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A Third Way Perspective

Deep conflicts over public policy persist not simply between Republicans and Democrats but also within the Democratic Party. This book highlights these intra-Democratic differences. It points to a "Third Way" between the left-liberal wing of the Democratic Party and conservatives who dominate the Republican Party. These policies are crucial given the current economic malaise that persists, and the divided Congress that must find common ground.

With persistent near-double-digit official unemployment rates, with record levels of long-term joblessness, more must be done to aid working families. But almost from the start, the Obama administration has had to struggle with Congress. In the middle of 2010, almost a year after the recession was officially over and economic growth had begun, there were almost five unemployed workers for every job opening. This was almost double the ratio during the worst of the economic slowdown at the beginning of the decade. Despite this, Republican senators balked at extending unemployment insurance. As a result, over 2 million of the more than 5.5 million unemployed workers who qualified for unemployment insurance had their benefits temporarily halted. Thankfully, Democrats were able to successfully extend benefits for another four months.[1]

But even when President Obama has been successful at extending federal benefits, state and local officials do not follow suit. While the number of families receiving federally funded food stamps increased substantially at the beginning of the recession, states minimally increased the number of families collecting cash assistance. "There is ample reason to be concerned here," said Ron Haskins, a former Republican congressional aide who helped write the 1996 law

overhauling the welfare system. “The overall structure is not working the way it was designed to work. We would expect, just on the face it, that when a deep recession happens, people could go back on welfare. When we started this, Democratic and Republican governors alike said, ‘We know what’s best for our state; we’re not going to let people starve,’” said Mr. Haskins, who is now a researcher at the Brookings Institution in Washington. “And now that the chips are down, and unemployment is going up, most states are not doing enough to help families get back on the rolls.”[2]

Much of this resistance reflects a conservative ideology that emphasizes individual responsibility. This was most clear when some state and local officials refused to adjust policies even when the cost would be picked up by the federal government. Texas and South Carolina governors rejected federal stimulus funds that required them to relax unemployment compensation rules that would have allowed more unemployment workers to qualify for benefits. These proposed procedures were already in place in twenty states and were helping many lower-waged workers.

Even the more moderate New York City, Mayor Bloomberg refused federal funds for a food stamp expansion because it conflicted with his notion of encouraging self-sufficiency. Cognizant of the economic downturn, the federal stimulus plan entitled able-bodied single adults without dependents to remain eligible to receive food stamps until September 2010. This overturned present law, which limited these recipients to a guaranteed food stamp entitlement of only three months in a three-year period. Mr. Bloomberg would extend benefits beyond three months only if these adults enrolled in the city’s workfare program, which offers some training, some internships, and some low-level work. A *New York Times* editorial lamented, “We can

understand the mayor's ideal of 'work, not welfare,' but this is not a time to be stingy with food, especially if Washington is picking up the tab."[3]

These conservative responses to the problems faced by the less fortunate can be callous, but some left-liberal responses are also questionable. In our view, they overly emphasize the need for more government spending and too often minimize the importance of influencing individual behavior. As a result, we believe that the necessary policies to advance the economic well-being of working families must reflect a "Third Way."

There are three important parameters that distinguish the Third Way: the importance of personal responsibility, structural impediments, and financial incentives. On one end of the political spectrum are conservatives. They emphasize the importance of personal responsibility and believe that individuals should rely on and will benefit from a competitive free-market system.

At the other end of the political spectrum are left liberals. While there are certainly variations among them, most left liberals generally minimize any notion of personal responsibility, which they characterize as "blaming the victims," and instead see profit-seeking motives as the source of problems. They focus on examples of market exploitation: underpayment of workers, overcharging of consumers, and predatory lending in low-income areas.

The Third Way navigates an intermediate position between these two poles. While supporting policies to limit market excesses, Third Way proponents also find opportunities to use market incentives to aid working people. While personal responsibility should be encouraged, Third Way proponents believe that the government must provide significant supports that enable working people to move forward—supports that require substantial government resources.

Third Way proponents also identify important structural impediments that will hold back personal advancement in the absence of government initiatives. Most important has been the potentially damaging impact that poverty has on the long-term outlook for children, especially those living in single-parent households. As a result, Third Way proponents support a range of policies to strengthen low-income families.

Third Way proponents also contend that technological changes have created important impediments to the upward mobility of many working people. These changes have made most manufactured goods cheaper to produce in suburban industrial parks or abroad rather than in central cities, where most low-income families still live. In addition, technological innovation, by increasing the sophistication of machines, has increased the educational requirements for even those who are employed in traditional blue-collar vocations. Thus, these skill and locational changes have added to employment difficulties, particularly those faced by less educated central-city workers.

More generally, the Third Way has a left-liberal commitment to government funding that enhances the incomes of working families while at the same time recognizing that conservative concerns for program effectiveness and individual responsibility are sometimes justified. Government must be both compassionate and competent. In addition, including conservative recommendations can avoid some of the contentious distractions that reliance on ideological purity often causes, something that is particularly important with a divided Congress.

New York Times columnist David Brooks noted that the conservative perspective, which rejects the role of government, has lost its hold on the American populace. He wrote, “The emphasis on freedom and individual choice may work in the sparsely populated parts of the country. People there naturally want to do whatever they want on their own land. But it doesn’t

work in the densely populated parts of the country: the cities and suburbs where Republicans are getting slaughtered. People in these areas understand that their lives are profoundly influenced by other people's individual choices.

He then pointed out that there are two relevant visions of the role of government within the Democratic Party. One vision—what we have labeled left liberalism—rejects reliance on the market and instead has "teams of experts draw up plans to engineer order wherever problems arisAnd there is the more centrist vision in which government sets certain rules, but mostly empowers the complex web of institutions in which the market is embedded." [4]

In each of the policy areas to be discussed the Third Way approach will contrast with the recommendations made by most conservatives and left liberals. Our recommendations will rely heavily on research findings. Let us simply state here some of these differences so that the reader can better understand the Third Way perspective. For example, we reject the nativist if not racist sentiment that energizes many within the anti-immigration movement. We are also uncomfortable, however, with left liberals who dismiss the legitimate grievances against legalizing and expanding *low-wage* immigration. We take seriously the unintended harmful effects that this pattern of immigration has on state and local budgets and on the employment of less educated native-born workers.

