they have worked for a covered employer for at least one year, and for 1,250 hours over the previous 12 months. Since 1993, millions of workers have taken advantage of the FMLA to spend necessary time with their families.

The experiences of both employers and employees with the FMLA were documented in a national survey, sponsored by the Department of Labor. The survey found that a third of employers (and two-thirds of employers in larger worksites) believed that the FMLA had positive effects on employees' ability to care for their family members. Most employers also reported that compliance costs were small or negligible, and that there was no noticeable effect on either business or employee performance. Among employees, the survey found that the majority of those who took family or

medical leave found it relatively easy to arrange, and few reported concerns about job-related consequences of taking leave. It also found that employees with annual family incomes under $30,000 were more likely to take leave than employees with higher incomes, highlighting the importance of FMLA to lower-income workers. Today, 91 million workers are covered by the FMLA. The Act has emerged as a significant step in helping a larger cross-section of working Americans meet their medical and family caregiving needs while still maintaining their jobs and their economic security.

The President has further proposed expanding the Act to cover businesses with 25 employees or fewer – extending coverage to an additional 10 million workers. He has also proposed allowing FMLA-covered workers to receive up to 24 hours per year for parent-teacher conferences or to accompany a child, spouse, or elderly parent for routine medical and dental care. In addition, the President is looking for ways to provide partial wage replacement for new parents when they take advantage of FMLA.

Work Arrangements that Promote Flexibility

The desire for greater job flexibility by families is also leading to new work arrangements between private employers and their employees regarding when and where paid work is performed.

An increasingly popular work arrangement is "flextime," which allows workers to vary the time they begin and end work. In 1997, 28 percent of full-time wage and salary workers had flexible work schedules. This was up sharply from 12 percent in 1985, the most recent previous year when data were collected. The Federal government has led by example in instituting flextime, allowing

employees greater discretion in when they work. The President has proposed a flextime initiative that would allow *all* workers to take "time-and-a-half" overtime compensation in the form of compensatory time for family and medical leave purposes or vacation instead of cash.

Another approach to allowing greater flexibility on the job is doing work at home for pay. This arrangement is used by a small but growing share of workers. In 1997, for example, 3.3 percent of all wage and salary workers were doing work at home for pay, up from 1.9 percent in 1991. Another way parents share child care is by working different shifts. In order for shift work to make combining paid work and child care easier, however, the choice of shifts must be voluntary. In 1997, 83 percent of full-time wage and salary workers were on regular daytime schedules, 4.6 percent were on evening shifts, 3.9 percent were on employer-arranged irregular schedules, 3.5 percent were on night shifts, and 2.9 percent were on rotating shifts.

IMPROVING ACCESS TO HIGH QUALITY, AFFORDABLE CHILD CARE

Most parents adjust to an increase in their paid work time by increasing their use of nonparental child care providers. The availability, cost, and quality of child care are crucial to the well-being of our children and the ability of parents to balance adequately the needs of work and family. The primary child care arrangements for preschool-age children of employed mothers in the fall of 1994 were divided roughly equally among care in the child's home (by a relative or nonrelative), care in another home (by a relative or nonrelative), and care in an organized child care facility. Since comparable data were first collected in 1986, the trend shows a slight increase in the

proportion of children receiving care in their own homes, relatively fewer children receiving care in another home, and relatively more children receiving care in an organized facility.

The Administration has consistently emphasized the importance of child care availability, affordability and quality. Since 1993, child care subsidies for low-income families have grown by 80 percent. The budget for FY2000 just passed includes... **[update]** In addition, the Administration's budget proposal for the fiscal year 2001 includes **[update]**...As discussed in Chapter 4, funding for Head Start has more than doubled during this Administration, and the program is well on its way to serving 1 million children by 2002.

After-school care for children is another concern of working parents. Since 1970 the percentage of married couples who work full time, year round and have school-age children has nearly doubled (from 18.7 percent in 1970 to 37.3 percent in 1997). Today, the parents of over 28 million school-age children work outside the home. This has led to a strong demand for quality programs to ensure that children are safe and learning in the hours in which they are not supervised by a parent. In fact, experts estimate that every day roughly 5 to 7 million children are left unattended at home. This Administration has responded to this demand by increasing its investment in after-school programs from $40 million in 19XX to $453 million in the 2000 fiscal year, providing support for up to 675,000 students -- 375,000 more than last year. And the President's fiscal year 2001 budget...**[update]**

EASING THE BURDEN OF LONG-TERM CARE

Like Social Security and Medicare, long-term care will become a primary concern of baby-boomers as they approach retirement age. In 1994 an estimated 2.1 million noninstitutionalized elderly needed help because of problems with three or more activities of daily living (such as eating, bathing, dressing, or moving around) or because of a comparable cognitive impairment. That number will rise as the population ages, and the fast-growing population of the "oldest old," those 85 and older, is at greatest risk.

Much long-term care today is provided informally: about 65 percent of elderly persons living in the community and needing long-term care assistance rely exclusively on unpaid sources, most often family and friends. Surveys have found that eight of every ten caregivers provide unpaid assistance averaging four hours a day, seven days a week. For many, such assistance competes with the demands of paid employment. In addition, home and community-based care requires substantial out-of-pocket expense, totaling over $5 billion in 1995.

The Administration has proposed four initiatives to help relieve the burden of families with members in need of long-term care:

- *A tax credit of up to $1,000 for people of all ages with three or more limitations in activities of daily living (or a comparable cognitive impairment).* Persons needing long-term care themselves, or their family members who care for and house them, can claim the credit, which phasing out at incomes of $110,000 for couples and $75,000 for unmarried taxpayers. The credit would provide financial support for about two million Americans, broadly expanding an existing set of tax allowances.

- *The National Family Caregiver Support Program* . This would fund State initiatives establishing "one-stop shops" that assist families caring for elderly relatives through training, counseling, and arranging for respite care.

- *A national campaign to educate Medicare beneficiaries about the program's limited coverage of long-term care and help inform their care decisions.* The need for information is great: nearly 60 percent of Medicare beneficiaries are unaware that Medicare does not cover most long-term care.

