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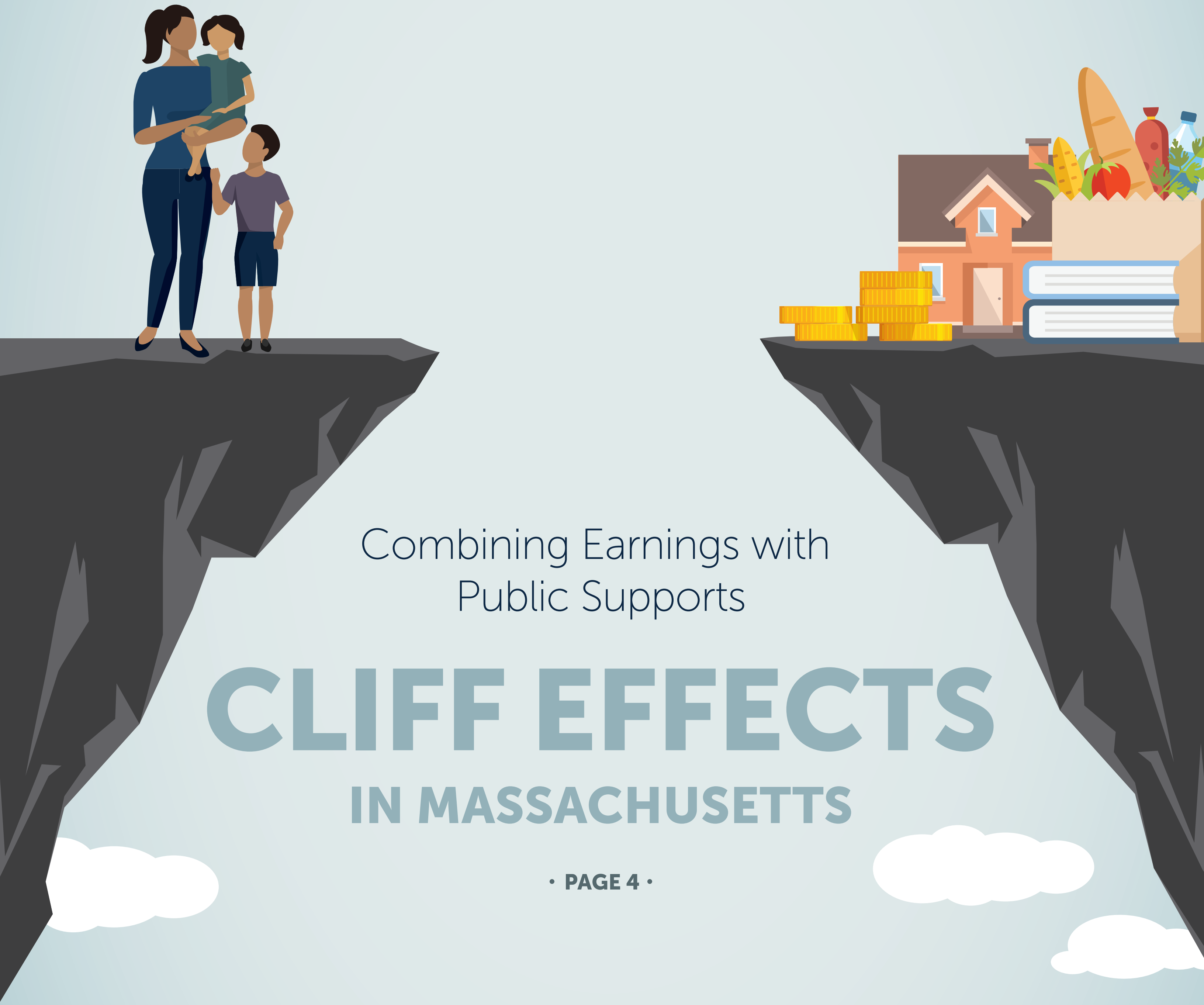

Combining Earnings with Public Supports

CLIFF EFFECTS IN MASSACHUSETTS

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Communities & Banking

Communities & Banking magazine aims to be the central forum for the sharing of information about low- and moderate-income issues in New England.

LETTER FROM THE EDITOR

This issue of *Communities & Banking* brings to a close my stint as guest editor. I have enjoyed it tremendously! Please look for Gabriella Chiarenza, who comes to us from the Federal Reserve Bank of San Francisco, on the masthead of the next issue.

The winter 2017 issue takes an in-depth look at cliff effects—the experience of an abrupt drop in support when families receiving assistance reach certain income levels. We explore this topic through two companion pieces: Randy Albelda and Michael Carr's overview of cliff effects in Massachusetts and Stephanie Ettinger de Cuba's examination of cliff effects and the Supplemental Nutrition Assistance Program (SNAP).

We also have two articles on paying for college. Anthony Poore offers reasons why college savings accounts ought to—and do—receive support from policymakers on both sides of the aisle, and Sarah Savage presents preliminary results of a pilot program to help community college students complete their degree by providing them with financial coaching and guidance. In a Viewpoint piece, former Massachusetts secretary of education Paul Reville continues the education theme, sharing his thoughts on the direction that education reform needs to take. And Melissa Kearney and Phillip Levine present sobering evidence that income inequality increases the likelihood of high school incompletion among boys.

Douglas Hall looks at the employment and wage gap African American and Latino workers experience in Rhode Island and emphasizes education as one part of the solution. Edison Reyes's article on collaboration between financial institutions and workforce development programs highlights another potential part of that solution. And Bithiah Carter and Ange-Marie Hancock point out that race-based undervaluing of the wealth of people of color is a factor in the wealth gap.

Our "Mapping New England" feature examines credit card debt in the New England states and reveals that delinquency rates are highest in Rhode Island. Last but not least, at a time when immigration is a fraught political issue, Carla Dickstein and her coauthors describe how and why Maine is actively encouraging immigrants to settle there.

Francesca Forrest
Guest Editor
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We regret the following errors in the print edition of the fall 2016 issue:

Table of Contents (page 3):

- The description of "Educators' Perspectives on Common Core Implementation in Five States," by Antoniya Owens, should have read: The Common Core has provoked passionate debate, but a five-state survey found that teachers have been largely supportive and are adjusting their instruction.
- The affiliation listed for Joyce Manchester's article on "Northern New England's Young Adults and the Social Security Disability Insurance Program" should have read: Vermont Legislative Joint Fiscal Office.

Capital and Collaboration: Strengthening Community Investment in Smaller, Postindustrial Cities" (page 26):

- The town of Barnstable is not labeled in the map on page 27.

Look for the spring issue of Communities & Banking in April 2017

COVER STORY

Combining Earnings with Public Supports

CLIFF EFFECTS IN MASSACHUSETTS

Randy Albelda and Michael Carr
UNIVERSITY OF MASSACHUSETTS BOSTON

Safety-net benefits decrease as recipients' income increases, but the result can be an overall drop in resources—sometimes so sharp that it feels like falling off a cliff.

Key U.S. antipoverty programs, enacted from the 1930s onward, were established to help low-income families meet basic housing, food, and medical-care needs. (See "Federal Assistance Programs.") However, most of these programs were designed primarily to assist families and individuals that were not expected to be employed, like single mothers, elders, or people with disabilities.[1] (The earned-income tax credit, or EITC, is a notable exception.)

Since the 1980s, state and federal governments have actively promoted employment as a key component of poverty reduction for all able-bodied adults of working age, with corresponding changes to antipoverty programs. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act, which established the Temporary Assistance for Needy Families block grant, requires work from most parents receiving cash assistance and of all childless adults receiving food assistance.

While requiring employment, these programs have been slow to change in ways that support working for pay, particularly for those with low and/or unstable earnings. One result is the "cliff effects" phenomenon: benefit levels decline more steeply than earnings increase, resulting in a decrease in total resources (earnings + benefits) at certain key earnings thresholds.

To demonstrate the cliff-effects phenomenon, we simulate the relationship between total resources and earnings for a single parent residing in Massachusetts with two young children (ages four and nine) under three different scenarios. In the baseline simulation, the family receives all public supports for which it is eligible and that are readily available. In the second, we add on the hard-to-get Massachusetts Rental Voucher Program (MRVP, a state-funded voucher that pays for a portion of rent). In the third, we use the baseline case plus a proposed policy: universal publicly provided early education and care (including out-of-school programs) for children ages 2–12.

A Cliff Primer

Only families and individuals that have earnings *and* public supports experience cliff effects. Cliffs can be very steep when benefits end at particular earnings levels (as is the case with the Women, Infants and Children program, or WIC) or the decline may be more gentle, with benefits gradually dropping off as earnings increase (as is the case with MRVP).

Cliffs are an inevitable part of any means-tested benefit. Problems arise when benefit levels for multiple programs drop simultaneously. If several supports decrease at around the same level of earnings, this creates a long and/or steep cliff effect. And when benefits fade out at earnings levels far below what is needed to cover basic costs, families find themselves in the classic trap of earning too much to receive support but not enough to make ends meet.

Cliff effects create a feeling of running to stay in the same place. If the supports are vital for well-being, hard to get, or provide a substantial level of support, a rational response might be to work less or work just enough to keep the supports. For example, due to long waiting lists for housing or child care benefits, families with these supports may be reluctant to give them up by working more hours or taking a promotion, especially if they have a history of variable earnings.

Annual Net Resource Simulator

Through the Center for Social Policy (CSP) at the University of Massachusetts Boston, we created a simulator that estimates the level of net annual resources at various wage levels for a full-time employed single parent with two children ages four and nine. The parent must find full-day care for the younger child and part-time care for the older child during nonschool hours.

Cliff effects create a feeling of running to stay in the same place.

We define net annual resources as net annual income (all earnings, refundable tax credits, and cash assistance minus income and payroll taxes owed over the year) minus net annual costs (typical costs for basic needs minus the value of any public supports received that directly pay for those costs). Typical basic costs come from the MIT Living Wage Calculator for Massachusetts from 2014.[3] These average statewide costs are adjusted for family size and include a low-cost food plan, child care costs, health care costs (insurance premiums plus the average cost of drugs and medical services and supplies), housing (fair-market rent), transportations costs, and miscellaneous costs of other necessities. The total amount needed before taxes and with no public support is $54,280. Child care and housing comprise 52 percent of those costs.

The value of public supports is based on eligibility requirements and the value of benefits at various income levels. We use 2013 values and eligibility rules obtained from various state agency websites and Mass Law Reform Institute publications that describe eligibility rules.[4] The amount of refundable credits and payroll and income taxes owed are calculated using the National Bureau of Economic Research's TAXSIM program.[5]

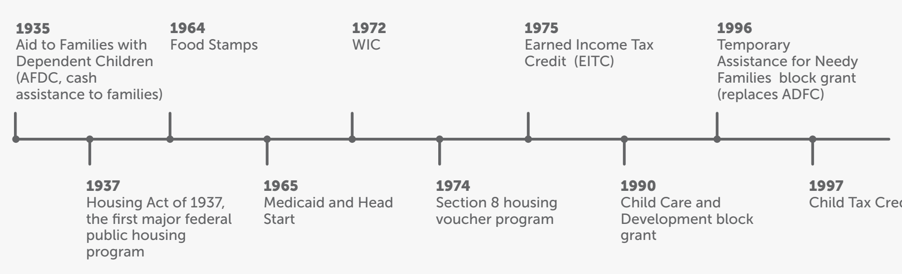
The parent works full-time (2,080 hours/year). Other than public supports, those earnings are the family's only source of income. We contrast net annual resources and total earnings, expressed as hourly wages, so $10/hour represents someone with gross earnings of $20,800 a year.

Data from the Massachusetts portion of the 2014 American Community Survey indicate there are just over 611,000 families with children with an employed parent, with 173,000 (28 percent) of those being single-parent families. We can't estimate the number of single parents with children ages four and nine, but there are 26,000 employed single parents with one child under six years old and one between the ages of six and 17, with median earnings of $22,500.

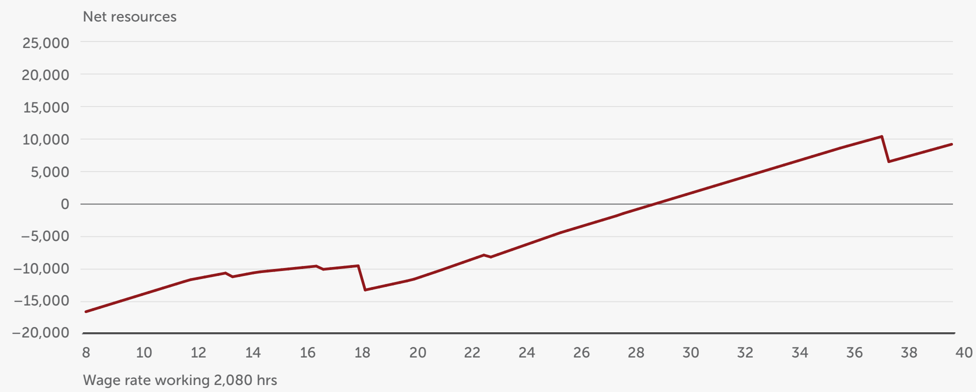
Baseline Case

The figure "Net Resources for a Family of Three Supported by MassHealth/Connector, SNAP, WIC, EITC, and CTC" depicts net resources for a family receiving the public supports that are

Federal Assistance Programs[2]

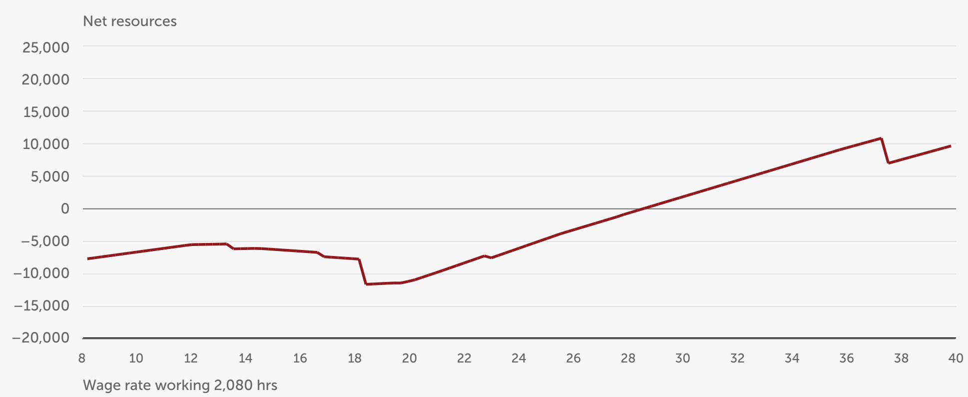


Net Resources for a Family of Three Supported by MassHealth/Connector, SNAP, WIC, EITC, and CTC



Source: Authors' calculations using CSP Net Resource Calculator.

Net Resources for a Family of Three with the Addition of MRVP



Source: Authors' calculations using CSP Net Resource Calculator.

available (i.e., fully funded) in Massachusetts.This includes two tax credits (EITC and Child Tax Credit, or CTC), health insurance assistance (MassHealth and Massachusetts Health Connector), and food assistance (Supplemental Nutritional Assistance Program, or SNAP, and WIC).

It takes about $29/hour (close to $60,000 annual income) for this single parent to pay for basic needs at the typical costs. The cliff effects are apparent starting at about $14/hour ($29,120 annually) through about $19/hour ($39,520 annually). This is because all the benefits decline at some point between 100 percent of the federal poverty line (FPL) income threshold of $19,530 and 200 percent of the FPL, or $39,060 annual income (corresponding to between $9.40/hour and $18.75/hour). The family is unable to reach the same level of net resources achieved at $14/hour until earning about $22/hour. Given the high level of negative net resources, this family no doubt searches for much cheaper and perhaps unstable housing as well as less-expensive child care.