Similarly, we reject conservative attempts to stifle government-funded educational programs that would help many blacks and women gain a foothold in the middle class. We believe, however, that some of the initiatives emphasized by left liberals are inconsistent with benefit-cost assessments: too much money will be spent with few positive results. In particular, we believe that four-year college degree goals have been overly emphasized at the expense of

occupational training at community colleges. We find that many students who fail out of academic programs could have succeeded at occupational ones.

One final example is the workings of the labor market. Conservatives believe that competition forces firms to pay workers fairly. If one employer seeks to underpay his workers, other less exploitive firms will bid these workers away. They believe that wage disparities reflect solely differences in skills and motivation. As a result, they reject government interference with employment decisions, such as through equal employment opportunity (EEO) regulations or legislation to facilitate unionization.

By contrast, most left liberals believe that race and gender wage gaps are dominantly the result of direct and indirect discrimination so that they focus on strengthening government antidiscrimination efforts. In addition, many believe that wages are determined by a struggle between capital and labor so that unions and government-mandated wage policies, including living-wage and minimum-wage legislation, are the most important ways to raise the economic well-being of working people.

The Third Way certainly believes that EEO policies have been an important vehicle for limiting discriminatory labor market behavior and should be strengthened in labor markets for less educated workers. And unions and government-mandated wage policies have played a positive role. But Third Way advocates also believe that in large part race and gender wage gaps reflect behavioral and structural factors. In particular, improving both soft and hard skills among black men can substantially reduce racial earnings disparities among men with less than four-year degrees. Similarly, Third Way advocates focus on policies that enable working-class women to better balance work and family. These policies include better child care arrangements and strengthening partnerships relationships to encourage marriage or long-term cohabitation.

Most important, Third Way advocates believe that there has been too great an emphasis on maximizing the number of four-year college graduates. In pursuit of this goal, left liberals discourage occupational training in high schools and community colleges. They fear that providing attractive occupational programs will inevitably track low-income students into low-wage, dead end jobs, reproducing poverty in another generation. They ignore evidence that weakly prepared high school graduates do not have the academic skills necessary to pursue college-level work, resulting in very low college graduation rates. They ignore evidence that by not providing these programs at the community colleges, many low-income blacks and Latinos seek them at private for-profit schools that often saddle students with loans and problematic employment credentials.

Finally, Third Way advocates believe that left liberals focus too much on raising wages through either government mandates or union efforts. By contrast, Third Way advocates believe that because of firm mobility and the skill deficiency of workers, government supplements like the Earned Income Tax Credit (EITC) may be a more effective way to raise incomes of struggling working families.

Targeting Working Families

Now that we have given some sense of the perspective that will underpin the policy recommendations to be proposed in this book, some understanding of the target population will be useful. Every politician espouses concern for working families, but few explicitly identify whom they exclude. For example, President Obama's working families only exclude those making more than $250,000—less than 5 percent of all families. This book identifies a much

smaller subset of families: those that have annual incomes below $70,000. This subset includes the officially poor—those with incomes below $20,000; the near-poor—those with incomes between $20,000 and $40,000; and the lower middle class—those with incomes above $40,000 but no higher than $70,000.

In 2007, 55 percent of all families but only 46 percent of married-couple families had incomes below $70,000 so that this threshold reflects a rough calculation of the median income of all families nationally. The $20,000 figure closely matches the current government income threshold for judging the official poverty rate. In 2009, families with one adult and two children were officially poor if their income was below $17,285; for families with two adults and two children, the poverty-line threshold was $21,756.[5]

In 2009, 43.6 million people, or 14.3 percent of all U.S. residents, were classified as poor. Virtually all researchers believe that the official poverty-line thresholds are outmoded. Indeed, the Census Bureau calculates poverty rates for a number of alternative measures, all of which are higher than the official cutoffs. Depending upon how out-of-pocket medical expenses and adjustments for geographic location are treated, alternative poverty measures can be significantly higher than the official rate.

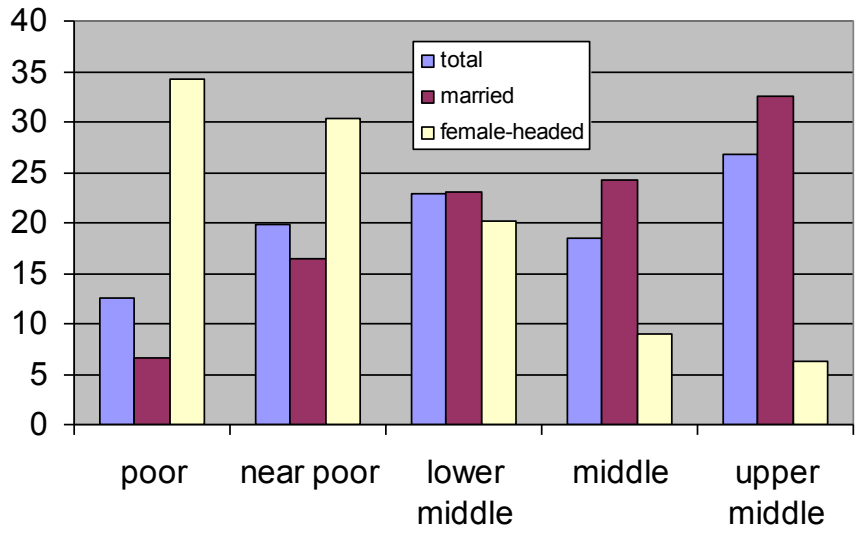
It should also be noted that the government's measure of family income may be too low. Specifically, it does not include current refundable tax benefits like the EITC and child credit that add substantially to the purchasing power of low-income families. If the government used a measure of *disposable* income, with its current income cutoffs, poverty rates would decline by about 25 percent.[6]

According to a range of studies, the share of families that experience material hardships declines as income increases. Material hardships persist, however, in a significant share of

families until income rises above twice the poverty-line thresholds.[7] These material hardships include going without a meal because of lack of income at least once in the past month or having some utility turned off for lack of payment during the last year. Thus, the $40,000 threshold was chosen to identify near-poor households whose incomes are above the poverty cutoffs but less than what is necessary to fully escape material hardships.