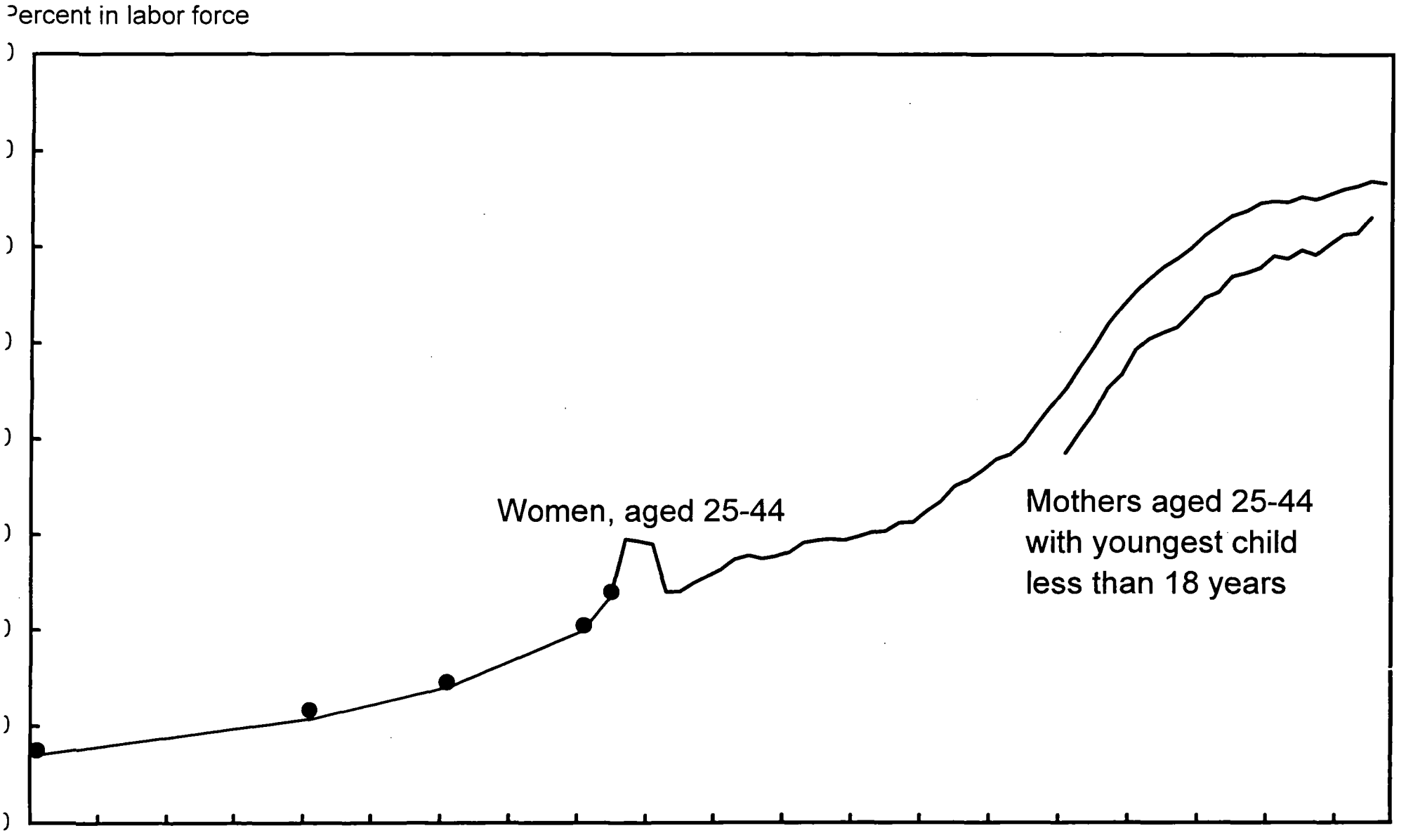
- *A proposal that the federal government serve as a model employer*, by offering nonsubsidized, quality long-term care insurance to all Federal employees and using its market leverage to negotiate favorable group rates.

Millions of adults and a growing number of children have long-term care needs because of a health condition from birth or a chronic illness developed later in life. Moreover, with the number of Americans age 65 and older and 85 or older projected to double by 2030, long-term care is a need that will become more pressing in the 21st Century.

CONCLUSION

The American family in the 21st century faces a different world and a new set of challenges from its counterpart of a hundred years ago. It would be a mistake, however, to conclude that the general problems of too little time and too few resources are new. Thanks in part to greater paid employment, families today enjoy a much higher standard of living than families did a hundred years ago. But expectations appear to be different today. Great changes in the economy have opened up great opportunities, and people aspire to take advantage of those opportunities.

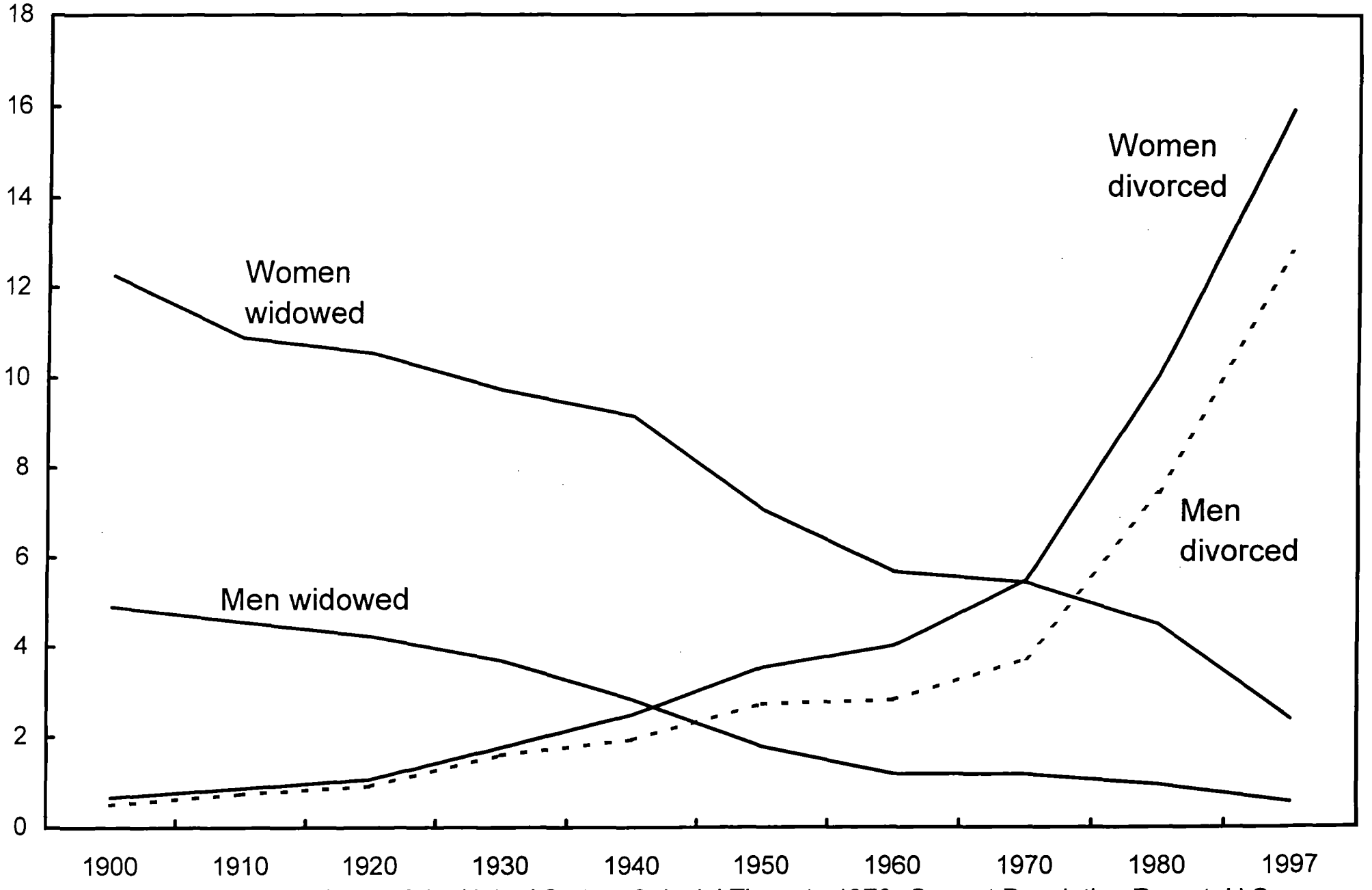
hart 5-1 **Labor Force Participation for Women**