Baseline Plus Housing Assistance

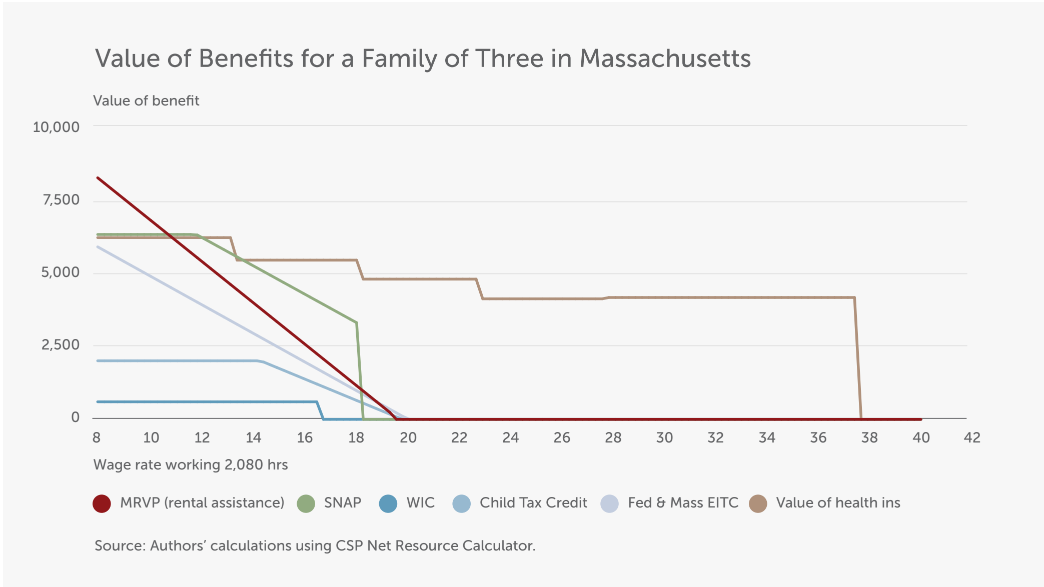
"Net Resources for a Family of Three with the Addition of MRVP" depicts the net resources for this family when, in addition to receiving the baseline supports, it also receives support from MRVP. In 2013, there were 5,100 families receiving MRVP vouchers,[6] far fewer than the demand by eligible households. When they are available, they are distributed through a lottery.

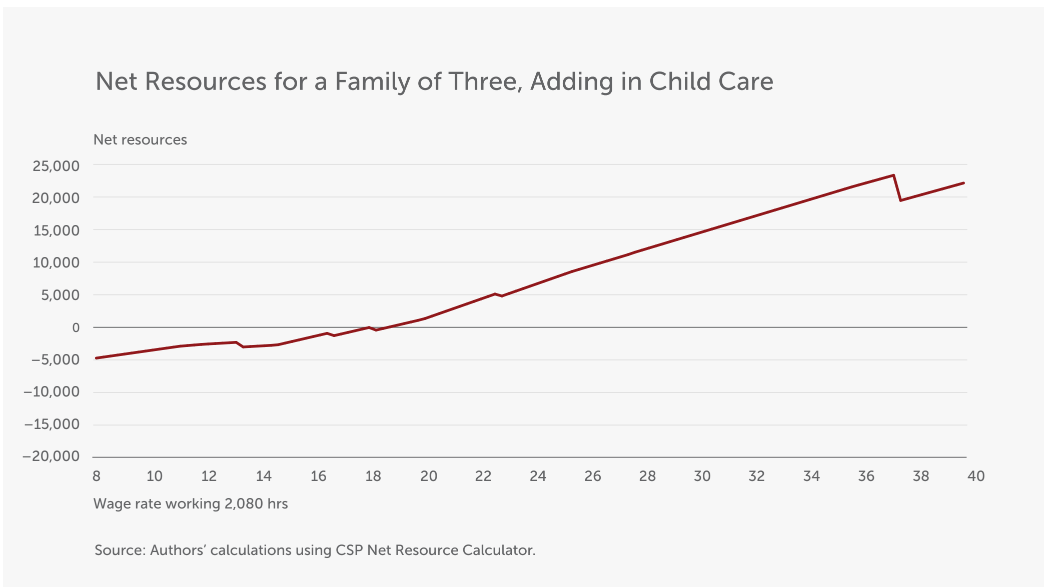
Again, this parent needs about $29/hour to meet all basic needs at typical costs, but the level of negative net resources up to that point is considerably reduced. As in the baseline case, cliff effects start at about $14/hour and end at about $19/hour. But in this case, the family faces a very slow rise in net resources from $9/hour to $14/hour, followed by a steady decline in net resources through $20/an hour. This is because EITC and MRVP benefits decline steadily and steeply between $9/hour and $20/hour. SNAP starts to decline at $14/hour and then completely drops off at about $19/hour, with the CTC tapering off at about $15/hour. When they are all declining, this family is losing more in supports than it is gaining in income. (See "Value of Benefits for a Family of Three in Massachusetts.")

Baseline Plus Child Care

As our simulation shows, child care costs comprise a large portion of this family's expenses. One bold policy step to alleviate cliffs and help families make ends meet would be to make support for child care universal. While an expensive proposition, it is not far-fetched. We already provide K-12 education, and universal child care has already been shown to reduce poverty and income and gender inequality and to promote economic growth.[7] We run a third simulation to see how universal and free child care for children ages 2–12 would affect both the level of net resources and also the cliff effects for this family. (See "Net Resources for a Family of Three, Adding in Child Care.")

With the inclusion of child care, and even in the absence of MRVP, this family can cover typical costs at close to $18/hour. While there are still a few cliffs (notably at $14 an hour), they are not nearly as pronounced, and at almost every wage increase, there is an increase in net earnings. Instituting universal free child care would be costly, but so is the status quo, which currently puts the burden on those least able to bear it.





Randy Albelda *is a professor of economics at the University of Massachusetts Boston, where* **Michael Carr** *is an assistant professor of economics. Contact them at Randy.Albelda@umb.edu and Michael.Carr@umb.edu, respectively.*

Endnotes

1 Randy Albelda, "Time Binds: U.S. Antipoverty Policies, Poverty and the Well-being of Single Mothers," *Feminist Economics* 17, no. 4 (November 2011): pp. 189–214.

2 Data represented in this timeline come from the following sources: "Supplemental Nutrition Assistance Program (SNAP), A Short History of SNAP," http://www.fns.usda.gov/snap/short-history-snap; Victor Oliveira et al., "The WIC Program: Backgrounds, Trends, and Issues" (US Department of Agriculture Food Assistance and Nutrition Research Report no. 27, Washington, DC, 2002); Thomas Hungerford and Rebecca Thiess, "The Earned Income Tax Credit and the Child Tax Credit" (Economic Policy Institute Issue Brief no. 370, Washington, DC, 2013); Maggie McCarty, "Introduction to Public Housing," (report, Congressional Research Service, Washington, DC, 2014); Judith G. Moore and David G. Smith, "Legislating Medicaid: Considering Medicaid and Its Origins," *Health Care Financing Review* 27, no. 2 (Winter 2014): 45–52; "Aid to Families with Dependent Children (AFDC) and Temporary Assistance for Needy Families (TANF): Overview," https://aspe.hhs.gov/aid-families-dependent-children-afdc-and-temporary-assistance-needy-families-tanf-overview-0.

3 See http://livingwage.mit.edu for the living-wage calculator; links for individual states appear on the right. We use statewide costs to present a general case, but costs can by adjusted by county to reflect the variation in housing costs across the state.

4 Massachusetts Law Reform Institute publications can be found at http://www.mlri.org/publications/advocacy-guides. The institute is a nonprofit organization whose mission is "to advance economic, racial and social justice through legal action, education and advocacy" (http://www.mlri.org/about_us).

5 See http://users.nber.org/~taxsim/.

6 "Massachusetts Rental Voucher Program: Rental Assistance," RCAP Solutions, 2013, http://www.rcapsolutions.org/massachusetts-rental-voucher-program/.

7 Arthur MacEwan, "Universally Available, Publicly Funded Early Education," *Communities & Banking* 25, no. 1 (Winter 2014): 4–6.

How Banks Can Support Workforce Development

Edison Reyes
FEDERAL RESERVE BANK OF NEW YORK

When financial institutions partner with workforce development programs, the beneficiaries include job seekers, businesses, and the entire community.

Between 2000 and 2015, Congress reduced federal funding for workforce programs that target young people and unemployed and dislocated workers by over 55 percent. In 2000, the level of federal funding for the Workforce Investment Act (WIA) was approximately $5.1 billion; it fell to a little over $2.8 billion by 2015.[1] Within the same period, the national average unemployment rate went from 4.0 percent in 2000 to an economically distressing 9.6 percent in 2010 before dropping to a still impactful 5.3 percent in 2015.[2] Workforce research experts and practitioners agree: not enough money is currently being invested in the workforce to meet the competitive demands of the economy. Given the increasingly burdensome funding gaps, it is imperative that workforce practitioners exchange resources and expertise with stakeholders from financial services and other industries to strengthen local communities. This article examines two legislative acts intended to help low- and moderate-income (LMI) communities and explores three engagement strategies that workforce entities and financial institutions can adopt in partnership for mutual and community benefit.[3]

The Community Reinvestment Act

The Community Reinvestment Act (CRA) was included in the Housing and Community Development Act of 1977. It encourages depository institutions (banks and savings and loan associations) to help meet the credit needs of the LMI communities in which they operate, consistent with safe and sound operations. The law was enacted because financial institutions were failing to lend in LMI communities, perceiving them as too risky.

Bank examiners routinely assess financial institutions' compliance with this regulation as part of the audit process. The process varies depending on the institution's size and designation, but regulators examine performance in three areas: lending, investment, and service.[4] (See "Examples of Community Development Services" for ways financial institutions satisfy the third criterion.)

The Workforce Innovation and Opportunity Act

The Workforce Innovation and Opportunity Act (WIOA), which became law in 2014, is the latest reform created to improve the American workforce by advancing education and training services that help job seekers gain and develop skills that match employers' needs. As part of the WIOA reforms, efforts are being made to improve service and support for both in- and out-of-school youth. Financial institutions have a unique opportunity to contribute to the success and impact of the youth programs through provision of financial-literacy education. Financial-literacy initiatives seek to enhance the financial skills and behaviors of youth and young adults. (See "Aspects of Financial Literacy supported by WIOA Activities." By combining financial-education efforts with workforce services, training providers and financial institutions may find that their joint efforts lead to better employment and financial outcomes for those they seek to aid.

Engagement Strategies

WIOA offers opportunities for financial institutions to partner with workforce entities, allowing both partners to leverage their expertise and resources to better understand and serve the needs of the workforce. The following three engagement strategies are examples of ways in which workforce stakeholders and financial institutions can potentially collaborate.

Active Participation on a Community Development Board

WIOA legislation requires the formation of boards, led by private industry, to determine local workforce needs and program priorities and to facilitate partnerships among local businesses, academia, government, and training providers. Many boards intuitively seek at least one representative from a financial institution, acknowledging financial institutions as anchor businesses, drivers of economic development, and key business leaders.

As noted earlier, such service counts toward a financial institution's fulfillment of its CRA obligations, but the board member must play an active role, providing "services reflecting financial institution employees' areas of expertise at the institution, such as human resources, information technology, and legal services."[5] Bank employees with expertise in financial products and innovative

Examples of Community Development Services

- Providing financial services to low- and moderate-income individuals through branches and other facilities located in LMI areas
- Providing technical-assistance** on financial matters to nonprofit, tribal, or government organizations serving LMI housing or economic revitalization or development needs
- Providing technical assistance on financial matters to small businesses or community development organizations
- Establishing school savings programs or developing financial education or financial literacy programs for LMI individuals

**Examples of technical-assistance activities include serving on the board of directors of an organization engaged in community development, serving on loan review committees, and furnishing financial services training, among others.

Aspects of Financial Literacy Supported by WIOA Activities

- Creating household budgets and savings plans
- Saving for particular goals (e.g., education, retirement, home ownership, wealth building)
- Managing spending, credit, and debt, including credit card debt
- Understanding credit reports and credit scores and their role in obtaining credit; determining their accuracy
- Understanding, comparing, and evaluating financial products, services, and opportunities
- Developing and distributing multilingual financial-literacy and education materials for non-English speakers

lending practices would be great partners for workforce boards and community-based organizations, capable of connecting LMI communities with affordable financial products or financial-education training and resources, thereby filling expertise gaps and strengthening local communities. By connecting with the financial sector, workforce stakeholders gain a stronger understanding of strategies that impact the financial well-being of their program participants, such as financial coaching and microlending to build credit scores.

Sectoral Partnerships and Trainings

As part of WIOA's demand-driven strategy, workforce training providers are developing sector-based training to match workers' skills with employers' needs. Sector-based training relies on dedicated partnerships between training providers and businesses in an industry cluster. A 2003 study showed this approach to be very successful: two years after participation in training, trainees' wages were 29 percent higher than those of a control group.[6] Employers are involved throughout the training program, which means trainees are assured of gaining the expected skills and general knowledge of a particular industry. A close partnership between employers and training providers can result in a talent pipeline of quality candidates for employers to consider hiring.

As there are many types of occupations and sought-after skills in the banking and finance industry, opportunities exist for financial institutions to collaborate with training providers to nurture the necessary skills. For example, when the Asian American Civic Association in Boston developed a 15-week training program for careers in banking and finance, it partnered with several banks and incorporated their expectations into its program.[7]

Corporate Philanthropy

In 2015, 71 percent of $373.25 billion in total giving in the United States was contributed by individuals, and 21 percent was contributed by foundations (16 percent) and corporations (5 percent).[8] Financial institutions can benefit from charitable giving and grantmaking to the communities they serve as they may receive credit for CRA-qualified investment. Philanthropy is eligible for CRA credit if the grants are given for general operating support or program-specific support for community development programs or programs to benefit LMI individuals. While corporate philanthropy is not new, for banks it offers a unique opportunity to use their expertise to strengthen local communities. JPMorgan Chase, for example, established a five-year, $75 million initiative called New Skills for Youth, which invests in demand-driven programs that prepare youth and young adults for the workforce.[9]

Taking Steps to Move Forward

The first step for financial institutions that want to become more involved in the workforce system is to find their local workforce board online and reach out to the chair or the executive director for information.[10] WorkforceGPS, an online platform designed to provide workforce development information at one central website, is another good starting point.[11] On their end, workforce stakeholders can request a copy of their bank's latest CRA performance evaluation and find out their bank's CRA compliance rating.[12] They can also speak with the bank's CRA compliance officer or staff leading the bank's philanthropic efforts to better understand the bank's community development strategy. LMI communities and individuals stand to gain when financial institutions and workforce entities collaborate.

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Note: The views expressed in this article are those of the author and not necessarily those of the Federal Reserve Bank of New York or the Federal Reserve System.

Endnotes

1 "Federal Policy: Interactive Federal Funding Tool," National Skills Coalition, http://www.nationalskillscoalition.org/federal-policy/federal-funding-tool.

