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CENTER ON BUDGET AND POLICY PRIORITIES

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NEW CONGRESSIONAL PRIORITIES WOULD DEEPEN POVERTY FOR WORKING POOR

The Congressional budget resolution and other legislation moving through Congress are likely to compound the problems facing the working poor at a time when working families are nearly 50 percent more likely to fall into poverty than in the late 1970s, according to a new study by the Center on Budget and Policy Priorities.

The report said the new policies would be likely to deepen the poverty of the nation's growing number of working poor through such steps as reducing or withdrawing health care coverage or child care support for some low-income working families, increasing the taxes they must pay, and cutting the aid they may receive if they lose their jobs in a recession.

These cutbacks would come in the wake of two decades of eroding wages for low-paid work and at a time when a larger share of employers are failing to provide health insurance to their workers. The report said the poverty rate among families with children in which the head of the household is employed rose by nearly half from 1977 to 1993, from 7.7 percent to 11.4 percent. Overall, 22 million people — or more than half of those below the poverty line — live in households that include a worker.

The harder line now developing in Congress toward those who work but remain poor marks a major shift from the policies of the previous decade, the report said. From the mid-1980s until recently, conservatives, moderates, and liberals alike worked on a bipartisan basis to strengthen health care, child care, and tax policies assisting the working poor. "That bipartisan consensus now appears to be unraveling," according to the study.

"For a number of years, leading members of both parties agreed that government policies should do more to help ensure that families with workers are able to escape poverty," said Isaac Shapiro, the Center's associate director and co-author with Sharon Parrott of the study, *An Unraveling Consensus? An Analysis of the Effect of the New Congressional Agenda on The Working Poor*. "But little attention has been paid to how the policies in the new budget would reverse that course and undercut efforts to assist the working poor."

Policy Changes that Would Affect the Working Poor

Pending policy changes that would adversely affect the working poor include tax and income support policies; health care, child care, and food assistance policies; and policies to raise skill levels so individuals can find jobs that lift them out of poverty. The study also warned that the

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new policies are structured in a manner that would weaken assistance to workers who lose their jobs or experience a drop in earnings during a recession.

Taxes and Income Support

The budget resolution calls for reductions of up to $21 billion over seven years in the earned income tax credit, which offsets some or all of the income and payroll taxes that low-income working families pay and can also supplement a working family's low wages. Expansions of the EITC occurred in the past with the support of Presidents Reagan, Bush, and Clinton.

The EITC cutbacks are being proposed even though the EITC expansions have not been sufficient to offset in full other policy developments that have reduced the purchasing power of low-income working families, the Center said. The minimum wage is now at its second lowest level in purchasing power in 40 years, falling 26 percent below its average purchasing power in the 1970s, the study noted. In addition, only three states provide AFDC as a wage supplement to a working mother with two children whose wages equal 75 percent of the poverty line, compared to 49 that did so in 1972.

Even with the EITC, the income of a poor working mother with two children, adjusted for inflation, has declined significantly since 1972. The total disposable income for a mother of two who works between half time and full time at the minimum wage is now $1,600 to $2,900 lower than the income she would have received in 1972 before the EITC was created, according to the report.

While proposing reductions in the EITC, many Congressional leaders also oppose a modest increase in a minimum wage, the report noted. In addition, the child tax credit that has passed the House would provide virtually no assistance to the working poor. This House child tax credit would commit $23 billion a year to families with children, but because it delivers those resources through a nonrefundable income tax credit, low-income families in which 24 million children live would be denied aid. Virtually all working poor families with children would be excluded.

Paring Back Supplementary Assistance for the Working Poor

Proposed reductions in Medicaid, child care, and food assistance also would affect working poor families, the report said. The Congressional budget resolution calls for $182 billion in Medicaid reductions over seven years, far in excess of what most experts believe can be achieved from greater use of managed care and reductions in payment rates to hospitals. The Center estimates that only $27 billion to $46 billion can be saved by these cost-containment measures. To achieve the full $182 billion in savings, most states would have little choice but to end health care coverage for some of those who now receive it through Medicaid, the Center noted.

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States are unlikely to end Medicaid coverage for many of the elderly and disabled poor and may retain it for most poor families with children that rely on public assistance and have virtually no other income. That raises the prospect that a number of states will reluctantly scale back coverage for children in working poor families, the group of beneficiaries to which Medicaid coverage was most recently expanded.

At particular risk, the Center said, are children aged 12 through 18 in working families with incomes below the poverty line. Federal legislation enacted in 1990 calls for extending Medicaid coverage to these children between now and 2002. Congress is likely to repeal this provision of federal law in coming months, with the result that many of these children will likely remain uninsured.

Reductions in Medicaid coverage for the working poor would have a particularly sharp effect, the Center said, because only about 3 in 10 poor workers are covered by employer-sponsored health insurance. In 1993, 2.4 million children in working poor families had no health insurance.

Provisions of pending welfare legislation that reduce federal funding for child care while requiring states to place substantially more welfare recipients in work programs also could have a deleterious effect on the working poor, according to the report. Under these proposals, the total amount of federally subsidized child care would decline while the proportion of subsidized child care slots used for children of welfare recipients who are enrolled in work or training programs would very likely increase. In many states, child care assistance for the working poor would be squeezed down as a consequence.

Further, noted the report, the House welfare bill includes cuts in food stamp funding that would exceed 35 percent by the year 2005, according to Center estimates. About one-fifth of food stamp households include a worker.

Recession-Related Policies

Among those likely to be hit hardest by the new agenda are working families that become poor during recessions when they lose jobs or have their hours of work reduced. Under current law, such families can temporarily qualify for food stamps and Medicaid while their incomes remain low. The federal funding provided to states for programs such as these now automatically rises during economic downturns as unemployment and poverty increase.

Key Congressional leaders are now working on legislation to turn Medicaid into a block grant, the funding for which would not rise in recessions. In addition, the House welfare bill imposes an expenditure cap on the food stamp program that would prevent it from responding to recessions, and there is interest in the Senate in turning the food stamp program into a block grant as well. Both the House welfare bill and the welfare bill the Senate Finance Committee approved in late May would block grant the AFDC program.

"These proposals," Shapiro said, "would alter basic low-income benefit programs in such a way that states would be forced either to deny aid to the newly unemployed during recessions, to cut benefits across-the-board during recessions to accommodate a larger number of poor households, or to raise state taxes or otherwise come up with more state funding during recessions to fill the fiscal holes left by federal cuts."

"In a recession," Shapiro continued, "the safety net would be able to cushion the fall of fewer laid-off or underemployed workers than it has in past recessions."

Finally, the budget resolution calls for substantial reductions in employment and training programs designed to enhance skills and improve the ability of program participants to secure jobs paying wages that can bring families out of poverty. The budget resolution calls for reductions in funding for these programs by about 40 percent in 2002, after adjusting for inflation.

Weaker policies would exacerbate deteriorating employment conditions

These changes in policy would have the effect of exacerbating the deterioration in wages and benefits for those at the bottom of the pay scale that have occurred in recent decades, the report concluded. Wages have eroded steadily for two decades, with the proportion of full-time workers paid a wage too low to lift a family of four to the poverty line one-third higher now than in the late 1970s. And just 30.3 percent of poor workers were covered by employer-provided health insurance in 1993, down from 35.5 percent in 1988.

The working poor families and individuals who would be affected by these policy changes span all racial, ethnic, and geographic groups, the report noted. Men and women each make up about half of the working poor population. While minority workers are more likely to earn low wages and to be poor than non-minorities, the majority of the working poor are non-Hispanic whites.

Working families in rural areas are more likely to be poor than are urban working families, the Center added. In addition, workers with limited educational attainment have a higher poverty rate than workers with more education.

The Center on Budget and Policy Priorities conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and middle-income people. It is supported primarily by foundation grants.

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An Unraveling Consensus?

An Analysis of the Effect of the New Congressional Agenda on the Working Poor

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Isaac Shapiro
Sharon Parrott

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Washington, D.C.

The **Center on Budget and Policy Priorities**, located in Washington, D.C., is a nonprofit, tax-exempt organization that studies government spending and the programs and public policy issues that have an impact on low-income Americans. The Center is supported by foundations, individual contributors, and publications sales.

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I. Overview

An important consensus in support of anti-poverty policies that strengthen aid to the working poor appears to be unraveling. The consensus that the federal government should do more to assist the working poor and "make work pay" first emerged in the latter half of the 1980s and continued into the early 1990s. In those years, conservatives, moderates, and liberals alike coalesced around the goal that families in which a parent was employed full-time year-round should not be poor. There also was growing emphasis on making low-wage work more rewarding so that families in which an individual works are better off than families with able-bodied adults who are not employed and whose main source of support is public assistance.

This consensus led to enactment with strong bipartisan support of several major initiatives for the working poor. With the backing of Presidents Reagan, Bush, and Clinton, expansions in the Earned Income Tax Credit for low-income working families were enacted in 1986, 1990, and 1993. In addition, Congress and the Reagan and Bush Administrations broadened Medicaid eligibility several times between 1984 and 1990 to extend it to substantial numbers of children in working poor families. President Bush also signed into law a moderate minimum wage increase in 1989.

Despite these initiatives, in key respects the policy package for the working poor remains weaker than in the past. The minimum wage has not been raised since 1991; if left unchanged, it will soon fall to its lowest level of purchasing power in 40 years. AFDC benefits for working poor families also have fallen dramatically. In 1972, a mother with two children and earnings equal to 75 percent of the poverty line received some AFDC benefits in 49 states; now that family would only be eligible for AFDC aid in three states.

Even after the expanded EITC is taken into account, the disposable income of minimum wage workers with children is well below its level in the early 1970s before the EITC was created and is not sufficient to lift substantial numbers of full-time minimum wage workers and their families out of poverty. Since 1972, the disposable income of a mother with two children who works full-time at the minimum wage has fallen by $1,600, after adjusting for inflation. For a similar family in which the parent works half-time, disposable income has fallen by $2,900. Other features of the safety net such as Medicaid and food stamps fail to reach many of the working poor.

The shortcomings of policies to assist the working poor become more glaring when labor market trends over the past two decades are considered. For low-wage workers in particular, the pace of wage growth has fallen well behind the pace of inflation. The hourly wages of a worker at the "10th percentile" (90 percent of workers earn more than the worker at the 10th percentile) dropped by 13 percent from 1979 to 1993, after adjusting for inflation. Moreover, a decreasing share of workers are receiving health insurance through their jobs. The proportion of poor workers covered by employment-related health plans equaled 30.3 percent in 1993, down from 35.5 percent in 1988.

Given these trends, it should not be surprising that the problems of the working poor have grown since the 1970s. The poverty rate among families with children in which the head of the household is employed rose by nearly half from 1977 to 1993. Poverty rates have risen among single-parent and two-parent working families alike. About 22 million people, constituting the majority of the poor, live in households with workers.