Source: *Historical Statistics of the United States: Colonial Times to 1970,* U.S. Bureau of the Census. Unpublished data, Bureau of Labor Statistics.

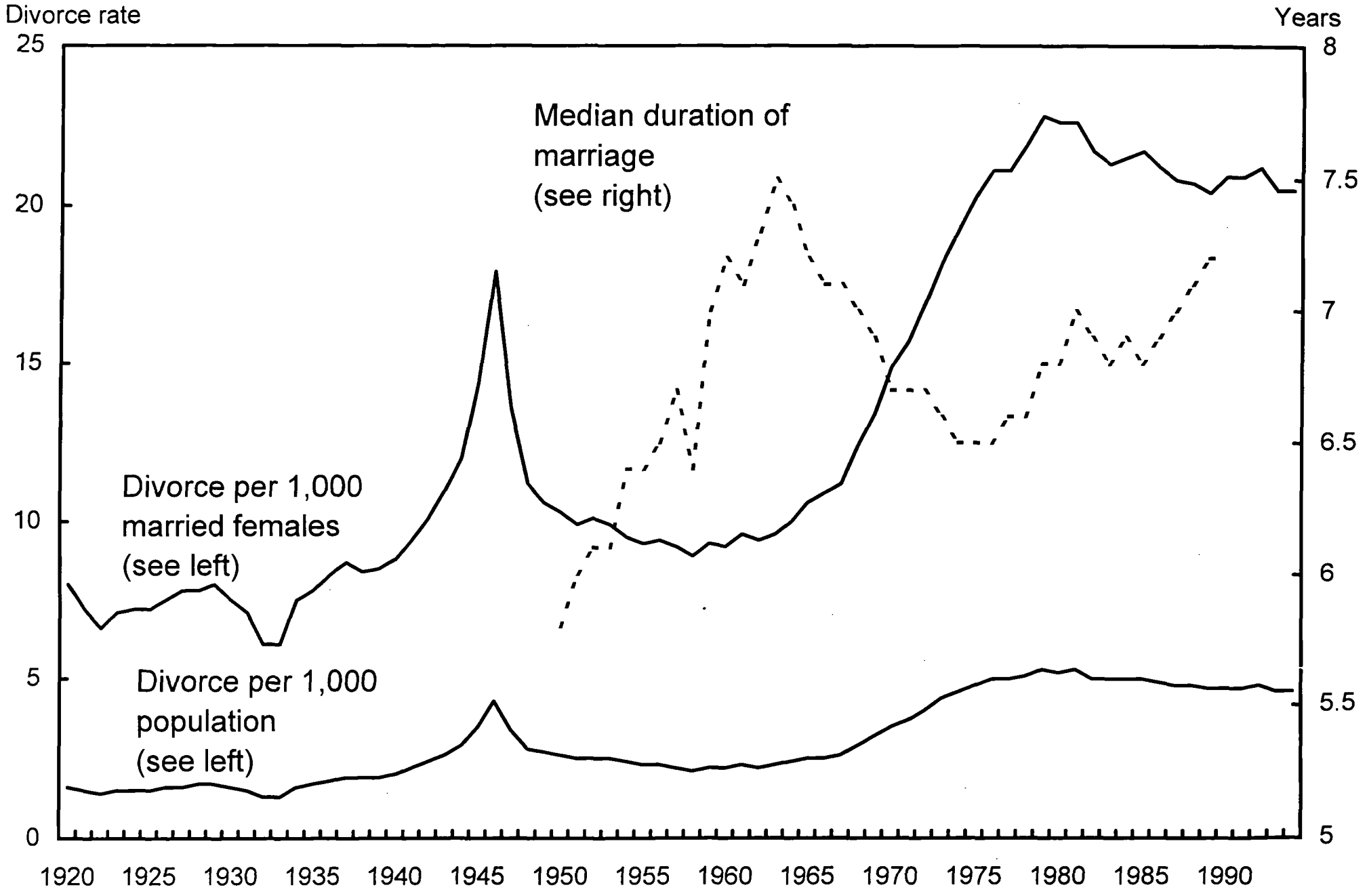
Note: Straight lines between dots indicates data are not available for intervening years.

