Getting Serious about Poverty, Post-Katrina

By Sheldon Danziger and Sandra Danziger

Hurricane Katrina offered an uncommonly high-profile picture of the extent of contemporary American poverty and inequality, and the sight was arresting. Indeed, it evoked President Bush's first public statement about those subjects since he took office, when he acknowledged that "we have a duty to confront this poverty with bold action."

Bush was soon distracted by other concerns. And so, apparently, were most other Americans: once the television footage of masses of survivors and evacuees at the Superdome ebbed, antipoverty policy returned to its customary place, on the back burner. No blue-ribbon study group has been convened to consider how to reduce poverty or how to restructure a disaster safety net for the poor that was revealed to be so inadequate by the flooding of New Orleans.

Specifically, little attention has been given to the exhaustion of unemployment insurance, the loss of employer-provided medical coverage or the problems of those who cannot find work and do not receive cash assistance – all of which affect the poor of all races and ethnicities across the nation, but pile hardship upon hardship on those displaced by natural disasters like Katrina.

One reason, perhaps, that Americans and their political representatives pay so little attention to antipoverty efforts is the widespread belief that government is more a part of the problem than of the solution. As the

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libertarian Cato Institute's Michael Tanner put it in the context of post-Katrina punditry:

> Most of those speaking longest and loudest will be telling us to pour more money into various welfare programs. Doing so will ... do little to help these people escape poverty. … The poor of New Orleans have been victims twice: of the storm and of the failed welfare state.

We strongly disagree. Poverty is high not because the welfare state failed, but because it has been underfunded. That problem was magnified by powerful market forces over the last several decades (in particular, globalization and technological changes) and government policies have not done enough to offset these market-generated hardships. The

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Katrina fiasco should be taken as a reminder that the poor are especially sensitive to rapid, largely unpredictable shocks that generate economic insecurity, ranging from job loss to illness to energy price spikes to natural disasters. Thus, along with more-comprehensive efforts to increase the incomes and economic mobility of the poor, we need a disaster-assistance safety net tailored to the needs of those Americans who are forced to live at the edge of their resources in the best of times.

WORK AND POVERTY

The high poverty rate among less-skilled workers has little to do with the failure of the poor to seize available opportunities. Rather, poverty remains high because economic growth no longer trickles down, as it did in the quarter century following World War II. Average income per capita (adjusted for inflation) increased by 55 percent between 1973 and 2003. Yet the official poverty rate – a rough, but serviceable marker of living standards – was about 12 percent in both years. Over these three decades, the economy did not generate increased median earnings even for white males who worked full time for the entire year. Meanwhile, nominal attempts to stimulate the economy through tax cuts for the wealthy have produced few tangible benefits for the poor, the near-poor, or even the middle class.

Real earnings grew rapidly between 1967 and 1973 for men and women, black and white. In just seven years, median annual earnings increased by 20 percent and 15 percent respectively for white men and women,

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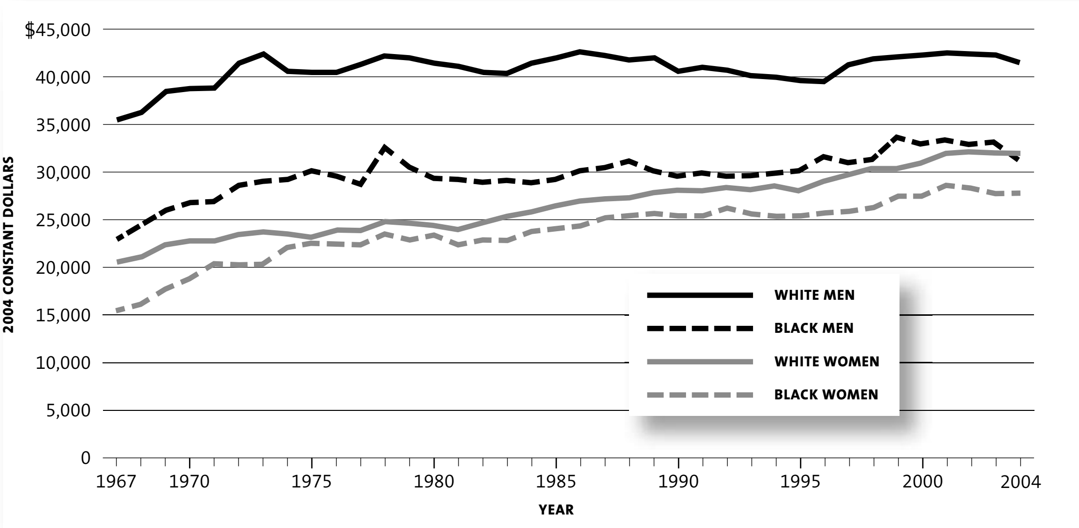
MEDIAN EARNINGS, FULL-TIME YEAR-ROUND WORKERS