2 See "Labor Force Statistics from the Current Population Survey," U.S. Department of Labor, Bureau of Labor Statistics, http://data.bls.gov/timeseries/LNS14000000.

3 The information on the Community Reinvestment Act and the Workforce Innovation and Opportunity Act is intended to provide a general understanding rather than an in-depth analysis. Additionally, training programs or initiatives are mentioned as examples of cooperation between workforce providers and financial institutions, not as program endorsements.

4 For more information on the specifics of these evaluations, see A Banker's Quick Reference Guide to CRA, https://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf and "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Notice" *Federal Register* 78, no. 244 (November 20, 2013), 69671, https://www.gpo.gov/fdsys/pkg/FR-2013-11-20/pdf/2013-27738.pdf.

5 "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment; Notice," 69676.

6 Carol Clymer et al., "Tuning in to Local Labor Markets: Findings from the Sectoral Employment Impact Study," July 1, 2010, http://www.issuelab.org/resource/tuning_in_to_local_labor_markets_findings_from_the_sectoral_employment_impact_study.

7 "Careers in Banking and Finance," Asian American Civic Association, http://aaca-boston.org/programs-services/job-training/banking/.

8 "Giving USA: 2015 Was America's Most-Generous Year Ever," June 13, 2016, http://givingusa.org/giving-usa-2016/.

9 "New Skills for Youth: Investing $75M Today to Build Tomorrow's Economy," JPMorgan Chase & Co., 2016, https://www.jpmorganchase.com/corporate/news/stories/newskillsforyouth.htm.

10 Workforce boards can be located at http://www.servicelocator.org/WorkforceContacts.asp.

11 See https://www.workforcegps.org/.

12 Federal Reserve System CRA ratings are available at https://www.federalreserve.gov/apps/crape/BankRating.aspx; Office of the Comptroller of the Currency CRA ratings are available at http://apps.occ.gov/crasearch/default.aspx; Federal Deposit Insurance Corporation CRA ratings are available at https://www5.fdic.gov/crapes/index.sp?ProcessParms=Y&ErrMessage=&PageNo=2&PrevPage=1&NextPage=3&TotRecs=181&TotPages=19&PEInd=Y&CRACert=&CRAStatus=CurrentActive.

Income Inequality and the Decision to Drop Out of High School

Melissa S. Kearney and Phillip B. Levine

When inequality is high, does being at the bottom of the socioeconomic ladder push students to work harder to climb the rungs, or do some just give up hope?

Income inequality is higher in the United States than most other developed nations.[1] Among 13 of the most highly developed countries, rates of social mobility (as reflected in high rates of intergenerational income persistence) in the United States are lower than all but the United Kingdom and Italy.[2] These measures may be related: more unequal countries tend to have lower rates of social mobility.[3] Research from the United States confirms that this international pattern is also observed domestically across U.S. states.[4] A critical question is whether this relationship might reflect something causal. Might higher levels of income inequality actually lead to lower rates of social mobility, particularly lower rates of upward mobility for individuals from low-income families? If so, through what mechanisms?

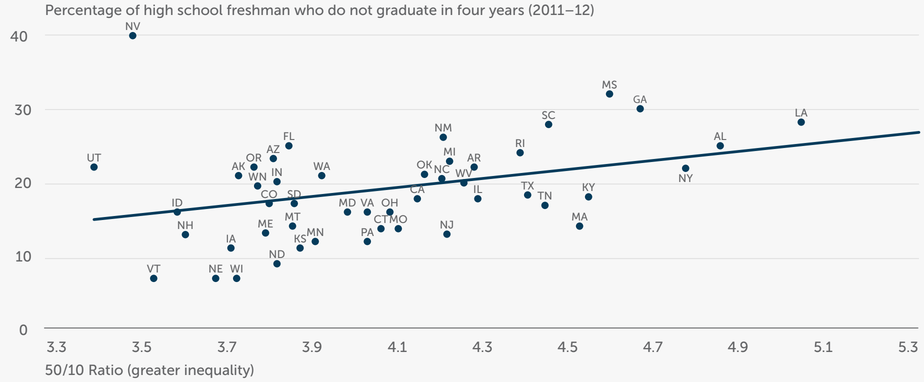
Income Inequality: Motivator or Demotivator?

One way in which higher rates of income inequality might lead to lower rates of upward mobility is through lower rates of educational completion among children from low-income families. We posit that economically disadvantaged adolescents, when faced with greater levels of income inequality, perceive their individual return to investment in education to be low—either through a correct assessment of actual returns or through a (mistaken) perception of those returns. A greater gap between the bottom and the middle of the income distribution may lead to such a heightened sense of economic marginalization that an adolescent at the bottom may not see much value in staying in school. We call this "economic despair."

Standard economics models of human capital investment hold that income inequality gives people incentive to invest in their own education and to work harder than they otherwise might, in an attempt to climb to the upper rungs of the income distribution.[5] If this standard view is correct, we would expect to see greater rates of high school completion in more unequal places, all else equal. But, simple cross-sectional comparisons reveal the reverse correlation: states with higher levels of income inequality have higher rates of high school noncompletion. The graph "Relationship Between Inequality and High School Noncompletion in the United States" uses a measure of income inequality (the gap between the 50th percentile and the 10th percentile of household income distribution) to reflect the gap between the bottom and the middle. This cross-sectional relationship is consistent with our hypothesis regarding economic despair. Of course, this graph does not hold all else equal, so we conducted rigorous econometric analyses to explore this relationship further.

Relationship Between Inequality and High School Noncompletion in the United States

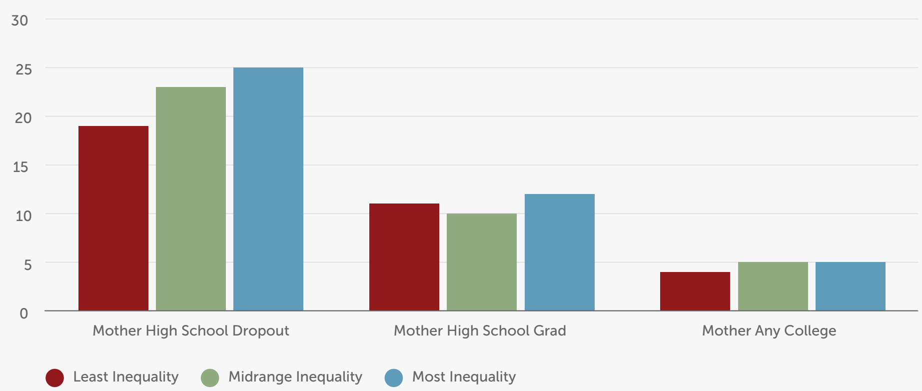
Percentage of high school freshman who do not graduate in four years (2011–12)



Note: The x axis is calculated by the authors and reflects the ratio between the 50th and 10th percentiles of the income distribution. Source: The graduation data are from Marie C. Stetser and Robert Stillwell, "Public High School Four-Year, On-Time Graduation Rates and Event Dropout Rates: School Years 2010–11 and 2011–12" (National Center for Education Statistics Report No. 2014-391, Washington, DC, 2014). The District of Columbia is omitted from this figure because it is an extreme outlier on the x axis (50/10 ratio = 5.66).

High School Dropout Rate for Boys by Mother's Level of Education and State Level of Income Inequality

Percent



Source: Authors' calculations.

We used nationally representative survey data collected on nearly 50,000 individuals to investigate whether children from low-socioeconomic-status (SES) homes—as captured by the educational attainment of the mother in the household[6]—are more likely to drop out of high school if they live in a more unequal state or metropolitan area, accounting for individual-level characteristics (including race and whether there are two parents in the home) and state- or metro-area-level characteristics (including controls for the policy environment and economic conditions).

Our measure of income inequality is the 50/10 income ratio mentioned earlier, calculated using U.S. census data on household income. We focused on this measure because the distance between the low end and the middle of the income distribution seems more relevant to disadvantaged youth than the distance to the top of the distribution. Our analyses focused on (relatively) fixed differences across states, not variation over time, because the neighborhoods people live in, the institutions they interact with, and the perceptions children develop about their world and their opportunities are likely formed by the semipermanent conditions of the state, not transitory fluctuations in inequality.

Gender Differences

The data are consistent with the hypothesis that greater income gaps lead children from low-SES homes to drop out of school more often. The unadjusted data for boys show that low-SES boys in high-inequality states are almost six percentage points more likely to drop out of high school than are low-SES boys in low-inequality states—25 percent versus 19 percent. (See "High School Dropout Rate for Boys by Mother's Level of Education and State Level of Income Inequality.") Importantly, boys from high-SES families are no more likely to drop out of school if they live in a more unequal state; their dropout rate is consistently around 5 percent. This helps establish a negative causal effect of income inequality—at least on low-SES boys.

There is no corresponding difference observed among girls. Assuming our hypothesis is correct, this gender difference raises questions about how and why boys appear to be particularly sensitive to the economic environment around them.

We built on this analysis by estimating a series of regression models that also control for other features of the state environment's interaction with low-SES status, along with lower-tail income inequality, to see whether they are really responsible for the relationship between inequality and high school noncompletion among low-SES boys. These other features included the absolute level of income at the bottom of the income distribution, the industrial composition of the labor market, and the demographic characteristics of the state. In every specification, the data clearly showed that the gap between the bottom and the middle of the income distribution is associated with lower rates of high school completion among low-SES boys, and the magnitude of that estimated effect is remarkably consistent across specifications.

A greater gap between the bottom and the middle of the income distribution may lead to such a heightened sense of economic marginalization that an adolescent at the bottom may not see much value in staying in school.

For Comparison: A Look at Prospective Wages

High school graduates earn more than high school dropouts: this knowledge may spur young people to stay in school. To test for this, we also estimated an additional model that includes a measure of the wage differential between high school graduates and dropouts. When we controlled for this factor, we still found a positive association between the 50/10 ratio and high school dropout rates. The data do show, however, that inequality in the form of wage returns corresponds with lower rates of high school dropout.[7] It is striking that the data clearly indicate offsetting effects: wage inequality is associated with greater educational completion, but overall household-level income inequality is associated with a negative effect on educational attainment—for low-income boys.

Possible Mechanisms for Income Inequality's Effect

If income inequality affects school completion rates, how does it do so? One possibility is that income inequality exercises its effect through higher rates of residential segregation (by either race or income). It could also be influencing dropout rates through its effect on public-school financing—if taxpayers in more unequal locations provide less funding to schools populated by low-income families, for instance. But the data do not offer support for these proposed mechanisms.[8] It is also possible that low-SES youth in more unequal places are simply of lower ability, for whatever reason. To investigate this possibility, we incorporated the scores of low-SES students on the Armed Forces Qualification Test, as a proxy for ability. Doing so reduced the estimate of the impact of inequality on high school dropout rates by one-third, but nevertheless, the estimated impact remained substantial. Overall, all these approaches support the notion that higher rates of income inequality lead low-SES boys to drop out of school at higher rates.

Avenues of Future Research

Our paper provides robust evidence of a link between higher levels of aggregate lower-tail income inequality and lower rates of high school completion among boys from low-SES homes. Future research should investigate more deeply *why* this relationship holds. We speculate that the reasons may have to do with individual perceptions, consistent with our model of economic despair,[9] but we cannot directly test this model with the data available to us. Because the data do not offer support for any of the direct mechanisms we described earlier, our "residual" explanation about the role of perceptions takes on greater credibility. We call on researchers across social-science disciplines to conduct additional investigations of this hypothesis. Meanwhile, our findings highlight the importance of policies that give low-SES youth reasons to believe they have opportunities to climb the economic ladder, along with policies that make those opportunities real.

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Endnotes

1 Of nations in the Organisation of Economic Co-operation and Development (OECD), only Chile, Mexico, and Turkey have greater income inequality, as measured by the Gini Coefficient (a standard measure of national income inequality). See the OECD Income Distribution Database, http://www.oecd.org/social/income-distribution-database.htm.

2 See, for example, Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," *Journal of Economic Perspectives* 27, no. 3 (Summer 2013): 79–102.

3 Miles Corak, "Do Poor Children Become Poor Adults? Lessons from a Cross-Country Comparison of Generational Earnings Mobility," *Research on Economic Inequality* 13 no. 1 (March 2006): 143–88.

4 Melissa S. Kearney and Phillip B. Levine, "Income Inequality, Social Mobility, and the Decision to Drop Out of High School" (Brookings Papers on Economic Activity, Brookings Institution, Washington, DC, 2016), http://www.brookings.edu/~/media/Projects/BPEA/Spring-2016/KearneyLevine_IncomeInequalityUpwardMobility_ConferenceDraft.pdf?la=en.

5 Gary Solon formalizes this concept in a model in which parents make human capital investments in their children. Building on the theoretical foundation of Gary Becker and Nigel Tomes's 1979 "An Equilibrium Theory of the Distribution of Income and Intergenerational Mobility," (*Journal of Political Economy* 87 no. 6: 1153–89), he shows that parental investment in a child's human capital increases when the payoff from that return is higher—that is, when there is more wage inequality. Gary Solon, "A Model of Intergenerational Mobility Variation over Time and Place," in *Generational Income Mobility in North America and Europe*, ed. Miles Corak (Cambridge: Cambridge University Press, 2004).

6 The best measure of family resources would be expected lifetime income, but that is not available. Maternal education is a good proxy for that measure because it reflects the strong relationship between education and income and overlooks year-to-year random fluctuations.

7 In a technical sense, we obtained a positive and significant coefficient on the interaction between bottom-tail inequality and low SES on the dropout rate for boys, but a negative coefficient on the interaction between educational wage differentials and low SES in the same model.

8 As in past analyses, we draw this conclusion by estimating regression models that also include these other factors interacting with low-SES status. We find that doing so has no substantive impact on our main finding.

9 Melissa S. Kearney and Phillip B. Levine, "Income Inequality and Early Nonmarital Childbearing," *Journal of Human Resources* 49, no. 1 (Winter 2014): 1–31.

LESSONS LEARNED IN THE FIRST YEAR OF THE **INVEST IN COLLEGE SUCCESS PILOT**

Sarah Savage
FEDERAL RESERVE BANK OF BOSTON

A pilot effort offering an incentivized savings program, financial education, and advising on paying for college takes stock of student uptake and retention rates after the first year.

Students who start their postsecondary education at a community college are less likely to earn a credential than students who start out at public or nonprofit four-year institutions or students at for-profit two-year institutions.[1] Among the many obstacles they face are financial constraints, and it was those obstacles that a pilot project, launched in 2014, seeks to address.

The pilot brings together three Massachusetts community colleges, two nonprofits, and the Federal Reserve Bank of Boston. The two-year Invest in College Success (ICS) pilot offers students text message–based advising, in-person and remote financial coaching, and access to a matched-savings program combined with financial education. The hope is that offering students these supports will help them attain their educational aspirations.

The three community colleges are Bunker Hill Community College (BHCC) and Northern Essex Community College (NECC) in eastern Massachusetts and Springfield Technical Community College (STCC) in western Massachusetts. The nonprofits are uAspire, which provides text message–based and in-person advising on financial aid, and the Midas Collaborative (Midas), a statewide nonprofit that administers financial capability coaching and matched-savings programs.[2] The pilot is supported with funding from the U.S. Treasury Department's Financial Empowerment Innovation Fund, and the Federal Reserve Bank of Boston (Boston Fed) is conducting an evaluation of the pilot in-kind.[3]

How Invest in College Success Works

ICS offers advising on paying for school, primarily through text messages and in-person sessions. The content and timing of the advising aligns with important financial-aid tasks such as renewal deadlines and also aims to make students aware of threats to their aid (e.g., if their grade point average falls too low). An additional service that was offered but not used in the first year was advanced financial coaching that students could access remotely.