Chart 5-2 **Percent of Population Widowed or Divorced, Aged 35-54**



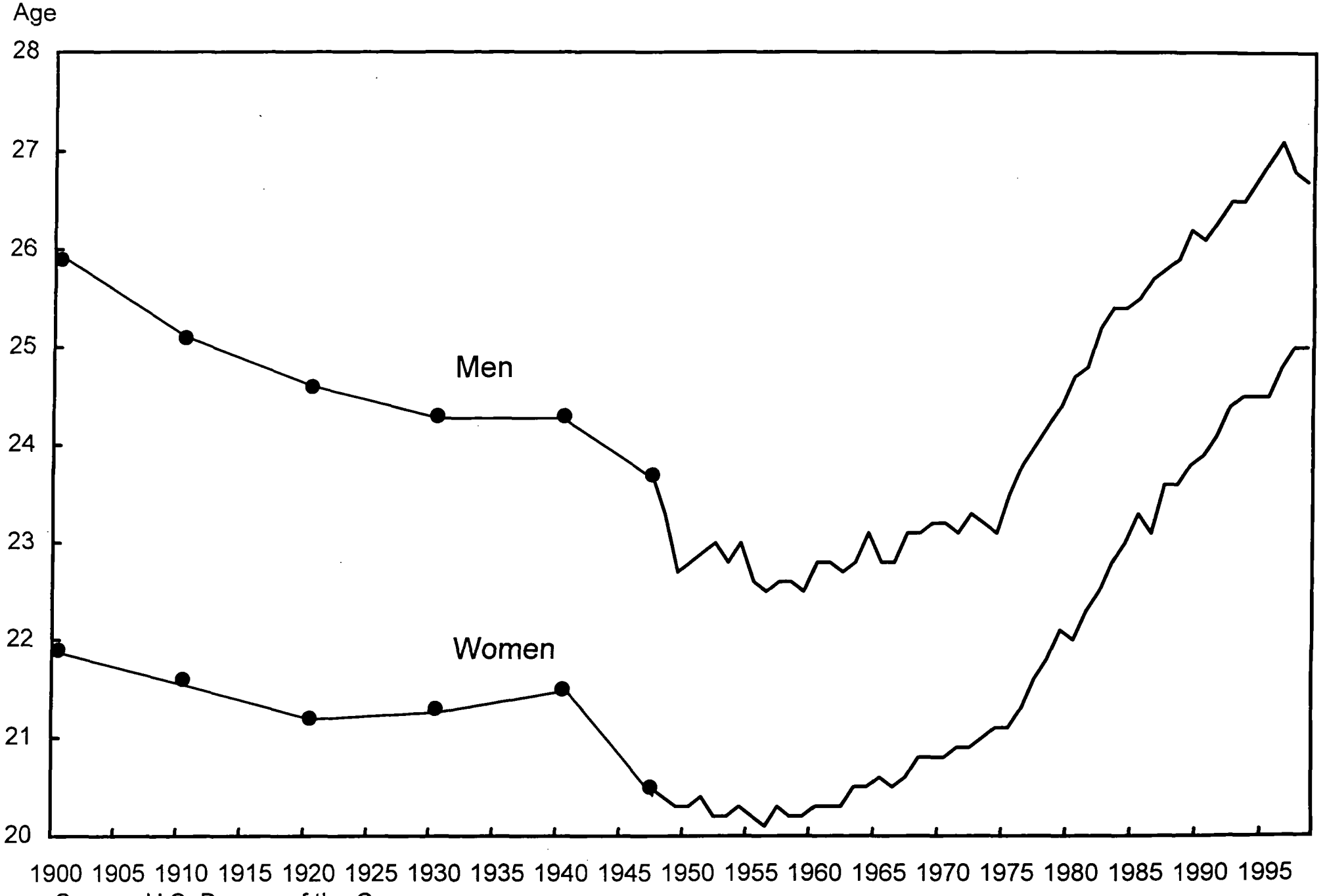
Source: *Historical Statistics of the United States: Colonial Times to 1970*; Current Population Report, U.S. Bureau of the Census.

Chart 5-3 **Divorce Rates and Median Duration of Marriage**



Source: *A Statistical Portrait of the U.S.*; *Historical Statistics of the United States: Colonial Times to 1970* and; U.S. National Center for Health Statistics of the United States.

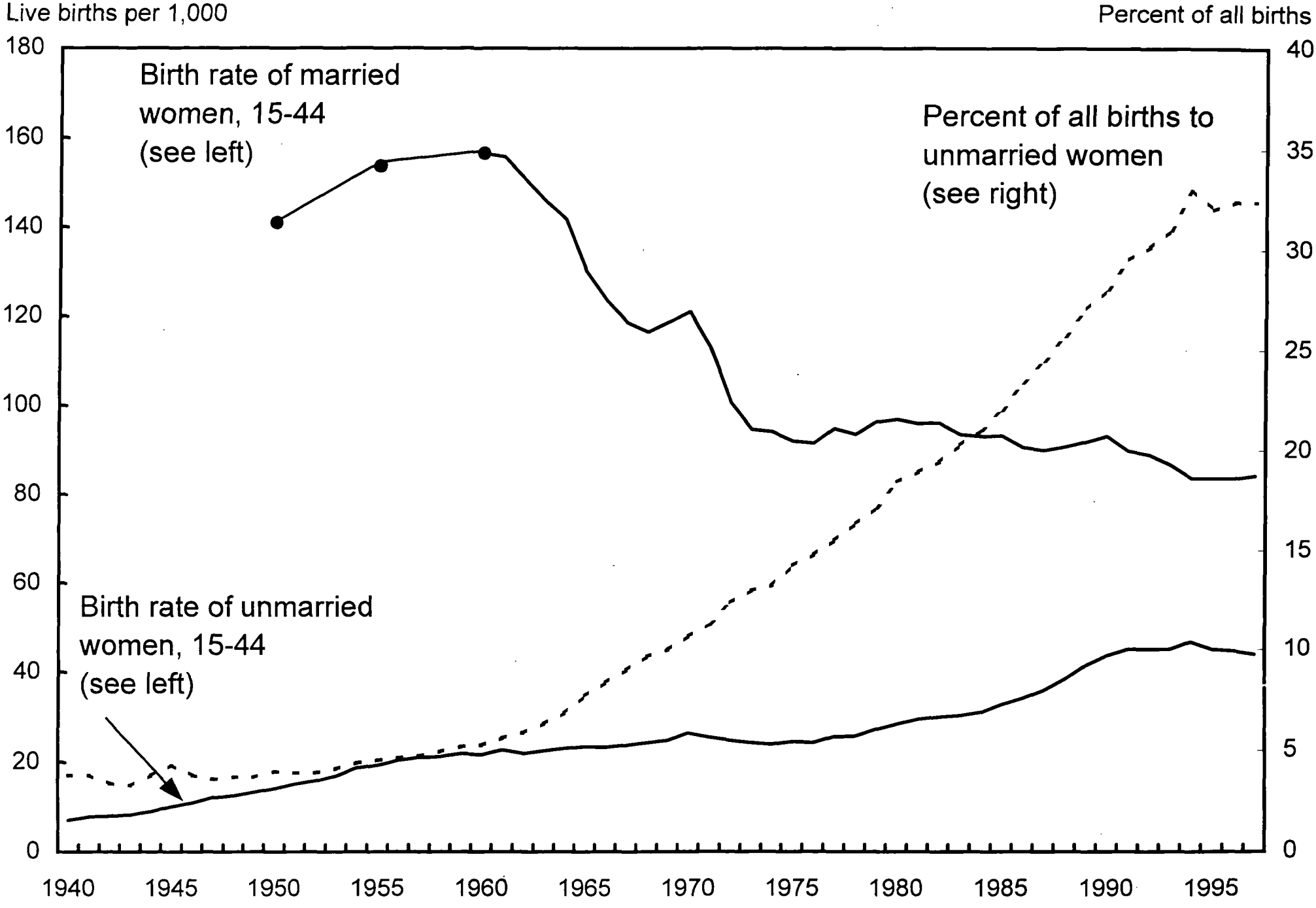
Chart 5-4 **Median Age at First Marriage, 1900-1998**



