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### Publication Date

2004-11-01

# The Hidden Public Costs of Low-Wage Jobs in California

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OVER THE PAST TWO DECADES, CALIFORNIA'S "NEW ECONOMY" HAS produced an hourglass pattern of job distribution, fostering far more growth among high- and low-wage jobs than middle-income jobs (see Milkman and Dwyer 2002). A growing segment of Californians work year-round but earn too little to provide for their families. As a consequence, these families must often resort to publicly funded "safety net" programs to supplement their earnings and meet their basic needs. Increasingly, public assistance is becoming an ongoing wage supplement for low-wage workers, rather than assistance for those who find themselves unable to work or those transitioning to work from welfare or unemployment.

Working families are not the only ones who bear the burden of increasing numbers of low-wage jobs. Taxpayers also share the cost. This report focuses on an important outcome of the increase in low-wage work: the hidden costs for taxpayers when California's working families must rely on public assistance to meet their basic needs. This study is the first to quantify, at a statewide level, the government outlays that occur as a result of low-wage jobs. The study thus informs the current debate about the "Walmartization" of the economy by assessing what happens when costs traditionally borne by employers are shifted to the public.

This report assesses the extent to which California's working families participate in selected public assistance programs and estimates the cost incurred by the government to provide these benefits. Using data compiled from ten large statewide public assistance programs, we assess the costs of the programs for working families, documenting the distribution of costs by wage levels and hours worked. We also document the demographic and employment characteristics of working families that receive

This research was funded by the National Economic Development and Law Center (NEDLC) as one of their series of white papers on the working poor in California. We would like to thank Tse Ming Tam, Debra Solomon, and Sue Wong of NEDLC for their help with this research. We also thank Jenifer MacGillvary for editorial assistance, Tina Kimmel and Alex Lantsberg for their valuable research assistance, and Ruth Milkman for helpful comments. An earlier version was published as a report from the UC Berkeley Center for Labor Research and Education; it is available at <http://laborcenter.berkeley.edu/livingwage/workingpoor.pdf>.

public assistance. In addition, we simulate the reduction in public expenditures that would occur were workers to receive higher wages.

Means-tested public health and welfare programs provide much-needed support that helps poor families make ends meet. As has been well documented elsewhere, these programs are currently inadequate to fulfill the goal of lifting families out of poverty because of restrictive eligibility requirements and the long waiting lists for some programs (Boushey et al. 2003). As we will show, many families with full-time wage earners now qualify for and participate in these programs. It should be no surprise that some programs include significant numbers of working families, since the welfare reforms of the 1990s restructured many programs to encourage work. Nonetheless, welfare reform promised that full-time workers would no longer need safety net programs. There is now increasing concern that some of these programs, meant to provide temporary relief to low-skilled workers entering the workplace, have become permanent supports needed to supplement permanent low wages.

In fact, our current relatively low labor standards may encourage employers to take the “low road” by relying on public assistance programs to meet some of their labor costs. This can produce a vicious circle that places a continuous strain on public resources at the same time that it creates incentives for more and more firms to reduce compensation and shift these costs to the public.

Projections from California’s Employment Development Department indicate that if the state continues its current economic development path, the ranks of families who are working but unable to make ends meet will only increase (EDD 2004). Figure 1.1 shows the projected employment growth for the years 2000 through 2010, by various wage categories.<sup>1</sup> The fastest growth is occurring in the jobs with the lowest wages: over a million new jobs will pay under \$12 per hour, and another 450,000 will pay below \$16. There is much less growth in the middle wage categories. In this context, systematically estimating the hidden public cost of supplementing the wage and benefit packages provided by low-wage employers is fundamental to discussions about economic policy in California.

## **BACKGROUND AND METHODOLOGY**

This section describes the data set that we created to carry out our analysis and the public programs that we analyzed.

This report relies on two data sources: our compilation of administrative data on enrollment, costs, and eligibility requirements for public assistance programs in California (listed below), and Current Population Survey (CPS) data on the individuals

1. We calculated the growth in jobs in each wage category by matching current median occupational wages to the Employment Development Department’s projection of employment growth by occupation for its 533 occupation categories.

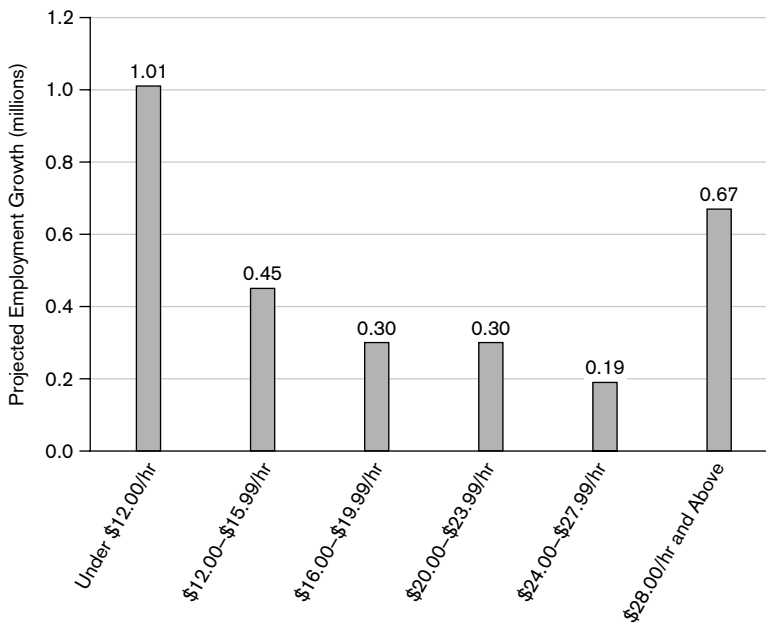


FIGURE 1.1. Projected Employment Growth in California, by Wage Category, 2000–2010

SOURCE: EDD 2004.

