

# NEW HOPE FOR LOW-INCOME WORKERS

*When evaluating programs that “make work pay” for low-income families* researchers and policymakers have traditionally focused on labor-force participation by adults, financial costs and benefits to taxpayers, and other economic outcomes. Less frequently studied have been the effects of such programs on poor children — a somewhat ironic omission because they are the one constituency in policy debates about poverty virtually all Americans want to assist.

One of the few antipoverty programs to have a rigorous evaluation of its impact on children is New Hope, a recently concluded demonstration project in Milwaukee that offered a flexible package of earnings supplements and services to help low-income families succeed in the world of work. An evaluation of New Hope, released in April by the Manpower Demonstration Research Corporation (MDRC), not only found encouraging increases in employment and earnings among program participants, but also showed significant effects on the children — specifically boys — of participating families.

“New Hope produced substantial positive impacts on the behavior and classroom skills of boys, which held up across different age groups and were consistent across different measures,” wrote the authors of MDRC’s *New Hope for People With Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare*. “This is encouraging, because academic failure and problem behavior are predictors of later school failure, dropping out, and delinquency. These risks are high for boys in low-income families and promising policy alternatives to improve child outcomes are scarce.”

According to Julie Kerksick, executive director of the New Hope Project, the community-based organization that operated the program, the combination of promising economic and family outcomes “validates what New Hope’s originators believed: Low-income people appreciate and benefit from a modest amount of assistance when they are working.”

New Hope was conceived in the late 1980s and early 1990s, when a small group of community activists and employment-services workers in Milwaukee designed a program to address many of the realities of life in the low-wage economy — below-poverty incomes, a lack of affordable health insurance, limited child-care options, and few opportunities for low-skill workers to gain job experience. To learn whether a package of economic and other supports could improve the lives of low-income workers and families, the New Hope Project made a straightforward offer to all poor adults living in two distressed neighborhoods: If you are willing to work full time, we will help you lift yourself out of poverty.



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By Bill Rust

Seeking credible evidence of the program’s effects, the New Hope Project hired MDRC to evaluate its impact. MDRC’s traditional, methodologically rigorous approach to the evaluation included a lottery-like process that randomly assigned 1,360 adults to one of two groups: an experimental group that received the New Hope package of services, and a control group that received traditional county and state services. Differences in outcomes between these two statistically identical groups would be, in the words of evaluators, “the observed impacts” of the program.

New Hope became operational in late 1994, with most participants enrolling the following year. In exchange for working 30 or more hours per week, they were eligible for:



- Income supplements, that when combined with federal and state Earned Income Tax Credits, would enable people to work their way out of poverty. As participants’ incomes approached 200 percent of the federal poverty level — \$32,800 for a family of four in 1997 — the value of the supplements decreased sharply.
- Affordable health insurance, with copayments that reflected income and household size. Most participants who were not covered when they entered New Hope chose the health maintenance organization used by the Milwaukee County Medicaid program.
- Child-care subsidies, payable to state-licensed or county-certified providers. These subsidies, also based on income and family size, were the same level that Milwaukee County provided welfare recipients who were enrolled in work programs.
- Minimum-wage community-service jobs (CSJs). If, after an eight-week job search, participants were unable to find employment, New Hope provided subsidized CSJs that qualified participants for the project’s other benefits and that helped establish a work history and increase workplace skills.

**More Than “Warm and Fuzzy Encouragement”**

Because of its broad eligibility rules, New Hope served a diverse range of low-income people. Almost 30 percent of the sample were men. More than one-third of the participants were not receiving public assistance of any kind. And although virtually all participants had annual earnings of \$15,000 or less, about one-third of the sample were employed full time when they entered the program.

“New Hope is designed so that participants can access only those benefits that they want or need,” according to MDRC’s initial evaluation of the program in 1997. “Participants who are covered by employer health insurance, for example, do not need New Hope’s health insurance. Participants who had

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been receiving AFDC are encouraged to use transitional Medicaid and child care assistance before using New Hope's benefits. About 30 percent of the sample lived in a household without children and therefore had no need for child care."