Source: U.S. Bureau of the Census.

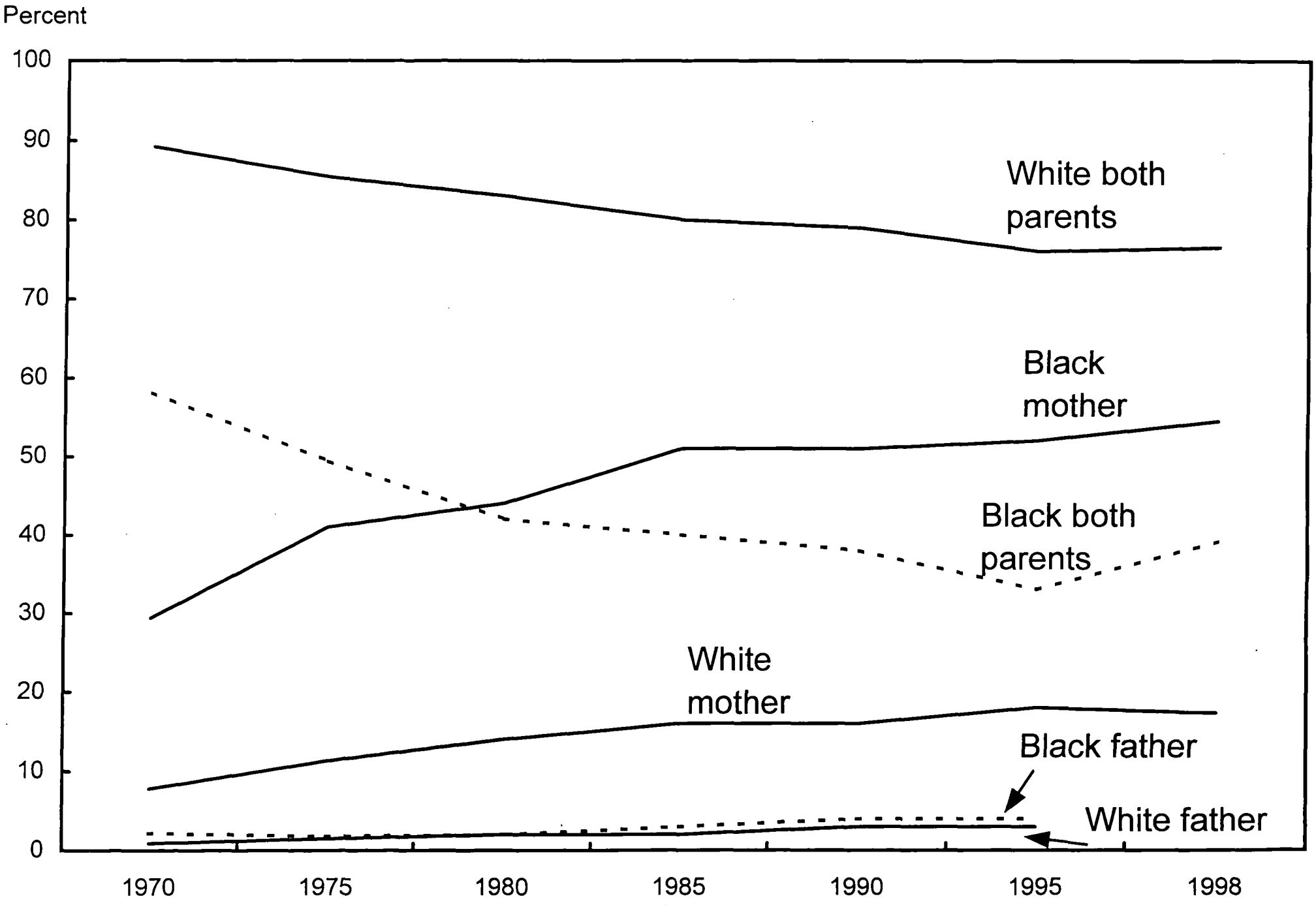
Note: Straight lines between dots indicates data are not available for intervening years.

Chart 5-5 **Birth Rates and Percent of Births by Marital Status**



Source: CDC/NCHS, National Vital Statistics System.

