



Low-Income Workers and Families Hardest Hit by Economic Decline Need Help Now

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American workers and families are being squeezed between a declining labor market and increasing costs for food, fuel, and other basic needs. Low-income workers and families are especially vulnerable to the challenges of a weak economy. The new employment data released last week continue to indicate that the economy is in a downturn—one that will have the most significant and damaging impact on low-income workers and their families. The overall unemployment rate climbed to 5.5 percent, and for the fifth month in a row, the Bureau of Labor Statistics (BLS) reports U.S. employers eliminated jobs from their payrolls.¹ In addition, the number of unemployed people who had lost permanent jobs reached 2.2 million—more than half a million more than a year ago.

Action is needed *now* to help those hardest hit by the economic downturn. Congress and the president should enact a relief package that provides assistance to unemployed workers and disconnected youth, helps low-income individuals and families meet basic needs, and provides targeted state fiscal relief to keep critical services available. This paper describes the economy's impact on vulnerable adults and youth, and lays out recommendations for action that can make a real difference in the lives of low-income workers and their families.

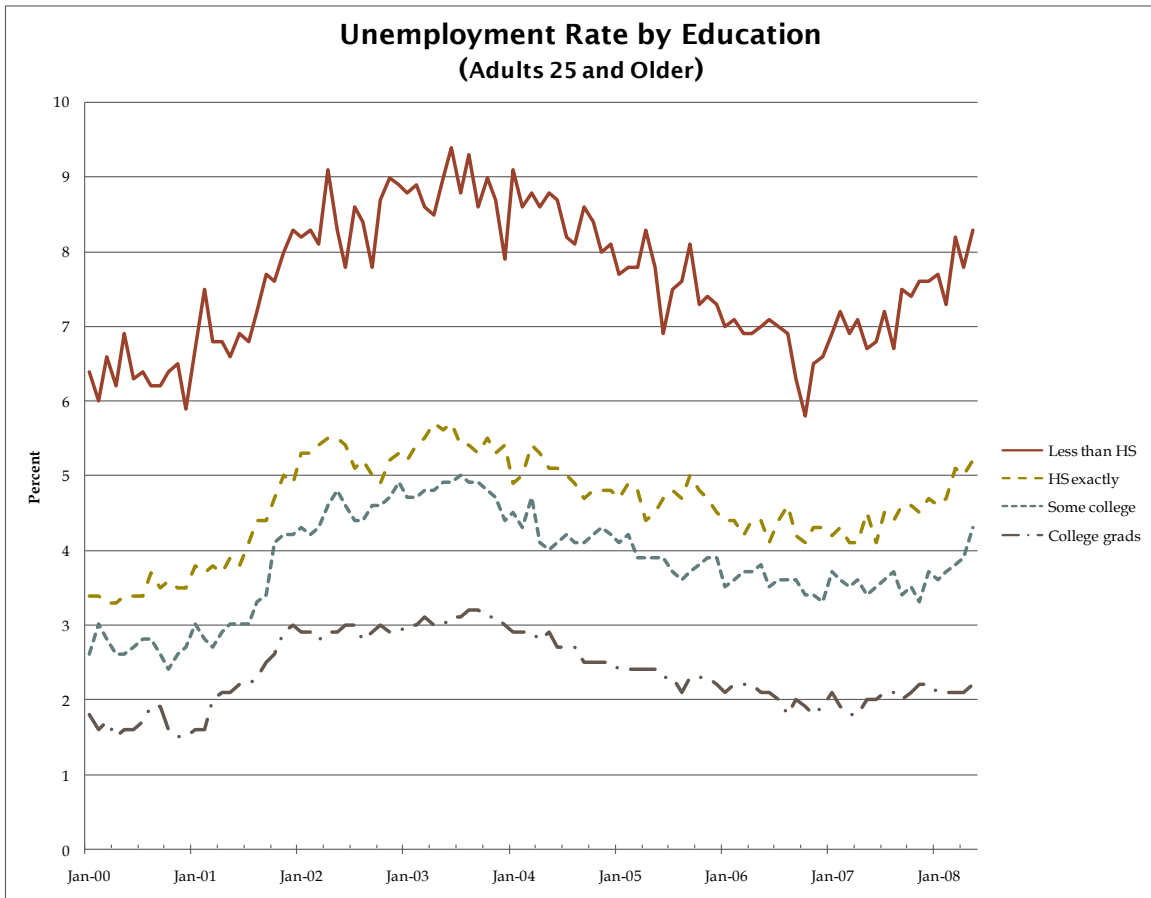
Low-income Workers and Families are Most at Risk During an Economic Downturn