SOURCE: Bureau of Labor Statistics

and by 27 percent and 32 percent respectively for African-American men and women. African-Americans did especially well (from a far lower base), at least in part thanks to the success of the civil rights movement in reducing discrimination in the workplace.

But for men, that was the high water mark: their real earnings have stagnated since the early 1970s. In 2004, the median white male working full time, year-round earned $41,600 – slightly less than the $42,400 median in 1973. The lack of economic progress over three decades for these workers can hardly be blamed on "the welfare state," as these workers are rarely eligible for cash welfare, food stamps, rent subsidies or Medicaid.

Median earnings for full-time black male workers grew slightly more than for their white counterparts: their median in 2004 was $31,300, about 8 percent more than in 1973. Real median earnings for women who work full time, year-round increased over the last three decades – by 33 percent for whites and by 37 percent for African-Americans. Their earnings growth was slower after 1973 than before; still, their experience is the one bright spot in a labor market that provides little promise for those with modest skills.

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It is now generally agreed that earnings stagnation is the product of several factors, including:

- Technological innovations that created incentives to substitute machines for less-skilled labor.
- Declining transportation, communication and information costs that made it practical

to shift the production of everything from raspberries to customized software to other countries.

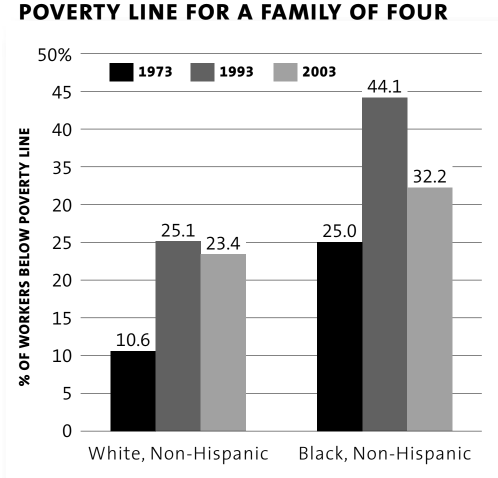
- Loss of jobs (and the market power to demand higher wages) in unionized industries ranging from autos and steel to airlines and trucking.
- Declines in the inflation-adjusted minimum wage.

These economic changes have been particularly devastating for men with high school degrees and those who never finished high school. In 1973, just 11 percent of such men did not earn enough to support a family of four above the poverty line (working full time, year round at around $9 an hour in today's dollars). Thirty years later that number had risen to 23 percent.

As the figure shows, the pattern is more complicated for less-educated African-Americans. Between 1973 and 1993, black men suffered a fate similar to their white counterparts, with the proportion unable to support a family nearly doubling to an astounding 44 percent. During the 1990s boom, however, black men made considerable gains – documenting once again the importance of tight labor markets for those who tend to be last hired, first fired. On balance, the collapse of demand for less-skilled workers trumped advances in fighting discrimination and the 1990s boom: a smaller percentage of employed African-American men earned enough to support a family of four in 2003 than back in 1973.

For the non-elderly, government efforts to offset the rising hardships of less-educated workers generated by labor market changes are no more effective now than they were 30 years ago. The United States spends a smaller share of its GDP on antipoverty programs that provide cash and near-cash (food stamps, medical insurance, rent subsidies) than do other industrialized countries – 2.3 percent in 2000 – compared to 5.8 percent in Canada and 10 percent or more in the Netherlands, Finland and Sweden. Indeed, one important reason that the poverty rate has not risen substantially since the mid-1970s is that a far higher percentage of women now add their own wages to family income.

