CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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ARE POLICIES THAT ASSIST LOW-INCOME WORKERS RECEIVING APPROPRIATE PRIORITY?

Edited by Isaac Shapiro and Sharon Parrott[1]

During this period of prolonged labor market weakness, policy makers have spoken extensively about the need to help struggling workers. This Labor Day will likely bring many more such utterances. For low-income workers, however, the reality of the policy choices being made has not matched this rhetoric.

At the *national* level in 2003, important opportunities to assist low-income workers, including measures to provide them with relief through the tax code, have not been acted upon. Instead, the President and Congress have given priority to tax cuts of primary benefit to high-income households, with households earning more than $1 million a year receiving new tax cuts averaging $93,000 in 2003. Furthermore, national policy decisions to be made in the next few weeks and months may weaken child care and housing assistance for low-income working families. At the *state* level, both tax and spending decisions have hit low-income workers hard.

Such policy choices reflect dubious priorities. Large numbers of workers and their families have low-incomes. Census data show that in 2001, the latest year for which these data are available:

- Two of every three poor families with children had at least one worker.
- Nearly a fifth of all U.S. workers had low-incomes. (Low-income is defined here as having income below 200 percent of the poverty line.)
- There were 43 million people living in low-income working families with children.

Due to inadequate funding levels, only small fractions of these families receive assistance in paying for needed child care or securing access to affordable housing, and many lack health insurance.

Moreover, these policy choices reflect a misguided approach to responding to a downturn and stimulating the economy. Since low-income workers have fewer resources to fall back upon, unemployment affects low-income workers more severely than high-income workers. And since low-income workers are more likely to spend any additional resources they might secure, tax

[1] This report was a group effort, reflecting contributions by Matthew Broaddus, Martha Coven, Will Fischer, Shawn Fremstad, Robert Greenstein, Nick Johnson, Leighton Ku, Edwin Park, Barbara Sard, John Springer, and John Wancheck.

cuts or other assistance provided to low-income workers result in greater immediate economic stimulus per dollar of cost than tax cuts for high-income individuals.

Tax and unemployment insurance legislation enacted at the *national* level this year has neglected low-income workers and their families in important respects.

- **2003 Tax Act:** The 2003 tax-cut legislation accelerated an expansion of the child tax credit for middle- and upper-middle income families that was scheduled to occur in future years but failed to accelerate a scheduled expansion of the child tax credit targeted on low-income working families. The omitted provision would benefit 6.5 million low-income working families with nearly 12 million children.

  The 2003 tax legislation also failed to include a provision to accelerate relief from the marriage tax penalties that many low-income working families face. Including this provision would have assisted 3.7 million families, many of which face some of the nation's most significant marriage penalties. By contrast, the two marriage penalty provisions of the 2001 tax act that benefit middle and high-income families were both accelerated by the 2003 tax legislation.

  In the child tax credit and marriage penalty relief areas, the only scheduled expansions that were *not* accelerated into 2003 were the features targeting low-income working families with children.

- **Unemployment insurance:** Low-income workers are especially unlikely to qualify for unemployment insurance, and as a result, they have received limited assistance from the legislation providing (and then extending) temporary federal unemployment benefits. These federal unemployment benefits go only to workers who received regular unemployment benefits but then exhausted them. Unemployment insurance reforms that would have assisted significant numbers of low-wage workers who have lost their jobs during this period of high unemployment were raised during debate over the legislation providing temporary federal unemployment benefits, but were left out of the legislation. (The temporary federal benefits legislation has other weaknesses as well; in particular, the relatively modest number of weeks of additional benefits it provides, compared to the number of weeks of benefits provided under the comparable program in place during the economic slump of the early 1990s, has led to much larger number of workers running out of all their jobless benefits than in the earlier slump.)

Congress also has failed to act on legislation to raise the minimum wage. This inaction continues even though this Labor Day marks the sixth anniversary since the minimum wage was last increased on September 1, 1997. Since then, the minimum wage has fallen in purchasing power, casting some minimum wage workers deeper into poverty.

