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The Stimulus Package (HR1) and Low-Income Families

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A third of all families with children, 13.4 million families with children, are low-income, defined as families with incomes less than twice the federal poverty line. Nearly three-quarters of these families have at least one employed adult, though not all are working full-time. Over 60 percent of the working adults have a high school education or less. How we address these labor-market problems will help determine the inequality in our country and the prospects for future generations. But is this the best time to push for the types of changes we need?

Some would say “no” because federal deficits are too large and state budgets hard-pressed to meet current needs. High unemployment and business failures will further deplete government revenues, and businesses struggling for survival are likely to rebuff new initiatives that require higher business taxes or new employee benefits.

Others would say “yes” because crisis forces us to re-think the role of public policy and governmental action. More families feel vulnerable, making them more likely to recognize that the market alone cannot solve all of today’s problems. To paraphrase a quote from William Galston that appeared in the *New York Times,* policymakers have not all bought the idea of bigger government, but President Obama “has an opening to make his case.”

Several opportunities to promote change around family economic well-being are already on the horizon. The president has asked Vice President Biden to head a task force on middle-class families, which could incorporate upward mobility in its agenda. At its first meeting in Philadelphia in late February, it addressed upward mobility in its report on green jobs.

Meanwhile, key programs are up for reauthorization in President Obama's first term. The Workforce Investment Act is slated for reauthorization this year and preliminary hearings are already under way. TANF, or Temporary Assistance for Needy Families, is due for reauthorization in 2010. Both programs are candidates for re-design, so that they can better meet the needs of people in vulnerable families who need additional skills or income support when they are without wage income.

Four policy reform goals belong in any plan to reduce poverty and increase upward mobility. Some are furthered by the stimulus package, but some are not. To the extent that stimulus programs address the needs of low-income families, we need to ensure that research and evaluation efforts help us assess their value.

Four Goals for New Initiatives

From the work of the Urban Institute's New Safety Net Project, four goals emerge:

Increase wages. One obvious way to increase family well-being is to increase the wages of the adult workers in the family. Strategies might include increasing the minimum wage, increasing the skill levels of adult workers in the family, and increasing employment stability.

The last campaign to increase the federal minimum wage was long and hard fought, but eventually the minimum wage was increased in stages. The impact has been significant for some workers—particularly those living in the South. But for others, the increase has had little impact. Many states already have wage minimums above the rising federal rate. In fact, the average wage for low-skill workers, around $11/hour, exceeds the legislated minimum wage of $7.25, scheduled to take effect in July 2009.

Job stability and *upward mobility.* An alternative or complementary approach to increasing the minimum wage is to increase job stability and improve low-wage workers' skills. The current workforce development system is not up to the task for several reasons—too little funding, performance measures that are biased against the neediest, and a lack of stipends and other supports essential for working parents. This lack of supports is particularly important now that TANF regulations no longer allow training or education to count toward work effort. A training system responsive to working parents' needs will need to impart the skills demanded in current or anticipated job markets. Such training must also be offered in places and at times that allow parents to juggle work, training, and parenting.

Along with improving skills, policies should be designed to promote job stability. For working parents, having stable child care arrangements can mean the difference between success and failure at work, as can workplace flexibility and paid leave. Not being able to tend to children's needs—caring for a sick child, attending school meetings, or dealing with a child care problem, can put a parent's job at risk. And parents losing their jobs can lose their child care subsidy and go to the end of the line once they are re-employed. Since they can't currently keep their subsidy while looking for work, it's harder to search intensively.

Looking beyond child care, more attention needs to be paid to improving educational outcomes for children. Being attentive to children's development pays a double dividend by reducing intergenerational entrapment in poverty. Providing the resources children need to advance reduces the size of the next generation of low-income workers. Unfortunately, the current heavy focus on early childhood development may mean that other important periods in children's lives aren't getting their due. More resources for the critical early years are essential if children are to reach their potential. But resources for making sure they stay on track in other stages of development matter too. Without them, we will lose some of the benefit from that early investment.

Income supports. Even if many of these strategies are adopted, some families won't, through their own efforts, be able to get over the low-income threshold. A comprehensive strategy to improve their economic well-being would include an increase in disposable income by subsidizing such expenses as housing, child care, and health care and by increasing take-home pay through the earned income tax credit and other measures.

Finally, helping families weather tough times can also help reduce poverty by bolstering income and allowing people to build savings in good times to support themselves during hard times. Unemployment compensation can help keep families out of poverty when a major breadwinner loses a job. According to the Congressional Budget Office, about 40 percent of families with an unemployed adult worker stay out of poverty because of unemployment compensation.

Even when employed, low-income families (and many middle-income families) find it difficult to make ends meet and save for the future. Policies that encourage savings and reduce the burden of debt are important. Low-income workers are disproportionately the victims of payday loans and other high-interest lending, so they need greater access to traditional financial instruments. In today's sagging economy, they will find getting by even harder without government initiatives.

The Stimulus Package

How does the stimulus package address the policy needs of low-income working families? How does it inform today's policy research needs?

The American Recovery and Reinvestment Act of 2009 (ARRA) is, as the saying goes about the camel, a horse put together by a committee—or in this case, several congressional committees. As the act's name implies, it tries to marry programs to stimulate the economy and promote recovery with programs designed to raise the federal government's commitment to various economic advancement programs. But some see the two goals as contradictory. True, the point of stimulus spending is to rev up the economy and then stop the extra spending. But investment is often a long-term activity, with payoffs sometimes many years in the future. You have to continue investing until you get the desired yield. Judging by the magnitude of the problem, dealing with two-generational policy issues will take far longer than getting the economy back on track will—or we certainly hope that the economy recovers before we solve the problems of low-income workers. In other words, the recovery part of the package should be countercyclical, that is, increase when other spending goes down, but the investment is to foster structural change regardless of the state of the business cycle.

