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Commentary: State of the Union, Budget Offer Opportunities to Put Forward Vision for Stronger, More Prosperous Nation

By Sharon Parrott

The State of the Union address and the forthcoming President's budget are opportunities for the President to lay out a vision of the country we want to be and the policy changes that will help us get there. We are in a period of divided government and deep differences along party lines. Large-scale legislative change this year is unlikely in most areas. But to plot a course for the future, we must continue to grapple with the bigger questions about the nation we want to become.

In times of divided government, policymakers should seek common ground to take modest steps forward on policy where they can *and* lay out for the country the larger changes they think would strengthen our nation, so that ultimately the public can decide that future course through the ballot box and their own engagement in the policy process.

A key question for *all* federal policymakers — the President as well as members of Congress — should be: how would you change federal policy to move us closer to a nation where everyone — regardless of background or identities — can thrive and share in the nation's prosperity? While we have made significant progress toward this goal over the last 50 years, much work remains.

House Republicans are currently manufacturing a crisis by demanding cuts that would almost certainly target health care, assistance for families with low incomes, education, and more in exchange for raising the debt ceiling. Not only does this jeopardize our economy, it's a distraction from focusing on the needs of the nation and a policy agenda to address them.

An agenda designed to broaden opportunity and reduce the too-high levels of hardship people across the country face would invest in children, support workers and their families, address basic needs that remain out of reach for too many, meet the needs of low-income seniors and people with disabilities, and reform our immigration system so everyone can be fully included in our society.

Too Many People Face Significant Hardship in the United States

Over the last 50 years, the U.S. has made significant progress in reducing poverty and expanding access to affordable health coverage. As just one example, in 1970, the poverty rate among children

stood at 27.5 percent (measured using the Supplemental Poverty Measure adjusted for inflation¹); in 2018 (the last year of reliable data before the pandemic), it stood at 14.5 percent. Glaring differences in poverty across race and ethnicity narrowed over this period, but remained very large as a consequence of systemic racism that has limited opportunities in education, employment, and housing.

While we have made substantial progress since the 1970s, tens of millions of people in the United States face significant economic and health insecurity, our analysis of Census data shows, including difficulty affording the basics and serious hardships like eviction, food insecurity, and lack of access to needed health care; an inability to afford child care or provide school clothes for their children; and even homelessness.² This includes households who face temporary periods of hardship due to reasons such as a job loss or an illness in the family, and those who face challenges making ends meet over multiple years, due to low pay, high housing and other costs, unsteady employment, illness, or disability, among other factors.

Prior to the COVID-19 pandemic, more than 1 in 4 households, including more than 1 in 3 households with children, experienced a major form of hardship — specifically, an inability to afford adequate food, shelter, or utilities — in one or more years of the three-year period from 2014 to 2016. High levels of hardship affect all communities, but rates are even higher among people of color. Among Black and Latinx households with children, roughly 1 in 2 reported one of these specified hardships over the three-year period examined. In 2019, nearly 11 million low-income households paid more than half of their income in rent. And in 2021, some 28 million people still lacked health coverage, even with temporary COVID-related coverage expansions and protections in place.

These kinds of hardships reduce well-being in the near-term and have long-term harmful consequences as well. Strong evidence shows that economic insecurity and hardship among children, for example, shortchanges their futures, leading to worse educational and health outcomes, while providing supports to families improves children’s long-term outcomes.³ These facts illustrate striking needs and call for policymakers, regardless of political party, to articulate effective solutions.

Lack of support for workers adds to hardship and insecurity. The U.S. is alone among wealthy countries in lacking a national paid leave policy. Our child care system is dramatically underfunded, so that only a small share of children whose families need help paying for child care and qualify for it get any assistance at all.⁴ And when workers lose their jobs, many — particularly lower-paid workers and workers of color — don’t qualify for any jobless benefits because of restrictive eligibility rules in many state unemployment programs or, if they do qualify, receive very low benefits.⁵ For many, temporary unemployment causes immediate financial hardship.

The lack of support for workers harms low-paid workers most acutely. Black and Latinx workers, women, and immigrants are over-represented in this group, due racism, systemic marginalization, and other factors that limit education and employment opportunities and result in occupational segregation.

The nation also leaves many seniors and people with disabilities vulnerable to hardship. Some 14 percent of people aged 65 and older — 7 million people — had incomes below the poverty line in 2018, using the same poverty measure as above. People with disabilities have even higher poverty rates. For example, roughly 1 in 4 non-elderly adults with disabilities — nearly 4 million people —

had incomes below the poverty line in 2018.⁶ People with disabilities can face higher costs for housing, transportation, and even food depending on their health needs, and often have constrained resources. The high cost of long-term services and supports, including supports that allow people to live with independence in community-based settings, and our nation's lack of investment in these services, exacerbates the financial stress that seniors and people with disabilities face.