What *is* surprising is that rather than building on the positive policy elements adopted during the late 1980s and early 1990s, Congress is now moving to dismantle some of those elements. Key proposals emanating from the new Congressional majority represent a sharp departure from the consensus approach of the recent past. The effects of certain proposals now moving through Congress would be to: increase the taxes of the working poor while reducing their income support; weaken health care, child care, and food assistance for these families; and diminish efforts to decrease unemployment and increase earnings.

- *Taxes and income support:* The Congressional budget resolution passed on June 29 includes cuts in the Earned Income Tax Credit of between $11 billion and $21 billion over seven years, with several key members of

Congress pushing for even sharper reductions. Meanwhile, the new child tax credit passed by the House — which would provide tax benefits of about $23 billion *per year* — would provide virtually no assistance to working poor families with children. A similar tax credit is assumed in the Congressional budget resolution. House Republican leaders also have come out in strong opposition to an increase in the minimum wage.

- *Health care, child care, and food assistance:* Many of the working poor are employed in jobs that do not provide health insurance coverage. Many also receive sufficiently low earnings that child care or food assistance are needed if the family is to meet its basic needs. The budget resolution envisions large reductions in Medicaid that total $182 billion over seven years and represent a 30 percent reduction in federal Medicaid funding for states by fiscal year 2002, compared to what would be provided under current law. These reductions substantially exceed the savings most experts believe can be achieved by the increased use of managed care and by cost containment measures such as reductions in payments to health care providers. Reductions of this magnitude consequently are likely to lead many states to take actions that decrease the number of working poor receiving health coverage through Medicaid and to make Medicaid coverage less adequate for many of the working poor who retain it.

  The welfare bill that the House passed and comparable legislation awaiting action on the Senate floor also include significant retrenchment in child care and food assistance for the working poor. The House legislation reduces overall funding for child care by 15 percent in the year 2000, as compared to current law, after adjusting for inflation. The House legislation also would likely drive states to increase substantially the share of child care aid going to families receiving cash assistance who are participating in their work programs, thereby reducing the amount of child care resources available for low-income working families not receiving cash aid. Further, the House welfare bill includes food stamp cuts that would exceed 35 percent by the year 2005. Legislation passed by the Senate Agriculture Committee proposes somewhat smaller food assistance cuts than the House bill, but its reductions would still total $19 billion over the next five years and include across-the-board benefit reductions that would affect the working poor.

- *Efforts to increase employment and earnings:* The budget resolution includes cuts in employment and training programs reaching about 40 percent by the year 2002. In addition, the House AFDC proposal would be virtually certain to both directly and indirectly reduce funding for training and placement efforts to move AFDC recipients into gainful employment.

The potential effect that many of these proposals would have during economic downturns should be of particular concern. When poor workers lose their jobs during recessions, they typically have few resources to fall back on and need help to tide them over until they find new employment. The growth in the use of safety net programs during recessions is largely caused by working families who have lost their jobs. For example, the number of people receiving food stamps rose by five million during a two-year period of the last recession.

Proposals moving through Congress would alter the structure of key programs so that they either become fixed block grants or are subject to spending caps that would prevent the programs from automatically responding to increased need during recessions. These proposed changes would affect key programs for the working poor like food stamps and Medicaid. The budget resolution also includes reductions in the unemployment insurance program, even though the current program provides assistance to only one in three of the unemployed, which is well below its historic rate of protection.

The sweeping implications of the new Congressional agenda for the working poor — and the extent to which it departs from the recent consensus approach — have been largely overlooked. The agenda may undercut efforts to assist the working poor more than its authors realize or intend. But unless the direction of the new agenda is reversed, it will exacerbate the already-significant and growing problems of this group.

II. The Problem

Although most workers are able to escape poverty, the degree to which workers remain poor is a problem of disturbing dimensions. The majority of people living in poverty live in households with a worker. The combination of work and poverty is particularly prevalent among families with children.

- In 1993, some 10.1 million workers were poor. Of these, 2.4 million worked full time throughout the year. Many of those who did not work full time throughout the year were unable to find such work or had family responsibilities that limited the number of hours they could work.

- An estimated 22 million people in poverty — some 56 percent of the poor — lived in households where someone worked during the year. About 7.4 million poor people lived in households containing someone who was employed full time throughout the year.[1]

- Nearly two-thirds of all people living in poor families with children — or 16.7 million such people — lived in families with a worker. Some 6.2 million people living in poor families with children were part of a family containing a member who worked full time throughout the year.

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[1] The number of people living in working poor households reflect authors' estimates based on data from the U.S. Census Bureau. Unless otherwise indicated, the data in this chapter are from the U.S. Census Bureau.

These figures reflect substantial work effort by a large segment of the poverty population. For example, among working poor families with children in which at least one of the parents is employed, the parents worked a combined average of 1,475 hours in 1993, which is nearly three-quarters of the 2,080 hours that would be worked by a full-time year-round employee.[2]

Earnings data tell much the same story: earnings constitute a significant source of the income of poor households. In 1992, combining the income of poor households with and without a worker, earnings accounted for 71 percent of the official total money income of poor two-parent families with children and 38 percent of the money income of poor female-headed families. Among poor individuals under age 65, earnings constituted 49 percent of income.

The Growing Incidence of Work and Poverty

Workers are more likely to fall into poverty today than in the 1970s. This is seen by following the standard practice of comparing equivalent years in the economic cycle. Data for 1993, the last year for which poverty data are currently available, can be compared to data for 1977. Unemployment rates were roughly the same in both years, and in both years the economy was in a recovery.[3]

In 1993, some 7.4 percent of all workers were poor, up significantly from the 1977 rate of 5.9 percent. Also, 2.9 percent of workers employed full-time throughout the year were poor in 1993, up from a 2.5 percent rate in 1977.

The trend just among working families with children is worse. Some 7.7 percent of families with children in which the head-of-household worked were poor in 1977. By 1993, the poverty rate among these families had risen to 11.4 percent. In other words, during this period, *the share of working families falling into poverty rose by nearly half.* (See Figure 1.)

Part of this increase reflects the rising proportion of working poor families with children that are headed by a single female parent; poverty rates are much higher among this group than among two-parent working families. But it also reflects an increase in poverty rates among working families in general; since the late 1970s, the

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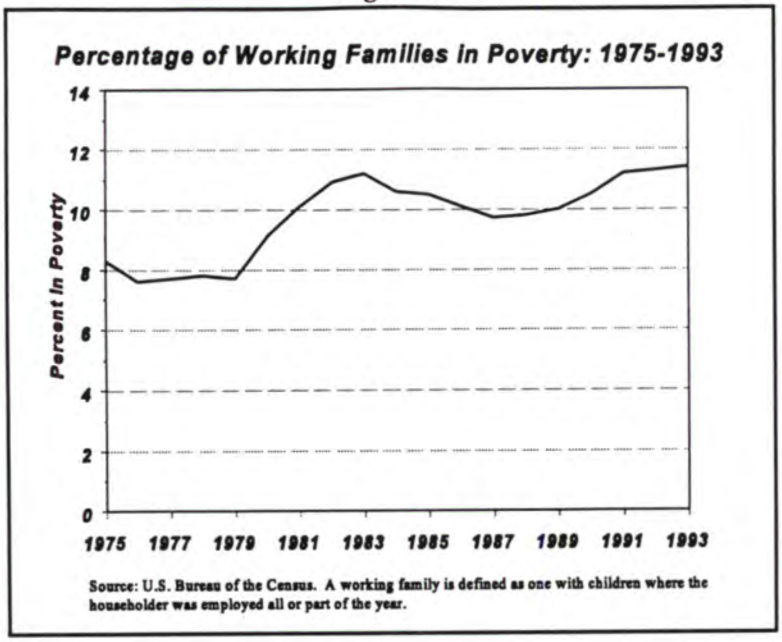
[2] Authors' tabulations of the March 1994 Current Population Survey, which provides information about income and employment in 1993. This calculation sums the hours worked by the head or his or her spouse, if present.

[3] The unemployment rate averaged 6.8 percent in 1993, a little below its 7.1 percent average in 1977.

Figure 1



poverty rate among *married couple families* with children in which the father or mother works has risen significantly.[4]

These trends contrast sharply with the experience of the 1960s and 1970s. During the 1960s, the percentage of workers who were poor fell considerably. In the 1970s, the percentage declined further, albeit at a slower pace.

Characteristics of Poor Workers

Table 1 breaks out the working poor by race/ethnicity, sex, and age. These breakouts focus only on poor workers themselves and not on the families in which they live. Among the key findings:

- A majority of poor workers — 55 percent — consists of whites who are not of Hispanic descent.

[4] Among married-couple families with children, the poverty rate among households in which one or both parents worked rose from 5.2 percent in 1979 to 7.2 percent in 1993. Among working families headed by a single mother, 24 percent were poor in 1979 and 30.1 percent were poor in 1993. (Comparable data for 1977 were not available.)

Table I
Characteristics of Poor Workers , 1993

	All workers	All poor workers	Part-time or part-year working poor	Full-time year-round working poor
Number (in millions)	136.4	10.1	7.7	2.4
Race				
Non-Hispanic White	77%	55%	55%	55%
Black	11	22	23	18
Hispanic	9	20	19	25
Other	3	3	3	2
Sex				
Male	53%	47%	43%	57%
Female	47	53	57	43
Age				
16 to 17 years	2%	3%	3%	0%
18 to 24 years	15	27	31	15
25 to 64 years	79	68	63	84
65 years or more	4	2	2	2

Source: U.S. Census Bureau

- Most poor workers — 68 percent — are of prime working age (age 25-64).

- Slightly more than half of poor workers — 53 percent — are women.[5]

While most poor workers are non-Hispanic whites, black and Hispanic workers are substantially overrepresented among the working poor, including the segment of the working poor that works full time throughout the year. Indeed, both black and Hispanic workers are more than twice as likely to fall into poverty as non-

[5] The full-time year-round working poor include more men than women; nearly three-fifths of them are men. At the same time, poor workers who are employed less than full-time throughout the year include more women than men. These distributions reflect the fact that the majority of full-time workers — whether or not they are poor — are men, while the majority of part-time workers are women.

Hispanic whites are.[6] This indicates that one reason for the higher poverty rates of minority workers is lower wages.

The working poor also are over represented in nonmetropolitan areas. Among nonmetropolitan families which had earnings, 14.9 percent were poor in 1993. The corresponding figure for families with earnings in metropolitan areas was 11.6 percent.[7]

Educational and skill deficiencies contribute to the employment problems of poor workers; one third of those adults who head working poor households have not graduated from high school.[8] In addition, physical or mental disabilities afflict about one in nine poor workers.[9] While this profile indicates that it may not be easy for many of these workers to obtain better employment opportunities, it also suggests that many, if not most, poor workers have certain basic skills. For example, the same data indicate that two of every three poor workers have received their high school diploma.