Workers with the least education and experience have been most vulnerable in past recessions. There is overwhelming evidence that the employment prospects of low-skilled workers are more sensitive to changing economic conditions than those of high-skilled workers. Individuals with limited education and work experience are more likely to experience declining employment and wages as the labor market weakens.² Employers are sometimes reluctant to let highly skilled workers go even when there is little work, for fear of not being able to replace them when demand picks up; they are

more likely to let go or cut the hours of younger, less educated, and less experienced workers.³

The weakening economy has already begun to hit vulnerable workers. Adults with the lowest education levels have experienced rising unemployment during the past year. In May 2008, unemployment among both high school graduates and adults with less than a high school diploma was substantially higher than it was in May 2007. (See Figure 1.) Unemployment rates have also started to climb among those with some college education.

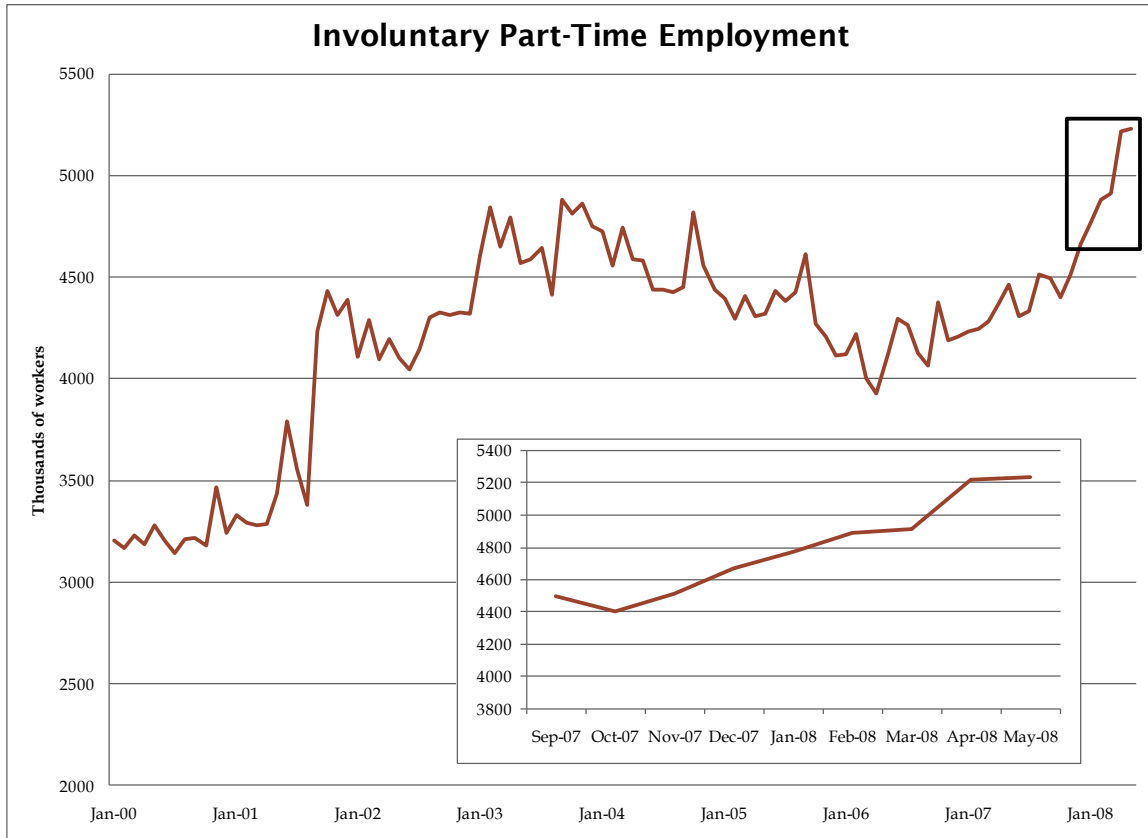
Figure 1



Source: Bureau of Labor Statistics
Employment Situation Table A-4

In another indicator of a weak labor market, more people report that they are working part-time even though they want full-time employment. The number of workers in involuntary part-time positions has increased sharply since November 2007 and is up by nearly one million since the start of 2007. (See Figure 2.) Especially in the service sector, reduced demand is rapidly passed on to workers in the form of reduced hours. However, workers are often required to remain “on-call,” making it difficult for them to take a second job to pick up additional income.⁴

