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HARDSHIP INDICATORS POINT TO A DIFFICULT HOLIDAY SEASON

National Policy Response is Off Kilter

By Arloc Sherman and Isaac Shapiro

A variety of measures suggest that tens of millions of American families will confront significant hardships this holiday season, with many unable to meet their basic food, health, and shelter needs. Government data show that:

- Poverty has now risen for four straight years; 37 million people were poor in 2004.
- Food insecurity and hunger have trended upward since 1999. More than one in six households with children experienced hunger or risk of hunger in 2004.
- The number of people lacking health insurance reached an all-time recorded high in 2004.
- During the last two years, the number of jobs has increased modestly but wages have fallen, with the downward trend in wages being especially marked for low-wage workers. Similarly, other data show that high-income households are gaining the most from the recovery, and that the already wide gaps between rich and poor are becoming still greater.
- 11.6 million low-income households pay more than half of their income for housing, up by 23 percent in a four-year period. Further, home heating prices are projected to increase significantly this winter. High housing and heating costs make it difficult for millions of low-income families and senior citizens to heat their homes, pay their rent, and still afford other necessities.
- Hundreds of thousands of Hurricane victims continue to face difficult situations. One of every four Hurricane Katrina evacuees remains unemployed.

The national policy response to these trends has been inadequate in some respects, and misdirected in others. The federal government has stepped in with substantial aid to many victims of the hurricane, but its efforts have been far from sufficient in such basic areas as providing health care coverage and appropriate housing alternatives. Congress, moreover, has not yet acted to provide additional low-income energy assistance to help households facing rising heating bills.

Most troubling of all, the House voted last week to extract a variety of cuts in aid to the poor that will deepen poverty and increase hardship, even as both the House and the Senate are moving to enact new tax cuts of primary benefit to high-income people. The budget policies under consideration would not only fail to respond to the troubling trends outlined above, but would worsen many of those problems.

These issues are discussed in more detail below. The paper ends with some of the information broken out on a state-by-state basis.

Recent Increases in Poverty, Food Insecurity, and Hunger

Data from the U.S. Census Bureau show that the number and percentage of Americans living in poverty has risen for four straight years. In 2004 (the latest year for which data are available), 37 million people were poor, up from 32 million in 2000. One in eight Americans — 12.7 percent — was poor in 2004. The poverty line is \$15,067 a year for a family of three, and \$19,307 for a family of four.

The number of Americans experiencing a particularly deep form of poverty — with family incomes below *half* the federal poverty line — rose even faster, climbing by 24 percent from 2000 to 2004.

More households are also hungry or at risk of hunger. According to the U.S. Department of Agriculture, “food insecurity and food insecurity with hunger trended upward from 1999 to 2004.”¹

One in eight households experienced food insecurity in 2004, up from one in ten in 1999. The problem was even more common among households with children, with more than one in six experiencing food insecurity.

Nearly 13.5 million households were food insecure in 2004, “meaning that their access to enough food is limited by a lack of money and other resources,” USDA has reported. Food insecurity with hunger — considered a particularly severe form of food insecurity — affected 4.4 million households.

Labor Market Developments and Income Inequality

After an unusually long period of declining employment levels, the number of jobs has been growing since May 2003. The pace of growth, however, has been relatively modest. From May 2003 through October 2005, the economy added jobs at an annual rate of about 1.3 percent a year — identical to the job growth rate during the comparable recovery period of the early 1990s but lower than in every other comparable recovery period since the end of World War II.

¹ Mark Nord, Margaret Andrews, and Steven Carlson, “Household Food Security in the United States, 2004,” U.S. Department of Agriculture, October 2005.

Further, wage gains have not kept pace with inflation. After adjusting for inflation, the average hourly wage of non-supervisory workers *fell* by 2.3 percent from May 2003 to October 2005. And over this period, wages have declined most rapidly among the very lowest-paid workers.