NOTE: The EDD data comprise 583 detailed occupations.

and families that participate in these programs. We compiled administrative data for 2002 for the ten public assistance programs for which there is data in the CPS. Administrative data were provided by the federal or state government (sources are listed by program in Appendix A). Individual and family data were compiled from the CPS Annual Demographic Survey (often referred to as the March CPS Supplement) for the years 2000 through 2002.<sup>2</sup> The March Supplement asks respondents about receipts of cash and non-cash transfer payments during the past year and includes questions about the ten programs studied; it supplements the CPS’s regular detailed information on individuals and households. Our two data sources complement each other: Although the administrative data on program enrollment are more accurate than are the data drawn from the March Supplement, the administrative sources do not include detailed demographic and employment information on the

2. The March Supplement is currently the official source of estimates of income and poverty in the United States, and it has been widely used by economists to study wages, health coverage, and public programs. Although the Survey of Income and Program Participation (SIPP) has somewhat more detailed information on certain public assistance programs, it has a somewhat smaller sample size than the March Supplement, and the sample is not designed to be representative within states, therefore limiting our ability to produce reliable results. We checked our results for 2002 by using a three-year sample to increase the number of observations; there was very little difference in the results between the larger and smaller data sets.

individuals and families enrolled. Moreover, the CPS cannot be used alone because it does not have information on overall program costs and because overall program enrollment is measured less precisely in the CPS than in the administrative data.<sup>3</sup>

Combining the two data sets for analysis required two main adjustments (explained in detail in Appendix B). First, because there is a disparity between the enrollment data from administrative sources and the CPS (CPS data contain an undercount in enrollment for most programs), we made an adjustment in the CPS enrollment data to reflect the aggregate enrollment in the administrative figures. This adjustment consists of changing the weights assigned to each CPS observation to reflect the undercount (or overcount) in the CPS data relative to the administrative data. Since each individual is already assigned a weight that estimates the proportion of similar individuals in the total population, the adjustment is a simple multiplication of this weight by the ratio of the number of enrollees from the administrative data to the number of enrollees estimated from the CPS. This ensures that the CPS-based analysis produces an aggregate enrollment that matches the administrative data. When non-enrollees are used in the analysis (for example, in our simulations), their weights are reduced to make sure the total state population is the same as the original CPS figure. Second, we used the administrative data to calculate the costs per enrollee, but we included an adjustment that reflects the fact that benefit amounts are likely to differ between working families and families with no year-round workers. Thus, for each program and for each family type we adjusted individual CPS benefits to conform to the ratio of average administrative benefit level to average CPS benefit level.

For the analysis of the costs of public programs that accrue to working families, we use a specific definition of a working family that corresponds to the definitions used to determine eligibility for the programs under study. The “health insurance unit,” used for Medi-Cal, and “taxpaying unit,” used for the Earned Income Tax Credit (EITC) program, are two such examples.<sup>4</sup> Since our definition is similar to

3. The CPS does include some self-reported values of cash transfers (for example, for CalWORKs and the Earned Income Tax Credit) and the estimated “fungible” values of some non-cash payments (such as for Medicaid), but these are an unreliable measure of how much the benefits are costing taxpayers overall.
4. The CPS defines a “family” as two or more individuals related by birth or marriage—a fairly broad definition. Based on this definition, one could determine whether a person receiving public assistance has a family member who is working and subsequently estimate what fraction of public assistance recipients are “working family members.” This definition of a family member is conceptually problematic, however, since it does not correspond well to the definitions utilized by most public assistance programs, including Medi-Cal and EITC. The latter use a much narrower definition to establish who qualifies as a family member, which is one of the criteria used to determine family income, which in turn guides program eligibility. For instance, for the ten programs we studied, an unemployed man living with his employed sister would not have his sister’s income counted toward “family income.” Therefore, if he receives public assistance he would be considered a “working family member” under the CPS definition of family. This is misleading since no family member considered for program eligibility is actually

that of a nuclear family, extended family households that include adult siblings or other extended family members are considered to be multiple families.

We define an individual to be a working family member if one of the following conditions are met: (1) the individual is working; (2) his or her spouse is working; (3) the individual is under eighteen and at least one of his or her parents is working; or (4) the individual is under twenty-two, is a full-time student, and at least one of his or her parents is working. A working family is a family composed of such individuals; families with no year-round workers constitute all other families. Under our definition a working family has a maximum of two adult earners since other workers in the household are considered to be part of another family.

We make an additional restriction in our definition of working families to set a clear standard for worker's employment throughout the year. An individual is considered to be "working" if he or she is presently employed *and* he or she worked for at least forty-five weeks in the past year.<sup>5</sup> If individuals are presently employed but have worked less than forty-five weeks in the past year, or if they are presently not employed even though they have worked between one and fifty-one weeks in the past year, they might best be considered "under-employed" and are part of the "families with no year-round workers" category.

### **Public Assistance Programs in California**

California, like other states, has a wide variety of public assistance programs funded by federal, state, and local governments. Each program has a unique purpose and specific eligibility requirements. For this study we examine programs that provide cash or other assistance to supplement the income or reduce the expenditures of poor families that reside in California. We focus on the means-tested programs that are available to individuals or families specifically because they have low incomes (whether or not they are employed). For this reason we exclude programs that offer benefits to those who are retired or disabled and thus are usually not part of the labor force. We also exclude programs designed to increase the skills and thus the future

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working. Under eligibility requirements for most public assistance, the unemployed adult's nuclear family would be considered separate from the employed sister and her nuclear family.

5. This avoids a problem arising from the timeframe of the CPS. Although most of the CPS questions regarding public assistance concern receipt over the past year, most questions regarding details about their employment refer to current labor force participation. Considering only current work status is problematic. It may be that a person was unemployed for eleven months over the past year, during which time she or he received public transfers, but she or he is currently employed and not receiving such transfers. Categorizing that person as a "working family" enrollee in a public program is thus misleading. Since respondents are asked about the number of weeks they worked over the past year, restricting our definition of "working" to those who worked forty-five weeks of the year assures that the family received benefits while one member was in fact working.

earning power of workers, such as programs that only provide subsidies for training and education.

We include both the traditional safety net programs such as the Food Stamp Program and those that arose as a result of welfare reform and are designed to encourage work, such as Temporary Assistance to Needy Families (TANF), commonly known as Welfare-to-Work. We also include the EITC, designed to serve only those who work, because it is not only directly affected by wage levels but also one of the largest government public assistance programs that supplements the income of poor families.

We examine only income support programs for California residents that are represented in both of our two main data sources. Local programs such as General Assistance, county children's health programs, and health care programs for indigents are significant taxpayer-funded programs that we were unable to include because the necessary data are not available. Thus, our estimates of taxpayer costs from inadequate wages and employer benefits are lower than the true magnitude of these costs. Our estimate of the subsidies that currently support working families in California is, therefore, quite conservative.