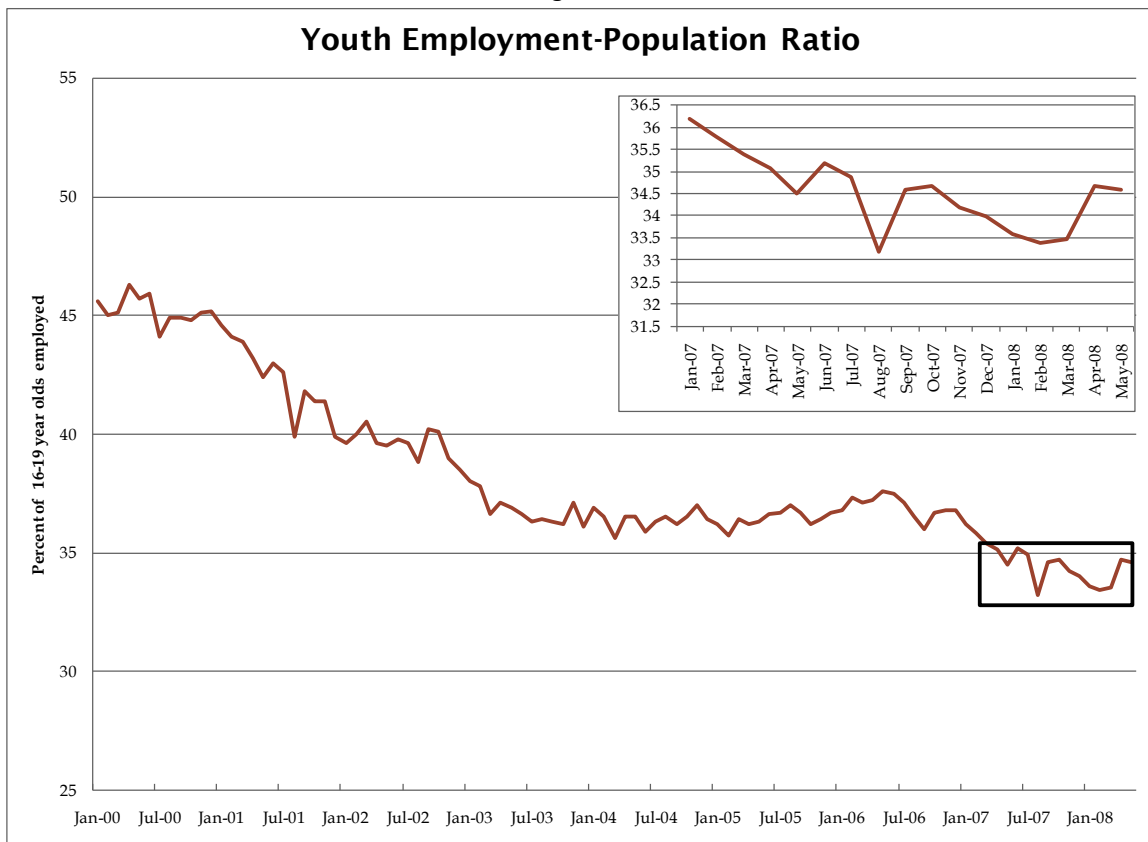
Figure 2



*Source: Bureau of Labor Statistics
Employment Situation, Table A-5*

The weakening economy is damaging job prospects for the nation's youth, which were weak even before the current economic downturn. During a recession, when growing numbers of adults face unemployment, it is even tougher for young people to find jobs. Securing a job this coming summer is likely to be particularly hard. Andrew Sum at the Center for Labor Market Studies has demonstrated that the youth employment-population ratio, which measures the percentage of the nation's 16- to 19-year-olds who are employed, is a predictor of summer employment conditions.