While the working poor are employed in a surprisingly wide range of occupations, they are overrepresented in service, low-skilled blue collar, and agricultural jobs. Some 30 percent of the working poor are employed in service positions; 22 percent work in low-skilled blue collar jobs. Nine percent are in

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[6] Minority workers are about three times as likely to fall into poverty as non-Hispanic white workers. In 1993, while 5.3 percent of non-Hispanic white workers were poor, 15.2 percent of black workers and 17 percent of Hispanic workers lived in poverty.

The incidence of poverty among full-time year-round workers is particularly striking among Hispanics. In 1993, some 8.6 percent of all full-time year-round Hispanic workers were poor, more than four times the two percent poverty rate among non-Hispanic white workers employed full-time year-round.

Blacks, too, are over represented among the full-time year-round working poor. Five percent of full-time year-round black workers fell into poverty in 1993, more than double the rate among non-Hispanic white workers.

[7] Authors' tabulations of the March 1994 Current Population Survey.

[8] *Ibid.*

[9] Sar A. Levitan, Frank Gallo, and Isaac Shapiro, *Working but Poor: America's Contradiction*, Revised Edition, 1993.

agriculture.[10] A lack of skills consigns some individuals to low-paying jobs, while the lack of available higher paying positions keeps other skilled workers in poverty.

National Research Council Report Suggests Problem is Understated

Further evidence of the extent to which households fall into poverty is found in a new report on how to measure poverty issued by the National Research Council in May 1995. Its new report, developed by a panel of the nation's leading academics and researchers, represents one of the most comprehensive reviews of the measurement of poverty ever undertaken.

The panel called for several changes in how poverty is measured. Some of the recommendations would raise the number of people counted as poor; others would reduce the poverty population.

Overall, however, the panel's recommendations would increase the number of workers classified as poor. The panel recommended that the poverty measure be based on the concept of disposable income, meaning income that is available for basic consumption needs. Using this concept, the panel proposed that income and payroll taxes, as well as child care costs and other work-related expenses, be deducted from a family's measured income in determining whether the family is poor. An analysis by the panel showed that these changes would substantially increase the share of workers who would be classified as poor.[11]

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[10] Unpublished data from the 1990 Current Population Survey, compiled by Andrew Sum, Northeastern University.

[11] The panel did not recommend a specific dollar poverty level. Using a hypothetical range of poverty levels, however, they were able to determine the effects of their recommendations under a variety of assumptions. Within the panel's range of poverty levels, the poverty rate for workers would increase by about half. Even if the poverty level were set at a point that would result in the same number of people counted as poor as under the current poverty measure, the poverty rate among workers would increase. (See *Measuring Poverty: A New Approach*, National Research Council, 1995. The National Research Council consists of members of the National Academy of Sciences, the National Academy of Engineering, and the Institute of Medicine.)

III. Underlying Causes

Several factors help explain the growing problems of the working poor. Most notable is the steady erosion in the wages of those at the bottom of the pay scale.

The Fall in Wages

A variety of earnings measures indicate that wages for low-paid workers have not advanced as fast as inflation. Falling wages make it more difficult for workers to earn their way out of poverty.

- Census Bureau data show that the proportion of full-time workers earning low wages rose by nearly one-third between 1979 and 1993. The Census Bureau wage measure is the proportion of full-time workers whose earnings are too low to lift a family of four above the poverty line. The proportion of full-time workers with wages this low rose from 12.1 percent in 1979 to 16.2 percent in 1993. (Most of these workers do not live in poor households either because they live in families of fewer than four people or because the families have other sources of earnings or income. Still, this measure provides useful information about whether wages are at a level where workers can earn enough to lift a family out of poverty.)

- Another way to measure wage trends at the bottom of the pay scale is to examine the earnings of a worker at the "10th percentile" (90 percent of workers earn more than the worker at the 10th percentile, while 10 percent of workers earn less). Data from the Bureau of Labor Statistics

Low Pay Often Accompanied by Inadequate Benefits

Recent labor market trends are discouraging not only on the wage front; there has been erosion in other key parts of the compensation package as well. Of particular concern, the share of workers receiving health insurance through their job has declined in recent years. In 1988, some 62 percent of Americans were covered by employment-related health plans. By 1993, the figure had fallen to 57.2 percent.

The proportion of workers covered by employer-provided health insurance is far lower among the working poor, and the downward trend also appears there. In 1993, just 30.3 percent of poor workers were covered by employment-related health plans, down from 35.5 percent in 1988.

Medicaid covers some poor workers, and recent Medicaid expansions have been of particular benefit to children in working poor families. Nevertheless, in 1993, 2.4 million children in working poor families lacked coverage. So did nearly half of working poor adults aged 16 to 64.

Medicaid expansions for working poor children enacted in 1990 are phasing in between now and 2002; if the expansions are not repealed or scaled back, the health insurance gap for working poor children will narrow in the years ahead. It is unlikely, however, that the 1990 expansions for these children will escape the budget ax in coming years.

Source: Authors tabulations of published and unpublished Census Bureau data.

(BLS) show that the hourly wages of the worker at the 10th percentile fell by 13 percent from 1979 to 1993, after adjusting for inflation.[12]

The erosion in the pay of low-wage workers reflects, in part, discouraging wage patterns for the economy as a whole. Wages in general have fallen in recent years. Low-wage workers, however, have been hit the hardest, while workers earning the most have typically continued to experience increases in their real or inflation-adjusted wages. The BLS data show that the median worker — the worker right in the middle of the earnings distribution — experienced a real wage decline of

[12] These data reflect a special wage series that computes the earnings per hour for both workers paid on an hourly basis and workers paid salaries.

Table 2
Wage Trends

	Low-wage worker	Median worker	High-wage worker
Change in real wages, 1979-1993	-13%	-2%	+5%

Source: Bureau of Labor Statistics. "Low-wage" is defined as a worker at the 10th percentile; "high-wage" as a worker at the 90th percentile.

two percent from 1979 to 1993, a much smaller decline than the 13 percent drop for the worker at the 10th percentile. Meanwhile, the worker at the 90th percentile experienced a real wage gain of five percent over this period.[13]

Growing earnings inequality has been a marked development in the labor market. One recent article by two of the leading researchers in this area commented: "The widening earnings distribution in the U.S. labor market over the 1970s and 1980s has been one of the most remarkable shifts in the structure of labor compensation in recent history."[14]

The Role of Policy Developments

A variety of factors, in turn, underlie eroding wages at the low end of the labor market and growing earnings inequality. Many of these factors — such as the effects of changing technology — are largely beyond the reach of public policy. Nevertheless, public policy can exert some influence on these wage trends.

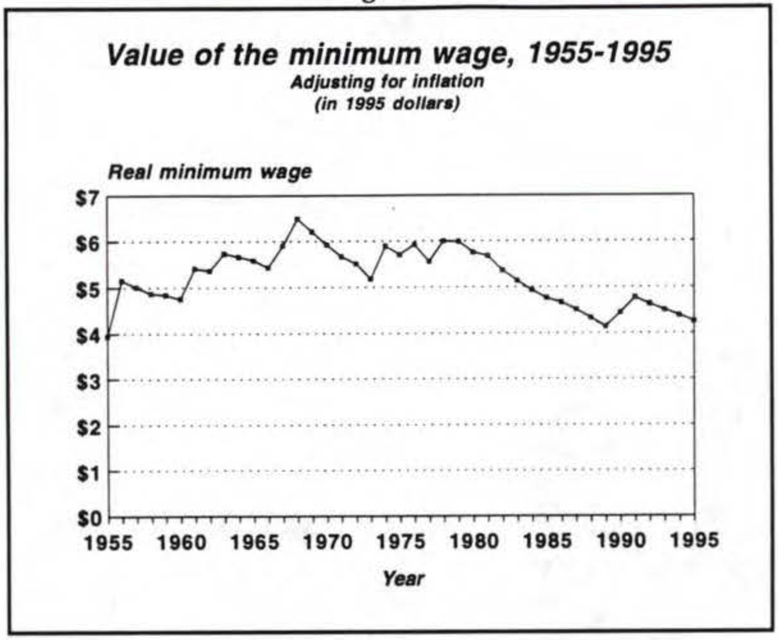
Changes in the value of the minimum wage

Consider, for example, the decline in the value of the minimum wage. The federal wage floor remained frozen at $3.35 an hour from 1981 to 1990, despite a 48 percent jump in the cost-of-living during this period. In 1990 and 1991, the minimum wage rose in two steps to $4.25 an hour as a result of legislation that Congress passed with strong bipartisan support and that was supported and signed

[13] Hourly wages at the 90th percentile in 1993 were, however, two percent lower than their peak level in 1988, after adjusting for inflation.

[14] Peter Gottschalk and Robert Moffit, "The Growth of Earnings Instability in the U.S. Labor Market," *Brookings Papers on Economic Activity*, no. 2, 1994.

Figure 2



into law by President Bush.[15] But this legislation made up only part of the ground lost to inflation (see Figure 2). And since 1991, the minimum wage has again stood still.

- The value of the minimum wage is now 26 percent below its average value in the 1970s, after adjusting for inflation.

- The real value of the minimum wage is below its value for every other year since 1955, with the sole exception of 1989. Current inflation projections suggest that in 1996, the annual value of the wage floor will fall slightly below its 1989 level in purchasing power, and will thus reach its lowest level in four decades.

- During the 1960s and 1970s, the earnings of a full-time minimum wage worker employed throughout the year typically were enough to lift a family of three out of poverty even without considering other sources of income. In 1995, by contrast, full-time minimum wage earnings alone fall $3,350 below the estimated poverty line for a family of three.

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[15] This 1989 legislation passed the House by a vote of 382 to 37 and the Senate by 89 to 8. It received the support of virtually all Democratic members and the support of about 80 percent of Republican members.

The decline in the value of the minimum wage has affected a large share of the working poor; the majority of poor workers have earnings at or near the minimum wage. As with many other policies relevant to the working poor, the value of the minimum wage also affects many workers who are not poor. Indeed, most minimum wage workers are not poor, largely because they live in families with more than one worker. Raising the minimum wage can provide essential earnings to these families as well. An analysis of workers affected by the increase in the federal minimum wage from $3.35 an hour to $4.25 an hour found that minimum wage workers accounted for nearly half — 45 percent — of the total earnings of their households.[16]

AFDC Trends

Changes in the Aid to Families with Dependent Children program also have contributed to the growth in the ranks of the working poor. AFDC benefit levels have fallen consistently for more than two decades; in the typical state, the maximum benefit level for a family of three is now 47 percent lower than it was in 1970, after adjusting for inflation. Because of the way that eligibility for AFDC is determined in most states, as benefits fall so does the amount of income that a family can have and still qualify for aid.