MALE WORKERS, HIGH SCHOOL DEGREES OR LESS, AGE 25–54, EARNING LESS THAN POVERTY LINE FOR A FAMILY OF FOUR



NOTE: Men with no annual earnings are excluded.
The poverty line for a family of four was $18,810 in 2003
SOURCE: Calculations from 1974, 1994 and 2004 March Current Population Surveys

BIG PROBLEMS, SMALL FIXES

Washington's last attempt to address poverty, embodied in the 1996 welfare reforms, was focused on moving single mothers from cash assistance into jobs; it did not deal with the broader issues of low wages and job insecurity. And even though the employment rate of single mothers increased dramatically and their poverty declined somewhat due to welfare reform and the boom years of the late 1990s, their poverty rate remains above 30 percent.

The keystone to America's antipoverty efforts for the non-elderly, the Earned Income Tax Credit, was enacted in the 1970s. The program has grown dramatically over the last three decades without generating much controversy; it is now the largest program providing cash assistance to low-income working families with children. The credit is effectively a "negative income tax" for low-income wage earners. Today, more than 20 million families have their federal payroll and income taxes reduced by the credit or receive it as a refund in cash. The maximum benefit for a family with two or more children (in current dollars) was $400 in 1975; today, it is about $4,500.

The big question, then, is whether this combination of tough love for single mothers and tax-based income supplements for working parents is sufficient. We believe that it is not – that the current level of poverty is unacceptable and isn't likely to be reduced much unless government does more to help both low-income workers and the unemployed. Here, we offer examples of ways in which current policies could be modified to reduce poverty. These proposed changes are modest – they would not reverse the drift toward income inequality and economic insecurity associated with globalization and technological change. But they have the advantage of building on existing programs, and would offer a real boost to those who have been left behind.

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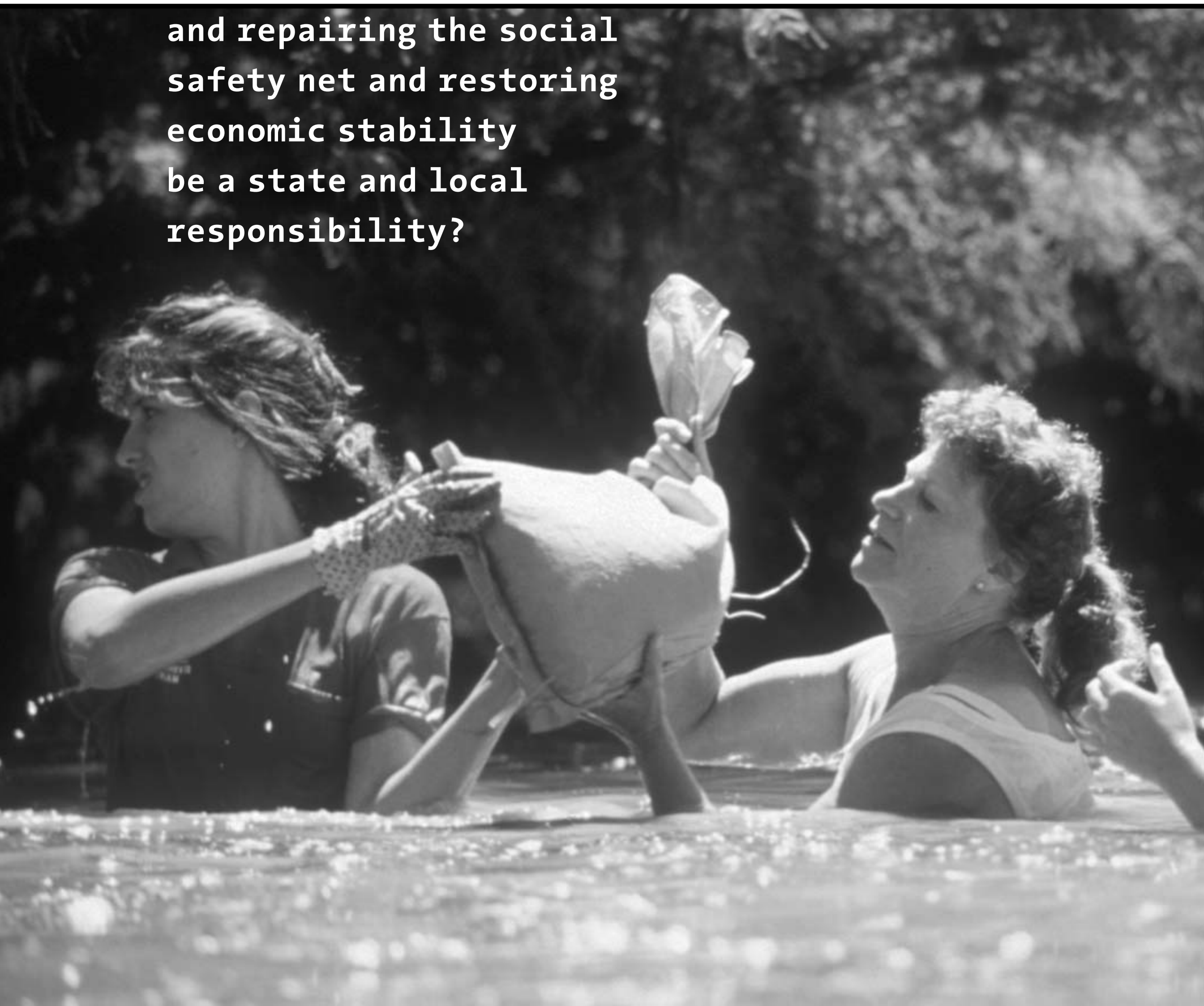
Start with the initiative that faces the least political resistance – the first increase in the minimum wage in a decade. Recalculated in today's dollars, the minimum was above $6 an hour from 1962 to 1983. It reached a maximum of about $7.50 in 1968, but is now just $5.15. Both houses of Congress have tentatively agreed to an increase to $7.25 over two years, with the only sticking point being the size of the package of tax breaks offered to small employers as compensation