Exacerbating these problems, national policy decisions to be made this fall may *decrease* the number of low-income workers receiving child care and housing assistance. This deterioration would occur even though the large majority of low-income workers receive neither form of aid.

- Congress is expected to adopt new levels of child care funding in coming months when it extends the 1996 welfare law. (Congressional action on appropriations also will affect child care funding levels.) The level of funding for child care assistance the Administration has proposed as part of welfare reform would result in substantial numbers of low-income children losing child care assistance, with the number of children losing this aid growing larger with each passing year and reaching 360,000 in 2008. (2008 is the final year that would be covered under the welfare reauthorization.)

- The appropriations bill that will fund housing programs in fiscal year 2004 also is likely to be adopted soon. Under the Administration's budget, the number of low-income working families receiving housing vouchers to help them find housing they can afford would be cut by approximately 55,000. Under the House-passed appropriations bill, the number of such families receiving assistance would be reduced by approximately 20,000. (The Senate has not yet developed its version of this bill.) Either the Administration's or the House's approach would represent the first time in the nearly 30-year history of the housing voucher program that the number of low-income families assisted has been reduced.

State Budget Cuts and Tax Increases

One positive action at the federal level is that the 2003 tax legislation contained significant fiscal relief to the states, with half of that relief dedicated specifically to state Medicaid programs. This relief, though helpful, fell well short of what was needed to forestall widespread cuts in state programs assisting low-income workers.

As states have worked to close record budget gaps, many have instituted significant cuts in programs assisting low-income workers. A number of states also have turned more to raising taxes that are regressive, such as sales and excise taxes, than taxes that are progressive, such as state income taxes. (Regressive taxes are those that consume a larger share of the income of low-income workers than of high-income workers.)

- Cutbacks in state Medicaid and children's health insurance programs have eliminated health insurance coverage for approximately one million parents and children in low-income working families. For example, Medicaid cutbacks in California will cause hundreds of thousands of children in working families to lose coverage; cutbacks in Texas will end coverage for at least 300,000 children in working families.

- Between 2001 and 2003, more than half of the states have made cuts in child care programs. Ten states also have reduced cash assistance benefits provided to working-poor families with children.

- Preliminary data indicate that in 2002 and 2003, only 30 percent of the increases enacted in state taxes consist of increases in personal or corporate income taxes — taxes with a progressive structure. Virtually all of the remaining increases in state taxes have come from taxes that are regressive, such as sales taxes. Many states have also raised new revenue from regressive fee increases.

- One modest bright spot is that some states have expanded unemployment insurance coverage in a manner that assists low-income workers. This year, for instance, three states adopted a mechanism for determining unemployment insurance eligibility that is of particular benefit to low-income workers. Another three states increased their state minimum-wage levels.

Most state legislatures have finished their business for this year, but federal policymakers still can take action to ease hardships that many low-income workers face. On the tax front, Congress still can correct its neglect of low-income working families in excluding them from the broader acceleration of the child care tax credit and marriage-penalty relief provisions. Congress also has the ability to adopt child care and housing funding levels that do not reduce aid to low-income workers and to enact positive measures for low-income workers and their families in the minimum-wage and health care areas.

Offsetting the Costs of These Proposals

This analysis describes steps that could still be taken this year, some of which enjoy a fair amount of bipartisan support. These steps could be taken without increasing the deficit. Their costs could be offset by reducing modestly the size of the new tax cuts extended to high-income individuals or by closing corporate tax shelters. The combined cost of these steps would be far less than the $90 billion over ten years in new tax cuts that the 2003 tax bill provides to millionaires. The proposals discussed here could, in fact, be paid for largely by adopting provisions the Senate approved in the tax bill it adopted in May that would raise more than $25 billion over ten years by curbing abusive corporate tax shelters. All of these tax shelter provisions were dropped in the final tax bill.

The Structure of this Paper

Table 1 provides figures on how many people live in low-income working families with children. These figures are discussed in greater detail in the Appendix.