We analyze ten programs in this study (more program details, including eligibility guidelines, are provided in Appendix A).

*The Earned Income Tax Credit (EITC)* is a refundable federal tax credit for eligible individuals and families that work and had an earned income under \$33,692 (\$34,692 for married individuals who file jointly) in 2003. The EITC reduces the amount of tax a worker owes, and it may result in a refund.

*CalWORKs* is California's version of Temporary Assistance to Needy Families (TANF), which gives cash aid and services to eligible needy California families.

*The Low Income Home Energy Assistance Program (LIHEAP)* is a federally funded block grant that provides eligible low-income persons with financial assistance to offset costs of heating and cooling their dwellings and of weatherizing their dwellings to make them more energy efficient.

*The Section 8 Rental Voucher Program* is a federal program that increases affordable housing choices for very-low-income households through a subsidy that allows families to choose privately owned rental housing.

*Child Care Assistance* refers to a comprehensive array of state programs designed to meet the needs of a variety of parents and children.

*Medi-Cal* is California's Medicaid health insurance program. Supported by federal and state taxes, it pays for a variety of medical services for children and adults with limited income and resources. (For the purpose of this report, we consider only Medi-Cal enrollees who are not disabled or elderly, since the vast majority of these enrollees are not labor force participants.)

*The Healthy Families Program* (California's name for the State Child Health Insurance Program, or SCHIP) is a state- and federally funded health insurance program for children (up to the age of nineteen) in families with incomes that exceed the Medi-Cal eligibility threshold, provided that these children were without employer-sponsored health insurance in the last three months.

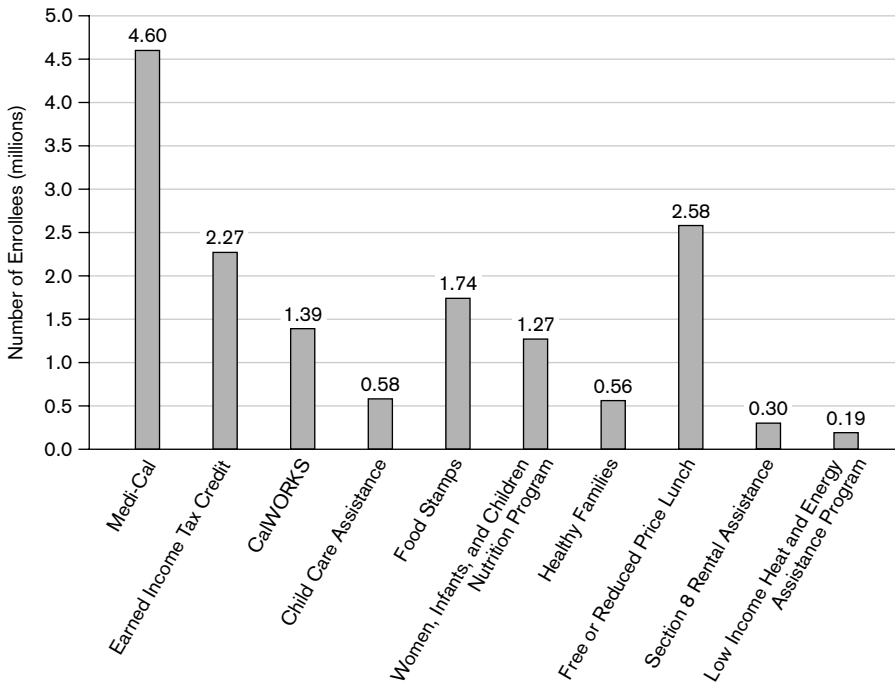


FIGURE 1.2. Enrollment in Public Assistance in California, by Program, 2002  
SOURCE: Administrative data (see Appendix B).

*The Special Supplemental Nutrition Program for Women, Infants, and Children*—better known as WIC—serves to safeguard the health of low-income women, infants, and children up to age five who are determined to be at “nutrition risk” by a health professional. The program provides nutrition, information on healthy eating, and referrals to health care.

*The Food Stamp Program* serves as the first line of defense against hunger, as it enables low-income families to buy food with coupons and Electronic Benefits Transfer (EBT) cards.

*The National School Lunch Program* is a federally assisted meal program operating in many public and nonprofit private schools and residential child care institutions.

According to our compilation of government administrative data, California residents received a total of \$21.2 billion dollars of public assistance through these ten programs in 2002.<sup>6</sup> Figures 1.2–1.4 provide the enrollment and aggregate costs for

6. We did not include any administrative expenses in estimating program costs. Since we are fundamentally interested in estimating how much taxpayer expenses would fall if enrollment falls, it is prudent to not include expenses that have to be paid regardless of the number of enrollees (that is, “fixed costs”). Since in reality administrative expenses are only partly “fixed,” our cost estimates are conservative in the sense that they understate how much costs would fall if current enrollees received better wages and benefits.



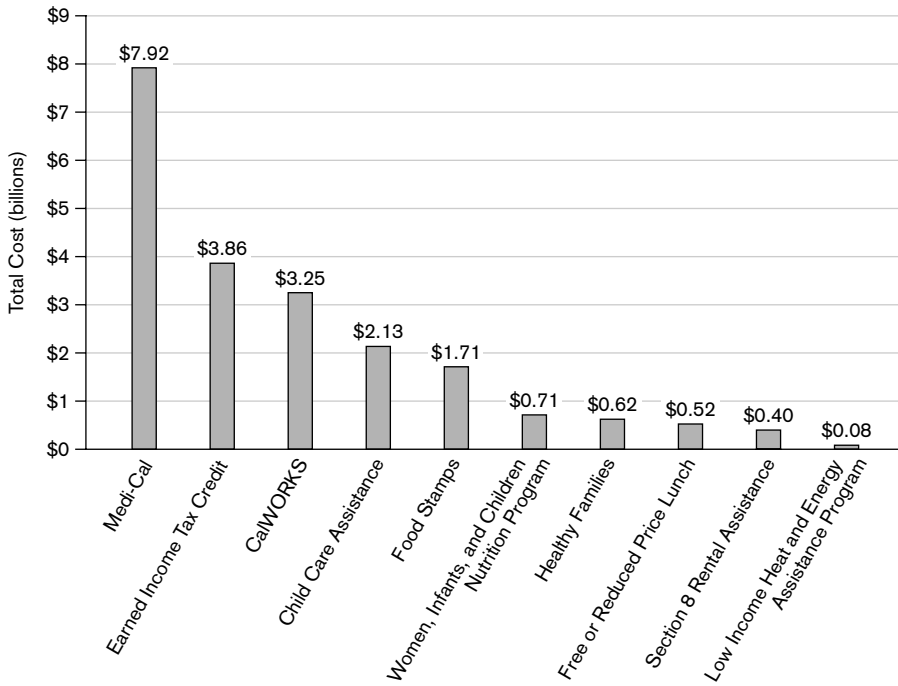


FIGURE 1.3. Total Cost of Public Assistance in California, by Program, 2002  
 SOURCE: Administrative data (see Appendix B).