These labor market developments are consistent with other information that suggests income inequality is on the rise.² For instance, recently released Internal Revenue Service data show that income disparities grew substantially from 2002 to 2003. After adjusting for inflation, the after-tax income of the one percent of tax filers with the highest incomes shot up in 2003 by an average of nearly \$49,000 per household, while the after-tax incomes of the bottom 75 percent of tax filers fell on average. The IRS data are especially important because they provide the first snapshot of trends since 2002 at the very top of the income spectrum. (Less-complete data from the Commerce Department suggest that income disparities have widened further since 2003.)

Income disparities were already at near-record levels before this latest increase. Income inequality in 2002 was wider than in all but six years (1988 and 1997-2001) since the middle of the 1930s. This conclusion is based in part on Congressional Budget Office data for the 1979-2002 period.³ During this period, average after-tax incomes more than doubled for the top one percent of the population (increasing 111 percent or by \$333,000 per household), after adjusting for inflation, but ticked up only 5 percent — or \$600 — for households in the poorest fifth of the population.

Record Numbers Lack Health Insurance

The number of uninsured Americans stood at 45.8 million in 2004, the highest number on record (with data available back to 1987). Since 2000, the number of Americans who are uninsured has climbed by six million. Nearly one in six Americans — 15.7 percent — lacked health insurance in 2004, up from 14.2 percent in 2000, according to the Census Bureau.

Growth in the number of poor children and adults covered by Medicaid and the State Children's Health Insurance Program played a pivotal role in keeping the number of uninsured Americans from rising even higher. Nonetheless, in the first quarter of 2005, more than one in every twenty Americans were unable to obtain the medical care they needed because it was too costly, according to data from the Center for Disease Control and Prevention's National Health Interview Survey. The likelihood of being unable to obtain medical care due to its cost has increased significantly since the late 1990s.

² Isaac Shapiro, "New IRS Data Show Income Inequality is Again on the Rise," Center on Budget and Policy Priorities, October 17, 2005.

³ This conclusion is reached by viewing the CBO data in conjunction with data from a ground-breaking historical analysis of income distribution trends published in a leading economics journal. See Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118, 2003. Their tables have been updated through 2002 at <http://emlab.berkeley.edu/users/saez/>

Unaffordable Housing, Homelessness, and Home Heating Costs

Americans are also squeezed by the rising cost of housing. In 2004, some 11.6 million low-income households (those in the poorest one-fourth of all households) paid more than half of their income for housing, up from 9.4 million in 2000.⁴ The federal government and housing experts consider housing that costs more than 30 percent of a household's income to be unaffordable.

Families that pay more than *half* of their income on housing are at even greater risk of risk having too little left over for food, health care, and other basic needs. A recent Harvard analysis showed that families with such severe housing cost burdens are forced to cut back on other basic needs: among low-income households, those with severe housing cost burdens spend 57 percent less on transportation, 23 percent less on food, 57 percent less on health care, and 44 percent less on clothing than the average low-income household.⁵

Adding to the squeeze on family budgets, the Department of Energy projects that home heating prices will increase significantly this winter. Research suggests that unless low-income energy assistance benefits are increased to protect poor households from these rising prices, many low-income households will reduce their food consumption this winter to pay for the rise in heating costs. A recent study by researchers from Stanford University, the University of Chicago, the RAND Corporation, and UCLA found that when poor families' heating bills go up during cold winter months, they reduce their spending on food by roughly the same amount as the increase in fuel expenditures. Another recent study found that children in families that receive assistance from the federal Low Income Home Energy Assistance Program (LIHEAP) are less likely to be underweight than children in families that are eligible for LIHEAP but do not receive it because of program funding limitations.

When family budgets are squeezed too far — whether by unaffordable housing, rising energy costs, lack of health care coverage, or deepening poverty — some fall into homelessness. The U.S. Department of Education reports that more than 600,000 public school children were homeless in school year 2003-2004. The Urban Institute estimated in 2001 that between 2.3 million and 3.5 million Americans are homeless at some point during the year, including approximately 1 million children.

Additional Effects of Hurricane Katrina

Hurricane Katrina struck in August 2005, adding to the ranks of the jobless and homeless. One of every four Hurricane Katrina evacuees remains unemployed. “Of the 800,000 evacuees,” says the Bureau of Labor Statistics, “just over half were in the labor force in October, and their unemployment rate was 24.5 percent.”⁶ The unemployment rate among evacuees who are minorities was even higher in October: 42 percent.