It helps to think about the contents of the stimulus package in three parts:

- How does it help reduce poverty in the short term?

- How might it help states, localities, individuals, and organizations plan for the long-term?
- What can researchers do to inform future poverty-reduction policies in this area?

The act authorizes funds for job creation, mainly in building or rebuilding infrastructure; subsidies for cash and in-kind assistance to individuals through such programs as TANF, tax credits and cuts, unemployment compensation, and Medicaid. It provides support for all levels of education, invests in early childhood development, and provides funds for training adult workers and giving work experience to youth. It also expands support for research.

Let's consider an example or two of ARRA's potential impact on low-wage workers and their families. Several provisions create construction jobs in such infrastructure projects as highway and road-building and jobs for "greening" federal buildings. In the short term, a large number of jobs may be generated, but the proportion likely to go to low-skill workers may be limited. The construction industry has a very high unemployment rate, so most jobs in the building trades are likely to go to those who had them before. There are many new jobs in weatherization, but they are not likely to be high paying.

This brings us back to training. The act provides funds to train workers for green jobs and jobs in other fields. But what constitutes training for green jobs isn't spelled out. Are green jobs the same jobs, except that the buildings getting built or rehabbed all have low carbon footprints? How many people must be trained and how different is the training they need from traditional building construction or rehab jobs?

The vice president's middle class task force report on "Green Jobs as a Pathway to a Strong Middle Class" suggests that the jobs are plentiful, pay better than comparable jobs in other sectors, and could provide upward mobility for both young and older adult workers. Yet, many of the jobs cited are in occupations that require extensive training or apprenticeships—plumbers, electricians, etc. Although the report cites the $500 million in training funds for green jobs (an amount equivalent to just 10 percent of the current Title I WIA funding), whether today's training system structure will adapt to new needs in a timely manner is not known. We don't yet know how successful the newer training programs that focus on high-growth economic sectors are, yet $750 million was included for new competitive grants for such programs. These questions about the capacity and effectiveness of the training system as it faces these new challenges demand further research or the application of current research.

The stimulus act also funds children's development through Early Head Start, Head Start, and the Child Care Development Block Grant. An Urban Institute study identified these as appropriate vehicles for improving early childhood development while supporting parents' work effort. But how states roll out these program expansions will be key to determining how effective they will be.

Of course, states play important roles in setting social policy too. Almost all of the programs we include in the safety net are shaped and at least partially funded by state governments—including unemployment insurance, TANF, workforce development, housing assistance, and Medicaid. Fully funded by the federal government, SNAP/Food Stamps is the rare exception.

Unemployment insurance exemplifies the way states shape a policy and can try to override a federal policy initiative. Several governors now say that they plan to reject federal unemployment compensation monies because they will require states to spend more money and (eventually) raise more money to cover new program costs. When pressed, most concede that they will accept some funds, but not the ones committing them to increase future spending. The provisions that they object to most are in the section of ARRA that incorporated the Unemployment Insurance Modernization Act. This bill was introduced in Congress two years ago but was never passed by the Senate. Several features will increase the probability that low-wage workers would receive compensation when they lose their jobs. The federal government will distribute up to $7 billion to states for maintaining or introducing some of these new supports, including using an alternative base period; expanding eligibility to include workers who quit or are discharged for compelling family-related reasons and workers seeking part-time jobs; providing dependent allowances; and making payments to workers who are in a training programs that exceeds the usual benefit period of 26 weeks. According to Urban Institute researcher, Wayne Vroman, actuarial estimates indicate the federal monies might cover the added costs for up to seven years—longer than the average gubernatorial term in office.

Possibly, this reaction by states tells us why it took Congress two years and an economic crisis to pass the UI Modernization Act. And even then, Congress didn't address the question of the wage base for the employer tax. Had Congress raised the federal base, then state revenues would increase even without a state tax increase on employers. And all but ignored in all the debate on the compensation side is the employment service. If you are entitled to compensation, the state must not only pay you while you are unemployed, they must help you find a new job. But with the switch to on-line and phone applications and reporting, unemployed workers are mostly left on their own to find jobs—no mean trick in hard times like these.

And what about other major programs that require state contributions? Under the stimulus package, the federal government is reducing state match requirements for several programs, but hard-pressed states may still face difficult choices. For example, to tap into the TANF contingency fund for which the federal government is requiring only a 20 percent state match, states have choices to make. They can use the funds for one-time cash assistance to individuals or to create subsidized jobs. These funds could be much needed. Indeed, the March Bureau of Labor Statistics employment report indicated that single household heads had an unemployment rate of 10.3 percent in February 2009, 2 percentage points above that of all workers and well above the February 2008 unemployment rate of 6.7 percent. Monitoring state responses to the TANF contingency fund incentives will help determine how well the stimulus package is doing to help families weather the recession and improve their long-run economic prospects.

One feature of the Recovery Act is the emphasis on accountability and evaluation. The recovery package should bolster research, since it includes evaluation funds and requires fund recipients to account strictly for the money they received and assess its impact. The research community should not think of this as only a chance to get the record right. Instead, they should view this opportunity as a way to identify programs that work and to inform future policymaking.