Not surprisingly, the distribution of income is different for families headed by a married couple and those headed by a woman with no husband present. In 2007, 34.3 percent of female-headed families but only 6.6 percent of married-couple families were poor (figure 1.1). By contrast, 32.6 percent of married-couple families but only 6.3 percent of female-headed families are in the upper middle class: those families with incomes over $100,000. Indeed, only 15.2 percent of female-headed families had incomes above $70,000.[8]

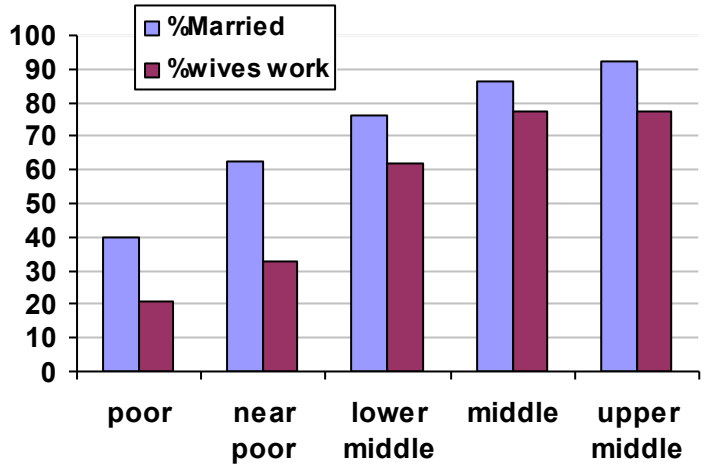
Chart 1: Share of Each Family Type Across Income Groups, 2007



Married couple families constitute 39.6 percent of all poor households and 62.4 percent of all near-poor households (figure 1.2). These low-income married-couple families are

characterized by very low employment of wives. In poor and near-poor married-couple families, the share of wives who are employed is 20.6 and 33.0 percent, respectively. By contrast, for lower-middle-class and middle-class married-couple families, the share is 61.7 and 77.6 percent, respectively.

Chart 2: Characteristics of Married Families across Income Groups, 2007



For many of these married couples, the low income that they are experiencing may reflect the years in which wives shift out of the labor market to care for their young children. As their children age, most of these families are likely to move into the lower middle class when mothers return to the paid workforce. Thus, many married-couple families that are classified as poor or near-poor at some point in time are unlikely to suffer persistent long-term material hardships.

The families that are most at risk to experience persistent *long-term* material hardships are those that are female-headed. As indicated in figure 1.1, very few are in the upper half of the income distribution. They constitute 50.8 percent and 28.4 percent, respectively, of poor and near-poor families. As we go up the income ladder, the share within each income group that is

female headed continues to decline. Less than 5 percent of upper-middle-class households are female-headed.[9] This suggests that it will be important to have policies that specifically target female-headed households if we want to reduce the number of families that are at risk for experiencing *persistent* material hardships.

Lessons from the Clinton Administration

When he took office, President Clinton faced an economic climate that had important similarities with those facing President Obama. Though to a much milder degree, then too working families were having difficulties after three years of economic stagnation. Then, too, working families were facing declining standards of living, the specter of widespread underemployment, and a declining set of expectations. These difficulties were particularly severe in central-city neighborhoods where the loss of manufacturing jobs and the crack cocaine culture had created havoc.

President Clinton was strongly influenced by Third Way advocates associated with the Democratic Leadership Council, which he chaired 1990 to 1991. He was influenced by its policy think tank, the Progressive Policy Institute, particular its publication, Mandate for Change.[10] As his chief domestic policy adviser, Clinton selected one of its founders, Bruce Reed. This Third Way approach was signaled by two pronouncements Governor Clinton made during his 1992 presidential campaign: his campaign slogan to "end welfare as we know it," and his condemnation of those who believed that racist practices were so pervasive that any criticism of black Americans was "blaming the victim." Each of these pronouncements has been perceived as examples of his political savvy, of his ability to triangulate conservative opposition and mistrust.

By contrast, this book will argue that they were driven by his decision to find a Third Way to confront problems of low income and racial disparities.

After being stable for more than a decade at 3.8 million families, welfare rolls increased beginning in 1989, reaching 5.1 million families by 1992. Most left-liberal policy makers considered these increases responses to an economic downturn: to the lack of available jobs and the low wages offered to less educated workers. Indeed, they pointed to evidence that for many mothers, a shift from welfare to paid employment would lower family income.[11] As a result, left liberals suggested that a more robust economy, by providing more jobs and better pay, would lead to a natural reduction of the welfare rolls so that no changes in welfare policies were warranted. By contrast, President Clinton believed that welfare policies must change: single mothers must take responsibility by participating in employment-enhancing activities as a condition for receiving cash assistance.

President Clinton also rejected the antidiscrimination stance that many left liberals advocated. While he did undertake expansionary policies that raised incomes for the lowest-paid workers, there were no *targeted* policies undertaken to reduce racist practices. This approach was consistent with the way he responded to the urban unrest in Los Angeles after the Rodney King incident.

In 1992, Rodney King was brutally beaten by the police after being stopped for a traffic violation just outside Los Angeles. Outraged by this incident, large sections of the Los Angeles black community rioted, inflicting substantial property and personal damages. Defenders of this protest focused on deeply imbedded racist practices. One of the most vocal advocates for retaliatory violence was the rap singer Sister Souljah. After interviewing her, *Washington Post* reporter David Mills claimed, "[Her] empathy for the rioters reached a chilling extreme. Forget

the statistics emerging on the racial variety of looters and people who died. Forget the economic motives of those who plundered stores. To Souljah, this was a black-on-white 'rebellion,' plain and simple and righteous."[12]

A month later, Souljah was an invited speaker at Jesse Jackson Sr.'s Rainbow Coalition. The following day, Governor Clinton addressed the same gathering and condemned her rhetoric and questioned why she had been invited. "Her comments before and after Los Angeles," Clinton said, "were filled with a kind of hatred that you [the Rainbow Coalition] do not honor."

