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Mr. Chairman and Members of the Committee:

My name is Heather Boushey. I am an Economist at the Economic Policy Institute in Washington. It is a great privilege to be here today to discuss the needs of the working poor and how we can help families to make ends meet.

With the passage of welfare reform in 1996, we entered into a *de facto* contract with poor Americans without jobs. That contract held that if the jobless poor would go to work, we would strengthen work supports to ensure that they and their families would not be left in privation.

Five years later, we have failed to honor that contract. Most former welfare recipients – about two-thirds, in fact – left the welfare rolls and entered the labor market for at least a brief period of time because a strong economy allowed them to do so. After several years of sustained prosperity, nearly any able-bodied American adult who sought work was able to find it, and most did – thereby holding up their end of the bargain.

Yet even in these optimal conditions – *even with record-low unemployment helping to boost their earnings* – low-wage workers found that the labor market simply did not offer them a way out of poverty. In most cases, the standard of living did not improve for recipients after they moved from the welfare rolls to the payrolls.

This is because of a persistent gap between earnings and needs. The jobs available to low-wage workers, and particularly many former welfare recipients, do not pay wages high

enough to afford a safe and decent standard of living. As a result, many families experience hardships— and did so even during the economic boom of the late 1990s. Congress should ensure that those who have taken up their side of the bargain and found employment do not suffer from lack of food, shelter, or medical care. Our current social policy does not adequately address the persistent needs-earnings gap.

Nearly 37 million Americans go without some basic necessities, such as food, shelter, medical care. For one out of every three working families with young children, income alone is not enough to make ends meet. This was true even in 1999, near the peak of the economic boom. Many more families will have trouble making ends meet as we move through this current recession.

Congress should fill this gap by ensuring that family heads who have found employment, be they former welfare recipients or other low-wage workers, have access to the kinds of work supports that will help their families avoid material hardships. I will now describe these hardships in greater detail, and present the Committee with potential remedies for the earnings-needs gap.

Evaluating family hardships

The method for evaluating whether families can make ends meet requires an examination of the real costs that families face when purchasing necessary goods and services at market prices and the real consequences for families that fall below that level. The federal poverty line is an inadequate measure to determine how much income a family needs to make ends meet because, among other issues, it does not tabulate costs for particular kinds of families in specific communities (Citro and Michael 1995).

In order to establish an adequate representation of what a family needs to live, EPI developed "basic family budgets" for every community around the nation (Boushey et al. 2001). Family budgets tabulate the costs of every major budget item that a family needs, including housing, child care, health care, food, transportation, and taxes, based on the composition of the family and where the family lives. The budgets do not include "frills," like savings for college and retirement, or money for leisure activities of any kind. Importantly, family budgets measure the income that a family needs to support itself

through employment. Therefore, this method does not make assumptions about whether the family receives government assistance, although it does document the amount of post-tax income that a family needs.

Basic family budgets for a working family with one parent and two children under age 12 range from $21,989 in Hattiesburg, Mississippi, to $48,606 in Nassau-Suffolk County, New York. Across the United States, basic family budgets are roughly comparable to about twice the poverty level. Over two and half times more families fall below family budget levels than fall below the official poverty line. Put another way, the U.S. definition of poverty only covers about one-half of basic family needs and dramatically understates the proportion of American families unable to make ends meet. 28% of working families with one to three children under age 12 fell below basic family budget levels in the late 1990s. The proportion of families experiencing hardships remained relatively unchanged between 1997 and 1999, even as the economic boom moved toward its peak.

We know that basic family budgets are an accurate representation of how much a family needs to make ends meet because data show that families that fall below this level are more likely to experience hardships than other families. There are two levels of hardship — critical and serious. *Critical hardships* threaten a family's basic ability to survive. These can include lack of food, eviction, or inability to receive needed medical care. *Serious hardships* are the day-to-day difficulties that, although not life-threatening, can have long-term negative consequences for family well-being. Examples are lack of health insurance or access to regular and preventive medical care, worrying about food, and the inability to pay housing bills on time.

Food insecurity

To go without food is the most basic critical hardship. Families who report food insufficiency have been found to have lower food expenditures and lower intake of calories and nutrients than other families (Rose 1999).

Specifically, critical food insecurity is measured as skipping meals sometimes or often in the last 12 months or not having enough food to eat. Less severe though still serious

food problems include worrying about whether food will run out before a family is able to buy more, or having enough food but not having the kinds and variety of food a family would like to eat.

