

Inventory of Research on Economic Self-Sufficiency

Introduction

There are two types of anti-poverty policies, broadly speaking. One type of policy is concerned with short-term provision of resources – either cash, or in-kind – to ensure a minimally acceptable standard of living for individuals and families. Examples include Medicaid, welfare, and nutrition assistance. The second type of policy seeks to alleviate poverty more permanently, by increasing economic self-sufficiency through encouraging work and increasing earnings. The immediate income from work can, of course, increase the resources available to individuals and families. And the impact may be multiplied, because work today can generate higher wages and earnings in the future. The primary policy to encourage work is the Earned Income Tax Credit (EITC). But there are others as well, such as work incentives built into the welfare system since the 1996 welfare reforms. In addition, other policies that potentially increase income from work, such as the minimum wage, might also be viewed as increasing economic self-sufficiency, and could affect economic self-sufficiency in the longer-run by impacting the accumulation of labor market experience and investment in skills.

This research brief describes a critical first step in the development of ESSPRI's research agenda. It summarizes a lengthier document (found at www.esspri.uci.edu/researchinventory.php) that inventories what is known about policies to encourage economic self-sufficiency. This inventory helps delineate what we currently know about how existing policies affect economic self-sufficiency, and, perhaps more importantly, highlights the pressing questions we need to answer. The inventory tries to identify what we do and do not know about the longer-term effects of policies intended to encourage economic self-sufficiency, where existing research seems to reach a consensus, where it is in disagreement, and where there is little research on these longer-term effects. The inventory does not cover every possible policy that could increase work or earnings. Rather, the emphasis is on policies targeting populations for which achieving economic self-sufficiency is a challenge, and on evaluations that have a longer-run perspective and try to provide evidence on economic self-sufficiency in adulthood. To better serve the goal of providing one-stop shop for information on policies designed to increase economic self-sufficiency, the research inventory is a live document that will be updated as new research emerges. Feedback in the form of suggested research to add to the inventory or comments on the interpretation of the existing research can be sent to esspri@uci.edu.

Findings

While the research inventory is extensive, many of the key findings for the United States are established in only one or two studies and hence additional analysis and replication is needed:

- Evidence on whether minimum wages increase or decrease training (which in turn increases wages) is ambiguous.
- Exposure to a high minimum wage at very young ages reduces adult earnings, presumably because of lost labor market experience for some workers.
- The EITC boosts employment of low-skilled mothers in the short run. For those women induced to enter the labor market because of the EITC, subsequent earnings growth is higher.
- A more generous EITC is associated with improved outcomes for children along dimensions likely to increase future earnings (specifically, health and education).
- Evidence on whether economic development incentives directed to low-income areas boost employment and income is mixed. A number of studies finding no effect or suggesting that the gains do not accrue to low-income residents. There appear to be some benefits from programs that move children from very high to very low poverty neighborhoods.
- Work incentives built into the 1996 welfare reforms increased employment. The induced employment increase led to higher wages, in part due to increased experience.
- Education with work-related components and some community college certificates and degrees are associated with higher earnings many years after completion.
- There is limited evidence on programs that provide a longer-term boost to employment and earnings subsequent to time in prison.
- A growing body of evidence suggests that early childhood interventions – both those related to education, like Head Start, and those that provide in-kind transfers, like Medicaid or Food Stamps – led to greater economic self-sufficiency as adults or improvements in outcomes likely related to higher earnings.

Questions for future research

- Can the evidence that the EITC boosts child outcomes be directly linked to higher earnings of those children as adults?
- Do some types of economic development incentives that have longer-term beneficial effects on economic self-sufficiency of residents of low-income areas, or are policies targeting people rather than places more effective at achieving this goal?
- For what subpopulations are policies to increase economic self-sufficiency likely to be fruitful, and what subpopulations are likely to need ongoing income and in-kind support to maintain an acceptable standard of living?
- What can policymakers do to increase longer-term labor market prospects for people released from prison, who face serious challenges to finding jobs?