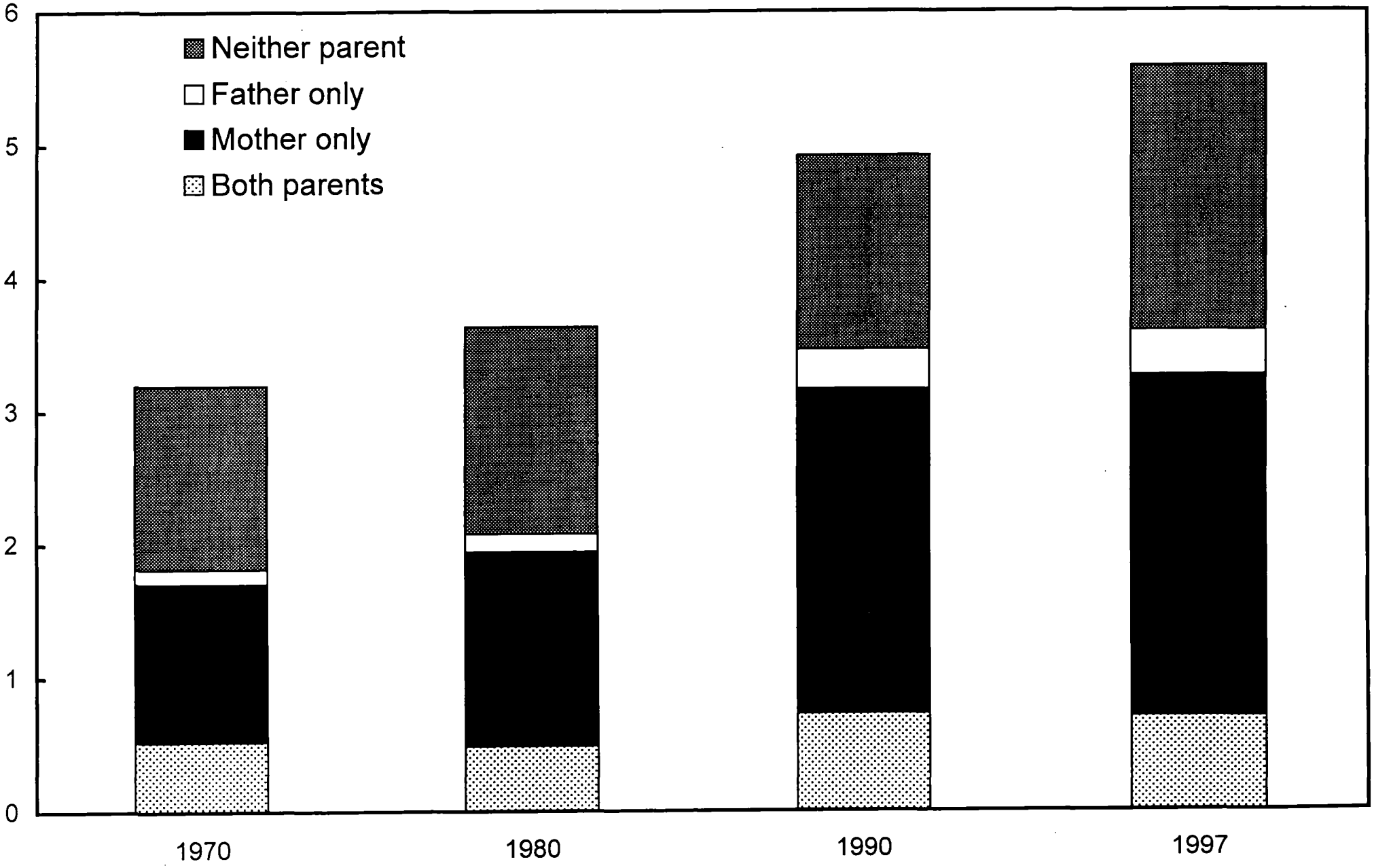
Chart 5-6 **Percent of Children in Various Living Arrangements, by Race**



Source: Current Population Report, U.S. Bureau of the Census.

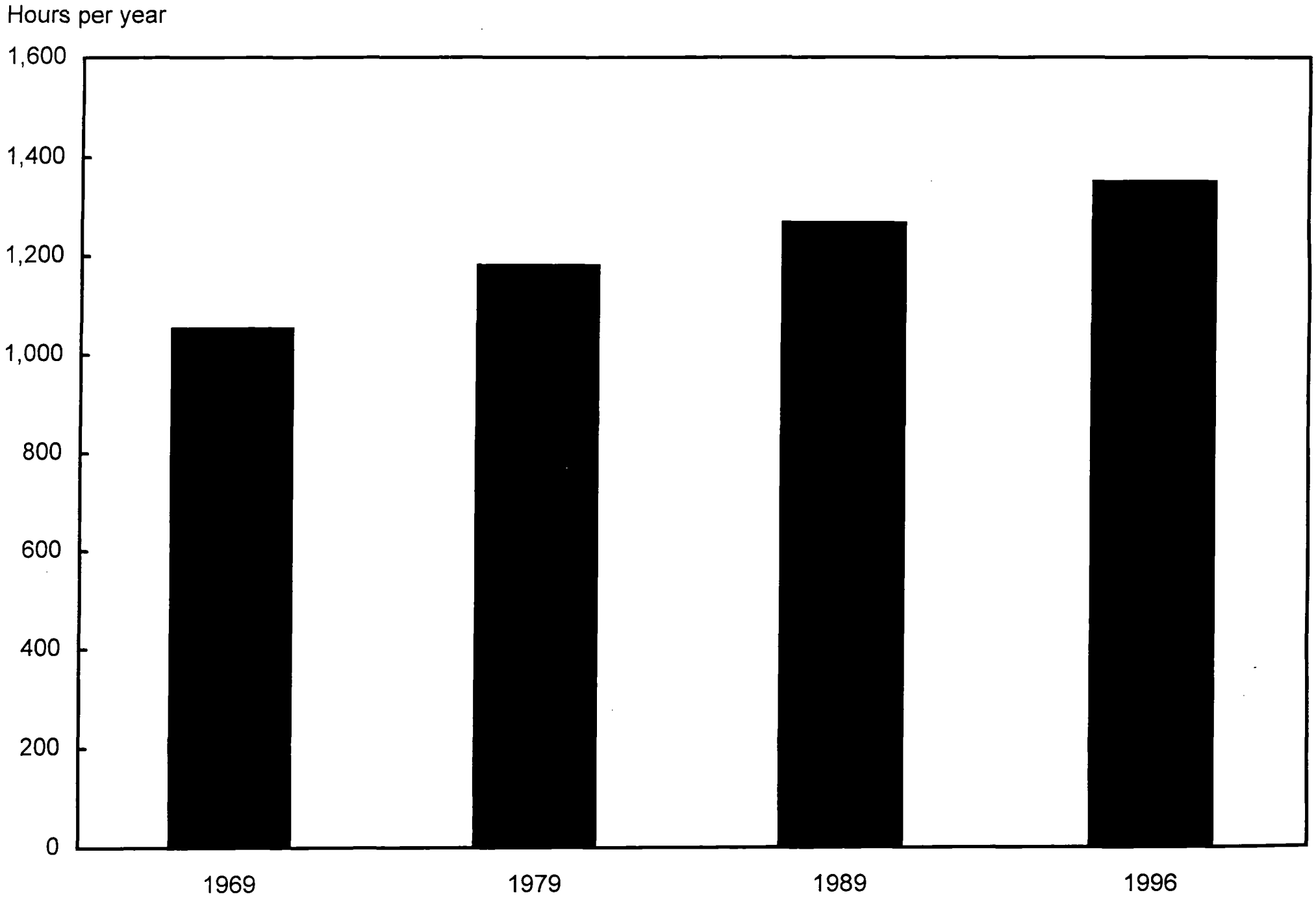
Chart 5-7 **Grandchildren in Grandparents' Homes by Presence of Parents**