ICS also offers a matched-savings program. For one year, money that students deposit into special custodial accounts is matched at a rate of 2 to 1 with funds contributed by the community colleges and the Federal Assets for Independence Program, through the Department of Health and Human Services. Students can triple savings of up to $750, resulting in $2,250 that they can use toward approved educational expenses. Participants in the matched-savings program were also required to take 12 hours of financial education classes.

A closed cohort of students who had received services from uAspire in high school went on to receive text-based messages once they matriculated. These students were also able to meet in person with a uAspire adviser. Advisers were also available to students who were not part of the text message cohort: any student could come by and receive in-person advising on matters related to paying for college if they were aware of the opportunity or were referred there by staff. Students in the matched-savings program, capped in year one at 30 slots each at BHCC and NECC and 40 slots at STCC, were recruited by college staff. In year one, 1,033 students participated in one or more of the services offered through the pilot. (See "Number of Students Served.")

The Year-One Evaluation

After a year, we evaluated ICS's progress. We gathered demographic information on participants and information on the extent to which services were utilized and by whom. Outcome data are not yet available on the matched-savings participants due to the continuous enrollment into the program, but even with the limited data at hand, we were able to gain some insights.

Data on Participants and Services Received

The majority of ICS pilot participants were from minority groups, female, and/or first-generation college students. (See "ICS Participant Demographics in Year One.")

Text-based advising was the service utilized by the most participants, a total of 677.[4] In-person advising was the service utilized by the second-greatest number of students. As noted above, some of the students who received text-based advising also met with an adviser in person, while other students met with an adviser in person but were not part of the group that received text-based advising. The matched-savings program served the smallest number of students.

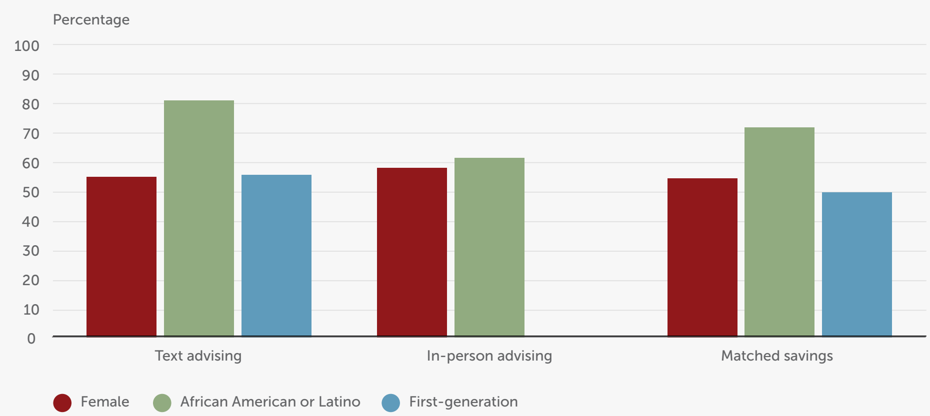
Of students in the texting group who met with an adviser (N=157), 86 percent completed one or more of seven identified financial aid–related activities.[5]

Among students who didn't receive text-based advising but who did meet with an adviser (N=297), more than two-thirds completed one or more activities.

Retention of ICS Text Advising Participants

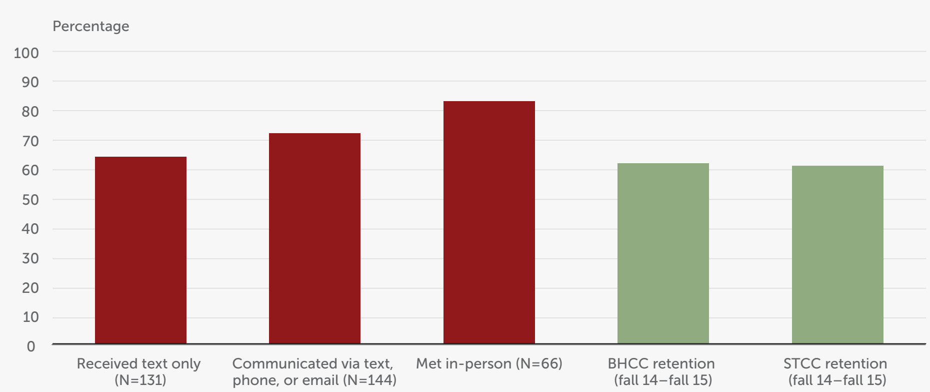
Sixty percent of students who began receiving text-based messages in December 2014 but who never engaged with an adviser were still actively enrolled in fall 2015. Students who met with an adviser in person (whether they received text-based advising or not) were retained at higher rates than those who communicated with an adviser only via text, phone, or email, and both groups had higher reten-

ICS Participant Demographics in Year One



Note: First-generation status was self-reported; the percentages do not include "unknown." The majority of students in the in-person advising group did not know the highest educational attainment of their parent(s)/caregiver(s).

Fall-to-Fall Retention for Full-time Students



Source: Retention rates of full-time students in the texting group were derived from National Student Clearinghouse enrollment data. Attendance status figures (i.e., full-time versus part-time) were available for BHCC and STCC only.

Number of Students Served

	Bunker Hill Community College		Northern Essex Community College		Springfield Technical Community College		Total
	Number	Percentage out of the of total	Number	Percentage out of the of total	Number	Percentage out of the of total	Number
Text advising	272	60.0	193	88.5	212	58.6	677
In-person advising	170	37.5	14	6.4	113	31.2	297
Matched savings	23	5.1	12	5.5	38	10.5	73
Total*	**453**		**218**		**362**		**1,033**

*Totals are less than the sum because some students participated in both the in-person advising and matched-savings programs.

tion rates than those who did not receive any advising at all. Among students who were enrolled full time (N=275), retention rates were even higher. (See "Fall-to-Fall Retention for Full-Time Students.")

Overall Lessons Learned in Year One

There appear to be benefits to advising services based on the higher retention rates of students in the text-based advising group. uAspire serves many low-income, first-generation students while the institutional average reflects more diversity, and we lack a control group, so we need to be cautious about these preliminary findings. However, there are also aspects of the delivery model that appear promising. For instance, the texting platform is an efficient way to communicate about issues related to financial aid and college affordability and allows for tailored responses and escalation of service intensity depending on student need.

On the other hand, the matched-savings program seems less successful. Despite the hope that it would be in high demand, program administrators at the community college pilot sites have found it challenging to identify students who were both interested and eligible for the program. Some students were simply too busy to participate. Many students who expressed interest did not meet the federal eligibility requirements either because they did not have a source of earned income or their household net worth was too high.[6] It is also possible that where the program was housed affected enrollment, given that numbers were higher at the two community colleges that placed it under support services other than the financial aid department, where enrollment was much lower.

The matched-savings program was also difficult to deliver, requiring more time investment on the part of community college staff when compared with other services offered in the ICS pilot. Staff at all three community colleges were responsible for ensuring that students met the financial education requirement of the matched-savings program. Students found it challenging to make time to meet that requirement.

Although we need more data and analysis to refine our understanding, it seems likely that the matched-savings program, as implemented in the ICS pilot, is limited in its ability to serve large numbers of currently enrolled community college students, many of whom have little time between work, school, and home life. As noted above, the narrow eligibility criteria were associated with much more staff time than expected for recruitment. The financial education and case management were also time intensive, but that was expected. Exploring alternatives for determining eligibility and delivering services might help identify ways to reduce the intensity of time per student required in this pilot. The text advising service shows promise both in terms of efficiencies and outcomes. The Boston Fed plans further analysis of the pilot in 2017.

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Endnotes

1 Doug Shapiro et al., "Completing College: A National View of Student Attainment Rates–Fall 2009 Cohort" (Signature Report No. 10, National Student Clearinghouse Research Center, Herndon, VA, 2015).

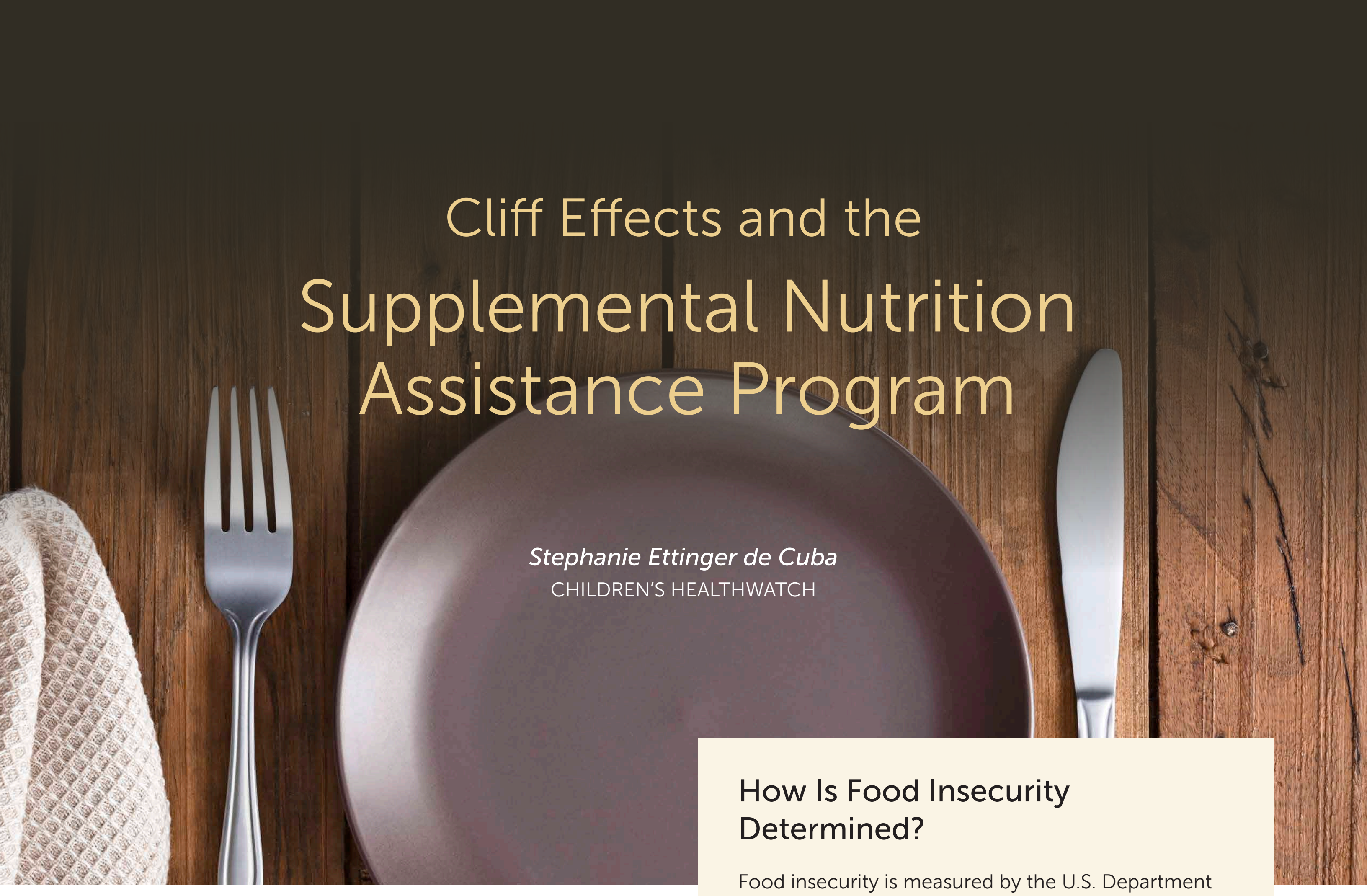
2 The Midas Collaborative is a nonprofit organization and overall project manager for ICS. Matching funds are provided by the U.S. Department of Health and Human Services Assets for Independence Act Program and the community colleges. uAspire is a nonprofit organization that aims to give students financial information and resources to manage college costs.

3 The operational costs of ICS are being underwritten by the U.S. Department of Treasury's Financial Empowerment Innovation Fund.

4 Additional students received text advising, but 677 is the number who received advising in high school and matriculated to one of the three community colleges.

5 Possible activities were addressing satisfactory academic progress, submitting a federal student aid form with uAspire, reviewing a student aid report, going over the aid verification process with uAspire, reviewing a financial plan, addressing a budget, and reviewing a loan.

6 Minimum eligibility criteria include household income below 200 percent of the federal poverty level and net worth not exceeding $10,000 (excluding a first home and vehicle); the community colleges could include additional criteria such as a minimum GPA and number of credits earned.



Cliff Effects and the Supplemental Nutrition Assistance Program

Stephanie Ettinger de Cuba
CHILDREN'S HEALTHWATCH

The harm to families, children, and society as a whole when SNAP benefits are reduced or eliminated too suddenly is multifaceted and far ranging.

The American Dream tells us that if we just work hard enough, no matter our origins, we can succeed. However, many low-income families in the United States would beg to differ. Their efforts to become self-sufficient through employment can trigger a reduction in or termination of their benefits, resulting in a net loss of income for their families. This problem is known as the "cliff effect." (See "Combining Earnings with Public Supports: Cliff Effects in Massachusetts," page 4.) Some of the largest cliffs occur when housing and child care assistance are lost.[1] When a family has housing and/or child care benefits, costs for those necessities are a defined, affordable share of the family's income, but they skyrocket when the family enters the private market, where there are no controls on prices.

But the cliff effect also exists in the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program). SNAP is an essential and effective program that helps people of all ages stay healthy and economically secure.[2] Though the program's explicit goal is to improve food security (by providing consistent, adequate access to enough food for an active, healthy life),[3] it also acts as a work support, helping low-wage working households to stretch their dollar further.

How Is Food Insecurity Determined?

Food insecurity is measured by the U.S. Department of Agriculture's 18-question Food Security Survey Module (FSSM).

Household food insecurity: Three or more positive answers on the FSSM; inadequate access to enough nutritious food for all household members to lead an active and healthy life.

Child food insecurity: Two or more positive answers on the eight child questions of the FSSM; the most severe level of food insecurity among households with children; occurs when children experience reductions in the quality and/or quantity of meals because caregivers can no longer buffer them from inadequate household food resources.

SNAP eligibility is complex. The calculation involves deducting a defined list of expenses from a household's gross income. One-third of the resulting net income is declared to be what the household has available for food. If that amount is less than the maximum SNAP benefit for their household size, the household receives the difference between the two. In this way, SNAP theoretically provides a smooth gradient for people to increase their income and for SNAP to gradually reduce until the household is no longer eligible. In practice, however, this does not necessarily happen, and the sharper cutoffs and reductions that families may experience have health implications, especially for families with children.

The Consequences of Reduced or Discontinued SNAP Benefits

We analyzed data from a sample of 21,781 low-income families with children under the age of four. Caregivers of young children were surveyed when they brought their children for care at emergency rooms and primary-care clinics in urban hospitals in five cities: Boston, MA; Baltimore, MD; Little Rock, AR; Minneapolis, MN; and Philadelphia, PA. In order to understand the impact that the cliff effect might have on young children and their families, we created three analytic groups: (1) those who had consistently received SNAP over the past year, with no increase or decrease in benefits, (2) those who had increased their income over the past year and had a resulting reduction in their SNAP benefits, and (3) those who had increased their income over the past year and had had their benefits terminated as a result. Of the total sample, 10 percent of the families had experienced a reduction in their SNAP benefits and 14 percent had experienced a loss of their benefits.