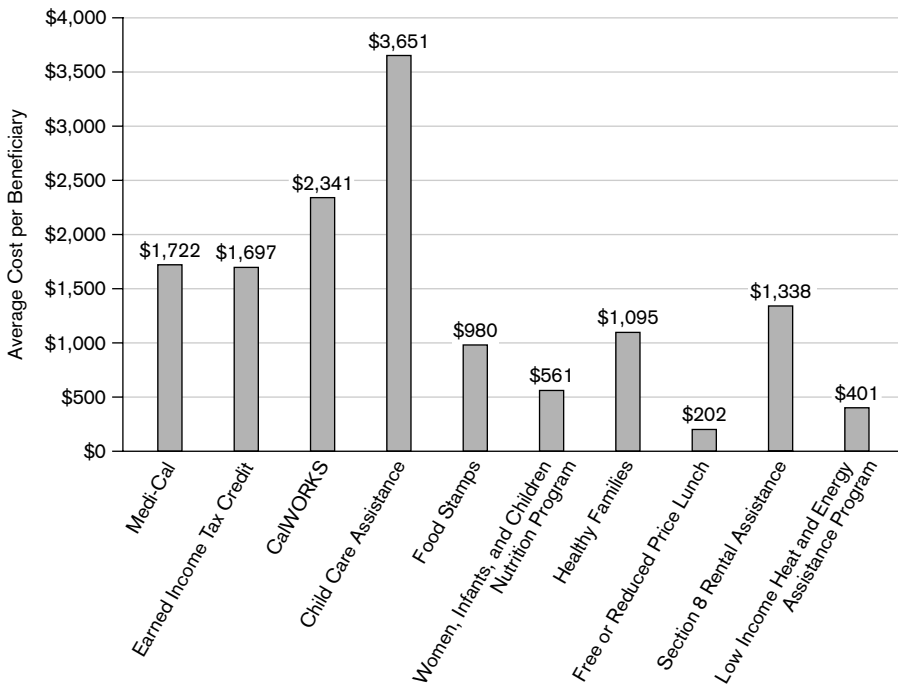


FIGURE 1.4. Average Cost per Beneficiary of Public Assistance in California, by Program, 2002  
 SOURCE: Administrative data (see Appendix B).

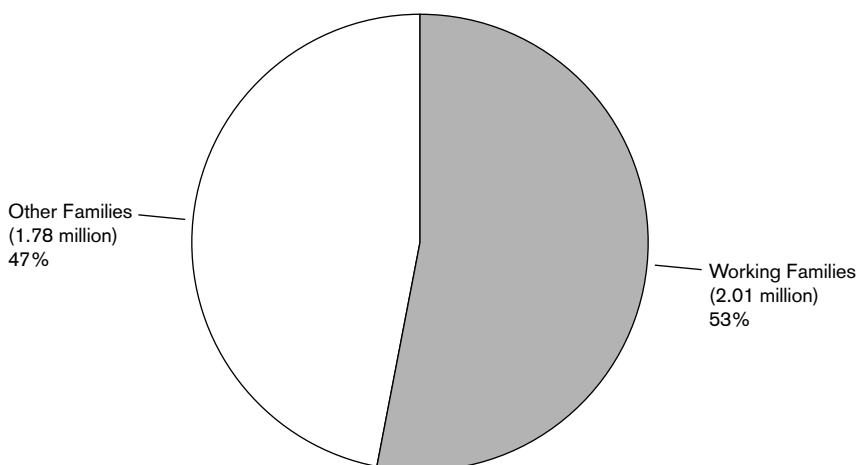


FIGURE 1.5. Percentage of Working Families Receiving Public Assistance in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

each of these public assistance programs. Administrative data are reported by individual for all programs except the Section 8 Rental Voucher Program (hereafter referred to as “Rental Assistance”) and LIHEAP (hereafter referred to as “Energy Assistance”), which document information by family.

Of these ten programs, Medi-Cal, EITC, and CalWORKs are the most expensive. Medi-Cal’s cost reflects both a large number of enrollees and a high cost per enrollee. Cost per beneficiary is highest for Child Care Assistance, CalWORKs, and Medi-Cal. In contrast, the National School Lunch Program has over 2.5 million participants, but its costs are relatively low. The same pattern holds for the WIC and Food Stamp Programs.

## PUBLIC ASSISTANCE TO WORKING FAMILIES

This section analyzes the proportion of “enrolled families” or “recipient families” that are working families. For this analysis we define a “recipient family” or an “enrolled family” to be one that receives assistance through at least one of the ten programs. As stated earlier, working families are defined as those in which at least one member worked forty-five weeks or more in 2002.

Our analysis shows that 53% of the families that received benefits from at least one of the ten programs under study qualified as working families, as shown in Figure 1.5. In other words, individuals in 53% of families that received public assistance from at least one of the ten programs under study either worked for the entire year or had a spouse or a parent who did so. This sharply contrasts with the conven-