Percent of children under 18



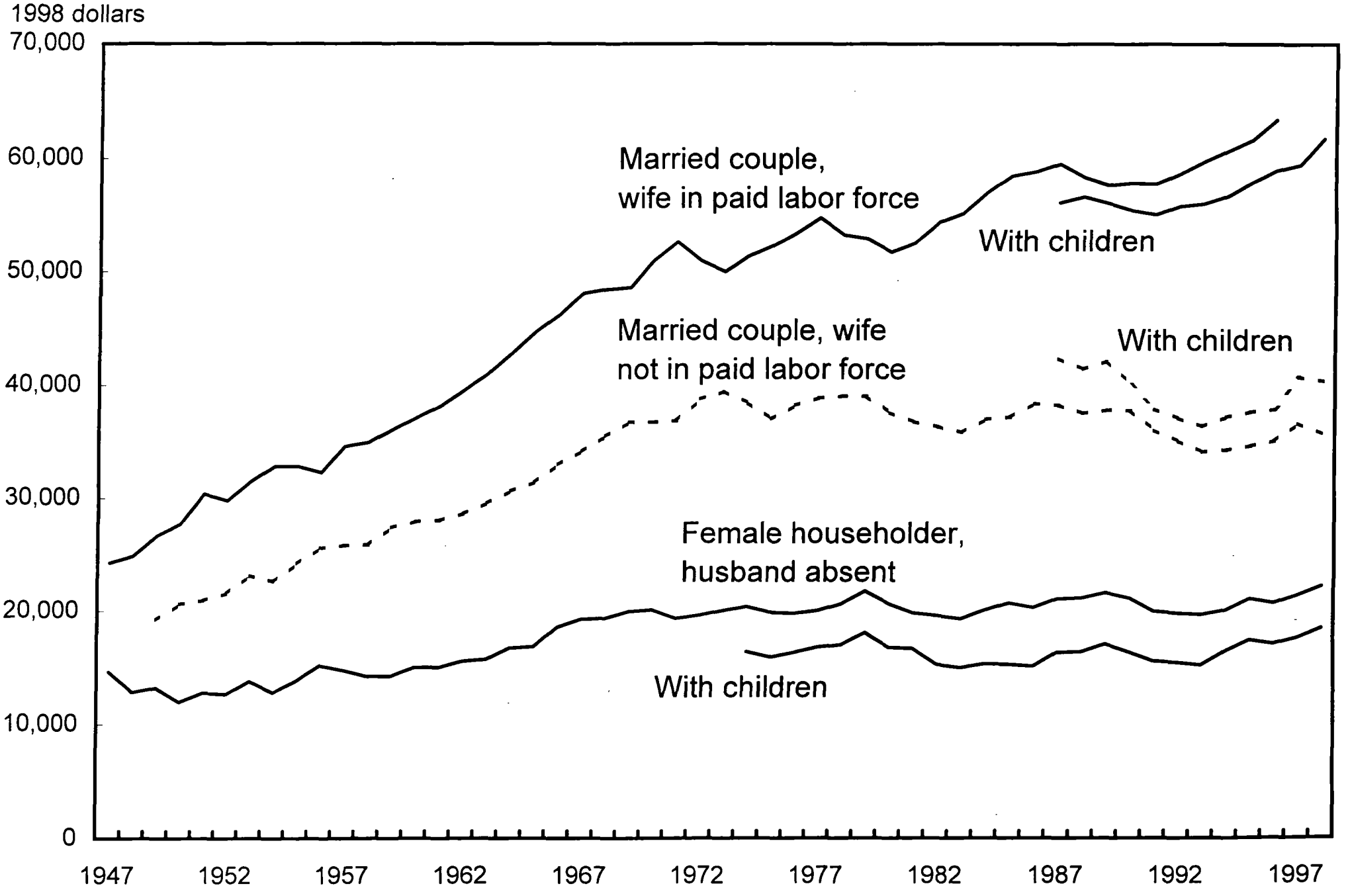
Source: Current Population Survey, 1980 Census of Population, 1970 Census of Population, U.S. Census Bureau.