This criticism infuriated Jackson. He said afterward that Sister Souljah "represents the feelings and hopes of a whole generation of people," and that she said she had been misquoted in the *Post*. Roger Wilkins, one of the most respected voices of the black community, was deeply distressed by what Governor Clinton had done. Wilkins said, "At the panel the night before, Jackson stood up to Sister Souljah, insisting that you can and must work within the system. And she finally agreed with him. … In that context Clinton's speech was arrogant, and it was cheap. He came there to show suburban whites that he can stand up to blacks. It was contrived."[13]

When he assumed office, Clinton did not combat attempts like California's Proposition 209 to terminate preferential admissions programs. The journalist Katha Pollitt pointed out that "President Clinton was silent on Proposition 209 throughout the election season, when his leadership—and his party's money and muscle—might have made a difference."[14] Nor did he seek to enhance the economic safety nets available to the poor. Instead, he championed legislation to replace welfare with work and focused on class rather than race when formulating economic policies.

President Clinton's welfare policies reflected the synthesis that is a hallmark of Third Way policies. Under the slogan "Make Work Pay," Clinton supported left liberals who believed

that the government must do more to support working mothers: Raising their earnings through increases in the minimum wage and EITC; and easing their family burden by making child care accessible and affordable. President Clinton also embraced conservative concerns that there were behavioral impediments that must be confronted. With prodding from Bruce Reed, Clinton supported requirements that mothers had to engage in work-enhancing activities in order to receive cash assistance.

Left liberals within the Democratic Party forcefully opposed President Clinton's welfare proposals, initially forestalling their approval. They criticized the requirements imposed on recipients: replacing an entitlement with policies that distinguish between the deserving and undeserving poor. Left liberals decried the focus on the alleged dysfunctional behaviors of the poor rather than the discriminatory barriers they faced. Highlighting the long and recent history of racial discrimination, they claimed that President Clinton was capitulating to regressive policies, ones that would inflict untold miseries on the most destitute and defenseless families.

The left-liberal position was most dramatically articulated by a longtime Clinton ally and friend, Marianne Wright Edelman, president of the Children's Defense Fund. During the congressional deliberations she implored: "The Old Testament prophets and the New Testament Messiah made plain God's mandate to protect the poor and the weak and the young. The Senate and House welfare bills do not meet this test."[15] Responding to the lifetime limits included in the proposed legislation, Senator Patrick Moynihan charged, "To drop 2,414,000 children in our central cities from life support would be the most brutal act of social policy we have known since Reconstruction."[16]

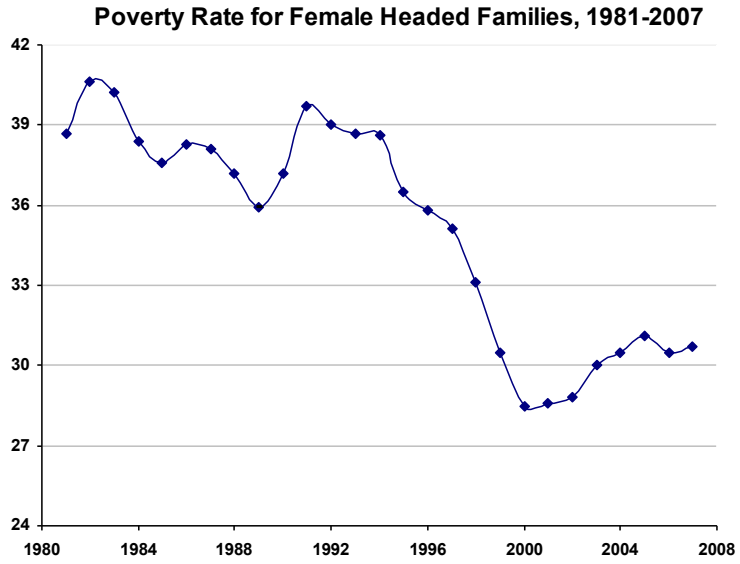
When President Clinton chose to sign off on welfare legislation, three senior Health and Human Services (HHS) officials—Wendell Primus, Peter Edelman, and Mary Jo Bane— chose to resign. Wright Edelman wrote:

> This legislation is the biggest betrayal of children and the poor since the Children's Defense Fund began. President Clinton's signature on this pernicious bill makes a mockery of his pledge not to hurt children.…This act will leave a moral blot on his presidency and on our nation that will never be forgotten. Today marks a tragic end to our nation's legacy of commitment to our most vulnerable children—this is truly a moment of shame for all Americans.[17]

As promised, the "Make Work Pay" legislation provided welfare recipients with substantial aid in their transition to work. First, the welfare bill called for a dramatic expansion of federal funding for child care and nonprofit organizations that helped leavers find jobs and sustain employment. Between 1997 and 2003, federal funding of child care increased from $4.1 to $12.3 billion.[18] Just as important, Clinton raised the minimum wage from $3.25 to $5.15 per hour and doubled the Earned Income Tax Credit, a federal supplement to wage income providing working mothers with two children as much as $4,000; if they lived in one of fifteen states that have their own EITC program, they received up to an additional $1,000. As a result, even full-time work at the minimum wage would yield sufficient income to escape official poverty.

Anxieties when welfare reform was initiated were understandable. By 2000, however, evidence had accumulated that a very large share of welfare leavers had improved their economic situation and only a very small share had moved backward. As the welfare rolls plummeted, so too did poverty rates. For the fifteen years prior to welfare legislation, poverty rates among

female-headed households fluctuated between 36 and 41 percent. Between 1994 and 2000, the rate fell by more than one-quarter—from 38.6 to 28.5 percent.



Another goal of welfare reform was to reduce teen pregnancy. During the late 1980s teen pregnancy rates, especially among young black women, had begun to increase. By 1991, the birthrate for black women aged fifteen to seventeen was 8.3 percent, 18 percent higher than it was five years earlier. Left liberals were unsure how to respond. While some believed that contraceptives and abortions should be stressed, this ran counter to the attitudes of many within the black community.[19]

Other left liberals claimed that young motherhood was a rational decision, given the bleak circumstances these women faced. Given their disadvantaged circumstances, delaying childbearing would not raise their annual incomes. It was even beneficial to have children at a young age when these women were healthier and had more access to familial support.[20] Once more, a fear of "blaming the victim" led many left liberals to be uncomfortable pursuing government policies that would lower teen birthrates.