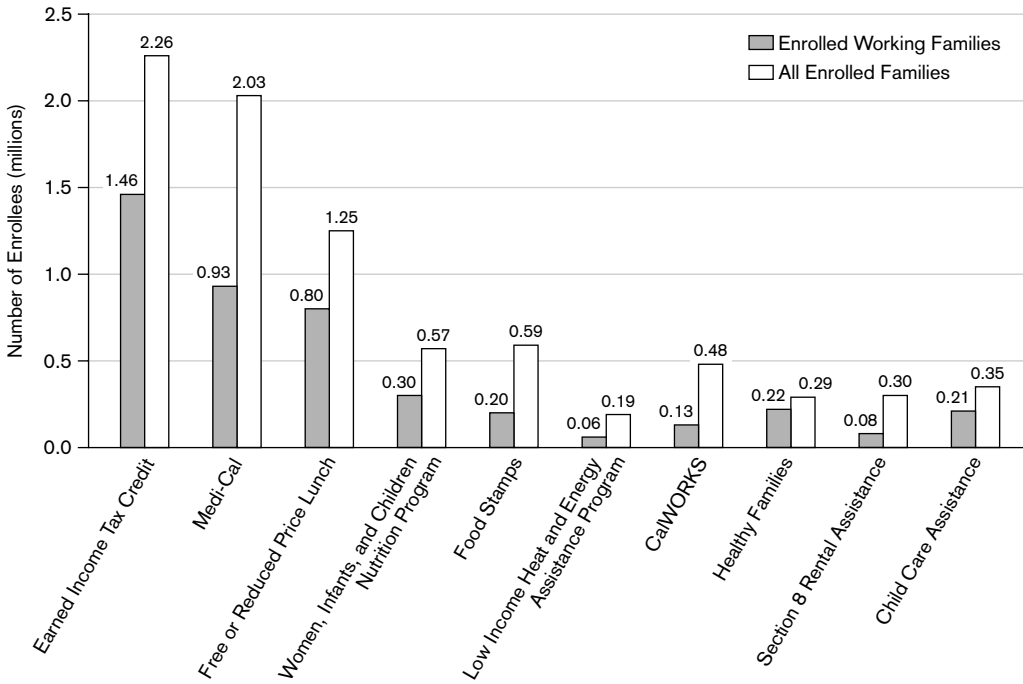


FIGURE 1.6. Enrollment of Working Families and All Families Receiving Public Assistance in California, by Program, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

tional wisdom that public assistance serves mainly as a safety net for those who cannot work or who are unable to find work.

Figure 1.6 compares the number of working families to all families enrolled in each program (the numbers of enrollees differ from those in Figures 1.2–1.4 because Figure 1.6 uses data on families while the other three figures use data on individuals). Proportions differ substantially by program. For example, 1.46 million out of a total of 2.26 million families (65%) that utilize EITC had at least one member who worked throughout the year; for School Lunch, .8 million out of 1.25 million families (64%) were working families, and for Healthy Families, .22 million out of .29 million (76%) were working families.<sup>7</sup> On the other hand, working families comprised less than 27% of all enrollees in Energy Assistance (.06 out of .19 million), Rental Assistance (.08 out of .30 million), and CalWORKs (.13 out of .48 million). This is to be expected because the income eligibility criteria for the former set of

7. Our data show that some families who receive EITC are not working families, even though only families with a member who worked at least part of the year are eligible. This may seem anomalous, since EITC only accrues from earned income. These recipient families, however, only have members who worked for less than forty-five weeks out of the year. In this case the family may qualify for EITC, but it is not considered to be a working family by our definition (which requires that at least one family member worked forty-five weeks during 2002).

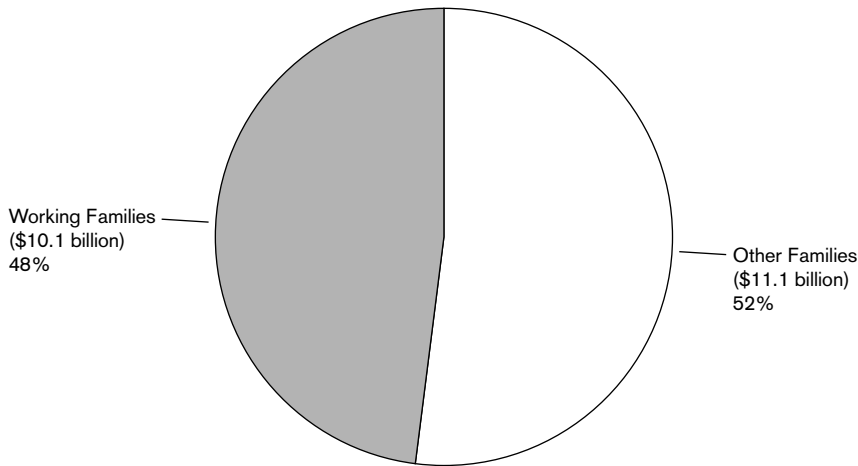


FIGURE I.7. Share of Total Public Assistance Expenditures to Families in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

programs are less restrictive than those for the latter. Since families with a working person are likely to have higher incomes than those that do not, we expect to find them concentrated in programs with less restrictive eligibility criteria.

EITC had the largest number of enrolled families, followed by Medi-Cal and School Lunch. This ranking held regardless of family work status. Furthermore, the three smallest programs for both types of families were Child Care Assistance, Rental Assistance, and Energy Assistance. In other words, although the proportion of working families varied substantially by program, the same programs that enrolled the greatest or the fewest people for one type of family also did so for the other.

Figure I.7 illustrates the cost (rather than the number of enrolled families) of public assistance for working families and families with no year-round workers. In 2002 California residents received approximately \$21.2 billion in public assistance from the ten programs under study. This is the cost to taxpayers (excluding the fixed administrative costs of the programs) from state and federal expenditures. Notably, 48% of this sum, or \$10.11 billion, went to working families. While working families' share of the *cost* was somewhat lower than their share of *enrollment* (53%, as noted earlier), they nevertheless received nearly half of all public assistance.

Figure I.8 illustrates the cost of each program separately, for working families and for all recipients. Here, too, we find substantial variation among different programs, mirroring the variation in enrollment. Working families' share of costs was greatest for Healthy Families, EITC, and School Lunch, and it was lowest for Rental Assistance, CalWORKs, and Energy Assistance. In terms of absolute numbers, Medi-Cal and EITC accounted for the largest portion of public assistance costs for working families.