These figures might seem to support the idea that the smooth gradient is working, reducing and eliminating benefits for those who have moved up economically. However, upon examination of health and hardship associations, a very different picture is painted. Before turning to the statistics, we should note that children in the first three years of life experience the most rapid brain and body growth of their childhood, and it is during these years that the trajectory of their future physical health and cognitive, motor, and socioemotional capacities is established.[4] Food insecurity in early childhood has been associated with increased odds of poor or fair (as opposed to good or excellent) child health, hospitalizations, iron-deficiency anemia, and developmental risk.[5] (See "How Is Food Insecurity Determined?") Compared to young children whose families consistently received SNAP, young children in households whose SNAP benefit had been reduced were

- 36 percent more likely to be in fair or poor health,
- 70 percent more likely to be at risk of developmental delays,
- 55 percent more likely to be child food insecure, and
- 12 percent more likely to have been hospitalized since birth.[6]

Compared to young children whose families consistently received SNAP, young children in households that lost their SNAP benefits were

- 16 percent more likely to be in fair or poor health,
- 77 percent more likely to be at risk of developmental delays,
- 78 percent more likely to be child food insecure, and
- 68 percent more likely to have had to forgo needed health care because the family could not afford it.

The reduction or loss of SNAP benefits also affected maternal health and family well-being by increasing the likelihood that the family would struggle to pay for food, heating and other utilities, and health care. Among households whose SNAP benefits had been reduced, we found the following:

- Mothers were 17 percent more likely to report symptoms of depression and 30 percent more likely to be in fair or poor health.
- The family was 54 percent more likely to be household food insecure and 27 percent more likely to be struggling to afford heat and/or electricity.
- They were also 30 percent more likely to have a household member who had had to forgo needed health care because they could not afford it.

Among households that had lost their SNAP benefits we found the following:

- The family was 34 percent more likely to be household food insecure.
- They were also 80 percent more likely to have paid for medical care but subsequently be unable to afford basic needs like food, housing, or utilities.

These findings highlight that basic needs in the family budget do not exist in isolation: a squeeze or loss in one area has ripple effects to other needs. Despite increased income, the families with reduced SNAP benefits or those who lost SNAP entirely were all impacted across an array of areas, some not directly related to the benefit itself. For example, the loss of SNAP can trigger the loss of benefits that are linked to participation in means-tested programs like SNAP—for example, loss of utility rate discounts. School-age children can also lose automatic certification for free school meals.

The research showed that whether benefits were lost or reduced, families experienced squeezed resources and were forced to make a devil's choice between basic needs. Beyond the individual family anguish and hardship, these outcomes impact society at large. A recent analysis found that in 2014 alone the health-related costs of food insecurity were $160.07 billion.[7]

Policy implications: SNAP and Beyond

Changes could be made to SNAP policy that would help provide a smoother off-ramp from participation in the program. They include changing some of the base assumptions governing how the SNAP benefit is calculated. For example, using a more updated and realistic market basket of foods (the current market basket was last updated in 2006)[8] to drive the annual calculation of the maximum SNAP benefit would help by raising the financial value of the benefit and thus giving the family a greater buffer as their income—and expected contribution to the food budget—increases. Removing the cap on how much families can deduct for housing would provide a more accurate accounting of families' real expenses, especially in areas with high housing costs, like New England. Extending the medical deduction to more (or all) families would acknowledge that health care is a basic need that should be recognized for all families, not just for disabled and elderly households. More broadly, we must value SNAP as a health program rather than simply as a food assistance program. Eliminating asset limits and raising the SNAP income eligibility cutoff would help.

For families to reach self-sufficiency, they need a way to move beyond the yo-yo scenario of increased wages, loss of benefits, and sliding backwards down the income ladder only to receive benefits again. The attainment of a livable wage is an important part of the solution to the various cliff effects, but policymakers must be careful to ensure that key supports, such as SNAP, that help low-income parents to protect the health and development of their children while the parents work and/or study are not cut back or terminated before the family is truly stable. Smoothing the exit, not just from SNAP but from benefits such as housing and child care assistance, is essential. Eligibility expansion and careful coordination across sectors are required to ensure that removing one cliff does not create another.

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Endnotes

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2. "Long-Term Benefits of the Supplemental Nutrition Assistance Program" (report, Executive Office of the President of the United States, Washington, DC, 2015).
3. Alisha Coleman-Jensen et al., "Household Food Security in the United States in 2014" (Economic Research Report No. ERR-194, United States Department of Agriculture Economic Research Service, Washington, DC, 2015).
4. See Committee on Integrating the Science of Early Childhood Development, *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington, DC: National Academies Press, 2000).
5. Allison R. Bovell et al., "Trends in Household and Child Food Insecurity Among Families with Young Children from 2007 to 2013," *Journal of Applied Research on Children* 6, no. 2 (2015).
6. These and the following bulleting statistics are from Stephanie Ettinger de Cuba et al. "Punishing Hard Work: The Unintended Consequences of Cutting SNAP Benefits" (report, Children's HealthWatch, Boston, 2013).
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VIEWPOINT

THE NEXT CHAPTER OF EDUCATION REFORM: BUILDING A NEW HUMAN CAPITAL ENGINE

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The Harvard Graduate School of Education and mayors of six U.S. cities are collaborating to build a better system of education for the 21st century.

Education reform, which has been vigorously promoted by business and government leaders over the last quarter century, has yielded some progress for America's students, but has failed to achieve the central goals of American public education: excellence and equity. Despite numerous initiatives and deep investments, we face a situation in which a vast number of graduates from U.S. high schools are ready for neither college nor careers. In U.S. education, we still have an "iron-law" correlation between socioeconomic status and educational achievement and attainment. This situation poses a real threat not only to our economy but to our democracy and our way of life. How did this happen? What did we reformers get wrong?

Was It the Goal?

Maybe we were just too naive and idealistic in thinking we could educate everyone to proficiency. We pledged to build a system that would educate all students—and all means all; no exceptions—to high levels of proficiency that would enable them to get and hold 21st-century, high-skills, high-knowledge jobs, to be informed citizens and potential leaders in a complex democracy, to head up families, if they so chose, and to become lifelong learners.

The goal of "all means all" is as relevant and even more urgent today as it was in the early 1990s, when governors and business leaders worried about the disappearance, through automation and offshoring, of low-skill, low-knowledge jobs. Many of those jobs have, in fact, disappeared, and now mid-skill jobs are at risk. What we actually have now is a felicitous dovetailing of our moral obligations and our economic imperatives. We have always had a responsibility, if seldom enacted, to do for each succeeding generation what has been done for us in terms of education and opportunity. We now have a twofold economic imperative: to prepare a high-skill, high-knowledge, 21st-century workforce to power future economic growth for our country while preventing the accelerated growth of an expensive and disruptive underclass of people unable to participate in the economy. Conclusion? The problem was not the goal, which now more than ever is right and urgent.

Was It the Strategies?

Reformers have made deep and expensive reforms over the past 25 years. States have installed standards, put in place assessment and accountability systems, introduced school choice into a formerly monopolistic system, and focused in a variety of ways on improving the quality of teaching and utilizing data to guide educational improvement. Extraordinary efforts have been made to turn around underperforming schools.

The evidence suggests that in many places, these strategies made a measurable difference. However, they were nowhere near strong enough to close persistent achievement gaps and get all students ready for success. They did not go deep enough. They were not broad enough. So the strategies are somewhat to blame: they were insufficient to achieve the ambitious reform goals.

Was It the System?

Almost all our reforms assumed that the existing mainstream delivery system of education, the "factory model" devised early in the 20th century, would continue to be the modus operandi for education. Reformers would improve and update the delivery system, but its central features—hours, chronological age structure, geographical locations, and classroom organization—would stay the same. We would optimize the old system rather than replace it.

This system was built to mass-produce education, to socialize a growing population of immigrants and country people pouring into America's rapidly industrializing cities. The factory model was popular at the time and was a logical choice to address the major challenge of quickly preparing an orderly workforce for a burgeoning low-skill, low-knowledge economy which required lots of routine work. With modifications like middle schools and kindergartens, the model served the nation well until the last quarter of the 20th century, when other countries caught up in educating their students to high levels, international competition and low wages pulled jobs out of the United States, and automation eliminated lots of the routine work.

In 1983 Ronald Reagan's National Commission on Excellence in Education issued *A Nation at Risk: The Imperative for Educational Reform,* which called for changes. Government and business leaders sought a much stronger human-resource development system, which would feature a dramatically reformed education system at its center. This system would have to educate all students to levels previously reserved for the elite few, but the underlying assumption, seldom discussed, was still that the existing delivery system could do the job that the new policies demanded: educating all students to the high end of the achievement distribution.

This policy demand was unprecedented. The system had been built to deliver a normal, bell curve distribution of student achievement over a low center. Now, policymakers, by fiat more than a systematic effort at building capacity, were making revolutionary demands on the old system. They were asking a human-capital development engine designed to go 30 miles an hour to jump up to 21st-century speeds of over 100 miles an hour, but the old engine, even with a few reforms, was not up to that task. Some of its weaknesses included a one-size-fits-all assumption about students and learning, not enough time in the classroom (20 percent of students' waking hours), and a callous underestimation of the impact of poverty on children's chances for learning and success.

The system is definitely the problem. We need a new engine. Our current system is simply not strong enough to do the job. If we are to realize our urgently important goals of excellence and equity while building on the reform work to date, we need a vision for a reengineered, higher-capacity education and child development system, one that will be as robust in its operation as we are ambitious in our education goals.

The Education Redesign Lab and the By All Means Initiative

The Harvard Graduate School of Education has established the Education Redesign Lab (ERL) to spur development of this vision and this new engine. Through advocacy, fieldwork, research, and network building, ERL seeks to directly address the most conspicuous failure of education reform—failure to educate variously disadvantaged students to high levels of proficiency. ERL asks, if we want to build a system that will guarantee that children growing up in deep poverty will enjoy the same opportunities and chances for success as their affluent peers, what should that system look like? What should be the key features of this new engine?

In conjunction with a set of visionary mayors and superintendents, ERL has launched an effort, called By All Means, to build six laboratories committed to exploring this question in cities across the country. In Oakland, CA; Louisville, KY; Providence, RI; and Salem, Somerville, and Newton, MA, mayors have convened children's cabinets committed to doing interagency work over several years to build new systems of support and opportunity for disadvantaged youth.

In particular, these leaders will work on customizing education from early childhood through college graduation to meet the in-school and out-of-school needs of every child, assuring success at each stage of the educational journey. They will work at braiding health care, including mental health, and other social-service systems with education systems so as to mitigate those impediments. Finally, each city will develop systems of out-of-school learning and enrichment to give disadvantaged youngsters the benefit of the types of opportunity that are routinely available to privileged youth. Out-of-school learning opportunities are currently a huge contributor to student achievement or the lack thereof, but schools have little or no control over children's access to out-of-school learning opportunities.

ERL will assist in implementation of the programs these city labs develop and will closely monitor success with an eye to documenting bright spots of effective practice as well the practical, political, financial, and cultural barriers that seem to inhibit progress. In so doing, we hope to accelerate the creation of dramatically improved systems that will provide all children—and we genuinely mean all—with access to the opportunities, support, and education that routinely assure the success of impressive numbers of affluent youth.

We hope this work will build momentum for creating the kind of education system the 21st century demands. The U.S. student population has recently become more than 50 percent low-income and "majority-minority," that is, a majority of students are of color. Historically, our education system has served both these groups poorly. Now we cannot afford to fail them. No challenge is more urgent for our society to address. We will need leaders from government and business to embrace this challenge and, through their leadership, carve a pathway to a new era. If we fail to meet this challenge, our economy, democracy, and way of life are at risk.

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Mapping New England

Credit Card Delinquencies

Amy Higgins
FEDERAL RESERVE BANK OF BOSTON

Credit cards play an important role in the U.S. economy and in the consumer finances of individuals. Nationally, 73.2 percent of credit card users have credit card debt.[1] Credit card delinquency rates are important to understand because these rates often give insights into household financial conditions. High delinquency rates may indicate low household financial health.

In New England, the percentage of consumers who are 90 days or more delinquent in paying their credit card bills peaked at 12.4 percent during the second quarter of 2010. In the second quarter of 2016, delinquency rates for New England were 6.7 percent. This is slightly lower than the national delinquency rate of 7.4 percent.[2]

At the state level, Vermont has the lowest delinquency rate within New England (5.7 percent) while Rhode Island has the highest delinquency rate (7.3 percent). The four counties with the highest delinquency rates are all in Maine: Aroostook, Waldo, Washington, and Oxford counties have credit card delinquency rates of at least 8.5 percent.

[1] FRBNY Consumer Credit Panel/Equifax data, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer on August 31, 2016, https://www.philadelphiafed.org/eqfx/webstat/index.html.

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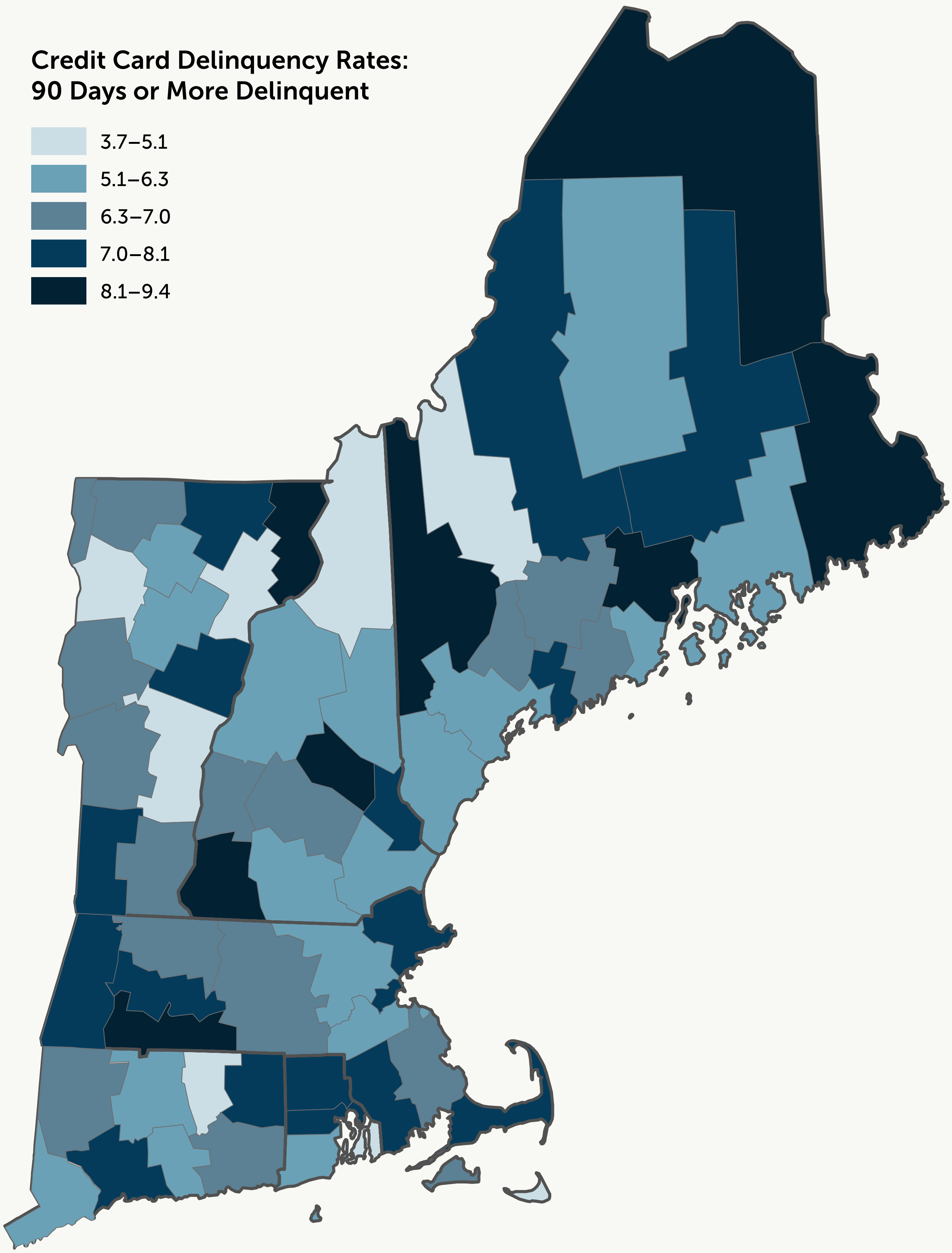
Credit Card Delinquency Rates:
90 Days or More Delinquent
3.7–5.1
5.1–6.3
6.3–7.0
7.0–8.1
8.1–9.4

Making the Case for Children's Savings Accounts (CSAs)

Anthony Poore
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Policymakers are more likely to support CSAs when they understand the political and economic benefits attached to doing so.