The next section of this analysis examines the direct effect of recent federal and state tax decisions on low-income workers. The section that follows it considers the effects on low-income workers of recent policy developments in the areas of health care, child care, cash assistance, labor, and housing. The concluding section weighs the rationale for the priorities advanced so far this year and whether resources remain available to assist low-income workers.

Table 1: Low-Income Working Families With Children in 2001		
	Number of People Living in Poor and Near-Poor Families	
	Official Census Definition of Income	**Census Definition of Income *plus* Food Stamps and EITC**
All Poor Families With Children	19.7 million	15.0 million
Working[a] Poor Families	14.3 million	9.8 million
Working Poor Families with a ***Full-Time Worker***[b]	7.4 million	4.4 million
Low-income Families With Children *(income below 200% of the poverty line)*	50.3 million	49.2 million
Working Families	43.9 million	42.8 million
Working Families with a ***Full-Time Worker***	32.4 million	31.6 million

How to read this table: In 2001, there were 19.7 million people living in poor families with children, using the Census Bureau's official definition of income. Of these, 14.3 million lived in families that included a worker and 7.4 million lived in a family with a full-time worker. In this table, "working families" are families that include someone who worked at least four weeks during the year. An individual who works the equivalent of 35 hours per week for 50 weeks during the year is considered a "full-time" worker.

Note: See the Appendix for a more detailed explanation of this table.

Source: Center on Budget and Policy Priorities' calculations based on the March 2001 Current Population Survey.

Left Out of the 2003 Tax Cut, Adversely Affected by Other Tax Decisions

The 2001 tax act included substantial new expansions in tax credits for low-income working families, although these expansions amounted to less than seven percent of the cost of the bill. In 2003, however, tax decisions made at the national policy level have reflected curious priorities with regard to low-income workers. Two important tax cut provisions for low-income working families with children were not accelerated by the 2003 tax bill, while analogous provisions for middle- and upper-income families were accelerated. Meanwhile, the Administration proposed a potentially large crackdown on recipients of the Earned Income Tax Credit — a credit that benefits low- and moderate-income households with workers — although, for the time being, it has backed off this proposal to a significant degree. On the state front, low-income workers clearly have come out as losers.

The 2003 Tax Act

Acceleration of scheduled expansion in the child tax credit provision targeted on low-income workers was left out of the 2003 legislation. Accelerating this provision would benefit 6.5 million working families and nearly 12 million children. Such a measure was left out of President Bush's original tax-cut proposal this year, and the President never indicated support for such a measure in the months that Congress worked on the legislation. The President now supports such a measure, and legislation including this acceleration has passed the House and the Senate. The legislation has bogged down since, however, with the House insisting on its version of the legislation, which features $82 billion in overall tax cuts even though the low-income provision costs just $3.5 billion.[2]

Acceleration of the marriage-penalty relief provision of the 2001 act that targets low-income workers also was omitted from the 2003 tax act. The tax bill enacted in 2001 included three provisions designed to reduce "marriage penalties." The two provisions benefiting middle- and high-income families were both accelerated by the 2003 tax act; the provision benefiting low-income workers was not. Neither the President's original bill, the bill that passed the House, or the bill that passed the Senate included this provision. (Efforts to include the provision in the Senate bill fell just short in the Senate Finance Committee and nearly garnered a majority on the Senate floor). Such a provision would assist 3.7 million working families, many of whom face some of the nation's most burdensome marriage penalties, at a cost of $4 billion to $5 billion.

State Tax Decisions

Given the historically large deficits facing states, it was reasonable for a number of states to enact tax increases to help close their fiscal gaps. States did not have to rely, however, on tax increases that hit low-income workers especially hard. This is what states that have raised taxes have done, by and large, in both 2002 and 2003.

Preliminary data from a forthcoming Center on Budget and Policy Priorities study indicate that states enacted tax changes in 2002 and 2003 that will increase revenues by $22 billion on an annual basis.[3] Of this amount:

- Some $6.5 billion — or 30 percent — reflects increases in the personal or the corporate income tax, taxes that are considered progressive.
- Nearly all of the remaining revenue increases come from regressive taxes or fees. For example, $4.8 billion has been raised through increases in general sales taxes.
- Four states — Illinois, Indiana, Kansas, and Rhode Island — did seek to offset the impact of regressive tax increases with new or expanded state-level Earned Income Tax Credits for low-income working families.