Now consider the State Child Health Insurance Program, a federal program enacted in 1997 that provides cash incentives to encourage states to expand coverage for uninsured children who are not eligible for Medicaid. That program and a series of Medicaid expansions now guarantee subsidized healthcare coverage to all poor and nearly poor children. And the results are striking: in 2004, just 11 percent of children under 18 were not insured, compared to 31 percent of young adults aged 18 to 24.

Wisconsin was one of just eight states to use the State Child Health Insurance Program as a wedge to extend subsidized coverage to parents. Today, any Wisconsin family with a child eligible for what the state calls BadgerCare and an income below 185 percent of the poverty line can buy coverage for adults at subsidized rates. The net result is a substantial extension of government-subsidized health insurance coverage to poor adults who have no employer-provided coverage and do not meet Medicaid's income and assets tests. This low-profile approach could serve as a model – provided other states were willing to in-

Why should repairing the infrastructure be a federal responsibility and repairing the social safety net and restoring economic stability be a state and local responsibility?



crease their spending and Washington offered enhanced incentives.

The third example of what could be done to reduce poverty without a sea change in policy is to plug some of the gaps in unemployment insurance that are largely associated with the growing trend toward part-time and episodic employment. About three-quarters of those unemployed by the recession of the mid-1970s received benefits. In recent years, by contrast, only about one-third of the unemployed have received benefits. And often when part-time workers are eligible, the benefits are paltry. A minimum-wage worker who is laid off from a 30-hour-a-week job, for example, would, if eligible, receive only about $75 per week in most states. One simple fix here would be to mandate that all states provide coverage to part-time workers – less than half the states now provide such coverage. Another would be to raise unemployment benefits for low-wage workers.

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DISASTER ASSISTANCE

One consequence of America's limited anti-poverty efforts for the non-elderly is that little assistance is readily available when disaster displaces the working and non-working alike. The food stamp program (backed politically by farm interests as well as by liberals) is the only program that is open to most of the poor – workers and non-workers – across the country. As a result, America depends far more on ad hoc assistance efforts when a natural disaster disrupts communities than do countries with more comprehensive safeguards against economic adversity. If we had a better safety net, more of those whose homes and jobs were swept away by Hurricane Katrina would have received unemployment insurance, more would have received cash assistance and fewer would have lost health insurance.