⁵ In May 2008 the percentage was 10 points lower than it was in 2000. (See Figure 3.) Summer jobs are an important way for youth to build work experience, as well as a way for youth to contribute to family income and educational expenses.

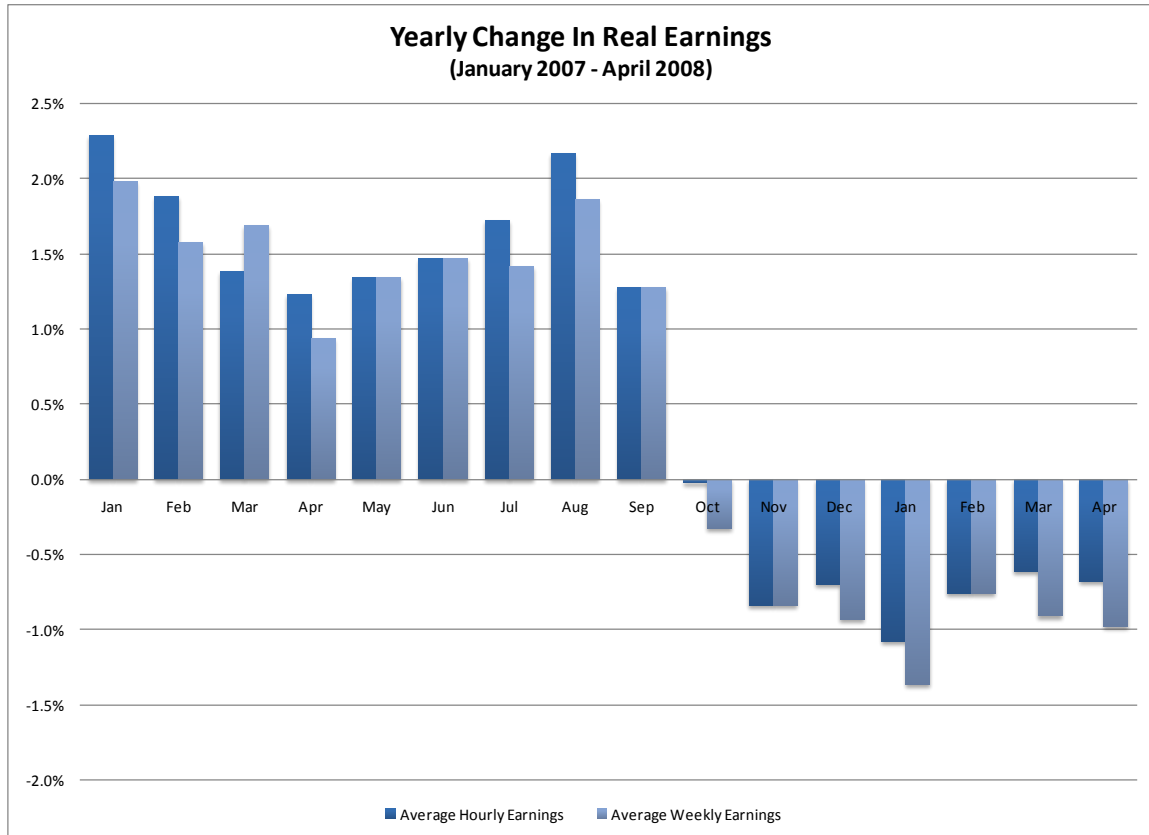
Figure 3



Source: Bureau of Labor Statistics
Employment Situation, Table A-1

Earnings for non-supervisory and production workers continue to decline. According to the Economic Policy Institute, real earnings for those workers grew during most of 2007, but began dropping in October and November due to inflation and declining wage growth.⁶ This indicator continued to fall in April 2008. (See Figure 4.)