EITC Pre-certification

Earlier this year, the Administration and the IRS proposed a new "pre-certification" process for the Earned Income Tax Credit under which, by the summer of 2004, large numbers

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[2] The home page of the Center on Budget and Policy and Priorities website, www.cbpp.org, includes a series of papers on the child credit provision for low-income families.

[3] About half of these changes were enacted in 2002, and half were enacted in 2003. The increases enacted in 2003 appeared to rely somewhat *more* on regressive taxes than the increases approved in 2002.

of low-income working families with children would be subject to extremely burdensome procedures that likely would result in large number of eligible families losing the Earned Income Tax Credits for which they qualify. These plans met with an avalanche of criticism, and the IRS subsequently made substantial changes in the procedures and agreed to pilot-test them in the coming year before deciding whether to impose these procedures on a large scale. At the current time, it is unclear whether a balanced process ultimately will emerge that avoids imposing procedures on a broad scale that discourage eligible families from participating.

Work Support Policies

Government affects low-income workers through labor policies and through policies that can supplement their wages. Work support policies of particular importance to low-income workers have not fared well so far in 2003.

Health

Combined with sharply rising health care costs, the economic slowdown has had a notable effect on the health care coverage of low-wage workers. Many workers lost health insurance when they were laid off from their jobs. In addition, many businesses have been cutting back on the coverage they provide, either by failing to offer health insurance or by making employees responsible for a greater share of the cost of coverage. At the state level, deficits have led to cutbacks in Medicaid that have been damaging to low-income workers and their families.

The federal government recently took two sensible steps in this area — this summer it adopted legislation extending the availability of $2.6 billion in unspent funds from prior years in the State Children's Health Insurance Program, rather than have these funds revert to the federal Treasury. Without this step, some states would have had to institute cutbacks in their SCHIP programs starting next year. In addition, the large tax-cut bill enacted in May contained $20 billion in temporary state fiscal relief, including $10 billion in increased federal funding for state Medicaid programs. This measure has reduced the depth of the Medicaid cuts being implemented. For example, Ohio shelved a planned cutback in Medicaid eligibility for about 50,000 low-income working parents. Missouri and New Jersey took similar steps.

Nevertheless, cutbacks in health insurance coverage remain in place in a number of states. Texas, for example, is instituting cuts that will eliminate health coverage for several hundred thousand children and thousands of pregnant women in low-income working families and will scale back Medicaid coverage for a large number of low-income people. California is making Medicaid enrollment and renewal procedures more complicated, which is expected to result in the loss of coverage for hundreds of thousands of children. (This provision is intended to discourage participation among eligible families, as a way to save money.)

Congress could take further steps to protect health insurance coverage for low-income working families this session. For example, in its version of the Medicare prescription drug bill, the Senate has included a provision to allow states to restore Medicaid and SCHIP coverage for legal immigrant children and pregnant women, which would aid an estimated 155,000 children and 60,000 pregnant women a year, mostly members of working immigrant families. The prospects for this provision are uncertain, however, since the House bill lacks a comparable provision and the White House opposes the measure.

Congress also could ensure that low-income seniors who are enrolled in both Medicare and Medicaid (a group sometimes called the "dual eligibles") are eligible for the new Medicare prescription drug benefit. Over time, this would ease rapidly-escalating state Medicaid costs for prescription drugs for seniors and people with disabilities, thereby helping to assure that states are able to afford to maintain adequate Medicaid coverage for low-income working families. All 50 of the nation's governors recently announced their agreement that this is the single highest priority for states in the Medicare prescription drug legislation.