Fortunately, when changes in state welfare policies began to be implemented in the early 1990s, teen pregnancy rates began to decline, and the decline accelerated later in the decade. By 2000, birthrates for fifteen- to seventeen-year-old black women were halved; for comparable-aged white women they fell by one-third. For all teenage women, the birthrate fell by more than 25 percent.

Evidence also indicated that the material hardships experienced by welfare leavers were lowered substantially. It was this evidence that convinced early critics, including Jason DeParle and Christopher Jencks, to change their views.[21] Indeed, when Congress was considering reauthorization, Jencks recommended that since "welfare reform has succeeded in its present form, in our view legislators should now leave it alone, rather than trying to fix what is not broken."[22]

Declining poverty rates and material hardships were the result of the successful transition to work for the vast majority of welfare leavers. The employment rate of single mothers living in the largest urban areas increased from 59 percent to 73 percent, with even larger increases for black and Latino never-married women—the population most impacted by welfare reform.[23] Studies consistently found that it was primarily the new welfare regulations that prodded (or forced) mothers to leave cash assistance, not the strong labor market.[24] Thus, together with the government supports to welfare leavers, the "Make Work Pay" philosophy was responsible for the dramatic declines in poverty rates.

Despite this mounting evidence, many left-liberal analysts continued to paint a dismal picture of welfare reform.[25] The most venomous criticisms came from left-liberal academicians. A 2002 book sponsored by the Academy of Political and Social Science, *Lost Ground*, exemplifies this attitude. Its coeditor Randy Albelda claimed, "As currently implemented, the

welfare to work solution is a match made in hell" (80). Gwendolyn Mink believed that "TANF's foremost objective is to restore the patriarchal family" and that it "exploits women of color to suffocate single mothers' independence" (96, 99). In denouncing the reforms, Kenneth Neubeck wrote, "The passage and signing of [TANF legislation] demonstrates how well welfare racism functions [so that] welfare reform is best viewed as an effort at racial control" (116, 118). A leading social work educator, Mimi Abramovitz, along with Kenneth Neubeck and Noel Cazenave, helped popularize the term "welfare racism" to signify the disproportionately perceived adverse consequences the legislation had on black women.[26]

Left-liberal criticisms of President Clinton's lack of targeted initiatives to combat racial discrimination were much more defendable. For many academicians, like myself, weaned on late 1960s writings by William Ryan (*Blaming the Victim*) and Frances Fox Piven and Richard Cloward (*Regulating the Poor*), racism was considered the fundamental reason for racial disparities, and the continued prevalence of racist stereotypes in the blue-collar working population—the so-called Reagan Democrats—explained why they rejected progressive policies such as affirmative action.

These attitudes informed our teaching and writings. They continued to do so even after William Julius Wilson (*The Declining Significance of Race*) argued in the mid-1980s that white racist attitudes and practices were no longer compelling explanations for racial disparities. Thus, it was not surprising that there would be a negative reaction to Clinton's decision to rebuke Sister Souljah, a negative reaction that I shared at the time.

Combating racist practices should have been a more important part of President Clinton's agenda. Certainly federal officials should have responded to the racist implementation of welfare policies in a number of localities. More recently, racist police incidents, the

government's indifference to the victims of Hurricane Katrina, the racial component of the housing crisis, and the racist backlash to President Obama have made clear that we are far from a postracial society.

The problem with the left-liberal perspective, however, is its unwillingness to *balance* efforts to combat racist practices with other policies that attempt to counter behavioral and social impediments. For most left liberals, white racism is still the *core* explanation for economic disparities—blacks are still victims of an unrepentant racist system where only cosmetic changes have been made.[27] Thus, accepting any policy that does not confront racism will only strengthen the "blaming the victim" mentality, a perspective, they believe, that still dominates white America.

These arguments discount important evidence concerning the reduction of labor market racial discrimination. Among those African Americans who gain a four-year college degree, the racial earnings gaps among men and among women are caused by factors other than racist labor market policies. While on average for each gender, a black college graduate earns less than a white college graduate, virtually all of these differences are the result of black college graduates living disproportionately in the South where wages are lower, having fewer years of work experience, and having weaker academic skills than white graduates as measured by either basic skills tests or class rank.[28]

Conservatives incorrectly seize on these findings to claim that labor markets are unbiased so that hirings are based solely on merit, and that *all* aspects of affirmative action should be abandoned. They minimize the need for equal employment laws to maintain a level playing field for college graduates. Maybe even more important, they ignore the workings of the labor markets for non–college graduates. In these markets, there is still a modest wage gap—

probably more than 10 percent—even after making adjustments for differences in skill-related factors.

These studies, however, only compare the wages of *employed* black and white men. As significant as these persistent wage disparities are, much more severe are the racial employment rate disparities. In 1996, just as welfare reform was initiated—and before the Clinton-era economic boom created very tight labor markets—the inability of black Americans to gain employment was quite striking, especially in the Midwest. In that region, 74 percent of white men but only 57 percent of black men were employed; 59 percent of white women but only 53 percent of black women were employed. While the economic boom decreased these employment gaps, they still remain substantial among men.

It would be a mistake, however, to focus primarily on reducing discriminatory barriers. In 1999, national unemployment had fallen below 4 percent. In many cities, firms were forced to employ virtually any workers available. As labor markets tightened, employers were much less likely to use exclusionary advertising and rely on racial stereotypes when choosing among applicants.[29] The employment rate for black men did rise relative to the rate for whites, but the racial gap remained substantial. This suggests that factors beyond discriminatory hiring practices are important in understanding why black men have such poor employment records.

One such factor is the impact of the great postwar migration to the North that began when cotton production was fully mechanized. Black men were still excluded from the better-paying craft occupations. Economic growth and low national unemployment rates, however, allowed substantial mobility for white workers, freeing up positions in manufacturing for black workers. By 1975, the share of young black men employed in manufacturing in midwestern cities reached 40 percent.