⁴ Center on Budget and Policy Priorities tabulations of the 2000 and 2004 American Community Survey.

⁵ Joint Center for Housing Studies, *The State of the Nation's Housing 2005*, table A12, <http://www.jchs.harvard.edu/publications/markets/son2005/index.html>. The study defines “low income” to be the bottom one-fourth of households ranked by total expenditures.

⁶ Bureau of Labor Statistics, “Effects of Hurricane Katrina on BLS Employment and Unemployment Data Collection and Estimation,” <http://www.bls.gov/katrina/cpscesquestions.htm> (accessed 11/20/05).

Displaced hurricane victims have swelled the ranks of the homeless. In Dallas, Texas alone, for example, school officials say they have enrolled and are providing special services to 2,422 homeless children and youth evacuated as a result of the hurricane (as well as 2,000 who are homeless for reasons unrelated to Katrina). In Houston the figures are 5,322 homeless children and youth evacuees (and 1,600 non-Katrina homeless), while Lafayette, Louisiana, schools report 8,000 such homeless evacuees on top of 3,000 non-Katrina homeless, according to the National Association for the Education of Homeless Children and Youth.

National Policy Developments

The policies being advanced in Washington, D.C. do not constitute a response to this rising hardship. On November 18, the House of Representatives passed a bill that asks low-income families to shoulder a large share of the budget-cutting burden, leaving them with less access to needed health care and basic food aid. According to information from the Congressional Budget Office, the House bill would:

- Require low-income Medicaid beneficiaries to pay more out-of-pocket for health care and reduce health care services for which they are covered, with cuts in this area approaching \$30 billion over ten years. CBO has said these cuts would cause many beneficiaries to forgo health care services, and ultimately would result in increases in emergency room costs;
- Make deep cuts in funding for child support enforcement. CBO estimates this would result in \$24 billion in child support payments that would be collected under current law going uncollected over the next ten years. As a result, many children would likely be pushed deeper into poverty; and
- Eliminate food stamp aid for more than 220,000 low-income people a month, most of whom live in low-income working families.

Further, the House bill would result in an estimated 330,000 children in low-income working families losing child care assistance as a result of the low child care funding levels and unfunded new work requirements in the bill.⁷

In the near future, moreover, the House will vote on a tax bill that would provide tax cuts that are larger in size than the spending reductions. The tax cuts would reduce revenues by \$56 billion over five years; the spending reductions amount to \$50 billion over this period. The net effect of the two bills would thus be to *increase* the deficit over the next five years. (Similarly, the Senate has passed a tax-cut bill costing \$60 billion over the next five years, which exceeds the savings of \$35 billion over five years contained in spending legislation it passed.)

The largest provision in the House bill would be a two-year extension of the capital gains and dividend tax cuts that would provide the lion's share of its benefits to the nation's most affluent households. According to estimates from the Urban Institute-Brookings Institution Tax Policy Center, households with incomes of more than \$1 million would receive over half — 53 percent —

⁷ CBPP estimate based on CBO data.

of the benefits of this tax cut, even though they constitute only 0.2 percent of the households in the nation.

Response to Katrina

While the federal government quickly committed funds for efforts to provide relief from Hurricane Katrina, many families find themselves without the help they need to meet their most basic needs.

- **Health Care:** Thousands of people who lost their jobs due to the hurricane are now uninsured. In particular, poor non-elderly adults who are not raising minor children and do not have serious disabilities do not qualify for Medicaid under standard rules, regardless of how poor they are. Bipartisan efforts in the Senate to extend temporary, emergency Medicaid coverage to all low-income hurricane victims were opposed by the Administration and were blocked.
- **Housing:** While promising in some respects, the Bush Administration's transitional housing plan for Katrina evacuees has been inadequate for many families, especially those with low incomes. For instance, FEMA rental assistance will not cover security deposits or utility costs, which are major hurdles for low-income families, and it is not clear whether families can count on getting rental assistance beyond the first few months. These shortcomings were augmented last week by FEMA's announcement that, as of December 1, it will terminate assistance for over 50,000 evacuee families that remain in hotels and motels, and will not reimburse state and local governments after March 1, 2006 for rental assistance provided by them to Katrina evacuees.
- **Unemployment Benefits:** Those who lost jobs due to the hurricanes typically are eligible for either standard unemployment benefits or disaster unemployment assistance (DUA) benefits. But the unemployment insurance benefits that Louisiana, Mississippi, and Alabama provide are exceptionally low, equaling only about half of the poverty line for a family of four. Minimum DUA benefits in these states are just *one-quarter* of the poverty line for a family of four. Further, the job searches of many Hurricane victims will be long, either because these people are returning to their hard-hit communities where their old jobs may no longer exist or because they are residing in new communities where they have few contacts and know less about the job market. Efforts to raise benefit levels for the unemployed, or extend their duration, are languishing in Congress.