A Path Forward

The level of hardship in the U.S. is a policy choice, not an economic inevitability. We saw during the pandemic that public policy can be used successfully to sharply reduce poverty and hardship, with poverty overall and among children reaching historically low levels in 2021. Other wealthy nations make different policy choices and have different outcomes: lower poverty rates, universal health coverage, affordable child care, and better protections for workers when they get sick or lose their jobs.

Here are some of the policies that would reflect a choice to reduce hardship and expand opportunity and provide solid answers to the question of how federal policy can help us build toward a stronger, more equitable nation.

Invest in children. Supporting families improves children's trajectories, benefitting them and their families as well as the nation as a whole. One important way to better support families is to expand the Child Tax Credit, with a particular focus on extending it to children who receive a partial credit or none at all because their families' incomes are too low.⁷

We know this works. The American Rescue Plan's 2021 expanded Child Tax Credit provided the full credit for the first time to children in families with low incomes and increased the credit amount overall, helping to drive down child poverty dramatically. And, contrary to opponents' predictions, the employment rate among parents rose by the same amount as among non-parents (who didn't get a Child Tax Credit) in 2021. Further, the experience of Canada, which has a larger child allowance than the U.S. and a higher employment rate, shows that strong income support can coexist with high labor force participation. Most economists predict minimal employment changes if a refundable, expanded credit were made permanent in the U.S.

Other supports are critical as well — for example, we underfund early learning, and families with the very lowest incomes need more help to stave off hardship and move forward than most cash aid programs in states now provide. The key point is that too many kids can't realize their own dreams, shortchanging the entire country, because we fail to invest in them.

Help workers. The United States should do more to support workers, both by making it easier for people to work and better supporting those who lose their jobs and are temporarily unemployed. For example:

- *Create a national paid family and medical leave program so that workers in every state who welcome a new child into their family, are ill, or need to care for an ill family member can take time off to meet their family's needs without losing their job or suffering a potentially disastrous financial setback.*⁸

- *Invest in child care and early learning* so that all children have access to affordable, high-quality early care and education.⁹ Investing in child care and early learning supports healthy child development while also helping parents by easing the strain on their family budgets. It can also be a strategy for expanding the labor force and improving the wages of child care workers who struggle to support their own families.¹⁰
- *Create a robust 21st century unemployment insurance system* that gives unemployed workers in all states the adequate financial assistance they and their families deserve when they lose a job and need to find another.¹¹
- *Expand the Earned Income Tax Credit* for workers without minor children at home to supplement the wages of low-paid workers and help them make ends meet.¹²

Address the affordable housing crisis. Addressing the affordable housing crisis requires a comprehensive approach, including incentivizing affordable housing development, easing policy constraints on rental housing development, and increasing access to rental assistance. Only about 1 in 4 households eligible for federal rental assistance currently receives it because of underfunding, but expanding this assistance is often missing from strategies to increase the supply of affordable housing.

Rental assistance is highly effective at reducing homelessness, housing instability, and overcrowding, which all harm children and their families. Expanding rental assistance is especially critical for the households that need help the most: people with extremely low incomes cannot afford housing without a subsidy because even the lowest rents are more than 30 percent of their income, the accepted threshold for affordability.

Vouchers and other forms of rental assistance are a necessary component of solving the affordable housing crisis and offer the most effective and immediate way to bridge the large gap between people's rent costs and their incomes.

Expand and improve health coverage. Recent increases in premium tax credits that subsidize the Affordable Care Act's (ACA) marketplace plans helped boost enrollment in the marketplaces, but policymakers should take additional steps to reach universal coverage and improve health equity.

- *Extend health coverage to more people* by closing the Medicaid coverage gap and eliminating immigration-related eligibility restrictions. Closing the Medicaid coverage gap would expand coverage to more than 2 million people — most of whom are Black or Latinx — who lack any path to coverage because they live in states that have refused to adopt the ACA's Medicaid expansion.¹³ States should expand Medicaid, and the federal government should provide coverage if they don't. Additionally, many immigrants, including many with a documented status, are barred from receiving health coverage through Medicaid and the Children's Health Insurance Program because of their immigration status.¹⁴ This leaves many without affordable coverage, worsening health outcomes.
- *Help more eligible people get, keep, and use Medicaid and marketplace coverage* by streamlining program rules, engaging with states to modernize eligibility and enrollment practices to lessen the burden on enrollees, broadening targeted and effective outreach, and assuring robust access to services for those with coverage.

- *Improve affordability in marketplace plans* by reducing barriers such as high deductibles and other costs that prevent people from getting needed care.