While this migrating generation was generally able to secure stable employment, their children—the postmigration generation—were less fortunate. The economy began to fizzle in the mid-1970s just when the ending of the Vietnam War brought many young men back into the labor force. At the same time, manufacturing firms began closing their northern and midwestern *urban* factories, moving from central-city to suburban sites and from the older industrial areas to the South.[30]

Part of this strategy was to limit investment in their older urban plants so that by the mid-1970s many of these facilities were obsolete and economically no longer viable production sites. Employment prospects for young black men living in central cities were further weakened by the shift of manufacturing to suburban industrial parks. The newly built interstate highway system enabled trucking to replace railroads. To avoid traffic congestion, many manufacturing firms relocated to suburban sites adjacent to a highway. And new assembly-line techniques required sprawling suburban factories rather than multifloor central-city locations.

Young black men living in central cities found it increasingly difficult to follow the manufacturing jobs to the suburbs. There is also some evidence that Latino immigrants were able to replace black workers at jobs that remained in the central city.[31] By 1989, the share of young midwestern black men employed in durable manufacturing fell to 12 percent.[32] This was the backdrop against which the postmigration generation struggled to find gainful employment and why the racial employment gap was so large in that region.

By the mid-1980s, crack cocaine had become a further plague on black communities. Congress and state legislatures dramatically increased the penalties for crack cocaine possession, more than doubling the prison population. Nearly 90 percent of those sentenced to prison for its use and distribution were black. As a result, interaction with the criminal justice system became

a common occurrence in poor black communities. For example, in Baltimore, at any point during the early 1990s, the majority of black men aged eighteen to thirty were in prison, on probation, or had a hearing pending within the criminal justice system. Black men born in the late 1960s had a 20.5 percent probability of being in prison by age thirty to thirty-four; if they were high school dropouts, the probability rose to 58.3 percent.[33]

These social and economic problems had profound effects. They help explain the substantial intimate violence poor black women experience and the instability of the relationship between fathers and their children. During the early 1990s, the intimate violence rate was 43 percent higher for black than for white women.[34] Even after adjusting for economic differences, the rate was still substantially higher for black than white women. Welfare dependency also increased as violent partners sought to limit the ability of teen mothers to gain additional education or outside employment.[35]

Left liberals were uncomfortable with policies to reduce the intimate violence experienced by poor women, fearing that they would undermine efforts to reduce the structural and socioeconomic causes of the ills of the poor.[36] Only after welfare reform was legislated did left liberals mobilize efforts to confront the significant intimate violence that plagued the lives of welfare recipients. Their important efforts led Senator Paul Wellstone (D-MN) to place provisions within the implementation guidelines that required domestic violence to be a component of recipient evaluations.

Left liberals were less responsive to the need for stronger legal provisions to enforce child support payments from absent fathers.[37] When the Clinton administration proposed new regulations, left liberals balked. Cynthia Newbille, director of the National Black Women's Health Project, and members of the Congressional Black Caucus cautioned that without a

comprehensive job creation strategy, measures such as wage garnishment would be largely ineffective within the African American community. Many left liberals suggested that it was just blaming black men who themselves were victims of the racist system that would not allow them to obtain meaningful employment that was necessary to support their children.

Despite these protests, federal efforts to increase child support payments moved forward in 1994. At the time, only 18 percent of families in the child support program received any child support. During the subsequent decade, these payments increased fourfold, not only providing needed funds for families but also having a positive effect on the relationship between fathers and their children. By 2004, the collection rate had risen to 51 percent. Studies also indicated social benefits beyond financial gains: stringent child support reduced marital disruptions and out-of-wedlock childbearing.[38]

In summary, Third Way advocates enacted a number of policies during the Clinton presidency that proved helpful in moving working families forward. President Clinton went too far in slighting policies that directly confronted discriminatory practices. His overall efforts, however, did substantially aid black families and counter the pervasive hopelessness that the 1980s structural changes had created.

Left liberals continued to believe that racial discrimination was the *core* explanation for the persistence of black economic and social difficulties. As a result, they were unprepared for the substantial changes in racial attitudes that enabled Barack Obama to win the presidency with as large a share of the white electorate as other Democratic candidates had garnered in any of the previous eight presidential elections. Yes, there has been a racist backlash, and it should be confronted, but an overreaction can be counterproductive. One example was the rush by many left liberals to judge the arrest of Harvard professor Louis Gates Jr. as racially motivated. As

more evidence of the incident became known, it became increasingly difficult to sustain the claim of racial motivation.[39] Unfortunately, President Obama's perceived support for this claim may have caused a decline in his popularity among white Americans.[40] Most important, there must be a multifaceted policy approach to raising the living standards of black families.

Many left liberals also reject some Third Way policies because they have a particular feminist view: women must be able to earn a *middle-class* income by *themselves* so that they can be free of economic dependence on men. From this perspective, child support payments are not a viable solution, since they continue to keep mothers dependent on their former male partners' income. Indeed, the substantial employment expansion experienced by these women was not considered a "success" because the low-waged jobs they obtained did not allow them to escape completely from material hardships without reliance on additional sources of income.

This perspective led many left liberals to reject President George W. Bush's initiatives to strengthen partner relationships because they would inevitably reinforce patriarchy. Left liberals also rejected state regulations that do not allowed welfare recipients to maintain college enrollment beyond vocational programs because only four-year degrees would enable single mothers to earn enough income to escape material hardships. This position on educational attainment is summed up eloquently by Katha Pollitt: "The problem with welfare reform is its basic structure. It throws women off the rolls into jobs that are too ill paid and too unstable to support a family, while denying them the education and support they need to advance. It creates a permanent class of low-skilled, low-wage workers—a kind of reserve army of the semi-employed."[41]

By contrast, Third Way proponents are more open to these policies. Certainly, it would be ideal if, with modest support, many more single mothers could attain four-year college

degrees. Given their often weak educational backgrounds and family circumstances, however, this direction is not viable for most of these women. Instead, it may be much more effective to encourage many of them to pursue occupational programs and credentials. This direction would not consign these mothers to dead-end low-wage employment because many of these occupations pay well above poverty-level wages. To the extent these jobs pay inadequate wages, Third Way advocates support income enhancements. These enhancements, which include food stamps, the EITC, housing and child care subsidies, and the refundable child credit, are a reasonable way of closing the gap between their earnings and what is necessary for families to avoid material hardships.