Not only is this help inadequate, but many low-income hurricane victims ultimately would be affected as well by the harmful changes in Medicaid, child support enforcement, food stamps, and child care described previously.

TABLE 1		
Persons in Poverty, 2004		
State	Number Poor	Percent Poor
Alabama	706,000	16.1%
Alaska	52,000	8.2
Arizona	798,000	14.2
Arkansas	476,000	17.9
California	4,661,000	13.3
Colorado	498,000	11.1
Connecticut	257,000	7.6
Delaware	80,000	9.9
District of Columbia	98,000	18.9
Florida	2,062,000	12.2
Georgia	1,266,000	14.8
Hawaii	129,000	10.6
Idaho	196,000	14.5
Illinois	1,474,000	11.9
Indiana	652,000	10.8
Iowa	282,000	9.9
Kansas	279,000	10.5
Kentucky	700,000	17.4
Louisiana	845,000	19.4
Maine	157,000	12.3
Maryland	473,000	8.8
Massachusetts	570,000	9.2
Michigan	1,210,000	12.3
Minnesota	412,000	8.3
Mississippi	604,000	21.6
Missouri	659,000	11.8
Montana	127,000	14.2
Nebraska	186,000	11.0
Nevada	288,000	12.6
New Hampshire	95,000	7.6
New Jersey	722,000	8.5
New Mexico	358,000	19.3
New York	2,641,000	14.2
North Carolina	1,256,000	15.2
North Dakota	73,000	12.1
Ohio	1,388,000	12.5
Oklahoma	520,000	15.3
Oregon	493,000	14.1
Pennsylvania	1,389,000	11.7
Rhode Island	132,000	12.8
South Carolina	635,000	15.7
South Dakota	81,000	11.0
Tennessee	830,000	14.5
Texas	3,625,000	16.6
Utah	256,000	10.9
Vermont	54,000	9.0
Virginia	682,000	9.5
Washington	794,000	13.1
West Virginia	317,000	17.9
Wisconsin	571,000	10.7
Wyoming	50,000	10.3

Source: U.S. Census Bureau, 2004 American Community Survey.
Rounded.

TABLE 2

**Percent of Households With Food Hardships
In the Past 12 Months, 2002-04 Average**

State	Food Insecure	Food Insecure With Hunger
U.S. Total	11.4%	3.6%
Alabama	12.2	2.9
Alaska	11.7	4.6
Arizona	12.7	3.5
Arkansas	14.8	5.3
California	12.4	3.9
Colorado	11.3	3.5
Connecticut	8.6	3.0
Delaware	6.8	1.8
District of Columbia	10.2	2.9
Florida	10.8	3.6
Georgia	12.3	3.8
Hawaii	8.5	2.6
Idaho	14.6	3.7
Illinois	9.0	3.0
Indiana	10.1	3.6
Iowa	10.2	3.1
Kansas	12.3	4.8
Kentucky	12.2	3.3
Louisiana	11.8	2.6
Maine	9.8	3.1
Maryland	8.6	3.2
Massachusetts	7.1	2.7
Michigan	11.3	3.8
Minnesota	7.2	2.5
Mississippi	15.8	4.5
Missouri	11.3	3.9
Montana	12.2	4.7
Nebraska	10.7	3.7
Nevada	8.5	2.9
New Hampshire	6.4	2.4
New Jersey	8.5	2.9
New Mexico	15.8	4.9
New York	10.5	3.2
North Carolina	13.8	4.9
North Dakota	6.3	1.9
Ohio	11.4	3.4
Oklahoma	15.2	5.6
Oregon	11.9	3.8
Pennsylvania	10.2	2.9
Rhode Island	12.1	4.2
South Carolina	14.8	5.5
South Dakota	9.2	2.8
Tennessee	11.5	3.5
Texas	16.4	4.9
Utah	14.8	4.6
Vermont	9.0	3.6
Virginia	8.5	2.6
Washington	12.0	4.3
West Virginia	8.8	2.9
Wisconsin	9.0	2.8
Wyoming	11.0	4.2