Medi-Cal, Healthy Families, and Child Care Assistance are more expensive than

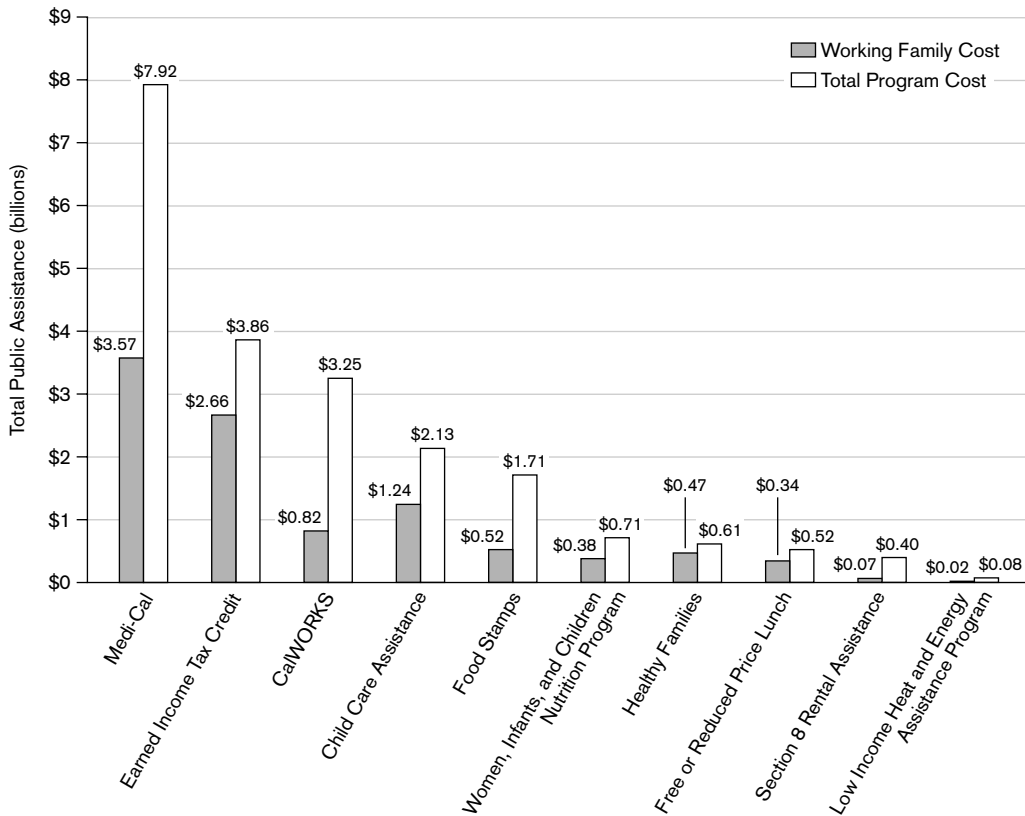


FIGURE 1.8. Total Public Assistance to Working Families in California, by Program, 2002  
 SOURCE: Combined administrative and CPS data (see Appendix B).

is suggested by enrollment numbers, as the cost per family in these programs is higher than average.

## DEMOGRAPHIC CHARACTERISTICS

This section analyzes the income and demographic characteristics of California's working families that received benefits from the ten public assistance programs under study. We analyze the family structure, ethnicity, and educational levels of working families and their members; we also examine how families receiving assistance are distributed across the state.

The structure of working families receiving public assistance differed significantly from that of all public assistance recipient families considered together. A comparison of Figures 1.9 and 1.10 shows that the working families enrolled in these programs were substantially more likely to contain two parents (48%, versus 35% of all recipient families). In addition, working families were less likely to be without chil-

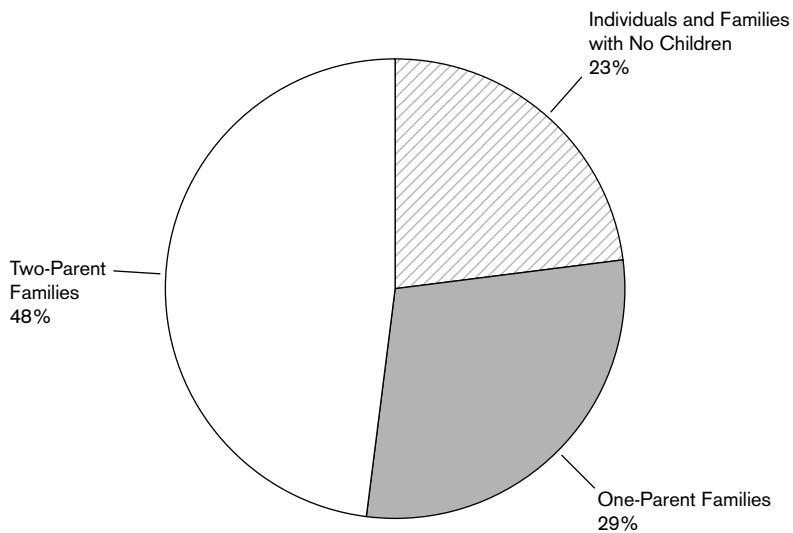


FIGURE I.9. Structure of Working Families Receiving Public Assistance in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

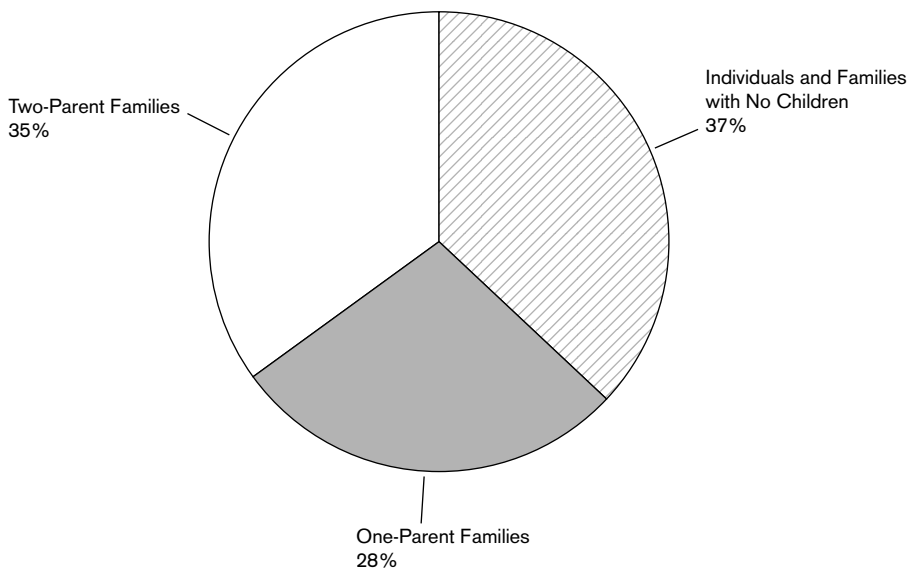


FIGURE I.10. Structure of All Families Receiving Public Assistance in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