Children's savings accounts (CSAs)—savings accounts established for children early in life (or at birth) to help them meet the costs of postsecondary education—are becoming increasingly popular among policymakers, researchers, philanthropic organizations, and community development professionals interested in the topic and practice of asset building. Literature on CSAs has tended to focus on how to operationalize CSA efforts and/or on their potential impacts on savings behaviors, socioemotional development, academic achievement, and educational aspirations and expectations, but recently, there has been increasing interest in CSA interim measures as the field matures and as CSA efforts proliferate.[1] Among the organizations currently pursuing this line of inquiry are the Center for Social Development at Washington University in St. Louis, the Center on Assets, Education, and Inclusion at the University of Kansas, and the Institute on Assets and Social Policy at Brandeis University.[2]

What is often not discussed within CSA literature is the place CSAs occupy within the broader political economy and how CSAs can be leveraged in practical ways to support the interests of a broad array of policymakers at the state and municipal level. CSAs require a high degree of cooperation, coordination, and collaboration across multiple sectors. Public-sector political and fiscal support is critical to the long-term sustainability of these efforts, but it can be difficult to obtain unless policymakers feel their constituencies will benefit. For that reason, discussion of CSAs must broaden its focus from delivery mechanisms, program design, logic models, and mechanism of action to include an assessment of CSAs within the broader political economy and discussion of how best to respond to a broad set of interests and sensibilities, including the interests of policymakers. Four strategies to get policymakers on board with CSAs are (1) pointing out their usefulness as initiatives whose values are embraced across the political spectrum, (2) stressing their longer-term impacts on state workforce aspirations, (3) emphasizing the benefits of savings as an alternative to debt, and, as noted above, (4) adopting interim measures that evaluate whether a CSA effort is on track.

Bipartisan Popularity

All policymakers want to make a positive impact on the lives of children. By ensuring equitable access to college savings, CSAs are an initiative that politicians of any political stripe can back. Rick Santorum, the former Republican senator for Pennsylvania, for example, has supported CSAs, stating that they "would give low-income children in particular a sense of ownership, a stake in the American economy, and a source of wealth to help them through life in a manner similar to a federal employee's Thrift Savings Account."[3] On the other side of the aisle, New York's Democratic senator Chuck Schumer has also supported CSAs, emphasizing the need to "help middleclass Americans build assets and savings instead of more debt."[4] For both, supporting CSAs was an easy political win. Other state treasurers and governors who have leveraged CSAs as part of their broader political platforms include Gina Raimondo (D), Rhode Island's former state treasurer and current governor; Deb Goldberg (D), treasurer for the Commonwealth of Massachusetts; and Dan Schwartz (R), Nevada's state treasurer. By including CSAs in their platforms, these policymakers demonstrate their commitment to positively impacting the lives of children by lessening the financial burdens associated with postsecondary education.

Longer-Term Impacts on State Workforce Aspirations

The New England states are among 36 states that have set goals for postsecondary educational attainment in line with Goal 2025, an initiative of the Lumina Foundation[5] to increase the proportion of Americans with high-quality degrees, certificates, and other credentials to 60 percent by that year.[6] CSAs have the potential to help states reach these long-term goals and lift up the U.S. workforce. State legislatures are under perpetual pressure to do more with less, and as a result, many states' financial support of higher education has declined, resulting in more of the financial burden falling onto individuals and families. When they support CSAs, legislatures have the opportunity to leverage existing public sources of capital with new private sources of capital in meaningful ways. Insofar as postsecondary education is perceived to be an essential element of a state's workforce development ecosystem, these public-private partnerships appear to be both politically palatable and prudent.

Savings as an Alternative to Debt

As more of the financial burden of postsecondary education has shifted to individuals and families, and as the cost of that education has skyrocketed, student debt has risen precipitously. In 2013, the Federal Reserve Bank of New York reported student loan debt was the only form of consumer debt that had grown since the peak of consumer debt in 2008.[7] Student debt has significant negative impact on states: younger members of the workforce struggling with high amounts of student loan debt delay household formation and purchase of a first home. In some instances, student loan debt leads to poor credit ratings due to delinquencies.

CSA advocates suggest that accounts established at birth with a modest initial deposit ($50–$100), contributed to regularly and benefiting from matched contributions, can be expected to produce significant account balances by age 18. While the current financial aid model provides significant financial support to millions of aspiring college students, CSAs represent a meaningful complement to the existing financial aid system—and a penny saved (in lieu of debt) is a penny earned.

Interim Measures That Show the CSA's Progress

As states continue their modest, slow recovery from the Great Recession, CSA program administrators and funders are under considerable pressure to demonstrate quantifiable results. CSAs' longer-term impacts on workforce, student engagement, academic achievement, and ultimately graduation from college are not always consistent with state and municipal governmental desire for immediate impact and/or the need to demonstrate that financial resources are being allocated for maximum effect. Without interim success measures that can show that a CSA program is on track to improve college attainment among participants before they reach the age of postsecondary enrollment, the case for CSAs is a difficult case to make. This is why it is important to identify and adopt such measures at the onset of a CSA effort. Doing so will help develop and sustain the broad coalition of public and private stakeholders necessary to support the CSA over time and will allow the effort to meet its long-term aspirations and expectations.

Conclusion

To succeed, CSAs must be a joint effort across multiple sectors. They need support that is both broad and deep. It must extend beyond the public sector and include workforce development professionals, early-childhood education advocates, health and human-services organizations, and college and universities. Broad coalitions help create the conditions for long-term sustainability by appealing to the financial, moral, and social proclivities of a broad set of public and private stakeholders.

Lastly, we must recognize that CSAs are still young, and there is much to be learned. As CSA advocates get more programs up and running and fine-tune existing programs, managing the expectations of public- and private-sector partners is critical. Although CSAs are not a magic bullet, they are notable for moving beyond the issues of access and taking into account the role of asset building in helping children prepare for, engage with, and benefit from postsecondary education.

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Information on the Federal Reserve Bank of Boston's CSA program, along with additional articles and reports on the topic, are available at "Children's Savings Accounts," https://www.bostonfed.org/community-development/household-financial-stability-and-economic-mobility/childrens-savings-accounts.aspx. See also Bahar Akman Imboden and Yiming Shuang, "Leveraging Technology to Boost Children's Savings Account (CSA) Programs," *Communities & Banking* 27, no. 3 (Summer), https://www.bostonfed.org/publications/communities-and-banking/2016/summer/leveraging-technology-to-boost-childrens-savings-account-csa-programs.aspx.

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REVALUING BLACK AMERICA

Bithiah Carter and Ange-Marie Hancock
NEW ENGLAND BLACKS IN PHILANTHROPY

An undervaluing of people, communities, and assets results in underestimation of Black giving. This undervaluation has roots in racism and contributes to the persistence of the wealth gap between Whites and Blacks.

Philanthropic giving is a key source of economic redistribution and serves as a barometer of wealth in the U.S. economic system: more than 1.4 million nonprofit organizations generated over 5 percent of GDP in 2013 alone.[1] Philanthropy also serves as an important bellwether of the financial well-being of any given population. Barring significant economic policy change, individual donor-driven philanthropic activity will continue to play a significant role in economic redistribution and tangible and intangible valuation of its donors.

Wealth transfer—the transmission of wealth from one generation to the next—is critically important to the continued vitality of the nonprofit sector, and as the racial and ethnic makeup of the United States changes, interest in the philanthropic habits of communities of color has increased. Like the rest of the United States, Boston has experienced significant changes in its racial and ethnic makeup. Greater Boston is expected to experience a $400 billion wealth transfer by 2026,[2] which will generate charitable donations of as much as $132 billion in the same time frame.[3] This makes understanding the racial philanthropic character of wealth transfer crucial. It turns out that there is a chronic undervaluation of Black donors.[4] They are not perceived as capable of the same wealth accumulation or credited with the same financial acumen as their White counterparts and are therefore not cultivated with the same zeal and expectation. When we dug deeper to better understand how and why Black donors were devalued, we uncovered what we believe are the underpinnings of the racial gap in wealth that is manifested in philanthropy and wealth creation.[5]

The two reasons most commonly given for the persistence of the wealth gap are, first, that White Americans have had a head start of centuries to accumulate wealth when Blacks were denied the opportunity and, second, that Black Americans lack the financial knowledge of White Americans. We propose a third reason. In interviews of Black donors, we learned that the racial wealth gap continues to be fueled by institutional and systemic racism, perhaps more subtle and nuanced than in centuries past, but no less pervasive or insidious. Undervaluation of Black people, communities, and assets, which occurs every day in a variety of contexts, drives current wealth inequality, stealthily but effectively. The appropriate response must include measures to eliminate this institutional racism.

Black Philanthropy

It is worth noting that regardless of why the wealth gap persists, there is a centuries-old history of philanthropy within the Black community, which we distinguish from philanthropy directed *toward* the Black community. As recently as 2014, little was known about the interaction between the increasing demographic diversity of the greater Boston metropolitan area and the capacity for philanthropic giving in emerging communities. In 2015 New England Blacks in Philanthropy released a report entitled “Giving Black: Boston.” Despite the well-documented large gaps in accumulated wealth between racial and ethnic groups, “Giving Black: Boston” identified tremendous value within a diverse Black community and developed a strategy that focuses on the proper valuation of Black philanthropy in Boston.

Our recommendations emerge from data gathered in several ways: nearly 300 online surveys, 13 90-minute individual interviews, and three focus groups. All participants were residents of the greater Boston area. From this data we compiled three general donor composites: the Cornerstone Donor, the Kinship Donor, and the Sanctified Donor. (See “Three Donor Types.”) These donor composites debunk the notion that Black communities are recipients only, and never donors, and show that Black donors give in a variety of ways to a wide range of causes.

Valuing People, Place, and Assets Correctly

The three profiles, discussed in greater detail in the report, guided the recommendations below concerning the proper valuation of diverse donors and communities when considering the future of philanthropy, particularly in Boston. Our recommendations can be summarized as proper valuation of people, place, and assets.

Proper Valuation of People

One of the most significant findings of our report was an undervaluation of Blacks as donors and employees. It’s well known that even when two people have similar educational backgrounds, their wages can differ based on gender and/or race.[6] But even when Blacks are earning the same salaries and wages as their White counterparts, assumptions persist about whether Black donors have the capacity to become “real donors.” In our report, "Giving Black: Boston," high-income, high-net-worth Black donors reported being subjected to inappropriate requests and assumptions that they were grantees rather than donors. For example, a large local nonprofit organization held a meeting to discuss board member financial commitments and determined that a new Black board member should not be held to the same financial standards as her White colleagues. The Black board member was a medical doctor, but no one thought to ask her about her financial capabilities. They assumed that she lacked the capacity of the White board members. Other donors indicated that they were asked to talk about the lived experiences of lower-income Blacks, while no one expected their White counterparts to do the same. Middle-income donors with growing net worth reported a desire to learn more about philanthropy, mirroring national trends,[7] in order to be more strategic, particularly as their family and career start-up obligations subside.

Many of these younger donors will be part of the generation that both inherits and passes along wealth to the next generation. These donors constitute a valuable resource that is currently overlooked by the majority of the Boston nonprofit sector, despite the fact that in the current era, individual philanthropic activity is growing at a slower pace nationally. If nonprofits wish to grow their net worth, they should reform their institutional practices so they no longer see race as the dividing line between donor and grantee.

Proper Valuation of Place

The role of race in the proper valuation of place continues to be a challenge. Consider the rise in multiracial couples and diverse families living in suburbs, both of which are relevant for the Boston area. Evidence gathered incidentally in the process of preparing our report suggests that the appraisal of homes owned by interracial couples in upper middle-income brackets can vary by

Three Donor Types

Donor Type	Cornerstone Donors	Kinship Donors	Sanctified Donors
Donation Type	General societal improvements	Betterment of Black community	Religious donations

Source: “Giving Black: Boston.”

tens of thousands of dollars depending on who opens the front door to greet the appraiser.

The constant and consistent undervaluation of neighborhoods of color leads to the demise of community and makes neighborhoods vulnerable to gentrification.[8] We need to change the current model of gentrification, with its pattern of decline, displacement, renewal, and reinvestment, which preserves wealth for only a narrowing group of select few who are already well resourced. Just as intangible factors like a beautiful view contribute to the value of a home, we should recognize the value of income diversity and racial diversity as measures of community strength and as assets that can lead to an increase in community resources and desirability.[9]

Proper Valuation of Assets

The research is clear: racial and ethnic diversity significantly improve corporations, which serve as economic engines of our society. The idea that diversity matters has now become conventional wisdom, as it produces enhanced financial performance in racially diverse U.S. companies.[10] Properly valuing minority-owned businesses as more than organizations that require a hand up or a handout is an important element in properly valuing the assets of Blacks, especially Black women, whose entrepreneurship has grown nationally by 322 percent since the Great Recession.[11] In 2002, there were 1 million businesses in the United States owned by women of color.[12] By 2016, there were 1.9 million businesses in the United States owned by Black women alone.[13] Yet Massachusetts is among the bottom five states in terms of growth of economic clout of women-owned businesses.[14]

Acknowledging True Worth

The racial gap in wealth in our country is a very serious problem, but to solve it, it is imperative that we identify the true cause of the problem, as failure to do so can lead to misguided attempts at remediation. It appears that that has unfortunately been the case.

Although centuries of inequality have allowed the wealth gap to grow and persist, it would be a mistake to focus on that factor solely. As argued above, undervaluation is another pervasive and pernicious force at work, and one that has largely been ignored in modern analyses. As long as Black people, places, and assets continue to be undervalued in comparison with their White counterparts, the racial wealth gap will persist unabated. All of the financial literacy efforts aimed at another oft-touted cause of the wealth gap—lack of financial knowledge in the Black community—will be of limited or no value until this basic problem is addressed.