Finally, Congress could extend and simplify the Transitional Medical Assistance (TMA) program, currently set to expire on September 30, 2003. TMA, established under President Ronald Reagan in 1988, provides up to one year of Medicaid coverage to low-income families — many of whom have just left welfare for work — that become ineligible for Medicaid because of an increase in their earnings (or in child support income). TMA provides an important support for families making the transition from welfare to work and serves as an incentive for parents to find jobs and leave welfare. The program needs both to be extended and to be simplified to make it easier for eligible families to enroll in TMA. For example, federal law currently mandates that states require TMA recipients to comply with onerous paperwork requirements in order to remain eligible for TMA. These administrative requirements result in many eligible families losing TMA eligibility and becoming uninsured. Extending and simplifying TMA would aid low-income workers during the critical period after they leave welfare and join the workforce, providing an important work incentive. This proposal has bipartisan support in the Senate and was included in the bipartisan welfare bill that the Senate Finance Committee approved last year (that bill was not voted upon by the full Senate). The Bush Administration has advanced a similar proposal as part of its 2004 budget.

Labor Policies

Low-income workers are hit especially hard if they become unemployed, both because they tend to have little in savings to draw upon if they lose their jobs and because they often do not qualify for unemployment insurance. A GAO study found that "unemployed workers appeared far less likely to receive UI benefits than other unemployed workers, even though low-wage workers were twice as likely to be unemployed" and "the relative difference in UI receipt remained even among workers who worked for similar periods during recent employment."[4]

Because only workers who exhaust regular state-funded unemployment insurance benefits can qualify for additional federal unemployment benefits, the temporary federal unemployment benefits program that was established in March 2002[5] and extended twice this

[4] United States General Accounting Office, *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited*, December 2000, page5.

[5] The 2002 bill also accelerated the distribution of $8 billion from the federal unemployment insurance trust fund to state unemployment insurance trust funds. While one of the potential uses for these funds is to expand state

year was of less help to them than to other workers. (The temporary federal benefits program has also proven insufficient for several million workers who did benefit from the program; despite the exceptionally long unemployment spells that unemployed workers have experienced over the past two years, this program has provided fewer weeks of benefits to nearly all workers than did the program adopted in the early 1990s.)

In particular, despite expansions in unemployment insurance coverage that a few states adopted this year,[6] state eligibility requirements frequently exclude part-time workers and also ignore workers' most recent earnings. These requirements disproportionately make low-wage workers ineligible for unemployment benefits.

- Part-time workers in about half of the states do not qualify for unemployment insurance, even if they have sufficient earnings to meet the earnings tests for unemployment benefits and are looking for new jobs with the same number of hours as the jobs they have lost.

- In determining unemployment insurance eligibility, only 19 states currently consider earnings from the quarter (i.e., the three-month period) immediately preceding the quarter in which the applicant became unemployed. In other states, up to six months of recent earnings are ignored.

Congress can help address this problem by providing states with the resources to cover these low-wage workers. This year, bills have been introduced in the House (H.R. 1652) and Senate (S. 923) to provide federal funding for temporary federal unemployment benefits for workers disqualified solely because they work part time or do not meet earnings requirements due to their state's failure to count their most recent wages.

Another labor policy of considerable importance to low-income workers is the minimum wage. The minimum wage was last increased six years ago on September 1, 1997. The value of the minimum wage, after adjusting for inflation, is now 25 percent below its average value of $6.88 an hour during the 1970s. Especially in light of the weak labor market, it would be unwise to raise the minimum wage to its historic level in one fell swoop, but gradual restoration of its value is appropriate. Legislation along those lines has been languishing in Congress.

Child Care Assistance and TANF

The federal child care block grant provides resources to states to help low-income families afford quality child care. Low-income working families, as well as welfare recipients participating in welfare-to-work programs, can receive child care assistance through this program, although most of the families assisted are already working. States also use a significant portion of the funding they receive from the Temporary Assistance for Needy Families (TANF)

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unemployment insurance coverage, including the coverage of low-wage workers, only a tiny fraction of the funds have been used in this manner. See United States General Accounting Office, *Unemployment Insurance: States' Use of the 2002 Reed Act Distribution*, March 2003.