In addition — and of particular importance to working poor families — the method by which earnings are counted in determining AFDC benefits was changed in the early 1980s. Hence, AFDC benefits are reduced much more rapidly when earnings rise.

As a result of these factors, the vast majority of states no longer provide AFDC benefits to poor families in which a mother works more than half-time at low wages. In the early 1970s, 49 states provided AFDC benefits as a wage supplement to a mother with two children whose earnings equaled 75 percent of the poverty line; now only three states do.

The Role of the EITC

In contrast to the erosion in the minimum wage and AFDC benefits for the working poor, one policy — the Earned Income Tax Credit — has been expanded several times since the 1970s. Part of the impetus behind the EITC expansions has been a decision to rely more on this approach to helping the working poor and less

[16] David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995.

on the minimum wage and AFDC. The EITC expansions have also been designed to offset the erosion in wages among low earners and a series of increases in payroll and excise taxes.

The EITC expansions have proceeded largely on a bipartisan basis. President Reagan proposed a major EITC expansion in 1985; it passed as part of the 1986 Tax Reform Act. Congress passed a further expansion in 1990, with strong support from the Bush Administration. President Clinton proposed a final expansion, which Congress approved in 1993.

The EITC expansions were also designed to attain a widely-supported goal — that if a parent works full time throughout the year, the parent should not have to raise his or her children in poverty. This goal has been espoused across the political spectrum, by liberals and conservatives alike, and in the late 1980s by groups such as the Heritage Foundation.[17]

The Net Effect of Policy Changes

More specifically, the goal is that wages from full-time year-round work at the minimum wage (net of payroll taxes) should lift a family of four to the poverty threshold when combined with the EITC and food stamps. When the 1993 EITC expansions are phased in fully, the nation will be close to attaining this goal and would reach it with a modest increase in the minimum wage.[18]

During the 1970s, however, this goal *was* achieved. This means that while the EITC expansions of recent years have been important, they have not fully offset the decline in the value of the minimum wage and the sharp fall-off in AFDC benefits for the working poor.

- An analysis conducted by the Department of Health and Human Services shows that when the EITC expansion enacted in 1993 is phased in fully, the disposable income of a mother with two children who works half-time throughout the year at the minimum wage will be nearly *$3,000 lower* than it was in 1972, after adjusting for inflation. (Disposable

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17 In its January 1989 guide to the incoming Bush Administration, the Heritage Foundation called for expanding the EITC sufficiently to bring families of four with a full-time worker to the poverty line.

18 This assumes basic food stamp benefit levels are not reduced. If they are, the goal will be somewhat farther from reach. The calculation also assumes that families with full-time minimum wage earnings do, in fact, receive food stamps. For a variety of reasons, ranging from stringent asset tests to the stigma some attach to receiving food stamps, many of the working poor do not received food stamp assistance.

income includes wages, AFDC, food stamps, and the EITC, minus federal income and payroll taxes.[19])

- The HHS analysis found similar results for single parents with two children who work 30 hours a week throughout the year at the minimum wage as well as for those working 40 hours a week. In these cases, the family's disposable income will be between $1,600 and $2,500 below 1972 levels, after adjusting for inflation, when the EITC expansions take full effect. (See Table 3.)

Table 3
Average Disposable Income For a Mother and Two Children
From Wages, AFDC, Food Stamps, EITC, and Federal Taxes
(in 1994 dollars)

Number of Hours Worked Per Week at Minimum Wage Throughout the Year

Year	20 Hours	30 Hours	40 Hours
1972	$13,827	$14,976	$16,057
1980	11,772	13,199	14,145
1990	10,082	10,735	11,804
1995 (with EITC at fully phased-in 1996 levels)	10,925	12,505	14,462

Percentage Change in Average Disposable Income for a Mother and Two Children

	20 Hours	30 Hours	40 Hours
1972-1995	-$2,902	-$2,471	-$1,595
	-21%	-16%	-13%

Source: Department of Health and Human Services

[19] These figures reflect average weighted AFDC benefits across all the states. Figures for 1972 are adjusted for inflation using the CPI-U-X1 rather than the regular CPI, which rises more rapidly. Had the regular CPI been used, the decline in disposable income would have been even larger. All figures are expressed in 1994 dollars.

IV. The New Congressional Agenda

Although the policy package for the working poor has been strengthened since the mid-1980s, it remains weaker than it was in the 1970s. And with the steady erosion in wages, especially at the bottom of the wage scale, the ranks of the working poor have expanded. Nevertheless, the progress of the past decade in addressing the problems of the working poor appears in danger of being reversed. Policy proposals moving through Congress would diminish assistance to the working poor in a number of important areas.

Wage, Income, and Tax Policies

Federal tax policies, as well as where the federal government sets the minimum wage, have a substantial impact on the well-being of poor and near-poor working families. Emerging policies in these areas include some scaling back of the earned income tax credit, with a corresponding increase in the federal tax burdens of many working poor households. Furthermore, the tax cuts the House passed in April would bypass the working poor, who would not benefit from the child tax credit. House Republican leaders also strongly oppose increasing the minimum wage.

Scaling Back the EITC

The budget resolution the Senate originally passed assumed the EITC would be subject to cuts totaling $21 billion over seven years. The original House budget resolution included no EITC cuts. In the conference on the budget resolution, Republican conferees decided to allow the two chambers to have different targets for EITC cuts, with the Senate target equaling $21 billion over seven years and the

House target equaling $11 billion over seven years. The budget resolution conference report, approved on June 29, establishes non-binding guidelines. As explained later, it is possible that EITC reductions larger than the Senate's $21 billion target ultimately will pass this year.

A discussion of the EITC reductions included in the original Senate budget resolution provides a flavor for what these cuts may eventually look like. The bulk of the reductions assumed by the Senate — more than two-thirds — would be achieved by repealing the final phase of the 1993 EITC expansion for families with two or more children, scheduled for 1996, and reducing the EITC below current levels for both families with two or more children and families with one child. Another $4 billion over seven years would result from eliminating the modest EITC for very low-income workers without children.

The final — and smallest — share of these cuts would be achieved by adopting Administration proposals to deny the EITC to undocumented workers and to enable the IRS to adopt new procedures to reduce error and fraud. These Administration proposals would save $1.4 billion over seven years. Thus, more than 90 percent of the proposed EITC reductions have nothing to do with reducing errors or fraud or ensuring that those not entitled to the credit do not receive it. This is notable since those arguing for EITC cuts often base their argument on the need to reduce erroneous payments.[20]

The proposal to scale back the EITC for families with two or more children would have the following effects:

- In 1996, eight million families with two or more children would have their EITC cut by an average of $305 each per year compared to what they are due to receive under current law, according to Treasury Department estimates. A family of four in which a parent works full-time year-round at the minimum wage will be pushed about $445 deeper into poverty.

- Many of the families affected either would have to pay more in federal income tax or would have less of their payroll taxes offset. The overall increase in federal taxes would be largest for families modestly above

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[20] The error problem with the EITC cannot be dismissed out of hand. Recent criticisms of EITC error rates, however, have typically relied on estimates that are both outdated and overstated. For a full discussion of this and other EITC issues, see the Center on Budget and Policy Priorities publication, *The Earned Income Tax Credit: A Target for Budget Cuts?*, June 1995.

the poverty line who owe both income taxes and fairly sizable payroll taxes.

The resolution also assumes EITC reductions that affect families with one child.[21] All such families with earnings below $7,150 — or about two million families — would lose. A family with one child that earned $6,340 in 1996 would receive $244 less than it is due to receive under current law.

Indeed, under the Senate budget bill, many families with children would face an absolute cut in their EITC benefit. The benefit these families received in 1996 would be smaller than the benefit they got in 1995, even before an adjustment for inflation is made. For example, a family with two children that earns $8,500 in 1995 — about what full-time year-round work at the minimum wage pays — would see its EITC fall from $3,060 for 1995 to $2,975 for 1996. The family's EITC would be reduced while their minimum wage earnings remained frozen and prices for necessities rose.

The proposal making very low-income workers without children ineligible for the EITC would affect another 4.4 million workers. This credit is extended to workers without children whose incomes are below about $9,000 (in 1994 dollars), with the average payment being about $170. The vast majority of these workers are in poverty.

- Extending the EITC to these workers reflected a significant improvement in federal tax policy. These households had been hit hard by a series of payroll and excise tax increases during the 1980s and early 1990s. Congressional Budget Office data show that from 1980 to 1993, the proportion of income consumed by federal taxes increased *38 percent* among the poorest fifth of households with children. No other group of households experienced such a large percentage increase in their tax burdens.[22]

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[21] In 1995, the EITC for a family with one child equals 34 percent of the first $6,160 in earnings; a family earning $6,160 receives a credit of $2,094. The EITC for 1996 will, under current law, equal 34 percent of the first $6,340 in earnings for a family with one child, for a maximum credit of $2,156. (The change between 1995 and 1996 simply represents an adjustment for inflation.) But under the original Senate budget resolution, the credit for families with one child in 1996 would instead equal 30.15 percent of the first $7,150 in earnings. This change for families with one child was not understood during the debate on the original Senate budget resolution, which proceeded under the presumption that the resolution was not proposing any cuts in the EITC for families with one child.

[22] Relatedly, in 1993, the poorest fifth of non-elderly households without children paid 15 percent of its

(continued...)

- The EITC for poor workers without children also nearly completed a piece of unfinished business. The Tax Reform Act of 1986 was designed to eliminate federal income tax liability on workers below the poverty line, a goal strongly espoused by President Reagan. But the 1986 tax act fell short of doing so for single workers without children. Before the childless workers credit was enacted, such workers began paying income tax when their income was about $1,300 below the poverty line. The new credit raises the point at which most single workers without children begin to owe income tax close to the poverty line.

- The size of the EITC for childless workers is never larger than the amount they pay in payroll taxes. As a result, elimination of this credit would cause the overall tax burdens of all of these low-income workers to rise.

As Congress searches for ways to balance the budget by the year 2002 without reducing Social Security and while providing substantial new tax cuts and defense spending above recent plans, deeper reductions in the EITC are certain to be considered. The budget resolution is a guideline, with specific decisions about meeting its targets to be made by legislation that the Senate Finance and House Ways and Means Committees design. To help pay for the tax cuts these Committees wish to approve, or to decrease the amount of cuts the Committees have to make in other programs with more powerful constituencies and lobbyists than the EITC has, these Committees may decide to adopt EITC cuts considerably larger than those the budget resolution envisions.