Support low-income seniors and people with disabilities. While some policymakers have called for cuts to Social Security and Medicare, many others have expressed the importance of protecting these supports that millions of older people and people with disabilities rely on. But protecting these programs from harmful cuts is not enough to meet the needs of low-income seniors and people with disabilities.

Too often policymakers design policies that benefit high-income seniors with substantial savings rather than seniors who struggle to make ends meet. Instead, our policies should target support for low-income seniors and people with disabilities. For example, policymakers should allow very low-income seniors and people with disabilities with modest savings to qualify for Supplemental Security Income, which provides cash aid to very low-income older and disabled people, by raising both the program's very low savings limit and the program's benefit levels, which leave many below the poverty line.¹⁵

Policymakers also should increase investments in home- and community-based services so more seniors and people with disabilities can afford and access the care that they require.

Reform our immigration system to expand opportunity, improve well-being, and promote equity. Immigration reform should provide legal status and a pathway to citizenship for millions of people who are vital members of our communities and work in important jobs but either do not have a documented status or pathway to citizenship. Forcing so many members of our communities to live without a lawful status and the ability to become citizens leaves them vulnerable to criminal mistreatment by employers and keeps them from being fully included in our economy and civic life. It also means they often have no pathway to affordable health coverage or to assistance when they fall on tough times. Millions of children, most of whom are U.S. citizens, live in families that include adults without a documented status, contributing to economic insecurity and hardship for children, shortchanging their futures — and the nation's as well.¹⁶

Build a 21st Century Revenue System to Support Investments

Addressing these needs is often dismissed as too expensive, but the U.S. is a wealthy nation, and most similarly wealthy countries spend a larger share of their nation's resources on public services and investments than we do (accounting for government spending across federal, state, and local levels). Paid leave, universal health coverage, more robust income assistance (like child allowances), and child care systems are in place in these countries but noticeably absent from ours. These investments would not only reduce poverty, inequity, and inequality but would broaden opportunity in ways that would benefit the nation as a whole. The nation can afford these investments if it is willing to reform its tax code to collect more revenues from households and corporations that have benefitted most from the nation's prosperity.

Due in part to previous expensive, unpaid for tax cuts in 2001, 2003, and 2017, our revenue system collects too little to support the investments the nation needs. And those tax cuts have failed to deliver on promises of more robust investment and growth.¹⁷

The current tax code allows the wealthiest households in the country to pay little or no individual income tax each year, because their primary source of income — unrealized capital gains — is not counted as income on tax returns. And in some cases, these gains will never be subject to income tax because they will be passed down to heirs. Because of rate cuts and special tax preferences, the current tax code also allows some profitable multinational corporations and owners of large pass-through businesses to pay very low tax rates.

Reforming our tax code so that it collects more revenues and requires very wealthy people and profitable corporations and businesses to pay a fairer amount in taxes would achieve several goals. It would increase the funds available for investments in people, communities, and the economy; push against high levels of inequality; help address longer-term fiscal challenges; and begin to restore the public's faith that government works on behalf of all people, not just the well-heeled.

Why It Matters

Economic and health insecurity have real-world consequences. Hardships like food insecurity and eviction can damage the health of children and adults alike, and the lack of stability can make it harder for adults to seek or keep jobs. Children who experience economic hardships face tougher odds, often finishing fewer years of education and having poorer health as adults. People who lack access to affordable, quality health care have worse health outcomes and suffer more preventable deaths. When households face these kinds of hardships, the stress on them too often mounts in ways that harm both children and adults.

Hardship and insecurity affect people in every state, in urban and rural communities, and across racial and ethnic groups. At the same time, hardship and insecurity are far more prevalent among people and groups who have faced systemic barriers to opportunity and who have been marginalized through explicit policies and practices, particularly Black, Indigenous, and other people of color.

We should not accept the status quo or put our long-term vision on hold. Policymakers need to have a clear agenda and engage in the hard work to build support for the policies that will lead to brighter futures for millions of children, make millions of households more secure, and make our nation fairer and more equitable. The State of the Union, the President's budget, congressional budget plans, and individual policymakers' ideas and proposals all provide an opportunity to lay out priorities and make the case to the public about core fiscal policy questions: what and whom should we invest in (and who gets left behind when investment falls short) and how should we finance the investments the nation needs.

¹ The Supplemental Poverty Measure accounts for taxes and non-cash benefits, among other methodological differences from the official poverty measure.

² Arloc Sherman *et al.*, "Widespread Economic Insecurity Pre-Pandemic Shows Need for Strong Recovery Package," Center on Budget and Policy Priorities, July 14, 2021, <https://www.cbpp.org/research/poverty-and-inequality/widespread-economic-insecurity-pre-pandemic-shows-need-for-strong>.