Figure 4



Source: Economic Policy Institute, Bureau of Labor Statistics
 Base is non-supervisory workers in the service sectors; production workers in manufacturing.

Low-income workers and families face tough choices as they manage their household budgets. Even in good times, basic needs—food, housing, health care, energy, transportation, and child care—consume most of low-income workers’ budgets.⁷ Low-income workers, including many with incomes well above the official poverty line, often find themselves deciding which bills can and cannot be paid each month, and relying on food banks or other community supports to make up any shortfall. When they experience a decline in income due to job loss or reduced hours, or face unexpectedly high costs, there is no fat in their budgets that can be sacrificed—they have to cut into the meat. In particular, there is good evidence that when faced with unusually high heating bills, poor families are forced to spend less on food, sometimes with serious nutritional consequences.⁸

The number of people receiving Food Stamps is reaching record levels, just one example of the effects of the economy on families. As of March 2008, 27.9 million people were receiving Food Stamp benefits, up 5.7 percent from a year previously.⁹ The Congressional Budget Office projects that more than 28 million people will receive benefits next year, the most in the program's history.¹⁰ Fourteen states are already serving record numbers.¹¹ Many families are driven to apply for Food Stamps by the combination of reduced income and sharp increases in the cost of food; energy; and other basic needs, which hit low-income families particularly hard.

However, receipt of Food Stamps is not sufficient to guarantee food security. In fact, more than half of Food Stamp recipients are still considered "food insecure," meaning that they have had to adjust the quantity or quality of the food they eat due to their limited budgets.¹² In addition, America's Second Harvest reports rising demand for food assistance from food banks across the country. Many food banks are unable to meet this demand, and are having to turn people away or provide more limited food baskets than usual.¹³

Low-income households have little savings to fall back upon and limited access to credit. Nearly half (44.2 percent) of all households in the lowest income quartile are "asset poor" meaning that they do not have enough net worth to allow them to subsist at the federal poverty level for three months without income.¹⁴ Low-income families also have poor access to mainstream financial institutions, such as bank loans and credit cards. When they are able to borrow money, it is often through mechanisms such as payday loans and bank overdrafts, with extremely high effective interest rates.¹⁵

Finally, low-income individuals and families that receive help from state programs, such as health care, child support, or community-based services, bear the brunt of any cuts in services. During economic downturns, state tax revenues decrease as demand for assistance increases. There is already evidence that many states, confronted with declining revenues, are cutting programs that serve low-income and vulnerable residents.¹⁶ Large cuts to federal child support enforcement funding add to state budget demands and, if not replaced, will reduce child support income received by low-income families, reduce employment-related services to unemployed non-custodial parents, and compete for funding with other child and family programs.¹⁷

Recommendations

The evidence of a weakening labor market is unmistakable. While our nation has many programs that are intended to offer relief, they provide an increasingly torn safety net which is allowing too many to fall through. Congress and the administration should take immediate action to help those hardest hit by the economic downturn, and provide targeted, state-fiscal relief to keep critical services available.

In addition to helping the most vulnerable individuals and families, these actions would also stimulate the economy. Economists of all political persuasions agree that the best way to stimulate the economy is to put money in the hands of people who will spend it quickly. Economists also recognize that low-income individuals and families are more likely to immediately spend any money received. Fiscal relief will prevent states from having to cut programs when they are most needed. Both direct assistance to families and state-fiscal relief are needed to address the needs of those most affected by any recession—people who lose their jobs or their health-insurance coverage, and low-income families who were already struggling to make ends meet even under better economic conditions.

Help Unemployed Workers and Disconnected Youth

Ensure Income Support for Unemployed Workers

Unemployment Insurance (UI) is the first-line response to a declining economy. It is a crucial source of temporary financial assistance for jobless workers and their families. As part of the stimulus package, Congress should adopt a temporary program to provide additional weeks of federally-funded extended benefits for workers who exhaust their regular UI benefits, including adequate funding to administer the program. In May 2008, more than 18 percent of unemployed workers had been out of work for more than six months.¹⁸ As the economy weakens and job prospects diminish, people are more likely to remain unemployed for half-a-year or more.