Housing problems

Housing hardships are defined as the negative consequences of failing to pay housing bills. Eviction, utility disconnection, and moving in with others because of inability to pay bills are measures of critical housing hardship. A serious housing hardship is defined as not paying the full amount of the housing bills.

Insufficient access to health care

Access to health care indicates whether a family can see a doctor or nurse if a family member is sick. A critical hardship in health care is measured by whether in the past 12 months any individual in the family did not get or postponed necessary medical care. A serious hardship is defined as a lack of access to preventative care or a usual source of care. Lacking private health insurance greatly increases the family's likelihood of experiencing any other types of hardship. For example, families without health insurance are over twice as likely to skip meals and not pay their rent, mortgage or utility bills (even controlling for income).

Hardships experienced by working families

In the late 1990s[1], nearly 30% of families at about the family budget level experienced at least one critical hardship. Over 72% of these families faced at least one serious hardship.

An overwhelming 70% of single parent families with two children fall below the family budget level. Single mother families are also most likely to experience hardships. Considering that nearly 90% of welfare recipients are single mothers, it is clear that welfare reform has not provided these families with the support they need to avoid material hardships.

[1] Our initial report, *Hardship in America*, documents hardships in 1996 using a survey from 1997. Updated figures from 1998 from the 1999 survey show little, if any change, in most hardship categories. The exception is child care, where hardships have increased significantly.

It's important to note, however, that many two-parent families also struggle to make ends meet; 60% of families that fall below family budget levels have two parents. Nor are critical and serious hardships found only among the very poor. The near-poor (families between poverty and twice the poverty level) experience similar rates of hardship as the poor, most likely because they are not eligible for government transfers and subsidies – like Medicaid – that are available to families below the poverty line.

In fact, the wide incidence of hardships across many types of families reveals that we are confronting a major structural flaw in our economy. Nearly half of all families below the family budget levels include a full time worker. Nearly half are headed by a worker over the age of 31. Nearly three-quarters are headed by a worker with at least a high school degree. White families comprise over half of all families falling below family budget levels, though minorities are more likely to fall below these levels.

Basic items such as health care, child care, and housing are too expensive in the current market. This creates an interrelated set of problems for families; a family may go without food to pay for medical care, but inadequate nutrition may lead to other health problems. In order for families to make ends meet, they either need to have income above the family budget level or they need supports from the government to fill in the gaps. Work is simply not enough.

Families moving from welfare to work experience more hardships than other families. Even during the late 1990s, as these families moved into employment, they did not see their rate of hardships decline and in fact, experienced increasing hardships. Among families that recently left welfare, the proportion experiencing one or more critical hardships increased from 34% to 44%. The proportion experiencing two or more critical hardships increased from 8% to 12%.

It is those who left welfare for employment who have experienced the largest increase in hardships.[2] Among individuals in families with a welfare leaver and a full time worker, the proportion experiencing one or more critical hardships increased by 15

percentage points. The proportion experiencing two or more critical hardships more than doubled.

Among families that stayed on welfare, the proportion experiencing hardships did not change between 1997 and 1999.

Policy Recommendations

Our analysis of hardships looked at the experiences of families during the peak of the economic boom. Even with the robust economy, many families were struggling. The current recession and the concurrent lack of an adequate social safety net now threaten to make low-wage workers and their families vulnerable to increased hardships. This points to a three-point policy approach for addressing material hardships. We need to address rising unemployment and its dampening effects on wages; we need to enact policies to boost wages and incomes of low-wage workers; and we need to expand the social safety net to fill in the gap between income and needs.

Economic Stimulus

During the late 1990s, the economy was close to full employment. Most workers who wanted to find a job could find a job. Strong labor demand was a key factor in moving families from welfare to work and increasing employment and earnings for low-wage workers.

Full employment boosted wages, especially for workers at the low end of the pay scale: after more than 15 years of declining wages for workers at the middle and bottom of the wage distribution, wages grew rapidly between 1995 and 1999. Among the bottom 10% of wage earners, inflation-adjusted wages rose by 9.3%. Strong wage growth at the bottom was accompanied by a slowing of the growth in wage inequality that had occurred over the past two decades.

Now that we are in a recession, the labor market conditions facing low-wage

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[2] Our definition of employment has changed relative to the earlier report because the definition we had used is not in the data currently available from the 99 panel. This does not substantively change our conclusions, but the proportion of families without a worker is larger in the 97 panel with the new definition.

workers have worsened. Burgeoning unemployment not only makes finding—and keeping—a job more difficult, but threatens to erode the wage gains of the late 1990s. Already, we've seen the unemployment rate of women who maintain families increase dramatically from 5% to 8% between December 2000 and December 2001.