Chart 5-10 **Annual Hours of Work by Single Parents**



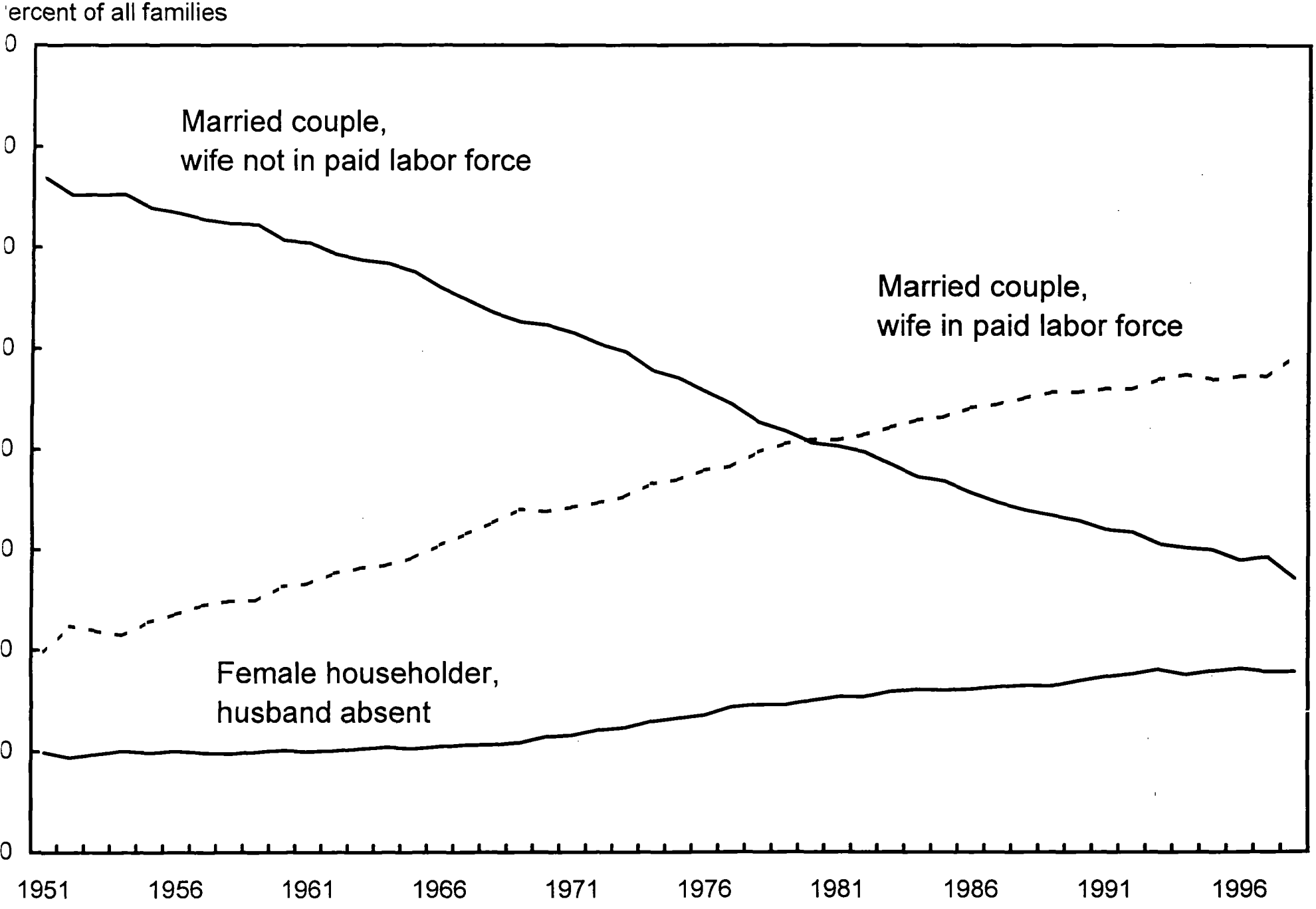
Source: *Families and the Labor Market: 1969-1999*, Council of Economic Advisers.

Chart 5-8 **Median Family Income by Family Structure**



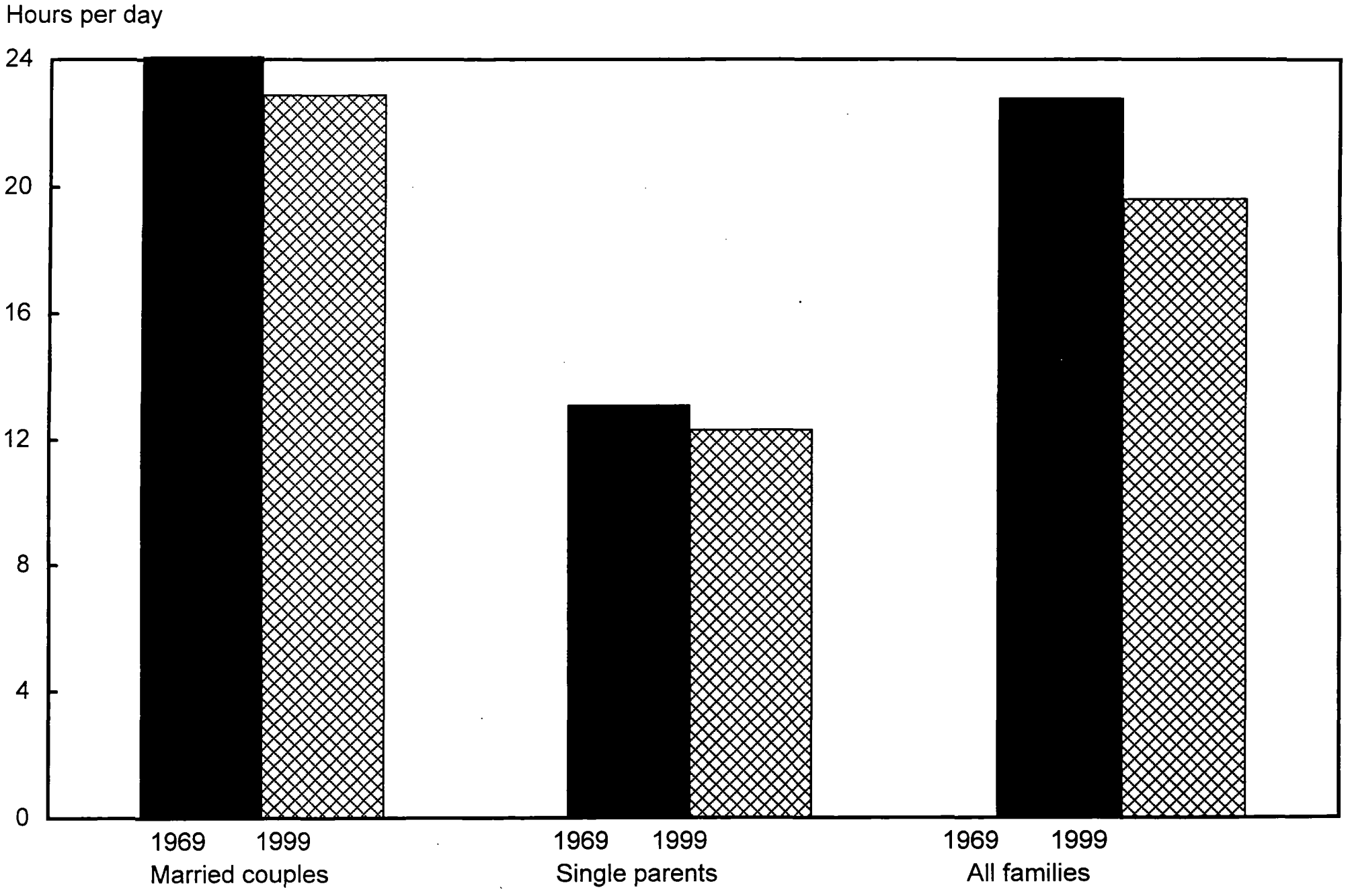
Source: Current Population Report, U.S. Bureau of the Census.

Chart 5-9 **Share of Families by Type of Family Structure**



Source: U.S. Bureau of the Census.

Chart 5-11 **Available Time of Custodial Parents Outside Paid Work and Sleep**



Source: *Families and the Labor Market: 1969-1999*, Council of Economic Advisers.