However, an extension of UI benefits for current recipients is just the first step. Only about two of every five unemployed individuals receive UI benefits. If an extension is approved, it will still leave out large numbers of low-wage, part-time, and other workers in some states. Low-wage workers are twice as likely to be unemployed as high-wage workers; yet, they are half as likely to receive UI benefits, according to the Government Accountability Office.¹⁹ To ensure that low-wage, part-time, and other vulnerable workers have access to UI, Congress should enact provisions such as those included in the Unemployment Insurance Modernization Act. This legislation provides incentive

funding to states that count the most recent earnings of workers and extend benefits to part-time workers and others who leave jobs for compelling family reasons.

Direct Funding for Summer Jobs to Areas with High Youth-Unemployment Rates.

A \$1 billion summer jobs program would put money in the pockets of thousands of low-income youth in economically distressed communities. These dollars would flow immediately into the local economy. Just as important, these jobs will be the first exposure to the work environment for many youth, and will help them develop appropriate work skills and behaviors, and provide important community service. The program should include a provision that 30 percent of funds can be spent beyond summer months for transitional jobs for out-of-school youth.²⁰

The Workforce Investment Act of 1998 substantially curtailed the use of federal funding for summer jobs. Nonetheless, each year, communities across the country mount summer jobs efforts, although at a substantially reduced level from past years, with long waiting lists and thousands of young people turned away. Stimulus money directed to those communities with the summer jobs programs in place could eliminate waiting lists and ensure that these dollars circulate in the local economies throughout the summer.

Help Low-Income Individuals and Families Meet Basic Needs

Expand Food Assistance to Low-Income Individuals and Families.

A temporary increase in Food Stamp benefits to current recipients will help low-income families afford more food. This is critical, both because of the recent increases in the cost of food, which have not yet been reflected in the value of nutritional benefits and because food is a part of the budget that gets squeezed when other living expenses increase. USDA estimates that the cost of purchasing the items in the Thrifty Food Plan rose by 7.2 percent from April 2007 to 2008.²¹ An increase in Food Stamp benefits is one of the fastest and most effective ways to put additional spending power in the hands of low-income individuals and families, and thus to stimulate the economy. While the recently passed Farm Bill includes some important improvements to the Food Stamp program, these will be phased in over time and will not provide any immediate relief to needy individuals and families.

Increase Funding for Energy Assistance

High energy prices are hurting everyone, but they are especially overwhelming to the budgets of low-income households. While other households may be foregoing extras, low-income households are sacrificing essential needs, including food, medical care, and prescription medications. The Low Income Home Energy Assistance Program (LIHEAP) is targeted to help the elderly, disabled, and households with young children afford their

energy bills. However, it only reaches about 16 percent of eligible households and in recent years has covered a smaller fraction of energy costs for those households.²² Without additional assistance, state assistance budgets will be strained heading into the cooling season.

Expand and Improve the Dependent Care Tax Credit

One of the largest components of the budget of a low-income family is the cost of child care. The U.S. Census Bureau estimates that the poorest families pay 29 percent of their income for child care while higher income families pay only 6 percent of their income.²³ As family incomes decline during a recession, child care takes larger and larger shares of that income, yet families cannot eliminate the cost—child care is a needed support if parents and guardians are to go to work each day.

The Child and Dependent Care Tax Credit (CDCTC) is the largest tax subsidy for child care; however, the design of the credit means that it is largely inaccessible to low-income families. As part of the stimulus, Congress should take three steps to offset the high cost of child care for low-income families: first, make the CDCTC refundable, so that parents who have no tax liability but need child care to work can benefit; second, increase the limits to better reflect the current costs of child care; and third, permanently index the CDCTC so that the size of the credit grows as inflation increases the costs of child care.

Encourage States to Provide Cash Assistance to Needy Families. The safety-net role played by Temporary Assistance for Needy Families (TANF) has been greatly diminished in recent years. During the 2001 recession, caseloads continued to decline even as poverty levels rose significantly.²⁴ The changes made by the Deficit Reduction Act (DRA) of 2005 further restrict state flexibility and discourage states from allowing unemployed workers to receive welfare. While some states have used their own funds to provide assistance outside of the narrow framework of the federal rules, these programs will be under increased pressure as states face budget deficits.