Senators Roth and Nickles, for example, introduced legislation in the middle of June that goes well beyond the cuts assumed in the original Senate budget resolution, and includes proposals such as repealing a provision of law passed by President Reagan and enacted in 1986 that indexes the EITC for inflation. The Treasury Department estimates that, taken together, the provisions of the Roth/Nickles bill would cut the EITC by $66 billion over seven years.[23]

If EITC indexing is repealed, millions of low-income working families whose wages merely keep pace with inflation will have their EITC *decline each year* while

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[22] (...continued)
income in federal taxes. By contrast, the poorest fifth of families with children paid 7.5 percent, while the poorest fifth of elderly households paid 2.8 percent.

[23] Senator Pressler also is an original co-sponsor of this legislation. Senators Roth, Nickles, and Pressler are all Republican Members of the Senate Finance Committee, the Senate committee with jurisdiction over the EITC.

their payroll taxes rise — and will be subject to significant tax increases over time as a result. Those proposing to end the indexing of the EITC are not proposing to stop indexing parts of the tax code benefitting those at higher income levels; in fact, the House tax bill would add indexing to several provisions of the tax code that primarily benefit high-income taxpayers or large corporations.

The House Tax Bill

The budget resolution assumes tax cuts totaling $245 billion over seven years. The specific tax cut provisions are not identified but are expected to be similar in many respects to those included in the tax bill that passed the House in the Spring. Virtually none of these tax reductions would benefit the working poor. This would be true not only because many of the provisions reduce taxes on corporations or on sources of income or investment that are not received or held by the working poor, but also because the new "child tax credit" passed by the House would not benefit them. A child tax credit similar to the House-passed version is expected to be included in the final tax package.

The House child tax credit costs about $23 billion a year, representing a large new commitment of national resources. Yet this proposal is designed in a manner that is of little or no assistance to the 40 percent of children living in the families with the lowest incomes. With programs for low-income children being subject to large cutbacks, it would seem sensible that any new commitment of resources designed to help families raise children would be more evenly allocated.

The House tax bill would establish an income tax credit of up to $500 per child. Families with incomes too low to owe income tax, however, would not be able to claim it because the credit would be non-refundable. Families who owe less in income tax than the full credit amount would be eligible for only a partial credit. Since virtually all working poor families owe no federal *income* taxes,[24] virtually all children in working poor families would receive no help from the child tax credit. Many near-poor families also would be excluded from receiving assistance or would receive less than a full credit.

- One-third of all children in the country would not qualify for a child tax credit because their family incomes are too low.[25] Some 24 million

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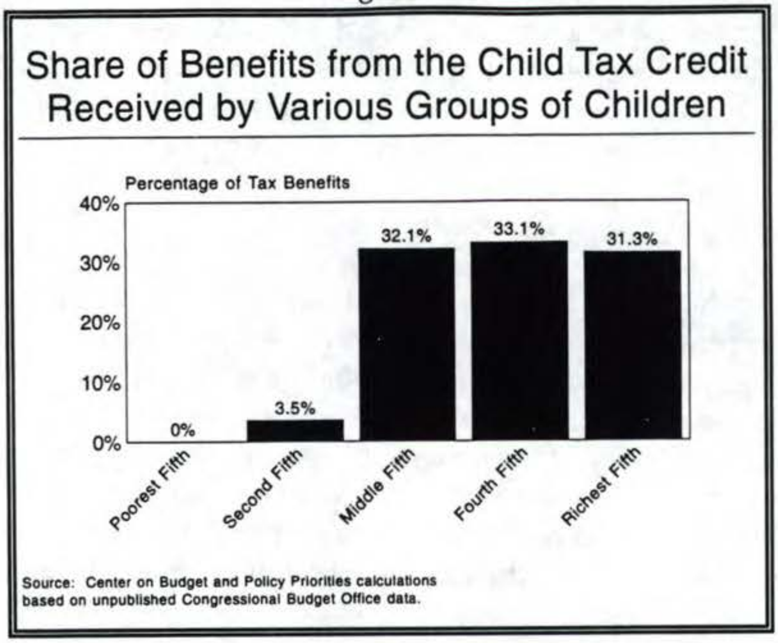
[24] Working poor families are subject to federal taxes other than income taxes, such as payroll taxes. They also pay state and local taxes. But these other taxes cannot be offset by the child tax credit.

[25] This estimate is based on Congressional Budget Office data tabulated by the minority staff of the
(continued...)

Figure 3



children fall into this category. A significant share of these children are in working poor families.

- Altogether, the 40 percent of children in the families with the least income would receive 3.5 percent of the tax benefits from the child tax credit. By contrast, the 40 percent of children in the families with the most income would receive 64 percent of the tax benefits. (See Figure 3.)

- Millions of the children who receive no credit or only a partial one live in families with incomes above the poverty line. A family of four with two children that incurs child care expenses and qualifies for the full Dependent Care Tax Credit would not receive any benefit from the child tax credit until its income reaches $24,000 and would not receive a full credit until its income reaches $30,000.

The child tax credit reflected in the *Contract with America* issued last September was partially refundable and would have been of some help to the working poor. The House Ways and Means Committee dropped this feature of the credit, however, in part to help secure the revenue to add a proposal reducing and ultimately eliminating the alternative minimum tax for corporations. Data from the Internal Revenue Service show that this change in the alternative minimum tax primarily

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[25] (...continued)
House Budget Committee.

benefits corporations with assets of $250 million or more, which are the largest two-tenths of one percent of corporations.

Minimum Wage

Another policy directly affecting the incomes of many of the working poor is the minimum wage. President Clinton has proposed increasing the federal wage standard to $5.15 an hour via two 45-cent increases. The enactment of this proposal would be a moderate and partial step toward restoring the purchasing power of the minimum wage.

- Raising the minimum wage to $5.15 an hour in 1996 would make up slightly more than half of the ground lost to inflation during the 1980s.

- Still, a minimum wage of $5.15 an hour in 1996 would be 13 percent below its average value during the 1970s, after adjusting for inflation. If the minimum wage were to have the same purchasing power in 1996 as it averaged during the 1970s, it would need to equal $5.93 an hour.

The main argument raised in opposition to a minimum wage increase is that it would cause a substantial decrease in job opportunities. Recent studies suggest, however, that an increase in the minimum wage to $5.15 an hour would not significantly affect the number of jobs in the economy. These include studies which examined the two-step 90 cent increase in the federal minimum wage at the turn of the decade[26] as well as increases in state minimum wages to levels of nearly $5.70 an hour in 1996 dollars.[27] After reviewing these and other recent studies of federal and state minimum wage changes[28], the noted Harvard labor economist Richard

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[26] David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial & Labor Relations Review*, October 1992. The Card study examined only the first 45 cent increase. Lawrence Katz and Alan Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," *Industrial & Labor Relations Review*, October 1992.

[27] David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Volume 84, Number 4, September 1994. This study examined the effects of New Jersey raising its state minimum wage by 80 cents, from $4.25 an hour to $5.05 an hour in 1992 ($5.69 in 1996 dollars). David Card, "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89," *Industrial and Labor Relations Review*, October 1992. This study examined the effects of California increasing its minimum wage 90 cents from $3.35 an hour in 1987 to $4.25 an hour in 1988 ($5.68 in 1996 dollars).

[28] Among the studies Freeman examined was one which updated the preeminent study of the employment effects of the minimum wage during the 1960s and the 1970s with information through 1986

(continued...)

Freeman concluded: "That moderate increases in the minimum [wage] transferred income to the lower paid without any apparent adverse effect on employment."[29]

These studies suggest the labor market functions in a more complicated manner than has been assumed by those who contend that virtually any rise in the minimum wage results in a significant decrease in employment levels. For example, a higher minimum wage can make it easier for employers to fill vacancies and may decrease employee turnover.

Despite the moderate size of the proposed minimum wage increase and the growing evidence that such an increase would not reduce employment opportunities significantly — and the growing support within the economics profession for a minimum wage increase — raising the minimum wage is not part of the new Congressional agenda. The House Republican leadership has staked out a strong position in opposition to any increase in the minimum wage.

Supplementary Assistance

Workers earning too little to lift their families out of poverty often require other assistance to help meet their basic needs. Some of these workers and their families receive supplementary assistance, such as health care coverage for their children through Medicaid or through programs that subsidize part of their child care costs. A number of working poor families also receive food assistance. Congress is now considering reductions in the key programs that comprise the safety net. In the debate over these proposals, there has been little discussion of how these proposals would affect those who already have jobs but remain poor.

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[28] (...continued)
and found only a small effect on teenage employment. Alison J. Wellington, "Effect of the Minimum Wage on the Employment Status of Youths: An Update," *The Journal of Human Resources*, Winter 1991. Wellington found that a 10 percent increase in the minimum wage was associated with a 0.6 percent decrease in teenage employment and that the decrease was not statistically significant. Wellington updated the study conducted by economists for the federal Minimum Wage Study Commission, which found a 10 percent increase in the minimum wage to be associated with a one percent decrease in the employment of teenagers and found no strong evidence of any job loss for adults age 25 and over.

[29] Richard B. Freeman, "Minimum Wages — Again!" *International Journal of MANPOWER*, Volume 15, Numbers 2/3, 1994.

The Medicaid Program and Working Poor Families

A series of Medicaid expansions enacted between 1984 and 1990 extended eligibility to all children under age six with incomes below 133 percent of the poverty line and, when fully phased in, to all children between the ages six and 18 in families with incomes below 100 percent of the poverty line. (The latter expansion extends Medicaid eligibility to virtually all poor children born after September 1983, so that by the year 2002, nearly all poor children through age 18 will be eligible.) Because children in AFDC families were already eligible for Medicaid, these expansions essentially targeted children in low-income working families.

Welfare reform legislation enacted in 1988 also provides that families who leave AFDC for employment retain Medicaid eligibility for 12 months. All family members, not just children, are eligible for this "transitional" Medicaid coverage.

When they were enacted, these Medicaid expansions were trumpeted by members of both parties. The expansions were viewed not only as a way to ensure that children received health care but also as a mechanism to lessen the barriers to work embedded in the welfare system. These expansions enabled parents to take low-wage jobs without risking the loss of health care coverage for their children.

Moreover, partly because these measures have been seen by a number of state policymakers as critical to the success of welfare-to-work initiatives, some states have gone beyond the federally mandated Medicaid expansions by phasing in coverage of children with incomes below the poverty line more quickly than federal law requires and by extending coverage to some children with incomes modestly above the mandated levels.

By 1993, about 8.5 million children who were covered by Medicaid — or 43 percent of all children aided by the program — were children who did not receive cash assistance. Nearly all of these children were in poor and near-poor families with an employed adult.

These expansions were particularly timely since a growing number of private companies no longer provide health insurance for their employees or dependents. In 1994, only 58 percent of children under age 11 were covered by employer-based insurance, down from 65 percent in 1988. Among children in low-income working families, the percentage covered by employer-based insurance is substantially lower.

Fortunately, the loss of private coverage for this group of children was more than offset by the coverage offered by Medicaid. In 1994, some 30 percent of children under 11 were covered by Medicaid, compared with 18 percent in 1988.