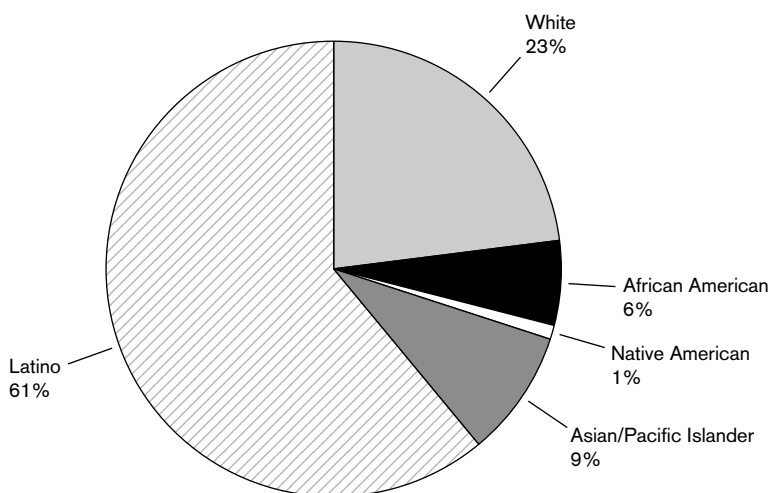


FIGURE 1.II. Ethnic Composition of Working Families Receiving Public Assistance in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

dren (23% versus 37%). This bias toward families with children is, of course, partly a function of the fact that some programs, like Healthy Families and Child Care Assistance, are available only to families with children.

The ethnic composition of working families receiving assistance is shown in Figure 1.II. Latinos made up 59% of all public assistance recipients in California in 2002; Whites accounted for 23%, Asians and Pacific Islanders for 9%, African Americans for 6%, and Native Americans for 1% of all recipients. The proportion of Latinos in the pool of public assistance recipients was actually slightly lower than their proportion (61%) among all families that earned less than 250% of the federal poverty income guideline.<sup>8</sup>

Adults in families receiving public assistance had less education than did adults in the general population, as shown in Figure 1.12. Only 63% of adults in working families receiving public assistance finished high school, compared to 85% of all adults in California. Even more striking, only 9% of adults in working families receiving public assistance had a college degree, compared to 29% of all adults.

The geographic spread of public assistance recipients corresponded roughly to the geographic spread of population and poverty in the state, as shown in Figure 1.13. Over half, 1.94 million, of all recipient families were in the greater Los Angeles area (Los Angeles, Riverside, and Orange Counties), while .52 million, or about 14%, were in the nine-county San Francisco Bay Area. Working families in the Los Angeles area and the Bay Area together made up over half (2.01 million) the total number of public

8. Two hundred and fifty percent of the federal poverty income guideline reflects a more accurate average measure of the income a family needs to be self-sufficient in California than does the guideline itself, and this figure is used in this document as needed. See NEDLC 2004.

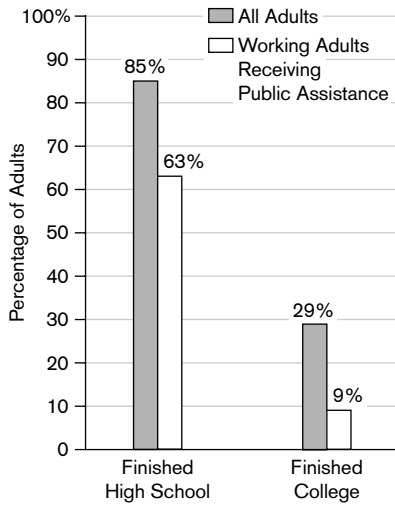


FIGURE I.12. Education Level of Adults in Working Families Receiving Public Assistance and All Adults in California, 2002  
SOURCE: Combined administrative and CPS data (see Appendix B).

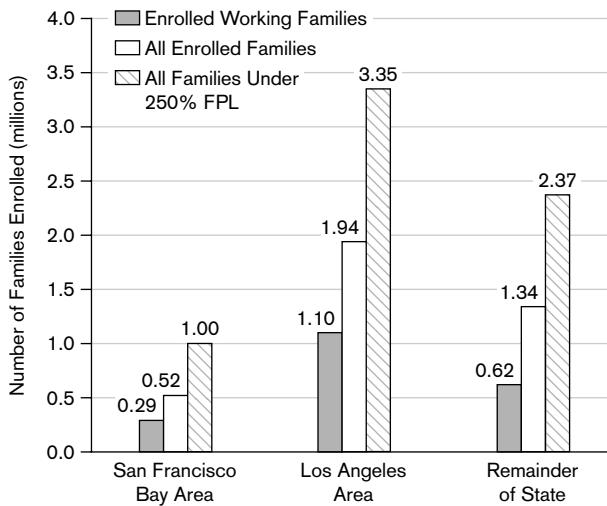


FIGURE I.13. Enrollment of Families Receiving Public Assistance in California, by Location, 2002  
SOURCE: Combined administrative and CPS data (see Appendix B).  
NOTE: FPL = Federal Poverty Level.



assistance recipients. The number of working families and families with no year-round workers was much smaller in the Bay Area than in the Los Angeles area, not only because the former has a smaller population but also because it has a smaller proportion of families that earn less than 250% of the federal poverty income guideline. Overall then, because Bay Area residents are less poor, they were somewhat less likely than were residents in other parts of the state to receive public assistance. Over half, .29 million, of Bay Area public assistance recipients were in working families. We should be cautious to draw too much inference from this geographic pattern, as the CPS data at the sub-state level are less reliable than are data for the whole state.

## **INCOME, EMPLOYMENT, AND INDUSTRY CHARACTERISTICS**

This section first documents the income that working families receiving public assistance earn and the contribution that public assistance makes. It then provides a profile of the types of businesses that employ workers from families that receive public assistance. We document the industries in which these workers are employed and the quantity of public resources flowing to those workers, and we estimate the distribution of employees by firm size as well. Finally, we document workers' wages and hours worked. In this section we use data on program enrollment and on program cost.