A variety of sectors and institutions will need to be involved in addressing the problem of undervaluation. While the philanthropic sector cannot recalibrate the entire valuation process on its own, it can play a key role in two ways: as a leader in setting the value attributed to Black philanthropy, and as an indicator of progress on the reduction of the wealth gap, with Black giving being used as a proxy for the health of the Black community. New England Blacks in Philanthropy welcomes the opportunity to share knowledge, ideas, and resources in the future as we work together to eliminate the racial wealth gap.

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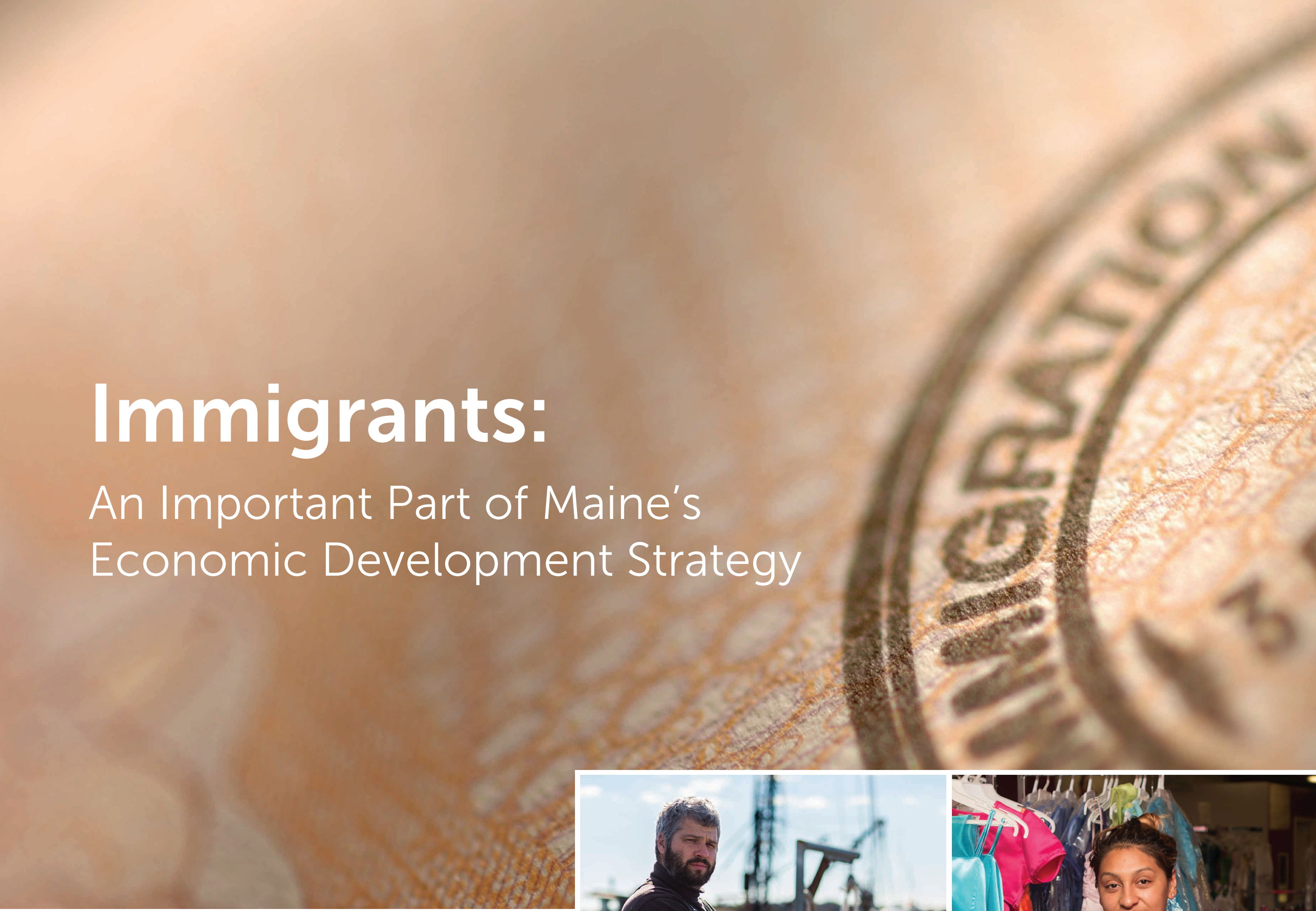


Immigrants:

An Important Part of Maine's Economic Development Strategy

Carla Dickstein, John Dorrer, Elizabeth Love, and Tae Chong

photo David Hill

photo Steve Osemwenkhae

Immigrants represent a small fraction of Maine's population, but they are vital to the state's economic future. A cross-sector group is finding ways to attract and integrate newcomers.

Maine is one of many states facing a growing proportion of older adults and a shrinking workforce. Maine's median age of 44.5 was the highest in the country in 2015.[1] With baby boomers leaving the workforce and a smaller cohort of younger workers entering, Maine's labor force dropped to 678,000 people in 2015, a decline of over 34,371 from its peak in July 2008, and it's expected to continue to decline if nothing is done. In May 2016, the unemployment rate was estimated at 3.5 percent for Maine and only 2.8 percent for Portland, Maine's largest city.[2]

What Immigrants Have to Offer

Immigrants can help replace Maine's retiring workforce.[3] They are already a growing, younger population in Maine and have the potential to grow even more. In 2014, Maine's 47,000 immigrants (over 3 percent of the population) lived in all parts of the state, but were concentrated in the Lewiston and Portland regions. Of those who have arrived since 2010, almost two-thirds are from Asia (34 percent) and Africa (31 percent).[4] In 2013, the city of Portland had approximately 10,000 immigrants, comprising nearly 15 percent of the population[5] and representing over 80 nationalities.[6] The increase in the immigrant population since 2000 led to 3 percent growth for the city overall, while the native-born population decreased over the same period.[7]

Recent immigrants to Maine are young, well educated, and motivated. More than 65 percent of immigrants who arrived in Maine in 2010–2013 had some college-level training (up to and including a master's degree),[8] and their median age was 27.[9] Immigrants also tend to have higher birth rates than native-born residents.[10] From 1970 to 2013, not a single U.S. metropolitan area grew without an increase in its immigrant population.[11]

Immigrants can also grow Maine's economy through tax-base expansion, increased demand for goods, and business creation. Immigrants are more than twice as likely to start a business than their native-born counterparts. In 2011, immigrants started 28 percent of all new businesses despite accounting for only 13 percent of the total U.S. population.[12] And immigrants can benefit rural as well as urban areas: 6 percent of the population and 24 percent of the elementary school students in Milbridge in Washington County are Hispanic or Latino. Migrant workers patch together seasonal jobs picking blueberries, harvesting and processing sea cucumbers, and processing lobsters to create year-round employment.[13] Similarly, four immigrants from Lewiston have recently moved to Skowhegan in Somerset County in order to work at Backyard Farms, a hydroponic farm in Madison that has had difficulty filling its job openings.

Maine is tied with Vermont for the whitest state in the country.[14] In the next four years, however, the white population in the United States will begin to plateau, and the nonwhite population will surpass it in the early 2040s.[15] An increasingly diverse population in Maine will enhance the state's ability to attract talent and do business with the rest of the nation and the world.

Obstacles Maine's Immigrants Face

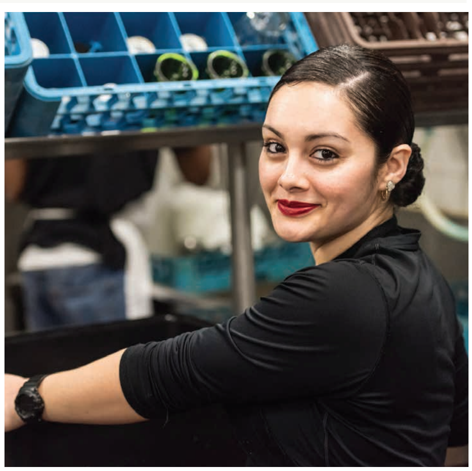
Despite the benefits immigrants bring to Maine, they face disproportionately high unemployment and poverty levels. (See "Key Employment Barriers.") While workforce intermediaries and service providers in Maine are addressing some of these barriers, programs of any scale will need additional resources and a cross-sector commitment to immigrant integration. Maine needs to develop a coordinated state-local, public-private initiative to invest in immigrants that incorporates the following recommendations.

Develop a Comprehensive Strategic Plan to Attract and Retain Immigrants

The plan requires involvement of public, private, and nonprofit partners. One model that several regions across the country have used is to create an Office of New Americans to advocate for immigrants and coordinate services.[16] Positioning the office within the Department of Labor or the governor's office would signal that immigrant attraction, integration, and retention are important components of Maine's economic development strategy.

Key Employment Barriers

- Limited English skills or strong accent
- Lack of familiarity with the U.S. job application and interview process
- Lack of prior U.S. work experience
- Credential recognition and recertification challenges
- Cultural differences
- Lack of transportation
- Difficulty transitioning from temporary to full-time work
- Higher-education financial challenges
- Racism and discrimination



Raise Awareness and Commitment Among Employers in All Sectors

Key decision makers in Maine's business, public, and nonprofit sectors need to recognize the gravity of current and projected labor shortages for Maine and emphasize the potential of immigrants to be part of the solution. Employers have tended to focus on addressing skill gaps rather than on increasing the overall supply of labor. More outreach and education are needed to support and engage the private sector and to encourage employers to fund workforce integration services.

Engage the Philanthropic Sector

Maine's philanthropic sector can play a unique and compelling role in developing a comprehensive plan. Their convening power and grantmaking capacity can accelerate action on immigrant integration and ensure that there is broad representation around the policy table regarding integration and labor force issues. Engaging their boards in these conversations can also help elevate the conversation among influential Mainers with a demonstrated commitment to Maine's economic future.

Prepare Young and New Immigrants to Enter the Workforce

Maine's future requires a strategy to develop its human capital over the long run. This includes making sure that immigrant children receive the training and skills to become productive workers and/or successful entrepreneurs and helping immigrant adults gain the skills and information they need to secure employment.

The Role of Coastal Enterprises, Inc.

In November 2015, Coastal Enterprises, Inc., a private, nonprofit community development corporation, convened a diverse group of stakeholders to act on the recommendations above, focusing on immigrants as an economic development opportunity. The Immigrant Stakeholder Group has grown since and is focused on deciding which strategies for attracting, integrating, and retaining immigrants are a priority for a state legislative agenda in 2017 and which can be developed by the private and nonprofit sectors.

Any legislation should focus on the workforce needs of the entire state, not just the cities of Portland and Lewiston. Recent refugees are already starting to locate outside Portland because of acute shortages of affordable housing. Catholic Charities, the primary refugee resettlement agency in Maine, has begun placing Iraqi refugees in Augusta and will be placing Syrians in Biddeford-Saco and Brunswick-Topsham. The agency is starting to develop the infrastructure in these communities to welcome immigrants. Portland Adult Education and the New Mainers Resource Center have offered to share their knowledge with other communities, but they have limited capacity without more resources.

A rural working group of the Immigrant Stakeholder Group is exploring how rural communities can craft an immigrant attraction strategy. The preconditions are access to jobs, affordable housing, and transportation to attract a group of immigrants who can support each other. Communities in Somerset, Aroostook, Washington, and Waldo counties have expressed interest in attracting immigrants.

Maine's demographic challenges and labor shortages are providing a compelling incentive to develop proactive strategies to attract immigrants. A statewide immigrant economic development policy is critical to address labor force needs and enhance Maine's ability to do business in a multicultural global economy.

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Endnotes

[1] "Annual Estimates of the Resident Population for Selected Age Groups by Sex for the United States, States, Counties, and Puerto Rico Commonwealth and Municipios: April 1, 2010 to July 1, 2015, 2015 Population Estimates," United States Census Bureau, http://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=PEP_2015_PEPAGESEX&prodType=table.

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[3] In this article, the term "immigrant" is used to mean any foreign-born resident. Other populations that could be targeted are teens aged 16–19 not in school or in the workforce, recipients of social security disability insurance, and unemployed and underemployed workers.

[4] American Community Survey, 2010–2014 estimates, https://www.census.gov/programs-surveys/acs/data/summary-file.html.

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RACE, ETHNICITY, AND JOBS IN RHODE ISLAND

Douglas Hall
ECONOMIC PROGRESS INSTITUTE

Rhode Island's minority workers were hit harder by the Great Recession than their white counterparts and historically have experienced higher rates of unemployment and lower median wages.

A report prepared for Rhode Island's Governor Gina Raimondo earlier this year by the Brookings Institution[1] contrasted Rhode Island's current "middling" economic performance with its far more robust performance during the first six years of the new century.

> In the early 2000s, Rhode Island's economy was a leader in New England and enjoyed relatively strong performance across economic measures relative to the United States. Annual job growth between 2000 and 2006 led the region and over the same time period the state enjoyed nearly double Massachusetts' annual GDP growth.[2]

Today, fully seven years since the official end of the Great Recession, Rhode Island has only recently recovered the jobs it lost.[3] In order for the Rhode Island labor market to also cover population growth since December 2007, it would need to add another 11,400 jobs. (See "Rhode Island's Jobs Deficit.") Making matters more complicated, workers of different races and ethnicities experience Rhode Island's economy differently. Between 2005 and 2015—in other words, from before the start of the Great Recession, throughout the recession, and into the weak and drawn-out recovery period—workers of color, and especially Latino workers, fared much less well than their white counterparts in the workforce. The importance of addressing such disparities will only grow over time: Rhode Island is expected to become more diverse over the next quarter-century. Between 2010 and 2040, the share of Rhode Island's population that is not white and not Hispanic is expected to nearly double, from 21 percent to 38 percent, and the Latino share of the population is projected to more than double, from 11 percent to 24 percent.[4]

Unemployment by Race and Ethnicity

Disparities are evident in unemployment rates for Rhode Island's workers. Although unemployment rates spiked for all races and ethnicities during the Great Recession, the rates for African American and Latino workers were dramatically higher than the rate for white workers, and increased much more during the recession, both in absolute terms and as a percentage of the rates at the beginning of the recession. Growth in the Latino unemployment rate was particularly large, increasing 14 percentage points between 2007 and 2010.

While these disparities during the Great Recession are noteworthy, African American and Latino workers have consistently experienced higher rates of unemployment than white workers. We see very clearly that the unemployment rate for white workers tracks the overall rate just about perfectly, though consistently lower by about one percentage point. Unemployment among African American and Latino workers, meanwhile, never gets closer than 2.6 and 2.8 percentage points, respectively, to the overall unemployment rate, and usually exceeds that rate by a much higher margin.[5] (See "Rhode Island Unemployment Rates by Race and Ethnicity, 2000–2015.") This disparity is most pronounced during the years immediately following the Great Recession, but represents a constant feature of the state's economy.

Put another way, over the course of the past decade in Rhode Island, the African American unemployment rate has on average been nearly double (1.9 times) the white unemployment rate, while the Latino unemployment rate has averaged slightly more than double (2.2 times) the white unemployment rate. (See "Unemployment Ratios in Rhode Island.")