Because the expansion in Medicaid enrollment exceeded the contraction in employer-based insurance, the proportion of children under age 11 lacking some type of health insurance *fell* over this period, from 12 percent of children in this age group in 1988 to seven percent in 1994.[30]

Nevertheless, the lack of health insurance coverage remains a significant problem, particularly for the working poor and their children.[31] In 1993, the latest year for which these data are available, 26 percent of all children in working poor families — or 2.4 million children — had no health insurance. The problem was more severe among adults; nearly half of poor adults aged 16 to 64 who were employed lacked health insurance. Overall, nearly two of every five people living in working poor households — 38 percent or 8.1 million people — did not have any health insurance in 1993.

Proposals To Cut Medicaid

The important role that Medicaid has come to play in providing health care coverage for children of low-wage earners may, however, soon be at least partially reversed. The conference budget resolution assumes extremely deep cuts in federal Medicaid spending, with the reductions equaling $182 billion over the next seven years.

Some proponents of Medicaid reductions of this magnitude characterize their proposals as slowing the rate by which federal Medicaid spending will grow. This characterization obscures the depth of the reductions in Medicaid coverage and services that states would have to make to remain within the new federal funding limitations. The Congressional Budget Office projects that Medicaid costs will increase by 10.4 percent per year between 1995 and 2002. The budget resolution would limit growth in federal Medicaid payments to four percent per year by 1998. This austere cap on federal Medicaid payments to states would cause the average state to lose about *30 percent* of the federal Medicaid funds it would receive in the year 2002 under current law.

It is highly unlikely that states could reduce their Medicaid costs this much without cutting back on eligibility and services. Over the next seven years, rising Medicaid enrollment is expected to account for about 40 percent of the growth in

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[30] John Holahan, Colin Winterbottom, and Shruti Rajan, *The Changing Composition of Health Insurance Coverage in the United States*, Kaiser Commission on the Future of Medicaid, January 1995.

[31] The data in this paragraph are based on both published Census Bureau data and authors' tabulations of the March 1994 Current Population Survey.

Medicaid costs.[32] Much of the increased cost stemming from higher Medicaid enrollment will be attributable to increased enrollment of disabled people.[33] If federal Medicaid funding for states is soon limited to a four percent growth rate, the funding increase nationwide would be roughly equivalent to what would be needed just to cover the rise in costs due to higher enrollment, with no federal funds available to help cover cost increases due to inflation or other factors. Health care inflation, however, is a fact of life. Indeed, health care costs have been rising at a faster pace than the general inflation rate due to such factors as new medical technology that saves or prolongs life but adds to costs. Restricting Medicaid cost growth to four percent per year inevitably means either eliminating Medicaid coverage for some categories of the poor and/or sharply reducing the medical services their insurance covers. Working poor families in many states could be heavily affected.

Savings of the magnitude called for by the budget resolution cannot be achieved solely or primarily by more aggressive use of managed care and reductions in rates paid to medical care providers. Experience with these approaches to date suggest that these cost-containment measures would bring in savings of $27 billion to $46 billion — or no more than 15 percent to 25 percent of the reduction in federal funds envisioned under the budget resolution. This would leave a funding hole of $136 billion to $155 billion.[34]

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[32] June E. O'Neill, Director of the Congressional Budget Office, Testimony on the Growth in Medicaid Spending before the House Budget Committee, April 4, 1995. This estimate includes changes in caseload composition as well as price increases in services utilized by new beneficiaries. Costs associated with caseload growth without consideration of inflation account for about 33 percent of the projected total growth in Medicaid costs.

[33] In fiscal year 1993, some 36 percent of Medicaid expenditures were for disabled recipients. From 1995 to 2002, the number of disabled Medicaid beneficiaries is projected to grow at an average annual rate of 4.9 percent, exceeding the projected average annual growth rate of 3.2 percent among all Medicaid beneficiaries. June E. O'Neill, Director of the Congressional Budget Office, Testimony on the Growth in Medicaid Spending before the House Budget Committee, April 4, 1995.

[34] Center on Budget and Policy Priorities calculations based on data from the Urban Institute and Kaiser Commission on the Future of Medicaid. The calculations were made as follows.

To date, significant managed care savings have been achieved *only* in acute care for the non-elderly and non-disabled, and acute care for this population accounts for less than one-fourth of total Medicaid costs. Of the states that have achieved savings from enrolling children and non-elderly, non-disabled adults in Medicaid managed care, the savings range from five to 15 percent of the acute care expenditures attributable to this group of beneficiaries. If all states were to achieve savings in this range and states rapidly enrolled all children and non-elderly, non-disabled adults in managed care, the savings over the next seven years would range from $9 billion to $28 billion.

(continued...)

The Conference agreement does not specify how the $182 billion in Medicaid cuts over seven years would be achieved but converting Medicaid to a block grant is the most likely option. Under a block grant, states that are hard-pressed by the austere caps on federal Medicaid funding will face very difficult choices. They will likely have the flexibility to restrict coverage, and as they consider how to sharply cut back on program spending, they will have to choose among vulnerable populations — the elderly, persons with disabilities and families with children. More than two-thirds of Medicaid expenditures are for elderly, disabled or blind recipients.

Given the strong fiscal pressure that states will be under, they could decide to terminate Medicaid coverage for some or many children in families not receiving cash assistance — that is, children in working poor families — on the grounds that these families have a source of income, and that this is the group of beneficiaries to which Medicaid was most recently expanded. At a minimum, the expansion scheduled under current law, under which Medicaid will be extended over the next seven years to children aged 12 through 18 in working families with incomes below the poverty line, would likely be canceled in a large number of states. Many states would find they could avoid taking such steps to reduce Medicaid coverage only by shouldering a substantially larger share of Medicaid costs themselves, an unlikely development in most areas.

Some poor and near-poor children in working families thus may join the ranks of the uninsured. Such a development would have serious consequences. Recent research by Janet Currie and Jonathan Gruber examined the effects of the recent

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[34] (...continued)

If, in addition, states dramatically cut hospital provider rates for the services provided to Medicaid beneficiaries who are not enrolled in managed care, reducing the rates as much as 14 percent to bring them down to the levels they were in the late 1980s, the seven-year savings would be about $18 billion. With Medicaid hospital payment rates already lower in most states than Medicare and private payer rates, reductions of this magnitude seem unlikely.

Thus, a sharp reduction in hospital payment rates and a broad conversion to managed care would bring in about $27 billion to $46 billion in savings. Moreover, the estimated savings that can be achieved from these cost-containment measures is probably overstated because the calculation assumes reductions in inpatient hospital payment rates that are likely to prove unachievable as well as implementation of managed care at what is probably an unrealistically rapid rate. Another indication that the savings estimate cited here likely errs on the high side is that preliminary staff estimates from the Congressional Budget Office suggests the savings projected here are higher than the savings that would be attributed to these measures by CBO.

For a full discussion of the potential savings available from managed care and other cost-containment strategies, see *The Conference Budget Resolution Would Prompt Cuts in Medicaid Eligibility and Benefits*, Center on Budget and Policy Priorities, June 29, 1995.

Medicaid expansions on children's use of health care services and child mortality. The researchers found that, "...making a child eligible for Medicaid lowers the probability that he or she goes without a doctor's visit during the year by 40 percent....It [making a child eligible for Medicaid] is associated with a significant decline in child mortality."[35] Recent research also suggests that extending Medicaid coverage to children in working poor families increases the likelihood that single mothers will work and not go on AFDC.[36]

Child Care Programs

For some low-income parents, child care assistance is necessary if they are to become or remain employed. As a recent General Accounting Office study found: "The results of our analysis suggest that among the factors that encourage low-income mothers to seek and keep jobs...affordable child care is a decisive one."[37]

The cost of unsubsidized child care can be a prohibitive work expense for parents who earn low wages. Among poor families that paid for child care, these costs consumed more than one-fourth — 27 percent — of their income in 1991. This was nearly four times the proportion of income (seven percent) spent by nonpoor families on child care.[38]

Under current law, there are four main funding streams for child care assistance to low-income families: assistance for parents on AFDC who are participating in welfare-to-work programs or combining work and welfare; assistance for families that have recently left AFDC for work (known as transitional assistance); assistance for low-income working families deemed "at-risk" of needing AFDC if they do not receive assistance to pay for child care; and assistance more broadly available to low-income working families through the Child Care and Development Block Grant (CCDBG). The "at risk" program and CCDBG were established by the 1990 bipartisan budget agreement.

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[35] Janet Currie and Jonathan Gruber, "Health Insurance Eligibility, Utilization of Medical Care, and Child Health," National Bureau of Economic Research Working Paper No. 5052, March 1995.

[36] Aaron Yelowitz, "The Medicaid Notch, Labor Supply and Welfare Participation: Evidence from Eligibility Expansions." Mimeo, 1994.

[37] General Accounting Office, *Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work*, December 1994.

[38] *Ibid.*

The two programs that provide child care assistance for AFDC recipients in welfare-to-work programs and for families that have recently left AFDC for work are entitlement programs that respond automatically when the number of low-income families needing child care rises. Funding for the other two principal child care programs is capped and does not automatically rise or fall when need fluctuates.

In 1993, about one million children in low-income working families not receiving AFDC were assisted through CCDBG, the "at-risk" child care program, or transitional child care program.[39] The two principal programs for these families — CCDBG and the "at-risk" program — fall short of need in most states. In both Illinois and Florida, for example, there are 20,000 children on waiting lists for child care assistance.[40]

Proposals To Cut Child Care Assistance

Under H.R. 4, the House welfare legislation that affects a range of low-income programs, the four child care programs discussed above would be merged into a single block grant and their funding would be scaled back. The Congressional Budget Office estimates overall funding for these child care programs would be reduced $1.1 billion over five years as compared to current law, if inflation is taken into account.[41] In the year 2000, child care funding would be cut $379 million, or 15 percent. The Department of Health and Human Services estimates that 323,000 fewer children would receive federal child care assistance under the House plan in the year 2000 than would have received it under current law.[42]

The bill would reduce overall funding for child care assistance at the same time that it would make other changes that would very likely lead states to reduce the share of that funding going to working poor families. The bill would require states to place increased numbers of cash assistance recipients into welfare-to-work programs, which would almost certainly necessitate an increase in the child care resources needed to serve those families. H.R. 4 requires that at least 27 percent of the cash assistance caseload participate in work programs in the year 2000. If 27

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[39] Unpublished estimate, Department of Health and Human Services.

[40] Children's Defense Fund survey of state child care administrators, 1994.

[41] If one uses the CBO baseline that does not assume that non-entitlement programs rise with inflation (and, therefore, assumes real cuts in program services), the cut in child care funding would total $430 million over five years. These numbers represent budget authority estimates.