Rising unemployment is associated with falling wages and lower family income. For families in the lower 40% of the wage scale, the decline in family earnings will be twice as significant as for higher paid workers, dropping by 9.3%. The recession-induced departure from full employment will likely end the recent period of persistent hourly wage gains for low- and middle-wage workers, reducing annual real wage growth by 2% to 3% for low-wage workers and by 1% to 2% for middle wage workers (Mishel, Bernstein, and Tiffany 2002).

For working families to experience a recovery, unemployment must begin to fall. However, we need to see a growth rate in U.S. GDP of 3% to 3.5% in order for unemployment to begin falling. Even if output begins to grow this spring as projected, unemployment could continue to rise to as high as 6.5% by late this year (Mishel, Bernstein, and Tiffany 2002). During the last recession, unemployment continued to rise for a year and a half after the recession had officially ended. Thus, even after the recession is officially pronounced as over, working families will still experience higher rates of unemployment and associated hardships for a substantial period of time.

We still need economic stimulus to get the economy back to full employment and help boost wages among the poorest paid workers. Other policies aimed at low-wage workers, such as raising the minimum wage, expanding the Earned Income Tax Credit, and enacting pay equity, would also help workers at the low end of the pay spectrum.

Welfare and Recession

Current and former welfare recipients and their families are more vulnerable than most to the harshest effects of the recession. Many of the sectors in which former welfare recipients found employment grew rapidly since 1996, but have seen declining employment since the current recession began. Former welfare recipients' employment gains are now in jeopardy because of these employment declines. Welfare recipients are likely to be among the first laid-off as many have shorter employment histories than other workers. They will find that now it is more difficult to find a job than it was when the economy was booming back in the late 1990s (Boushey 2001).

Many former welfare recipients may be ineligible to go back on welfare, even if they want to. By January 2002, families came up against time limits to welfare receipt in 36 states. The federal welfare reform mandated a five-year lifetime limit, but eight states have implemented shorter lifetime time limits and 14 states have implemented shorter time limits for months of consecutive welfare receipt (Center for Law and Social Policy and the Center on Budget and Policy Priorities 2001).

Low wages and intermittent employment mean that many former welfare recipients who have moved into the labor market are not building up the employment histories that would make them eligible for unemployment insurance (UI) benefits. Part-time workers, workers with intermittent earnings, and workers with low earnings are often ineligible for UI benefits. The states have made no effort to reform their UI systems in light of the new work requirements set out by welfare reform. Therefore, state UI systems are not currently structured to accommodate workers, such as former welfare recipients who are mostly single mothers, who have to balance work and family or who have low pay (Wenger 2001).

Finally, the states may have little leeway to increase caseloads if demand for cash assistance increases substantially. The block grant structure means that the states get the same amount of money for welfare under the Temporary Assistance for Needy Families (TANF) program every year, regardless of the need. Over the past five years, many states have put TANF funds into programs such as child care and transportation, many of which

are available to poor families not on welfare. Nationally, only 43% of TANF block grant funds are used for cash assistance (Primus and Lazere 2001). If TANF funds are used for work supports rather than cash assistance, then unemployed people who cannot qualify for UI will not be able to access TANF either. Alternatively, states will have to cut the programs that provide work supports for poor families who remain in the labor market.

Universal social policy

The hardships analysis pointed out that many families were unable to make ends meet even during the economic boom. Work is not enough to bring all families up to the family budget level, nor does having a member of the family in the labor market full time guarantee that the family will not experience hardships. There is a critical role for government to play in ensuring that families are able to avoid hardships and meet their basic needs. Through the extension of health care, child care, and affordable housing to all families, we will be taking important steps in this direction.

Policies to increase access to work supports were an important part of welfare reform in 1996 and part of an overall strategy to reward employment and help low-wage workers make ends meet. The major areas of reform were child care, health care, the EITC, and food stamps. Looking at only child care: the total federal dollars available for child care have nearly doubled since the early 1990s; and and states may now use TANF monies for child care expenditures, but only 12% of eligible families receive assistance through the Child Care and Development Fund (Layzer and Collins 2001; U.S. Department of Human Services 1999).

Clearly, the situation for welfare recipients who have joined the labor market and for low-wage workers more generally has been worsened by the recession. But we must recognize that the troubling gap between earnings and the costs of basic necessities persists whether the business cycle is at a peak or a trough. We need long-term, fundamental reforms to finally honor the contract that says that work will pay.

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