New Hope participants who worked full time were immediately eligible for earnings supplements as well as health-insurance and child-care subsidies, if needed. The majority of participants, however, worked either part time or not at all when they entered the program. Before they could qualify for the program's package of benefits, they had to find a full-time job. If they could not find private employment within two months, New Hope provided a community-service job in a local nonprofit agency. Although the CSJs — about two-thirds of which were either office support and data entry, or construction and property maintenance — were subsidized by New Hope, program participants had to interview for jobs, be selected by employers, and meet the same standards as other workers.

A critical ingredient in New Hope's success was the contribution of the project's front-line staff members, called "project reps," many of whom had firsthand experience with life in the low-wage economy. Providing employment services with respect and empathy, the project reps explained the sometimes complicated options of the program and served as "coaches" for people seeking employment. According to MDRC, program participants "consistently rated the support received from project reps as 'what they liked best' about New Hope."

Julie Kerksick emphasizes that it takes more than "warm and fuzzy encouragement" to get New Hope's positive results: "It's the combination of having economic support that really helps people, and being able to deliver that in a humane, efficient, and respectful way."

#### **"Making Work Pay"**

On May 27, 1999, Robert C. Granger, the MDRC senior vice president who directed the New Hope

evaluation, testified before the U.S. House Subcommittee on Human Resources about the effects of the program. Compared with the control group, he told the subcommittee, New Hope increased the work effort and earnings of program participants who were not working full time. The project, he said, "reduced by half the number of people who were never employed during the two years of the study" — 13 percent for the control group and less than 6 percent for New Hope participants.

Over the two-year study period, program participants had 13 percent higher earnings, or \$1,389, a figure that does not include the income supplement. With the earnings supplement, their incomes were \$2,645 more than the control group's. For people not employed full time, Granger concluded, New Hope demonstrated that financial incentives and other supports "can increase work by making work pay and offering opportunities where they are needed."

Another measure of New Hope's economic benefits was an increase of 7 percentage points — 52 percent for the program group, 45 percent for controls — in the number of participants with two-year earnings in the \$10,000 to \$30,000 range. Robinson Hollister, a professor of economics at Swarthmore College and member of the project's advisory board, finds this notable: "When we recall how long it took this lengthy economic expansion to generate any reductions in the national rate of poverty, this project-induced shift in the earnings distribution looks impressive."

New Hope participants who were employed full time when they enrolled in the program had "modest reductions" in total work hours, "mostly by cutting back on overtime and second jobs," according to Granger's congressional testimony. Characterizing this effect as one that "can be minimized, but is likely to occur" in any financial-incentive program for the working poor, Granger testified: "New Hope improved parent-child relations in the families in this group, possibly because these families were better able to balance work and family life."

### All in the Family

By making health insurance and child care affordable, New Hope helped reduce material hardship and parental stress. In the two-year follow-up, New Hope participants had fewer “unmet medical needs,” particularly among the participants who were not working full time when they enrolled in the program. Moreover, the child-care assistance helped parents send their preschool and school-age children to center-based and other forms of quality child care.

“People who were getting the child-care subsidies were having less out-of-pocket costs,” says Aletha C. Huston, a developmental psychologist at the



A CRITICAL INGREDIENT IN NEW HOPE'S SUCCESS WAS THE CONTRIBUTION OF THE PROJECT'S FRONT-LINE STAFF MEMBERS, CALLED "PROJECT REPS," MANY OF WHOM HAD FIRSTHAND EXPERIENCE WITH LIFE IN THE LOW-WAGE ECONOMY.

University of Texas who led the evaluation of family behavior and child outcomes. “They were also getting more expensive child care.”

New Hope parents were more likely than the control group to enroll preadolescent children in structured out-of-school activities — for example, lessons, organized sports, and youth groups. Researchers speculate that quality child care and after-school programs contributed to New Hope's dramatic impact on boys. A survey of teachers, who were unaware of the program being evaluated or which children were in experimental- or control-group families, found that “boys whose parents were in New Hope had better academic performance, stronger study skills, higher levels of social competence, and fewer behavior problems than control group boys.”