[6] *2003 State Legislative Highlights: Expanding Unemployment Insurance for Low-Wage, Women & Part-Time Workers*, National Employment Law Project, August 8, 2003.

block grant (and the state spending associated with the TANF block grant) for child care assistance.

Congress currently is debating TANF reauthorization legislation and child care funding levels. If federal resources for child care assistance are simply maintained at current levels — and do not keep pace with increasing child care costs and the reduced availability of TANF funding for child care — access to child care assistance for low-income working families will shrink significantly over the next several years.

Despite this, the Administration's own estimates find that its 2004 budget would result in 200,000 children losing access to child care assistance by 2007, with smaller losses in earlier years. This loss occurs because while funding would remain frozen, the cost of providing child care assistance — the wages of child care providers and the cost of space and materials — would rise with inflation, and thus the number of children who can be served would decline.

Moreover, the Administration's estimate understates the actual loss in access to child care assistance that would result because it does not take into account the anticipated decline in the years ahead in the level of TANF funding that states will be able to devote to child care. States will have fewer TANF resources to devote to child care because they are quickly exhausting the unspent TANF funding left over from the first few years of TANF implementation when many states spent less than their annual TANF block grant allocation. (The Congressional Budget Office projects that total TANF spending will fall from $20.3 billion in 2003 to $16.9 billion in 2008 as a result of the exhaustion by states of unspent TANF funds from the program's early years.) A large number of states used those unspent funds from prior years to provide child care assistance to more low-income working families.

When the effects of both the decline in TANF funds available for child care and the rising cost of child care are taken into account, an estimated *360,000 fewer low-income children* will be provided child care assistance in 2008 than in 2003, in the absence of increases in funding above current levels. A smaller number of child care slots would be lost in earlier years as well. (Our estimates stop in 2008, because that is the year in which a five-year reauthorization of the welfare program would expire.)

It would take additional child care funding of $5.7 billion between now and 2008 to prevent the loss of child care slots in each of those years. Moreover, this $5.7 billion figure does not reflect the additional funding that states will need if increased TANF work requirements are enacted. The Administration has proposed — and the House has passed — significant increases in the number of TANF cash assistance recipients whom states would be required to place in welfare-to-work activities. If states are required to place more parents in such programs (and to do so for more hours per week), they will need to provide child care to more children, and child care costs will necessarily rise. States also will have to pay for the additional work program slots. The Congressional Budget Office has analyzed the increased costs to states of meeting the new TANF work requirements included in the House-passed TANF bill (which are modeled on the Administration's proposal) and has found that states would face between $3 billion and $9 billion over five years in increased child care and work program costs under the bill. If TANF legislation imposes expensive new work mandates on states but does not provide the necessary resources, states will have to shift funds currently being used to provide child care assistance to low-income working families to pay for the costs associated with these mandates. The result would be that the number of child care slots for low-income working families would be cut still more deeply.

Moreover, even if child care funding was increased by $5.7 billion over the next five years and no new work mandates were imposed on states, large numbers of low-income working families still would remain without child care assistance. The Center for Law and Social Policy has estimated that only one in every seven children who meet the federal eligibility requirements for subsidized child care received that help in 2000.[7] While some of these children do not need child care assistance for a variety of reasons, many do, as is evident from the substantial waiting lists for child care assistance in many states.

Access to child care assistance already has begun to shrink. More than half of the states have instituted cutbacks in their child care programs over the past three years. In fact, in 20 states, child care assistance is no longer available to any low-income working families newly applying for such help. In December 2002, for example, there were some 48,000 children on the child care waiting list in Florida. Tennessee no longer even accepts child care applications from families that do not receive TANF cash assistance.[8]

In addition to cutting child care assistance for low-income working families, ten states also have instituted reductions in the cash assistance benefits provided to working-poor families under their TANF programs. In some states, the reductions have been targeted on low-income working families. In other states, all families receiving cash assistance — including both working families and those without jobs — have been subjected to the cuts.