[42] This estimate assumes that CCDBG funding would keep pace with inflation under current law.

percent of today's AFDC caseload were required to engage in a work program, the child care costs would total $3 billion. This is 50 percent more than the entire amount of funding available for *all* child care programs under the child care block grant in H.R. 4.[43] (Although states could reduce the number of parents required to participate in work activities simply by denying aid to large numbers of poor families, or they could simply accept a fiscal penalty of up to five percent for not meeting the new requirement, it is likely that states will increase to some extent the number of parents placed in some form of a work program.)

In short, with *overall* child care funding reduced from current law and the amount of child care funding directed to families receiving cash assistance likely to rise, the child care resources available for low-income working families not receiving cash assistance are likely to be reduced substantially.

The bill affecting low-income programs passed by the Senate Finance Committee would merge three of the four child care programs — child care assistance for families receiving cash aid, child care for families that recently left welfare for work, and child care for families "at-risk" of AFDC receipt — into the same block grant that includes funding for the Job Opportunities and Basic Skills (JOBS) program as well as the state cash assistance programs that would replace AFDC. Under current law, the JOBS program, established by the 1988 Family Support Act with bipartisan support, provides training, education, and work experience to AFDC recipients. While the House bill eliminates the JOBS program, the Senate Finance Committee bill preserves the program, with modifications, and increases the percentage of parents required to participate in it.

Under the Senate bill, by the year 2000 some 45 percent of the parents receiving cash assistance must participate in welfare-to-work programs through the JOBS program. Providing child care for many of these new JOBS participants would leave fewer resources available for other low-income parents who have unsubsidized jobs but need child care assistance.

It is not possible to determine the precise size of the child care resources that will remain for working poor families under the Senate Finance Committee proposal because it is unclear how states will divide their limited block grant funds among cash aid, welfare-to-work programs and child care assistance. By the year 2000, however, spending under the block grant would fall $2.6 billion below what would have been spent under current law on AFDC, emergency assistance, the JOBS

[43] This uses the CBO assumption that child care costs per family in which the parent is participating in a welfare-to-work program, averaged over families who require child care assistance and those who do not, total about $3,000 per year.

program, and the child care programs that are folded into the block grant. Furthermore, in remarks before the Senate Finance Committee, a welfare specialist from the Congressional Budget Office concluded that placing 45 percent of the current AFDC caseload into the JOBS program — the participation rate the Senate bill would ultimately require — would cost about $10 billion a year, consuming 60 percent of the entire block grant for cash aid, JOBS, and the child care programs folded into the grant. (Faced with these realities, many states may decide not to meet this participation rate requirement and accept a fiscal penalty of up to five percent instead.)

The Food Stamp Program

The food stamp program also is important to the working poor. In 1992, it provided an average of $187 per month in nutrition assistance to more than two million working households living below, or just above, the poverty line. In the average month in 1993, one of every five families participating in the food stamp program — and 27 percent of all food stamp families with children — included a worker. For food stamp families with at least one worker, earnings constituted an average of about 80 percent of the household's total cash income. (While many food stamp households include a worker, fewer than 40 percent of those living in working poor households received food stamps.)

H.R. 4 includes large cuts in the Food Stamp program, totaling $23 billion over the next five years. The cuts in the bill grow over time. In fiscal year 2000, these reductions would represent a 21 percent decrease in the program, compared to current law. By 2005, the program would be reduced more than 35 percent.[44] The Senate Agriculture Committee recently passed food stamp reductions of $16.5 billion over the next five years.

The reductions in H.R. 4 grow sharply over time primarily because the legislation curtails inflation adjustments in food stamp benefits in several ways. Instead of keeping pace with food prices, as food stamp benefits always have in the past, the basic food stamp benefit standard would rise just two percent per year. Consequently, working poor households receiving food stamps would see the real value of their food stamp benefits decline each year that inflation exceeded two percent. The U.S. Department of Agriculture reports that over the past 20 years, food prices have risen at an annual average rate of 4.6 percent.

[44] Center on Budget and Policy Priorities estimate based on CBO estimate for first five years and Budget Committee estimate for the sixth and seventh years.

In addition to this and other benefit reductions — some of which also amount to across-the-board cuts that would affect many or all working poor households that receive food stamps — the House bill would place a rigid cap on annual food stamp expenditures. Food stamp funding would no longer rise automatically in recessions when unemployment, poverty, and the number of families applying for food stamps increase. Instead, benefits would be cut across-the-board during economic downturns unless Congress "paid for" an increase in food stamp expenditures by raising taxes during a recession, reducing spending on other — likely more popular — entitlement programs, or passing food stamp increases as an "emergency" measure that would allow spending to be increased without raising the funds to pay for that increase. All three options seem quite unlikely. In recessions, the Food Stamp program is of particular importance to working poor families that lose a job or see their wages and hours of work fall. Many of these families rely on food stamps during these periods.

The food stamp legislation approved by the Senate Agriculture Committee is not as harsh but does contain substantial benefit reductions. By the year 2000, the average benefit reduction for a household of four people would be $580 per year. Furthermore, the food stamp reductions the Committee passed may be discarded on the Senate floor and replaced with a proposal to abolish the food stamp program and convert it to a block grant paid to states in cash. If that occurs, the Senate as well will have passed legislation under which federal food stamp funding no longer rises when unemployment increases due to a recession. In addition, food stamp funding would not increase in states or communities where need increased due to plant closings, large-scale lay-offs, or the like. Nor would food stamp benefits respond if the wages of the working poor continued to erode and reduced the disposable income that families had available to purchase necessities such as food.

A still-greater risk under a food stamp block grant is that working poor families could be made ineligible for food stamps altogether in some states. Some states might use their food stamp block grant funds primarily to augment cash assistance paid to AFDC families and to SSI recipients. Doing so would make it easier for a state to withdraw some of the state funds it had previously provided to match federal AFDC benefit payments, enabling the state to shift the withdrawn funds elsewhere in the state budget. But if states use food stamp block grant funds to replace state AFDC funding and to bolster state supplemental payments to elderly and disabled SSI recipients, some states may have little food stamp block grant funding left to serve the remainder of what is now the food stamp caseload — especially that part of the remaining caseload that is not elderly, disabled, or on cash assistance primarily provided to single parent families without a worker. As a consequence, working poor families and individuals could lose some or all of their food stamps. Once the federal food stamp benefit structure disappears — a structure under which all of the poor can qualify, including working poor families not receiving cash welfare aid — the continuation of benefits for the working poor could be in jeopardy in some areas.

Child Nutrition

Child nutrition programs — including the school lunch and breakfast programs and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) — serve a broad range of poor and near-poor children, including many children from working families. For example, 72 percent of WIC participants — or 4.2 million WIC recipients — live in families that do not receive AFDC; most of these recipients are in working families.

H.R. 4 would end the school lunch, WIC, and other child nutrition programs and replace them with two block grants with lower funding than would be provided under current law.[45] One block grant would cover child nutrition programs operated in schools. The other, called the family nutrition block grant, would cover all remaining child nutrition programs and WIC. Under the family nutrition block grant, sizeable reductions would have to be made in the program that helps defray the cost of meals served to children while they are in child care.

By contrast, the legislation passed by the Senate Agriculture Committee does not convert child nutrition programs into block grants and makes only modest changes in most of these programs. Subsidies for meals served to children attending family day care homes that are located outside low-income areas and operated by providers who do not have low incomes would be reduced substantially.

Changes in child nutrition programs like those included in H.R. 4 could adversely affect working poor families. If the school lunch and breakfast programs are folded into a block grant, funding for these programs would no longer rise if need increases, such as during a recession. Similarly, funding for meals served in child care institutions would not rise if more low-income children were placed in child care as a result of large-scale efforts to move welfare families from cash assistance to work; instead, as noted, the nutrition program for child care institutions would be cut deeply. The number of children from working poor and other families served through the WIC program also might decline.

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[45] The funding reductions compared to current law would total $6.9 billion over five years. This estimate assumes that under current law WIC funding will keep pace with inflation.

Efforts to Increase Employment and Earnings

The changes in tax, child care, health care and other policies that Congress is considering would reduce the current living standards of many working poor households. Government policies can assist the working poor in ways other than offsetting taxes, raising or supplementing wages, and subsidizing the costs of necessities such as child care and health care. Specifically, government policies can assist the working poor by helping them find and obtain better jobs that pay higher wages and provide more adequate benefits — that is, through promoting upward mobility and enabling families to achieve economic self-sufficiency. Yet here, too, the emerging Congressional agenda would diminish support for the working poor.

A point of clarification is in order. Most individuals receiving federal education and training assistance do so when they are not employed or are teenagers or young adults in working poor families. Such assistance is relevant to the working poor, however, either because individuals may receive such assistance during intermittent periods when they are not employed or because the adequacy of such policies affects the number of workers employed in jobs that lift them out of poverty.

Employment and Training Programs for the Disadvantaged

The federal government operates a set of "second chance" programs that are designed to help poor individuals obtain training for or placement into new jobs. These programs have been subject to steep reductions in the past decade and a half. From fiscal year 1981 to fiscal year 1995, federal appropriations for employment and training programs fell by 46 percent, after adjusting for inflation.

Despite the large previous reductions in these programs, they are once again high on the Congressional budget-cutting list.

The original budget resolutions passed separately by the House and Senate both assumed sizable overall cuts in job training and employment programs.[46] The House resolution assumed a reduction next year of one-fifth in 1995 funding levels; the Senate resolution assumed an initial reduction of one-quarter. Both then appeared to freeze the reduced 1996 funding level; as a consequence, after adjusting for inflation, by 2002 funding for job training and employment programs would be 37 percent to 41 percent below fiscal year 1995 levels. Precise information on how

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[46] Most of these programs are focused on low-income adults and youth. Both the House and Senate assume most job training funds will be consolidated into block grants to states.

the Conference agreement resolved this difference is not available, but it appears to suggest that cuts in this area would reach about 40 percent by the year 2002.

Also of relevance here is the rescission bill. It would hit employment and training programs particularly hard, reducing employment and training funding that has already been appropriated by 25 percent.

An earlier version of the rescission bill was vetoed by the President. Of the $1.3 billion in employment and training cuts in the original bill, however, all but $40 million are now included in the legislation. There is a good chance that the rescission bill will be enacted in July.

Welfare to Work

A final area where employment and training support would be reduced is in programs designed to move AFDC recipients from welfare to work. Such programs have been evaluated extensively in recent years and have been found to be of moderate benefit, with some programs proving more effective than others. In the past couple of years, information has emerged about several programs achieving particularly impressive results. For example, a widely heralded program in Riverside County, California has been found to raise participants' earnings by an average of 49 percent during the first three years.[47] The program offers extensive education and training activities but also has a much stronger emphasis on placing participants in private sector jobs than do many other welfare-to-work programs that have been studied.