When children themselves were surveyed about their educational and occupational aspirations, the boys in New Hope families “expected to attend and finish college in greater numbers and were more likely to aspire to professional and managerial occupations with high social prestige than boys in the control group,” according to MDRC.

New Hope produced no comparable effects for girls. Researchers are unsure why, but they suspect that a number of factors may be at work. One hypothesis is that girls started with higher scores in educational measures and had less room for improvement. Another possibility is that inner-city parents, worried about their sons getting into trouble, particularly boys 9 to 12, may have focused additional attention and resources on them. “The parents express the feeling that this is the time they have to hang on to their boys,” says Aletha Huston. “Their boys are in danger of getting into gangs and getting into pathways that will make it really difficult for parents to keep any control.”

In MDRC's five-year evaluation of New Hope, scheduled for release in 2002, researchers will determine whether the large impacts for boys hold up and which

components of the program might be responsible for them. “It’s difficult to pin it down because the program is a package,” says Huston. “We are going to reinterview the families and the children next year.”

#### “Cumulative Impacts”

Notwithstanding its well-documented economic and family outcomes, New Hope is not the proverbial “silver bullet” for poverty in America’s inner cities. In assessing the strengths and limitations of the program, Robert Granger told Congress: “Most of those who applied to New Hope remain poor two years later and reliant on some public subsidy to make ends meet.” The primary reason the majority remained poor, he said, was because “they did not consistently work full time (and could receive New Hope benefits only when they did).”

A related concern of some policymakers is that much of New Hope’s work and earnings increases may have been the result of subsidized community-service jobs. What about the harder task of finding private-sector jobs? One reply, says Robert Granger, is that most of the New Hope participants who used community-service jobs “found regular unsubsidized employment afterwards.” Julie Kerkstick of the New Hope Project also makes no apologies for the CSJs: “They were designed to help people who might have spotty work histories or just have had a hard time putting together a consistent work record.”

Some researchers, who acknowledge that New Hope increased employment and earnings and reduced poverty, note that these gains were not as large as those of the Canadian Self-Sufficiency Project (see page 17) or the Minnesota Family Investment Program (see page 4). MDRC evaluators are not sure why this is the case, but they suspect that Milwaukee’s “control environment” is a large part of the answer.

Robert Granger explains the methodological issue this way: Random-assignment experiments like New Hope measure the relative difference of outcomes for the control group and the experimental group. The

combination of a surging Milwaukee economy, expanding federal and state Earned Income Tax Credits, and a restructuring of the state’s welfare system “sets a high hurdle to beat,” he says. “I think New Hope’s effects might have been more substantial with a less favorable labor market or less state attention to encouraging work.”

According to MDRC’s two-year evaluation, it is still too soon to make a final cost-benefit analysis of New Hope. Although the financial costs are known — \$7,200 over two years per participant (with the majority of funds spent on health-care and child-care subsidies, rather than earnings supplements or community-service jobs) — the long-term economic and social benefits are unknown. Moreover, write evaluators, “the New Hope vision is not easily summarized in any traditional cost-benefit framework, since many of its key goals and achievements cannot be captured in dollar terms.”

Perhaps reflecting the differing perspectives of evaluators and program operators, Julie Kerkstick easily summarizes the achievements of the project, though not in strictly economic terms. “New Hope helped people make progress in a way that the control group didn’t,” she says. “It’s the number of things you see working in the right direction and the cumulative impacts that are the ultimate judgment of the program for me. They don’t show up necessarily as economic impacts, but I think most policymakers would say those are good impacts.”

*The executive summary of New Hope for People With Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare is available online at [www.mdrc.org](http://www.mdrc.org). In addition to the Annie E. Casey Foundation, funders of this evaluation were: the John D. and Catherine T. MacArthur Foundation, the Helen Bader Foundation, the Ford Foundation, the State of Wisconsin Department of Workforce Development, the W. T. Grant Foundation, the U.S. Department of Health and Human Services, and the National Institute of Child Health and Development.*