Housing

The high cost of housing is one of the principal problems confronting low-income working families, especially since housing programs are funded at insufficient levels to cover most families whose incomes are low enough to qualify for aid. Only one of every five working families potentially eligible to receive housing vouchers receives any kind of federal housing assistance. To help narrow this gap, in each year from 1999 to 2002, the federal government provided funding to increase modestly the number of housing vouchers. In 2003, this pattern halted; Congress funded no new housing vouchers for families that previously did not receive housing assistance.

It appears that funding for 2004 will mark a further departure from past practice. Instead of increasing the number of vouchers or simply keeping them at their current level, the Administration's proposed budget, as well as legislation that has passed the House (Senate legislation has not yet been introduced), would *decrease* the number of housing vouchers available. This would constitute a reduction unprecedented in the program's history; never

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[7] Jennifer Mezey, Mark Greenberg, and Rachel Schumacher, The Vast Majority of Federally-Eligible Children Did Not Receive Child Care Assistance in FY 2000: Increased Child Care Funding Needed to Help More Families, Center for Law and Social Policy, October 2, 2002.

[8] Danielle Ewen and Katherine Hart, *State Budget Cuts Create A Growing Child Care Crisis For Low-Income Working Families*, Children's Defense Fund, March 2003.

before has Congress failed to provide sufficient funds to renew all vouchers in use. An estimated 20,000 fewer working families than today would receive vouchers under the House bill. Approximately 55,000 fewer working families would be aided under the Administration's budget proposal.[9]

What is Sensible National Policy?

During difficult economic times, it is appropriate to give struggling families high priority. That, however, has not been the case this year. So far, the national policy agenda has largely ignored low-income workers in 2003. At the state level, policy decisions have made them worse off.

The neglect of low-income workers at the national level is glaring since the overriding domestic policy priority this year has been to stimulate the economy. This was the primary rationale for the tax cut bill. Yet if the goal is to boost the economy through stimulating demand, economists generally agree that boosting the incomes of lower-income families provides quicker, more robust economic stimulus than raising the incomes of wealthier families (since lower-income families are more likely to spend their increased income than higher-income families are).

Assistance to low-income workers should have been made a higher priority than other uses of resources. In 2003 alone, the new tax legislation is providing tax cuts of $17 billion to the 184,000 households that have incomes exceeding $1 million. Between now and 2013, this legislation will provide a total of $90 billion in tax cuts to millionaires. Diversion of only a very modest fraction of the cost of the tax cuts of great benefit to millionaires would have covered the cost of accelerating the two low-income working family provisions excluded from the 2003 tax bill. The cost of accelerating the low-income provision of the child tax credit is $3.5 billion. The cost of accelerating the low-income marriage-penalty relief provision is $4 billion to $5 billion. These measures would assist millions of low-income working families with children.

Alternatively, these tax cuts could be offset by the more than $25 billion in revenues that would be raised over 10 years by the proposals cracking down on corporate tax shelters that were included in the version of the tax-cut bill that the Senate passed earlier this year but were then dropped in conference committee.

The costs of the program proposals discussed here also are modest in relation to the size of the tax cuts for high-income individuals and the revenues that could be raised by curbing abusive tax shelters. The total costs of the following proposals for low-income workers total to $8.6 billion. (The costs for the first two provisions are given for five years because they are being considered as part of the re-authorization of the welfare bill, which is for a five-year period. The ten-year costs of these proposals would be higher.)

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[9] The House bill would reduce the overall number of vouchers by about 63,000, while the Administration proposal would reduce the number by approximately 184,000. Working families constitute about 30 percent of all voucher recipients (a significant portion of voucher recipients are elderly or disabled individuals). Barbara Sard and Will Fischer, *House Funding Level Would Lead to More Than 60,000 Fewer Families Receiving Housing Voucher Assistance*, August 13, 2003.

- $2.4 billion to continue for five years and to simplify the policies that provide Medicaid coverage to low-income families making the transition from welfare to work;

- $5.7 billion to prevent the loss of child care slots between now and 2008; and

- $430 million to prevent the number of housing vouchers from decreasing in 2004.

Proposals discussed here related to the prescription drug bill can be paid for out of the funds set aside for the prescription drug legislation. The modest and temporary nature of the costs of unemployment insurance reforms proposed here make them of little concern. Raising the minimum wage entails no added federal costs.