Note, too, that, we generally finance safety-net programs in a way that magnifies the regional impact of natural disasters. Most countries pay for their social programs from the national budget. In contrast, we require state governments to pay a substantial share of the cost of most assistance programs in return for state autonomy in setting benefit levels and eligibility requirements.

For example, states pay from roughly one-quarter to one-half of the costs of Medicaid and cash welfare, and, using revenue from payroll taxes, they pay for all regular unemployment insurance benefits (plus half of extended benefits). Because a natural disaster, by definition, devastates a specific region, this approach concentrates burdens on states just when they lack the resources to bear it. Disasters, after all, typically reduce sales and income tax revenue even as they increase the demand for public shelter, medical care, unemployment insurance and cash assistance.

The federal government has the responsibility for rebuilding the levees of New Orleans. In circumstances like Katrina, it seems both logical and fair that Washington should also pay for unemployment compensation benefits for those who lost their jobs, medical expenses for those whose health insurance coverage was washed away along with their jobs and increased cash assistance for those who do not qualify for unemployment insurance – whether they fled to other states, remained during the disaster or returned after the flood subsided.

Disaster Assistance for Workers

For those who are employed when disaster strikes, we need to reform and expand the federal disaster unemployment-insurance program and we need a new federal disaster health-insurance program.

The former should, at the very least, pay benefits equal to the amounts that state programs now provide. Indeed, there is good reason to pay more, since displaced families face short-term emergency expenses that are higher than normal ones. Many disasters also require a longer period of unemployment-insurance benefits than the 26 weeks provided by current law – little, after all, was back to normal in New Orleans six months after the levees broke. Washington did extend unemployment benefits with federal funds for an additional 13 weeks for workers who lost jobs because of Hurricane Katrina. But a total of 39 weeks will not always be sufficient. And, in any case, many low-wage workers did not receive benefits after Katrina because they did not meet predisaster eligibility requirements.

There is no public program to replace the employer's share of health-insurance premiums in firms that are put out of business by a natural disaster. Many of these workers have incomes or assets that make them ineligible for Medicaid, yet few can afford to pay for both their share of health insurance and the share previously paid by their employers as is required by federal mandate if they are to maintain their health coverage. Such a program could use a sliding scale of co-payments to subsidize the part of the premium previously paid by employers, allowing coverage under the predisaster health plans to continue.

An alternative would be to cover displaced workers under Medicaid, with the federal government paying the full costs. Senators Charles Grassley, a Republican from Iowa, and Max Baucus, a Democrat from Montana, proposed legislation to do just this, which the Bush administration opposed. Full federal funding would have provided at least five months' coverage to those who lost their insurance because of hurricane-related job loss. In addition, the bill would have provided relief to both the directly affected states and the states that took in large numbers of evacuees by covering their Medicaid costs.

Disaster Assistance for Non-workers

For people who are not working at the time of disaster, and those who lose jobs but are inel-

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igible for unemployment compensation, we propose direct federal cash payments. Such a program could be administered through the existing means-tested food stamp program: a family with limited income could apply for disaster-assistance cash and food stamps simultaneously. If the cash payment were equal to the food stamp payment, the family would have a safety-net income of about two-thirds of its poverty line.

Using the food stamp program's administrative structure for disaster assistance would also lessen the burden that evacuees place on receiving states. The program has a work test and restrictions on eligibility for adults without children, which should be waived in disaster's aftermath.

The traditional complaint about no-strings-attached assistance to the poor – that it undermines incentives to work and discourages family cohesiveness – are of less concern in the wake of a disaster. Much of the impetus for the 1996 welfare reforms was to limit cash assistance, so that welfare could not become "a way of life." But by definition, recipients of disaster assistance would not have chosen welfare over work because they become eligible on the basis of the disaster's impact on their jobs. The disaster-assistance supplement would be provided only for events over which individuals have no control, with time limits determined by the severity of the disaster.

In a nation fond of the myth of rugged individualism and cynical about the potential for government to make a positive difference, it is hard to sustain interest in policies that address either the causes or consequences of poverty. We have shown that there are many ways to improve our social safety net and hope that the windows opened by high-profile disasters like Katrina can mobilize the political will to act. However, despite the compassionate outpouring of charity in the hurricane's immediate aftermath, the richest nation in the world remains unprepared to help the poor when the next disaster strikes.

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