Just as important, Third Way advocates support policies that enable these single mothers to rely more on financial and emotional support from the father of their children. Child support is only one of these policies. These advocates also favor government support for programs that strengthen relationships between fathers and their children. These programs help fathers and mothers overcome attitudes and behavior that play a destructive role.

The government must be careful not to promote marriage as the key to moving these mothers and their children into the middle class. It must, however, make clear that children benefit from the emotional and financial support provided by their fathers, and so it is in the children's interest that partnerships be strengthened where possible. In addition, the government should make a concerted effort to eliminate the substantial financial penalty working single mothers face if they marry a working partner.

The Book's Structure

In subsequent chapters, the book will present targeted policies that can move working families forward. Before delving into these policy areas, however, it is important to gain a firmer understanding of why there is a need for targeted policies and how we should evaluate them. In particular, one might argue there is no need for targeted policies, since a high-employment economy would enable working families to prosper: "A rising tide lifts all boats." The Clinton-era economic boom, with the national unemployment rate reaching below 4 percent, was a real-world laboratory that should enable us to judge this thesis.

Chapter 2 will identify the wage and employment benefits to working families from a high-employment economy and identify its inadequacies. Unfortunately, the primary lesson from the Clinton administration will not be from its last years, when the economy approached full employment. With the persistence of near-double-digit official unemployment rates, and even higher for at-risk groups, particularly teenagers, it will be many years before we have a high-employment economy. Instead, we might learn more from the Clinton administration's first five years, when the economy was coming out of the 1990–91 recession. During that period, black employment grew less than declining unemployment rates suggested, and the lessening of gender wage gaps hid the different experiences of working-class and professional women. These experiences point to the need for policies that target working-class women and black Americans.

Once we judge that there is a need for some targeted policies, chapter 3 will provide a necessary framework to judge their effectiveness. We must certainly judge the merits of any proposed policy by asking, "How well does it focus benefits on the targeted population?" For example, Democrats and some Republicans, including John McCain, opposed the 2001 Bush tax cuts because they did not sufficiently target working families and instead provided a disproportionate share of benefits to wealthy taxpayers.

Even if we judge that a policy sufficiently targets benefits, we must make sure that it does not have serious unintended consequences: harmful effects on other groups. For example, suspending clean-coal regulations may keep energy costs low for many midwestern families and manufacturers but would generate pollution that substantially adversely affects northeastern communities. If these spillover effects are substantial enough, then the targeted policies would be hard to defend from a national perspective.

Sometimes policies that appear to target benefits to a particular group may actually harm them when the full impact is understood. This was certainly the claim made by conservatives when they opposed welfare as an entitlement. Though welfare gave immediate aid to needy families, conservatives claimed that it trapped many in long-term dependency that doomed them to a lifetime of poverty and social isolation. Similarly, conservatives traditionally argued—before data decisively undermined their claims—that the minimum wage harmed the least skilled workers by raising the wage rate above the level at which they could be profitably employed. As a result, conservatives claimed, the minimum wage increased unemployment rates of the most vulnerable workers. These and other issues related to targeting will be explored in chapter 3.

With this background, each of the next seven chapters focuses on a particular policy area, generating recommendations to enhance the well-being of working families. Chapters 4 and 5 look more closely at factors that influence race and gender income disparities and suggest corrective policies. For black workers negative stereotypes persist, limiting their access to employment, particularly in informal labor markets. The use of employee referrals to fill vacancies exacerbates these problems. In addition, the impact that background checks, educational credentials, and testing procedures have on employment decisions will be assessed.

For female workers, particularly single mothers, the lack of sustained employment has a significant impact on gender wage differentials. For this reason, access to affordable child care is crucial for not only employment but also wage advancements. Child care arrangements are particularly critical if women seek employment in traditional male-dominated occupations that require longer workweeks and for training and educational programs while they are employed. Chapter 5 will also assess the degree to which women have been entering male-dominated industries and will look at two areas where women have gained a substantial representation: IT occupations and the telecommunication industry. Finally, it will discuss the possibility of raising wages in female-dominated industries.

Both chapters 4 and 5 include material on teenage employment. With high and persistent unemployment, there is a real danger than many youth will become disconnected from work and school. The collapse of teen employment during the current economic slowdown only increases the likelihood of this occurring. These chapters examine the importance of teen employment for black and female youth, and policies to counter the current situation.

Chapter 6 assesses general education policies at the community colleges. Left liberals emphasize providing access to four-year degree programs for all. They fear that shorter occupational programs will track students into low-wage dead-end jobs. Unfortunately, left liberals often ignore important unintended consequences: if public colleges do not provide these occupational programs, many students will choose instead to attend for-profit proprietary schools that load students with loans and often do not provide sufficient training for them to obtain certification or employment. Left liberals also often ignore the data that indicate many young adults do not have the basic skills necessary to be successful in academic programs so that their

dropout rate is high. For these reasons, there may be justification in directing a substantial share of students into occupational and credential programs provided by the community colleges.

Starting in 2001, the federal government began funding programs to strengthen the relationship between fathers and mothers. Left-liberal critics decried President Bush's initiative to promote marriage, convinced that it would reinforce patriarchal relationships by increasing women's dependence on men. Evidence from pilot programs, however, suggested that these policies had a modestly positive effect on improving interpersonal discourse and did not have the unhealthy aspects that left liberals most feared.

Chapter 7 counters the notion that marriage has substantial benefits only for middle-class individuals. It documents the positive effects that marriage has on family well-being, particularly for the health and development of children, for even poorer, less educated individuals.[42] Fatherhood programs not only enforce financial support requirements but also enhance the employment potential of these men.[43] Chapter 7 concludes that policies to increase the earnings of less educated fathers and the strengthening of relationship skills can be successful in raising economic and noneconomic well-being, whether or not marriage rates are increased.