Congress should enact the contingency fund fixes that received bipartisan support in the pre-DRA reauthorization bills in order to make additional funds available to states that experience increases in need, and extend the supplemental grants past FY 2008. Congress should also provide penalty relief to states that experience caseload increases as a result of the recession, so as not to discourage states from letting people back on the rolls. Finally, targeted modifications to the participation rate requirements should be adopted to allow states to count education and training for longer periods during times of economic distress.

Targeted State Fiscal Relief to Keep Critical Services Available

Forty-nine states have constitutional requirements to balance their budgets each year. During an economic downturn, the decisions that state legislatures and governors have to make to keep their budgets balanced—cutting spending, raising taxes, or both—can have the pro-cyclical effect of deepening and prolonging the slump.

Leverage income for single-parent families by restoring child support enforcement.

Congress should immediately and permanently reverse the 20 percent federal child support enforcement funding cut included in the Deficit Reduction Act of 2005. States and counties are preparing to lay off staff and cut back on services in the coming months. According to the Congressional Budget Office, \$5 billion in support payments to families will go uncollected over the next five years unless funding is replaced. In addition, critical initiatives to help low-income fathers obtain jobs will be eliminated or cut back.

Next to earnings, child support is the second largest income source for poor, single-mother families that receive it—30 percent of the family’s budget. Support payments play a stabilizing role during economic downturns, helping families get from paycheck to paycheck and weather job losses. Families spend the money very quickly. State data suggest that 97 percent of child-support funds dispensed to family debit cards are spent down by the end of the month.

Ensure adequate resources to provide low-income families needed health care. The federal medical assistance percentage (FMAP) for Medicaid should be raised temporarily to ensure that states have sufficient revenues to continue to provide low-income families and individuals access to critical health-care services. This additional federal support will be particularly critical if more individuals lose their jobs and health insurance for themselves and their families.

Congress should also place a moratorium on a number of pending and proposed Medicaid regulations which will siphon off billions of federal dollars currently being used to provide access to essential health-care services. For example, the Centers for Medicare and Medicaid Services (CMS) recently issued regulations which slash federal funds for targeted case management services under Medicaid—an estimated \$1.28 billion over five years. These regulations are likely to harm many low-income individuals, particularly children in foster care, children with special education needs, individuals with disabilities, and seniors. Increasing the FMAP will not be as effective if Congress allows CMS to continue to drain billions of federal dollars from the program through the regulatory process.

These measures are needed to provide relief in light of the deteriorating labor market and rising economic distress. In the long term, policymakers should reassess the adequacy of the nation's safety-net policies and take steps to strengthen and modernize them. Low-income workers need access to education and training to get good jobs in high-demand industries. Our society will be stronger and more prepared to compete globally when all workers are able to contribute fully.

¹ Unless otherwise noted, data in this report are taken from the most recent jobs report issued by the Bureau of Labor Statistics (BLS). BLS, Employment Situation, May 2008.

<http://www.bls.gov/news.release/empstoc.htm>

² Jim Hines, Hilary Hoynes, and Alan Krueger. "Another Look at Whether a Rising Tide Lifts All Boats," *The Roaring Nineties: Can Full Employment Be Sustained?*, Russell Sage Foundation, 2001. Between 1981 and 2006 workers with the lowest education levels, especially high school dropouts, have lost jobs at higher rates than more educated workers. Younger workers also face a greater risk of job loss than more-experienced workers, Henry S. Farber. *Job Loss and the Decline in Job Security in the United States*, Working Paper #520, September, 2007.

³ Susan Lambert, *Managing Work Flows: How Firms Transform Fluctuations in Demand into Instability for Workers*, February 2003.

⁴ Ibid.

⁵ Center for Labor Market Studies, Northeastern University, "The Collapse of the National Teen Job Market and the Case for an Immediate Summer and Year Round Youth Jobs Creation Program," Prepared testimony for the Subcommittee on Labor, Health, Human Services and Education, U.S. House of Representatives, March 2008.