- A proposal discussed in the health care section — making "dual eligibles" eligible for the Medicare drug benefit — can be accommodated within the $400 billion that has been set aside for the Medicare prescription drug bill. Indeed, the House prescription drug bill includes this measure within its $400 billion overall price tag.

- Similarly, the $500 million to establish an option for states to restore Medicaid and SCHIP coverage to legal immigrants and their children for three years is included in the Senate prescription drug bill and can be accommodated within the $400 billion allotted for that bill.

- The temporary federal unemployment benefits program continues through the end of the year. If, as currently appears to be the case, labor market conditions at that time indicate the program should be extended, the extension should include assistance targeted on those workers who are disqualified from receiving any unemployment assistance because they live in states that deny benefits to part-time workers or ignore a worker's most recent employment experience in determining eligibility. The modest cost of these proposals, which would be financed out of the unemployment insurance trust fund, are not of concern from a fiscal policy standpoint, since they would be temporary costs only and would disappear when the economy recovers and the temporary federal unemployment program ends.

The adjustment in budget priorities called for by this paper is modest. The proposals outlined here reflect ideas that have already received some legislative traction. Not considered here (and not likely to be part of the debate in the remainder of this Congressional session) are steps that need to be taken to address the serious funding gaps in some areas. In the child care area, for example, the recommendation included here is designed to prevent the number of child care slots from diminishing between now and 2008. That would leave us in a situation where only about one of every seven families eligible for child care assistance receives such aid.

The modesty of these proposals relative to the size of the tax cuts is all the more reason why Congress and the President should be expected to improve their record when it comes to assisting low-income workers.

Appendix

Low-income Families and Work

Census data show that in 2001, the latest year for which these data are available, about 14.3 million people lived in *working poor families.* (As used here, "working poor families" are families that include children and have incomes below the poverty line — $18,100 for a family of four in 2001 — and that include one or more working members.) Contrary to popular belief, most poor families are working families. In fact, about 73 percent of all people living in poor families with children lived in families in which a member worked.

Full-time work alone is not sufficient to raise many families out of poverty. Just over half of the people in working poor families with children lived in families with a *full-time worker*. (A worker was considered to work full-time if she or he worked the equivalent of 35 hours per week, 50 weeks during the year.) While many working poor families include part-time workers, these workers tend to work a substantial amount. On average, part-time workers in working poor families worked 29 weeks in 2001 and for 30 hours in each of these weeks.

The current poverty measure was developed in the early 1960s as an indicator of the number of people with inadequate family incomes for needed consumption of food, housing, and other basic goods and services. The poverty measure both understates and overstates poverty in the United States. It overstates poverty by not taking resources such as food stamps and the EITC into account. It understates poverty because it does not take into account work expenses families face including child care costs incurred when a parent works, transportation costs, and payroll taxes.

One can adjust for some of the overstatement by including the value of EITC payments and food stamps received by families. These benefits help reduce poverty among working families, but the number of poor working families remains considerable even after they are taken into account. If the poverty figures provided above are adjusted to include these benefits, about 9.8 million people in working families remained poor in 2001, and about two-thirds of all people living in poor families lived in families in which a member worked.

Both because the poverty line itself is too low for working families and because families modestly above the poverty line often have difficulty affording basic necessities, analysts often use 200 percent of the poverty as a low-income indicator. A "near-poor" family of four thus would have income between $18,100 and $36,200 a year. A consensus that such families often need assistance is evident in the structure of many low-income programs. Many low-income programs — including child care, housing, health care, and the EITC — assist families with incomes in this range.

More than 33 million people live in "near-poor" working families with children. The vast majority of these individuals — about 80 percent — live in families with full-time workers. (These figures take into account the value of food stamp benefits and the EITC; however, these benefits lift only a small number of families above 200 percent of the poverty line).

Low-income working families represent a sizable share of the U.S. population. Overall, nearly one in five workers are poor or near-poor, and almost 43 million people live in poor or near-poor families with children.