Many of these chapters indicate a link between economic well-being and tax policies targeted to working families. Chapter 8 explores ways to improve two of these policies: the EITC and child care tax policies. The EITC is effective at lifting families out of poverty but is less effective at enabling the near-poor to move forward. In particular, the phasing out of credits reduces the income gains to these families when their income grows, especially if near-poor families are gaining benefits from other means-tested programs such as Section 8 or public housing and food stamps. In addition, the phasing out of benefits from means-tested programs also creates a substantial marriage penalty to working mothers. Combined incomes cause these

families to have a substantial drop in benefits, making marriage costly. Finally, child care tax policies are particularly important for near-poor families who have incomes too high to receive substantial subsidies from government-funded programs. While states have aided these families through refundable child care tax credits, chapter 8 will explore ways to improve the coordination between federal and state programs to further aid them.

The economic well-being of working families may also be impacted by immigration policies. Chapter 9 will assess immigration's impact on wages, employment, and tax burden. This chapter will recommend moving to a Canadian-style admissions system that would reduce the share of less educated workers and their families that could legally enter the United States.

Economic well-being is also influenced by the availability of affordable housing. Government housing policies reflect sharp ideological differences. Conservatives generally reject government intervention into the housing market. They suggest that the normal workings of the market—building new housing units for the better off—inevitably leads to a "filtering down" of acceptable housing to the less fortunate. More extreme, some conservatives reject housing code regulations, claiming they impose unnecessary cost on landlords who are then forced to raise rents to their poor tenants. By contrast, left liberals fear the market and so want the government to constrain it by imposing rent control on private-sector housing units and by sustaining as many government-owned low-income housing units as possible.

Chapter 10 presents Third Way policies that rely on private markets to provide housing to meet the needs of the working poor. It recommends expanding government rent subsidies to more families by reducing maximum grants and delinking them from dedicated units, including public housing projects. It also finds that, as a result of housing price declines coupled with

rental increases, government housing subsidies in many cities may be used more effectively to purchase affordable housing rather than paying for rental units.

Notes to Chapter 1

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2. Quoted in Jason DeParle, "Welfare Aid Isn't Growing as Economy Falls Off," *New York Times,* February 2, 2009, A1.

3. Editorial, "Food Stamps in Hard Times," *New York Times*, February 25, 2009, A26.

4. David Brooks, "The Long Voyage Home," *New York Times*, May 5, 2009, A27.

5. Thresholds are slightly higher for Alaska and Hawaii. U.S. Department of Health and Human Services, *The HHS Poverty Guidelines, 2007*, http://aspe.hhs.gov/poverty/07poverty.shtml.

6. For alternative poverty measures, see U.S. Census Bureau, *Poverty Measure Studies and Alternative Measures, 2007*, http://www.census.gov/hhes/www/povmeas/tables.html. For the impact of the shift from money income to disposable income, see U.S. Census Bureau, *Impact of Taxes and Transfers on Income and Poverty in the United States, 2005*, http://www.census.gov/prod/2007pubs/p60-232.pdf.

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8. U.S. Census Bureau, Current Population Survey, Table FINC-01, Selected Characteristics of Families by Total Money Income in 2007, http://pubdb3.census.gov/macro/032008/faminc/new01_000.htm

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12. David Mills, "Sister Souljah's Call to Arms," *Washington Post*, May 13, 1992, B1.

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14. Katha Pollitt, "About Race: Can We Talk?" *Nation*, July 7, 1997, 183.

15. Marianne Wright Edelman, "Protect Children from Unjust Policies," Children's Defense Fund letter published in *Washington Post*, November 3, 1995.
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16. Quoted in Judith Havermann, "Chief of HHS Objects to Governor's Proposal," *Washington Post*, *(*February 29, 1996) A6.

17. Press release, Children's Defense Fund (August 22, 1996).

18. Hannah Matthews and Danielle Ewen, "Child Care Assistance in 2005; State Cuts Continue," Center for Law and Social Policy (November 1, 2006).

19. According to William Darity and Samuel Myers (*The Underclass* [Hamden, CT: Garland, 1994], 50): "Groups like Planned Parenthood Federation explicitly advocate reduction in the number of children born out of wedlock via family planning measures, including abortion. Such measures, Planned Parenthood Federation spokespersons have argued, will be a crucial step in reducing the supply of welfare-eligible persons. ... [We] have referred to this outlook as the doctrine of *preemptive extermination of the unborn*, who are anticipated to become part of the permanent poverty population."

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21. For early criticism, see Christopher Jencks, "Introduction," in Kathryn Edin and Laura Lein, *Making Ends Meet*.

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32. John Bound and Richard Freeman. "What Went Wrong? The Erosion of the Relative Earnings of Young Black Men during the 1980s," *Quarterly Journal of Economics* 107 (1992): 201–32. Bound and Freeman note that the decline among young white men was only 10 percentage points.

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34. R. Barri Flowers, *Domestic Crimes, Family Violence and Child Abuse* (Jefferson, NC: McFarland, 2000), table 3.1.

35. Among the teen mothers who were currently experiencing a severe level of domestic violence, 57 percent reported some form of sabotage of their employment and school efforts. In contrast, only 17 and 7 percent of those who experienced low levels of domestic violence or no violence, respectively, reported employment or educational sabotage. Jody Raphael and Richard Tolman, *Trapped by Poverty, Trapped by Abuse* (Chicago: Taylor Institute, 1997).

36. Joan Meier, "Domestic Violence, Character, and Social Change in the Welfare Reform Debate," *Law and Policy* 19 (April 1997): 223, 228. In *Dubious Conceptions* (Cambridge, MA: Harvard University Press, 1995), Kristin Luker dismisses the coercive behavior black teenage women experience when explaining their high birthrates and instead focuses on the broader systemic forces that constrain poor women: "The increase in the number of teenage and unwed mothers is an indirect measure of the toll that a bifurcating economy is taking on Americans, especially women of poor and minority backgrounds. It would be better to see early childbearing as a symptom, like infant mortality—not a cause but a marker of events, an indicator of the extent to which many young people have been excluded from the American dream" (182).

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