While troubling, racial disparities in unemployment rates are not unique to Rhode Island; they are observed throughout New England and in the United States as a whole. The African American-to-white and Latino-to-white unemployment ratios for New England sit slightly higher than Rhode Island's, at 2.0 and 2.3, respectively. Nationally, the African American-to-white unemployment ratio is slightly higher still, at 2.2, whereas the national Hispanic/Latino-to-white unemployment ratio between 2005 and 2015 stood at 1.5, substantially lower than for either Rhode Island or New England as a whole. Rhode Island's Latinos also endured higher levels of unemployment between 2005 and 2015 than the Latino populations of the two other southern New England states (Massachusetts and Connecticut). (See "Hispanic/Latino Unemployment Rates: New England, Massachusetts, Connecticut, and Rhode Island, 2005–2015.")[6]

Median Wages by Race and Ethnicity

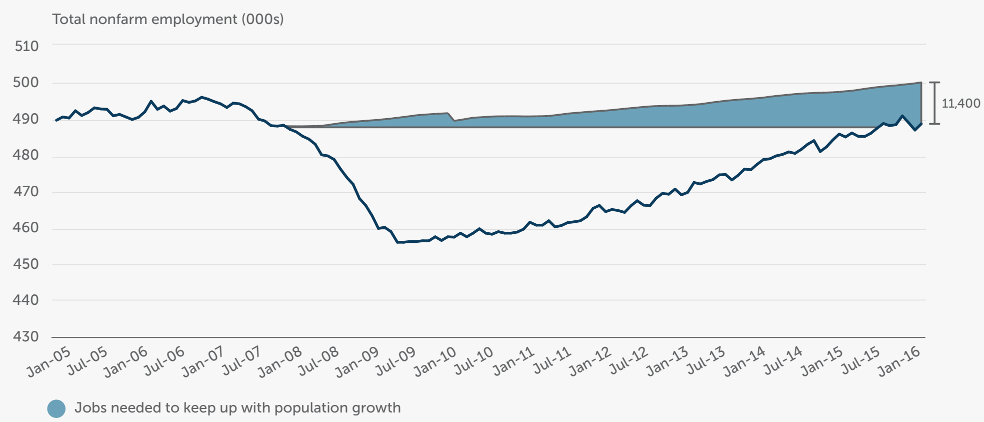
It is widely understood that when economies are weak, there is very little pressure for wage growth, so we would not expect to see wage growth during the harshest parts of the Great Recession. However, median wages have been essentially flat throughout the decade, with little discernible impact evident during the recession years. (See "Rhode Island Median Wages by Race and Ethnicity, 2005–2015.") In fact, white, African American, and "all" median wages declined slightly during the period 2005–2015, while Latino wages increased modestly, but not by enough to significantly reduce the gap between white median wages and Latino median wages. During this period median white wages were on average 1.6 times greater than median Latino wages and 1.4 times greater than African American wages.

One Means to Close the Gap: Education

The fact that Rhode Island currently lags its New England neighbors in several measures of educational attainment is rightly considered problematic for the state's economic future. It also shines a light on one path toward improved economic prospects for Rhode Island workers and an improved economy for the state as a whole. This is especially true for workers of color, whose educational attainment levels are particularly low. "State of Working Rhode Island,

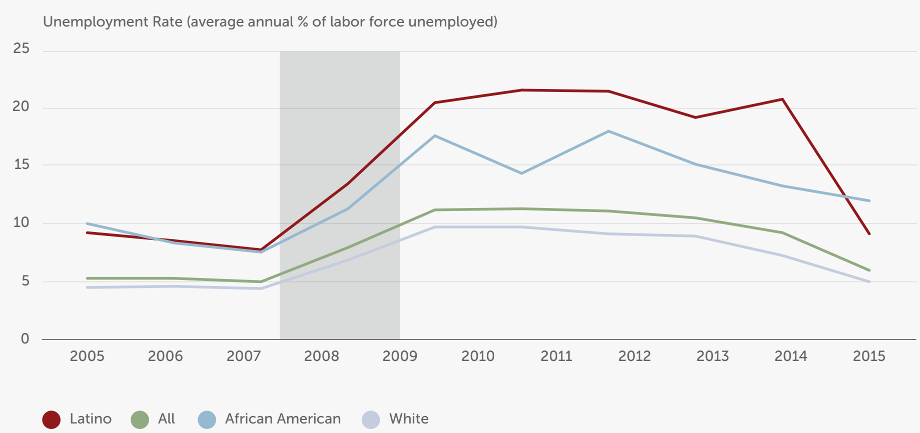
Rhode Island's Jobs Deficit

In June 2016, Rhode Island's jobs deficit (the number of additional jobs needed to keep up with population growth since the beginning of the Great Recession) stood at 11,400.



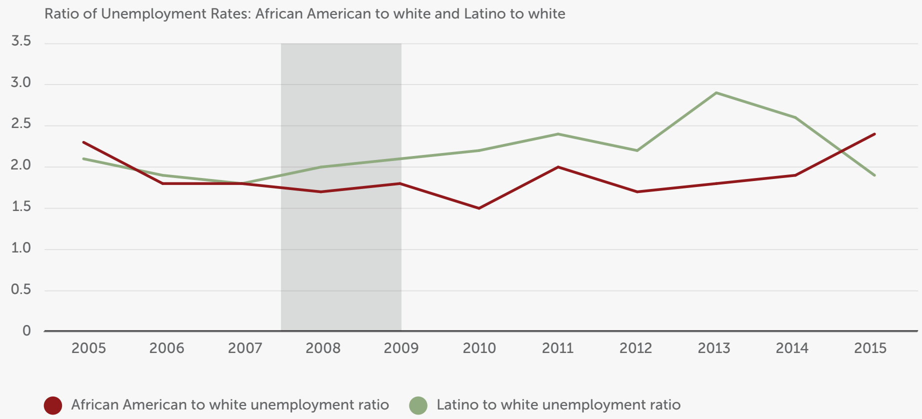
Source: Economic Progress Institute and Economic Policy Institute analysis of data from the Bureau of Labor Statistics, Current Employment Statistics, and Local Area Unemployment Statistics.

Rhode Island Unemployment Rates by Race and Ethnicity, 2000–2015



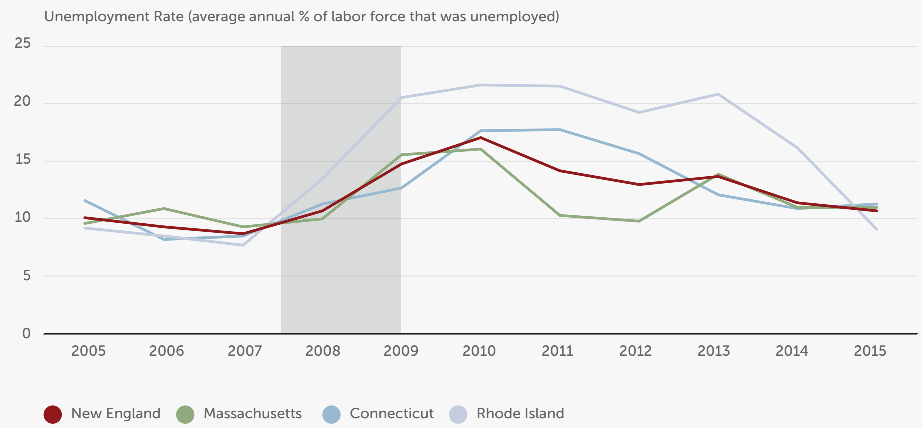
Source: Economic Progress Institute and Economic Policy Institute analysis of data from the Bureau of Labor Statistics. Shaded area denotes period of the Great Recession, from December 2007 to June 2009. Due to sample size limitations, data for 2007 African American unemployment is an inferred estimate.

Unemployment Ratios in Rhode Island



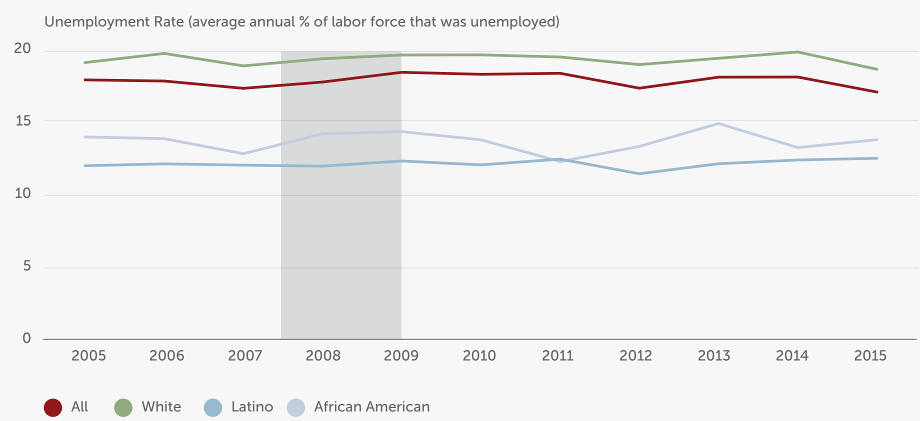
Source: Economic Progress Institute and Economic Policy Institute analysis of data from the Bureau of Labor Statistics. Shaded area denotes period of the Great Recession, from December 2007 to June 2009. Due to sample size limitations, data for 2007 African American unemployment is an inferred estimate.

Hispanic/Latino Unemployment Rates: New England, Massachusetts, Connecticut, and Rhode Island, 2005–2015



Source: Economic Progress Institute and Economic Policy Institute analysis of data from the Bureau of Labor Statistics. Shaded area denotes period of the Great Recession, from December 2007 to June 2009.

Rhode Island Median Wages by Race and Ethnicity, 2005–2015 (2015 dollars)



Source: Economic Progress Institute and Economic Policy Institute analysis of Bureau of Labor Statistics data (sample size limitations may increase annual variation in African American median wages). Shaded area denotes period of the Great Recession, from December 2007 to June 2009.

2015: Workers of Color" notes that just 12 percent of Rhode Island's Latino adults and 18 percent of Rhode Island's African Americans age 25 and older have a bachelor's degree or higher, compared to 34 percent of white adults and 42 percent of Asian adults.[7] As the state continues to prioritize higher education and career training, ensuring that people of color have full access will go a long way toward addressing the economic disparities so evident during the past decade.

But education disparities are only a partial answer to the problem of minority unemployment rates. A 2015 Economic Policy Institute study notes that unemployment rates for African American workers are approximately double white unemployment rates, regardless of educational attainment.[8] Similarly, a 2011 U.S. Department of Labor report showed that nationally, Latino unemployment rates were also higher than white unemployment rates for workers with high school diplomas or higher, ranging from 1.2 times higher for high school graduates to 1.5 times higher for those with a bachelor's degree or higher.[9] So in addition to boosting educational attainment, Rhode Island will need to pursue other strategies to increase economic opportunity for minority families, including job creation programs, further increasing the state's minimum wage (both the regular minimum wage and the tipped minimum wage), expanding the state's earned income tax credit, and increasing funding for the Child Care Assistance Program.

* * *

At present, Rhode Island's economy is like an eight-cylinder engine that's only firing on six cylinders. We can tune up that engine by closing the racial and ethnic economic gaps that we see today. When the engine is running smoothly, it will carry all residents, and all will be able to share in the prosperity their labor creates.

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Endnotes

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2. Ibid.
3. According to the Bureau of Labor Statistics, Rhode Island had 488,400 nonfarm jobs in June, 2016, slightly more than the 487,800 jobs it had in December 2007 at the onset of the Great Recession. After losing 1,000 jobs in May, 2016, Rhode Island had temporarily slipped below the December 2007 threshold.
4. "State of Working Rhode Island, 2015: Workers of Color" (report, Economic Progress Institute, Providence, RI, 2015), http://economicprogressri.org/index.php/2015/12/17/the-state-of-working-rhode-island-2015-workers-of-color/.
5. Because the 2007 African American unemployment rate is an inferred estimate, the gap between the overall rate and the African American rate may be either slightly higher or slightly lower.
6. Vermont, Maine, and New Hampshire do not have sufficient Latino populations to calculate unemployment rates.
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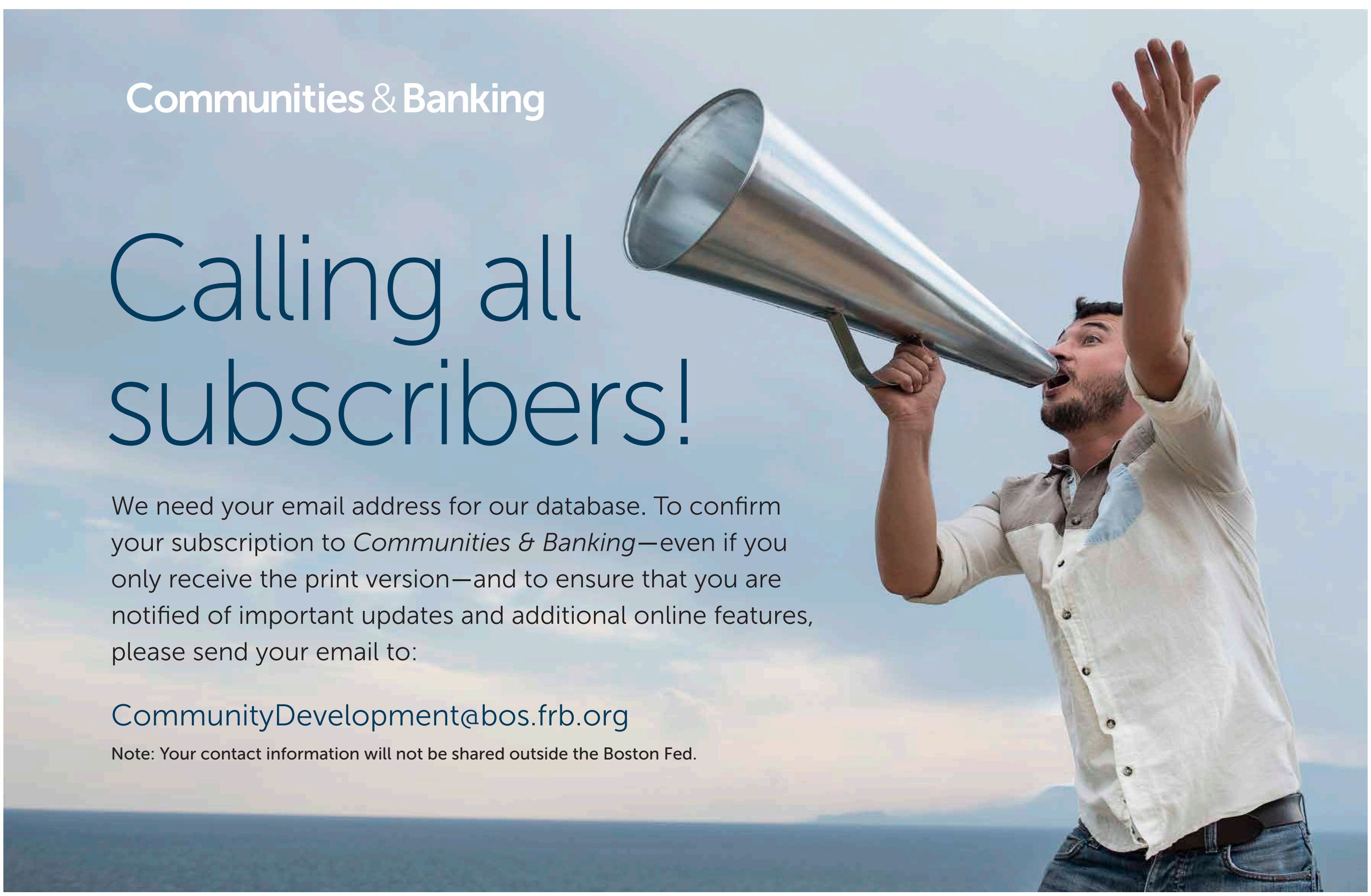

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