Closing the Gap: Helping Working Families Make Ends Meet

The Problem

The recession and slow economic recovery has left many Americans unemployed or underemployed. And millions who do have full-time jobs are finding that those jobs don't pay enough to make ends meet. Hard work is a core value of American society; it should be a reliable path to a decent life. Yet as the economy has restructured, this hallowed ideal of national life has been deeply compromised. As many as a third of working Americans don't earn enough to meet their basic economic needs.

Low-wage jobs, many of which pay under $8 an hour, simply do not produce enough income to cover such items as housing, child care, and transportation. And even workers making $12 to $15 an hour are barely making ends meet. For example, according to the Economic Policy Institute, nearly a third of households with children under the age of 12 were unable to meet their basic needs in 1999, at the height of the recent economic boom. This analysis assumed a bare-bones family budget, including only the minimum for housing and for food.

The earnings shortfall has worsened during the economic downturn, and with many middle class jobs headed overseas, there are no signs that the shortfall will abate anytime soon. As a result, millions of families are saving less and borrowing more to make ends meet. Between 1989 and 2001, credit card debt grew by more than 40 percent among households earning less than $50,000. Very low-income households were hit the hardest: their credit card debt nearly tripled over the decade.

Solutions

Current public policies fall far short of addressing the basic disconnect that exists between an economy that produces a high number of low-wage jobs and a society where the cost of living has risen considerably in many areas, driven by the increased prices for housing and health care. The minimum wage, instituted in 1938, has failed to keep pace with inflation and doesn't protect against poverty. It has lost 24 percent of its purchasing power since 1979. Even two-income families where both adults are working full-time and earning 50 or 75 percent *more* than the minimum wage, are not meeting their basic needs in many parts of the United States. The Earned Income Tax Credit also is inadequate. While the EITC was significantly expanded in the 1990s, its payout levels are not generous enough to help many of its recipients meet the true cost of living in their area. The EITC also provides very little help to individuals or couples without children, and thus doesn't aid millions of households struggling in the low-wage economy.

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It is time to get serious about helping working Americans afford a decent life and make it into the middle class. It is time for new initiatives designed to ensure that hard work is respected and rewarded in our 21st century economy. Here's how to do it:

1. **Raise the minimum wage through graduated increases. Index to inflation.**
   We propose to phase-in an increase of the minimum wage to $8.40 an hour by 2010, a level that will ensure that a full-time working parent with two children will not fall below the projected federal poverty line in that year of $16,850. The new minimum wage should also be indexed to inflation, so that it retains its purchasing power. Assuming the minimum wage reaches $8.40 in 2010, and annual inflation rates over the next decade are comparable to the last decade, the federal minimum wage will reach $9.27 by 2015.

2. **Replace the EITC for low-income earners with a Working Families Tax Credit that provides more generous credit amounts to all full-time workers — with benefits pegged to the real cost of living based on family size and geographic location.**
   In an era where low-wage work is a permanent fate for millions, there should be a more generous subsidy to ensure a minimal basic income for low-wage workers struggling to climb into the middle class. The Working Families Tax Credit would offer a maximum income supplement of up to $15,000 per year to workers over the age of 18 and under the age of 65 who worked 35 or more hours a week during 44 weeks in a given year (1,540 hours per year). The Working Families Tax Credit would work much as the current EITC, except that it would be more generous and payments would be pegged to local living standards.

   For example, a single parent who works full-time at $8 an hour has an annual income of $16,640. According to the Economic Policy Institute's Basic Family Budget calculations, the real cost of living for a single parent with two children ranges from $21,989 in Hattiesburg, Mississippi to $48,606 in Nassau-Suffolk County, New York. Under the Working Families Tax Credit plan, this family would receive a refundable credit of $5,259 in Hattiesburg or the maximum of $15,000 in Nassau-Suffolk County. Individual workers without children would be treated in the same way as parents under the Working Families Tax Credit, with benefits determined by geographic location and, for married or co-habiting individuals, total household income.

3. **Create a Federal Office of Living Standards to collect and analyze data to determine the real cost of living in different geographic locales that can be used to determine benefits under the Working Families Tax Credit, as well as other social policy.**
   The Federal poverty threshold is now the dominant measurement of low-income Americans' economic well-being. However, much research has demonstrated that the minimal cost of living is much higher in every part of the United States than the threshold — and, in many cases, dramatically higher. The Office of Living Standards would update the government's approach in this area and create more meaningful ways to measure the economic needs of Americans.