Just as information is beginning to emerge about successful program designs such as Riverside's, however, welfare legislation moving through the House and Senate would likely reduce funding for welfare-to-work programs. The legislation that passed the House (H. R. 4) terminates the Job Opportunities and Basic Skills (JOBS) program, the program that provides states with federal funding for welfare-to-work activities. Instead, states would receive funds under a new block grant, with the funds to be used for *both* cash assistance to poor families and welfare-to-work programs. According to the Congressional Budget Office, the House block grant would provide $8 billion less in federal funding over the next five years than states are projected to receive under current law, with the reduction reaching $2.6 billion in fiscal year 2000. The block grant in welfare legislation approved by the Senate Finance Committee would maintain the JOBS program but would provide $7.7 billion less over the next five years than under current law for cash assistance,

[47] James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*, MDRC, 1994.

The Importance of Policies to Assist the Working Poor to AFDC Recipients

In addition to employment and training policies specifically designed to expedite the transition of AFDC recipients into the labor force, certain policies to assist the working poor are also of importance to those on AFDC.

Many AFDC recipients are affected by conditions in the low-wage labor market more than is commonly understood. Not only do some AFDC recipients combine work and welfare simultaneously, but many others subsequently leave AFDC for employment. Many poor families that do not have a worker one year will have someone employed the next.

Depending on the study examined, between two-thirds to three-quarters of those who enter the AFDC program leave within two years. Recent research has shown that many of the families that leave welfare do so because they find a job or are able to increase their earnings. One study found that about two-thirds of those leaving welfare did so for work-related reasons.*

Those who leave for work, however, typically earn low-wages and often remain poor. While the typical family entering the AFDC program will leave within a short period of time, many later return. They often return not only because of the intermittent nature of much low-wage employment but also because the low wages and inadequate benefits mean they encounter difficulties in caring for their family properly. For example, they might not be able to pay for child care or health insurance, which may not be provided through their job.

Improving the pay from low-wage jobs and providing necessary supplementary benefits should enhance the ability of some on AFDC to achieve self-sufficiency over the long run and not to rely on cash assistance. The success of reforms in AFDC are thus partly dependent upon broader reforms affecting the working poor.

*Kathleen Mullan Harris, "Work and Welfare Among Single Mothers in Poverty," *American Journal of Sociology*, September 1993.

the JOBS program, and child care programs combined, and $2.6 billion less in 2000.[48]

The House welfare bill further impedes efforts to help welfare recipients achieve long-term self sufficiency by limiting the employment-related activities that can be used to meet its participation requirements. In general, the House bill would

[48] In the Senate Finance Committee bill, the block grant that includes funding for cash assistance and the JOBS program also includes funding for some child care programs while in the House passed bill, the block grant that funds cash aid and work programs does not include resources for child care assistance. Therefore, the funding reduction figures cited in the text are not directly comparable.

require work program participants to work in subsidized or unsubsidized jobs. By 2002 participants would be required to work 35 hours each week. Parents participating in training, education, and job placement activities would not count toward a state's participation requirements, so it is likely that few, if any, resources would be available to fund successful programs such as that operated in Riverside. Much of a state's limited funding for welfare-to-work projects will instead be used for "workfare programs" that have been found in the past to have little effect either in raising wage or skill levels, or reducing AFDC receipt.

It is difficult to estimate the effects on welfare-to-work programs here with precision, in part because many states may choose to ignore in part or in whole the new participation requirements. As noted in the child care section, the House and Senate welfare bills contain requirements that states place a very high percentage of recipients in employment programs or lose up to five percent of their block grant funding. No previous welfare-to-work programs have achieved such high participation rates and the Congressional Budget Office projects that under both bills, most states will fail to meet these requirements and accept the funding reduction.

Increased Vulnerability During Recessions

During recessions, low-wage workers often lose their jobs, see their hours of work reduced, or face wage declines. Such families frequently have limited savings on which to rely during economic downturns and may need temporary help until the economy recovers.

The emerging Congressional agenda would impair the ability of the safety net to respond to increased need among the working poor during a recession. It would do this largely by changing the fundamental structure of several programs so they no longer extend assistance automatically to all those who meet the requisite eligibility criteria. Instead of the current entitlement structure that responds quickly and efficiently to overall changes in need, as well as to changes in relative need among states, these programs would be structured as block grants that provide states with fixed amounts of money regardless of economic conditions or as "capped" programs with overall funding limits that would not raise during recessions. That is, if the need for services or assistance increases during a recession, federal funding would not be adjusted under these new program structures. Working poor families that became eligible for aid during a recession could be turned away or receive only limited assistance. Specifically:

- The House welfare bill would place a cap on annual food stamp expenditures at the exact dollar levels the Congressional Budget Office projects the food stamp program will cost in each of the next five years if the bill is enacted. No adjustment would be provided if unemployment exceeds the CBO forecast or a recession occurs. CBO has never predicted a recession in advance and forecasts no recession between now and the year 2000. Note that during the last recession as unemployment rose from 5.1 percent in June 1990 to 7.7 percent in June 1992, the number of people receiving food stamps rose more than five million.

If a recession were to occur and the cap on food stamp expenditures for a fiscal year were expected to be breached, benefits would be reduced across-the-board. These developments could be averted only if Congress passed legislation raising the cap on food stamp expenditures, and doing so would be extremely difficult. To raise the cap on food stamp expenditures in such a situation, Congress would have to "pay for" the increased food stamp expenditures by raising taxes in a recession or cutting another (and presumably more politically popular) entitlement in a recession. Alternatively, budget rules could be waived by declaring legislation raising the food stamp cap to be "emergency legislation," but such a step by this Congress is very unlikely.

It is not yet clear what action the Senate will take on food stamps. If the Senate converts food stamps to a block grant, the problems that states — and low-income working families that lose their jobs in recessions — will encounter will be even more serious. The number of people needing and qualifying for assistance will swell — food stamp rolls rose by five million people during the recession of the early 1990s — while federal block grant funding will remain fixed.

- The budget resolution assumes that Medicaid funding would be reduced by 30 percent in the year 2002 compared with projected expenditure levels under current law. The budget requirements also could lead to the conversion of Medicaid into a block grant. Under a block grant, the federal Medicaid funds provided to states would be fixed and would fail to rise during economic downturns. Yet the number of poor families needing publicly-funded health insurance coverage rises during a recession as many low-income workers are laid off and lose employer-paid coverage.

- Under both the House welfare bill and the welfare bill approved by the Senate Finance Committee, the AFDC program would be converted from an entitlement program to a block grant with essentially fixed funding. AFDC, too, would become less responsive to increased needs during a recession.[49]

- Under the House welfare bill, programs such as the school lunch program and the program providing nutrition assistance to children in child care also would be converted to block grants — and would fail to respond to increases in the number of poor children during recessions. In the last recession, the number of poor and near-poor children receiving free school lunches jumped by 1.2 million.

A final aspect of the Congressional agenda relating to recessions that is of particular concern for the working poor is the possibility of cutbacks in the unemployment insurance program. The Congressional budget resolution assumes elimination of the "extended unemployment benefits" program, which provides additional weeks of unemployment insurance to unemployed individuals who have exhausted their regular unemployment benefits and who live in states with especially high unemployment rates. Financing of the extended benefits program is now split evenly between the federal and state governments. Eliminating the federal share of the financing would place additional burdens on high-unemployment states during recessions; these states would be forced to finance any extended benefits on their own. Many states likely would decline to do so. As a consequence, workers who lose their jobs during a recession and face long spells of unemployment because of the shortage of jobs would be more likely to encounter periods where little assistance is available to them.

Cutbacks in the unemployment insurance system are still more difficult to justify considering the limited protection the program now provides. In the last eight months of 1994, only about one in three of the unemployed received benefits in an average month. This low protection rate is similar to the protection rates in the latter half of the 1980s, when the proportion of the unemployed receiving unemployment benefits fell to the lowest levels ever recorded.

The weakness of the unemployment insurance system — often labeled the nation's "first line of defense" against recession — also suggests it is an unwise time

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[49] During the last recession, the AFDC rolls expanded substantially. By fiscal year 1993, federal government spending on AFDC was $3.4 billion more than in 1989. It now appears that AFDC rolls are declining in part because the economy may be reaching AFDC families who frequently are among the "last hired but first fired."

Both the House and Senate AFDC proposals include "rainy day" provisions intended to provide for cushions during recessions. Under both proposals, however, the cushion would be quite thin. See the Center on Budget and Policy Priorities analysis, "An Analysis of the Rainy Day Fund."

to restructure other parts of the safety net in a manner that makes them less responsive to economic downturns. Working poor families who lose their jobs in a recession may soon find themselves without cash assistance from unemployment insurance and AFDC, and with less assistance from programs such as food stamps.

V. Conclusion

It is much more likely now that families with workers will fail to escape poverty than it was two decades ago. More than half of the poverty population — 22 million people — now lives in households with a worker and 7.4 million live in households with a full-time year-round worker. The problems of the working poor have grown because of eroding wages and working conditions and, to a lesser extent, changing government policies.

In the 1970s and the first half of the 1980s, national progress toward the goal that all families with full-time workers should be lifted out of poverty was first halted, and then reversed. In the latter half of the 1980s, the mounting problems of the working poor and other low-wage workers began to receive substantial attention, leading to bipartisan efforts to expand the EITC, raise the minimum wage moderately, and improve health and child care coverage. This consensus approach now seems to be unraveling.

The emerging agenda of the new Congressional majority includes reductions in the EITC, opposition to raising the minimum wage, and contraction in programs that provide health care, child care, and other support for the working poor. The new agenda also envisions a steep reduction in employment and training programs designed to promote upward mobility and self-sufficiency. In addition, key safety net programs would be altered in a manner that would provide much less support to the working poor during recessions than these programs now provide.

The savings from these measures would be used for deficit reduction and, perhaps directly and perhaps indirectly, for tax cuts that are likely to bypass the working poor. Reducing the deficit is an important goal; it should lead to less debt on future generations and reduce interest rates, thereby spurring economic activity. But the current deficit-reduction approach is strikingly imbalanced, with the working poor taking some of the hardest hits while wealthy investors and some large corporations realize windfalls. It has also become clear in recent years that overall economic growth is not, by itself, sufficient to improve the prospects of the working poor. If wages continue to erode, and the new federal policies accentuate this trend by diminishing support for the working poor, the economic payoffs from a smaller deficit may not be of much benefit to this group. Rather than increasing, their already strained standard-of-living is likely to decline, dropping them deeper into poverty.

In the rush to adopt new policies, the full implications of some of these policies are being overlooked. As the new Congressional agenda moves forward, the imbalances in how some of the new policies would treat the working poor need to be addressed. Otherwise, we can expect the number of working families falling into poverty to swell and the degree of their poverty to sharpen.

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