³ Lisa A. Gennetian and Katherine Magnuson, "Three Reasons Why Providing Cash to Families With Children Is a Sound Policy Investment," Center on Budget and Policy Priorities, May 11, 2022,

<https://www.cbpp.org/research/family-income-support/three-reasons-why-providing-cash-to-families-with-children-is-a>.

⁴ Office of the Assistant Secretary for Planning & Evaluation, U.S. Department of Health & Human Services, “Factsheet: Estimates of Child Care Eligibility & Receipt for Fiscal Year 2019,” September 2022, <https://aspe.hhs.gov/sites/default/files/documents/1d276a590ac166214a5415bee430d5e9/cy2019-child-care-subsidy-eligibility.pdf>.

⁵ Chad Stone, “Congress Should Heed President Biden’s Call for Fundamental UI Reform,” Center on Budget and Policy Priorities, May 5, 2021, <https://www.cbpp.org/research/economy/congress-should-heed-president-bidens-call-for-fundamental-ui-reform>.

⁶ Unpublished CBPP analysis of March 2019 Current Population Survey using Supplemental Poverty Measure with 2021 poverty thresholds adjusted for inflation.

⁷ Chuck Marr *et al.*, “Year-End Tax Policy Priority: Expand the Child Tax Credit for the 19 Million Children Who Receive Less Than the Full Credit,” Center on Budget and Policy Priorities, December 7, 2022, <https://www.cbpp.org/research/federal-tax/year-end-tax-policy-priority-expand-the-child-tax-credit-for-the-19-million>.

⁸ Kathleen Romig and Kathleen Bryant, “A National Paid Leave Program Would Help Workers, Families,” Center on Budget and Policy Priorities, April 27, 2021, <https://www.cbpp.org/research/economy/a-national-paid-leave-program-would-help-workers-families>.

⁹ Douglas Rice, Stephanie Schmit, and Hannah Matthews, “Child Care and Housing: Big Expenses With Too Little Help Available,” Center on Budget and Policy Priorities, April 26, 2019, <https://www.cbpp.org/research/housing/child-care-and-housing-big-expenses-with-too-little-help-available>.

¹⁰ Taryn Morrissey, “Child care and parent labor force participation: a review of the research literature,” *Review of Economics of the Household*, Vol. 15, Issue 1, No. 1, 2017, https://econpapers.repec.org/article/kapreveh/v_3a15_3ay_3a2017_3ai_3a1_3ad_3a10.1007_5fs11150-016-9331-3.htm.

¹¹ Stone, *op. cit.*

¹² Chuck Marr, “Another Tax Day Message for Congress: Time to Expand EITC for Adults Without Children,” Center on Budget and Policy Priorities, April 12, 2022, <https://www.cbpp.org/blog/another-tax-day-message-for-congress-time-to-expand-eitc-for-adults-without-children>.

¹³ Laura Harker, “Rounding Up the Top Five Reasons Congress Should Close the Coverage Gap,” Center on Budget and Policy Priorities, May 31, 2022, <https://www.cbpp.org/blog/rounding-up-the-top-five-reasons-congress-should-close-the-coverage-gap>.

¹⁴ Kyle Hayes, “Eliminating Structural Barriers Can Improve Latino People’s Access to Health Coverage,” Center on Budget and Policy Priorities, October 5, 2021, <https://www.cbpp.org/blog/eliminating-structural-barriers-can-improve-latino-peoples-access-to-health-coverage>.

¹⁵ Kathleen Romig, “Retirement Savings Bill Should Improve Financial Security for Low-Income Elderly, Disabled People,” Center on Budget and Policy Priorities, May 23, 2022, <https://www.cbpp.org/blog/retirement-savings-bill-should-improve-financial-security-for-low-income-elderly-disabled>; Center on Budget and Policy Priorities, “Policy Basics: Supplemental Security Income,” August 12, 2022, <https://www.cbpp.org/research/social-security/supplemental-security-income>.

¹⁶ Cecilia Esterline and Jeanne Batalova, “Frequently Requested Statistics on Immigrants and Immigration in the United States,” Migration Policy Institute, March 17, 2022, <https://www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states#children-immigrants>.

¹⁷ Emily Horton, “The Legacy of the 2001 and 2003 ‘Bush’ Tax Cuts,” Center on Budget and Policy Priorities, October 23, 2017, <https://www.cbpp.org/research/federal-tax/the-legacy-of-the-2001-and-2003-bush-tax-cuts>; William G. Gale and Claire Haldeman, “The Tax Cuts and Jobs Act: Searching for supply-side effects,” Brookings Institution, July 2021, https://www.brookings.edu/wp-content/uploads/2021/07/20210628_TPC_GaleHaldeman_TCJASupplySideEffectsReport_FINAL.pdf.