⁶ Economic Policy Institute, "Real wage reversal persists," *Economic Snapshots*, Feb. 20, 2008.

⁷ Randy Albelda and Heather Boushey, *Bridging the Gaps: A Picture of How Work Supports Work in Ten States*, Center for Economy and Policy Research and the Center for the Study of Social Policy, October 2007.

⁸ Jayanta Bhattacharya, et al., "Heat or Eat? Cold Weather Shocks and Nutrition in Poor American Families," *American Journal of Public Health*, Vol. 93, No., July 2003.

⁹ Food Stamp Program Monthly Data, <http://www.fns.usda.gov/pd/34fsmmonthly.htm>, accessed on June 9, 2008. FY 2007-08 data are preliminary.

¹⁰ Congressional Budget Office, Food Stamp Program Baseline, March 2008.

<http://www.cbo.gov/budget/factsheets/2008b/foodstamps.pdf>

¹¹ Eric Eckholm, "As Jobs Vanish and Prices Rise, Food Stamp Use Nears Record," *The New York Times*, March 31, 2008, A1.

¹² Mark Nord, Margaret Andrews, and Steven Carlson, *Household Food Security in the United States, 2006*, Economic Research Service, USDA, November 2007.

¹³ Kris Maher, "A Run on Banks: Food Charities Feel the Pinch," *Wall Street Journal*, March 20, 2008.

¹⁴ CFED, Asset Poverty in America. <http://www.cfed.org/focus.m?parentid=31&siteid=2471&id=2565>

¹⁵ Lynette Rawlings and Kerstin Gentsch, *How Households Expect to Cope in a Financial Emergency, Opportunity and Ownership Facts #9*, The Urban Institute, March 2008.

¹⁶ Iris J. Lav and Elizabeth Hudgins, *Facing Deficits, Many States are Imposing Cuts that Hurt Vulnerable Residents*, Center on Budget and Policy Priorities, March 13, 2008. <http://www.cbpp.org/3-13-08sfp.htm>

¹⁷ Lewin Group, *Anticipated Effects of the Deficit Reduction Act Provisions on Child Support Program Financing and Performance Summary of Data Analysis and IV-D Director Calls*, July 20, 2007. See also January 23, 2008 letters from Elaine Sorensen, Harry Holzer, and five additional economists to House leadership.

¹⁸ BLS Employment Situation, Table A-9. <http://www.bls.gov/news.release/empst09.htm>

¹⁹ Government Accountability Office, *Unemployment Insurance: Low-wage and Part-time Workers Continue to Experience Low Rates of Receipt*, 2007, <http://www.gao.gov/new.items/d071147.pdf>.

²⁰ See National Youth Employment Coalition letter of March 26, 2008 to Senator Kennedy and Representative Enzi. <http://www.nyec.org/content/documents/SummerJobsStimulusActMarch08final.pdf>. Transitional Jobs programs serve as a bridge to unsubsidized employment by combining time-limited subsidized employment with a comprehensive set of services in order to help hard-to-employ participants overcome barriers and build work-related skills.

²¹ Food Research and Action Center “Rising Food Costs Bearing Down Even Harder on Low-Income Shoppers Increase in the Cost of the Thrifty Food Plan Rising Faster than the Overall Cost of Food.” May 29, 2008. http://www.frac.org/html/news/release_thrifty_foodplan_052908.htm

²² Mark Wolfe, Testimony of the National Energy Assistance Directors’ Association on the Low Income Home Energy Assistance Program before the Subcommittee on Children and Families Committee on Health, Education, Labor and Pensions, U.S. Senate, March 5, 2008

²³ U.S. Census Bureau 2004 SIPP Data, <http://www.census.gov/population/www/socdemo/child/ppl-2005.html>

²⁴ Hedieh Rahmanou and Mark Greenberg, *Welfare Caseloads Increase in 27 States Between June and September 2003: National Welfare Caseload Remains Flat; Contrast s with Rising Food Stamp Caseload*, Center for Law and Social Policy, February 2004.