Source: USDA, *Household Food Insecurity in the United States, 2004*.

TABLE 3

**Number and Percent of Persons Uninsured,
2003-2004 Average**

State	Number Uninsured	Percent Uninsured
Alaska	116,000	18.0
Arizona	970,000	17.1
Arkansas	457,000	16.9
California	6,605,000	18.5
Colorado	770,000	17.1
Connecticut	382,000	11.0
Delaware	105,000	12.8
District of Columbia	76,000	13.8
Florida	3,275,000	19.0
Georgia	1,461,000	16.9
Hawaii	124,000	9.9
Idaho	232,000	17.0
Illinois	1,791,000	14.2
Indiana	863,000	14.0
Iowa	303,000	10.4
Kansas	295,000	11.0
Kentucky	578,000	14.1
Louisiana	837,000	18.9
Maine	131,000	10.2
Maryland	786,000	14.2
Massachusetts	715,000	11.2
Michigan	1,118,000	11.2
Minnesota	451,000	8.8
Mississippi	500,000	17.5
Missouri	663,000	11.8
Montana	176,000	19.2
Nebraska	196,000	11.4
Nevada	434,000	18.7
New Hampshire	141,000	11.0
New Jersey	1,261,000	14.6
New Mexico	406,000	21.5
New York	2,785,000	14.7
North Carolina	1,373,000	16.5
North Dakota	70,000	11.0
Ohio	1,322,000	11.7
Oklahoma	693,000	20.1
Oregon	602,000	16.8
Pennsylvania	1,419,000	11.7
Rhode Island	114,000	10.8
South Carolina	595,000	14.5
South Dakota	91,000	12.1
Tennessee	803,000	13.7
Texas	5,478,000	24.8
Utah	317,000	13.4
Vermont	63,000	10.3
Virginia	1,011,000	13.7
Washington	869,000	14.2
West Virginia	295,000	16.5
Wisconsin	580,000	10.6
Wyoming	74,000	15.0

Source: CBPP tabulations of March 2004 and 2005 Current Population Surveys.

TABLE 4

**Number of Homeless Children Enrolled
in Public Schools, School Year 2003-2004**

Total	600,051
Alabama	10,555
Alaska	3,816
Arizona	14,597
Arkansas	4,773
California	142,554
Colorado	8,111
Connecticut	2,048
Delaware	N/A
Florida	16,069
Georgia	11,808
Hawaii	935
Idaho	1,553
Illinois	10,719
Indiana	5,630
Iowa	6,582
Kansas	2,594
Kentucky	13,640
Louisiana	17,079
Maine	707
Maryland	5,404
Massachusetts	2,212
Michigan	9,204
Minnesota	5,362
Mississippi	10,926
Missouri	12,983
Montana	2,320
Nebraska	6,933
Nevada	4,470
New Hampshire	933
New Jersey	N/A
New Mexico	3,681
New York	20,838
North Carolina	7,012
North Dakota	116
Ohio	12,482
Oklahoma	795
Oregon	11,858
Pennsylvania	19,631
Rhode Island	671
South Carolina	5,805
South Dakota	N/A
Tennessee	5,831
Texas	137,858
Utah	7,882
Vermont	432
Virginia	7,573
Washington	8,141
West Virginia	444
Wisconsin	5,119
Wyoming	N/A
Puerto Rico	9,365

Source: U.S. Department of Education. Limited to children enrolled in public schools. (Generally reflects children at one point in time and not the full number ever homeless during the year.)