### **Family Income, Public Assistance Contribution, and Self-Sufficiency**

Public assistance provides essential support to the millions of working families who are able to enroll in programs for which they are eligible; many programs have long waiting lists and have to turn eligible families away. Even with public assistance, however, many working families are unable to attain income levels that meet their basic needs.<sup>9</sup> Figure 1.14 shows the income that families receive from their own earnings, the contribution they receive from public assistance, and the self-sufficiency gap—the income still needed to bring working families to self-sufficiency.<sup>10</sup>

Using the example of families with one adult and one child, the figure shows that the average family income in California in 2002 was \$24,800. On average, these fam-

9. As a measure of the income levels that families need to meet their basic needs, we use the county level “self-sufficiency” income levels developed for the National Economic Development and Law Center (Pearce and Cassidy 2003). The federal poverty income guideline has been discredited as an accurate measure of the income needed to meet basic needs, as it ignores regional variations in living costs and has a host of other problems. See Pearce and Cassidy 2003 for a discussion of the accuracy of different measures.
10. The figure uses CPS data on income and public assistance for working families and the county-level self-sufficiency standards for twenty-four family types. We report income, public assistance, and the self-sufficiency gap for three broad family types by computing a weighted average across counties and the more detailed family types.

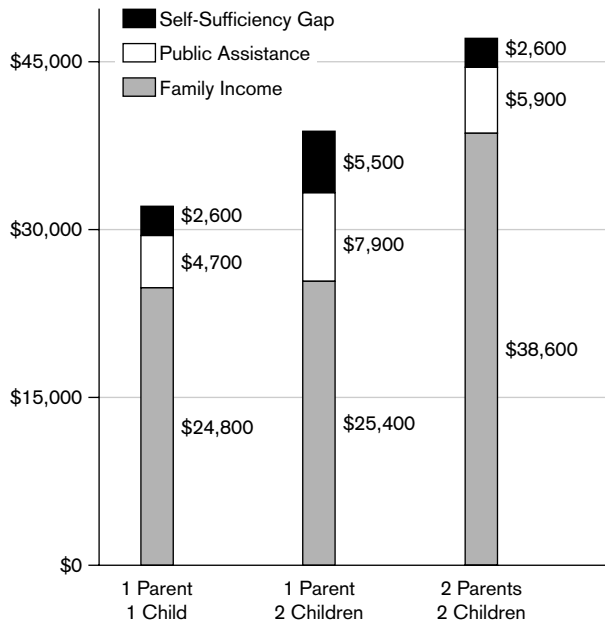


FIGURE I.14. The Self-Sufficiency Gap for Working Families Receiving Public Assistance in California, by Family Structure, 2002

SOURCE: CPS 2000–2002; NEDLC 2004.

ilies received \$4,700 in benefits from the ten programs we studied. This brought them close to self-sufficiency, but there was still an average gap of \$2,600 between their incomes and the self-sufficiency standard.<sup>11</sup> Working families with one adult and two children faced an even larger average shortfall of \$5,500. Public assistance brought working families closer to self-sufficiency, but the gap that remains demonstrates that even with vital public support families are not able to meet their basic needs.

### Industry and Firm Characteristics

Figure I.15 shows the ten industries that employed the greatest number of workers in families receiving public assistance. Retail trade is the clear frontrunner, employing 576,000 workers, or, as Figure I.16 shows, about 22% of all enrollees. Other large concentrations of these workers were in business and repair services, construction, and nondurable manufacturing.<sup>12</sup>

11. The self-sufficiency standard was calculated for each county based on the cost of living in that county, and the gap was calculated as the difference between that standard and average working family income in that county. County gaps were then aggregated to the state level.

12. Business and repair services include both high-end professional services such as IT consulting and low-end services such as janitorial and security services.

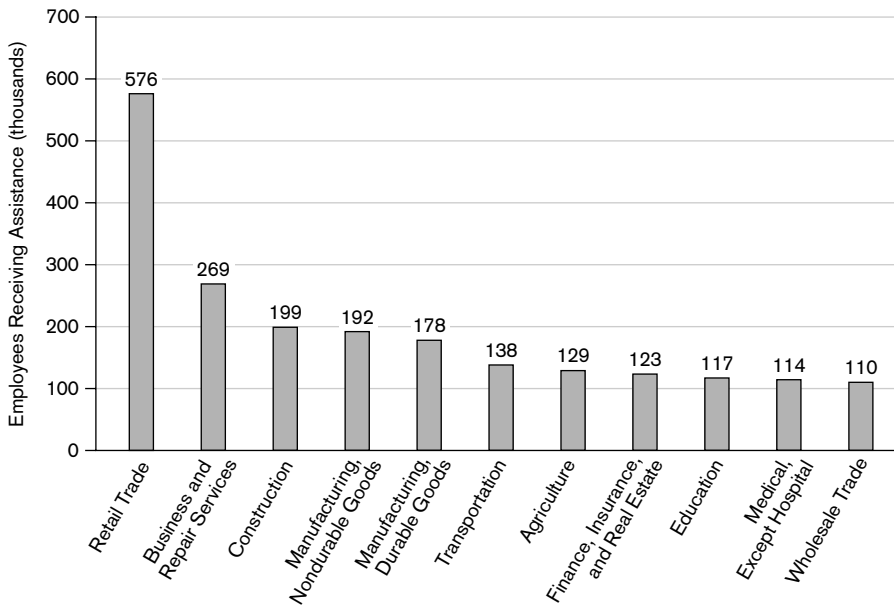


FIGURE 1.15. Top Ten Industries with the Greatest Number of Employees Receiving Public Assistance in California, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

Program enrollees were disproportionately concentrated in some sectors, as shown in Figure 1.16. Workers in families receiving public assistance were substantially more likely to be employed in the retail sector than were workers as a whole. Other sectors with disproportionate numbers of program enrollees included agriculture, nondurable goods manufacturing, social services, private household services, and personal services.

Our findings show that the bulk of workers receiving public assistance are employed in sectors that do not face significant international or even out-of-state competition, reflecting the distribution of low-wage work in the economy at large. Workers employed in the sectors that are more likely to face some out-of-state or international competition collectively received about \$2.9 billion of public assistance benefits, whereas those in the sectors that face little out-of-state or international competition received about \$7.2 billion.<sup>13</sup>

Figure 1.17 shows the annual total cost of the public assistance that workers

13. To calculate the sectors facing some out-of-state or international competition we used a very broad classification of “tradable” sectors: durable and nondurable manufacturing; finance, insurance, and real estate (FIRE); hospitality and entertainment; and other professional services and agriculture. Sectors facing little out-of-state competition were construction, transportation, government, trade, and a variety of service sectors.

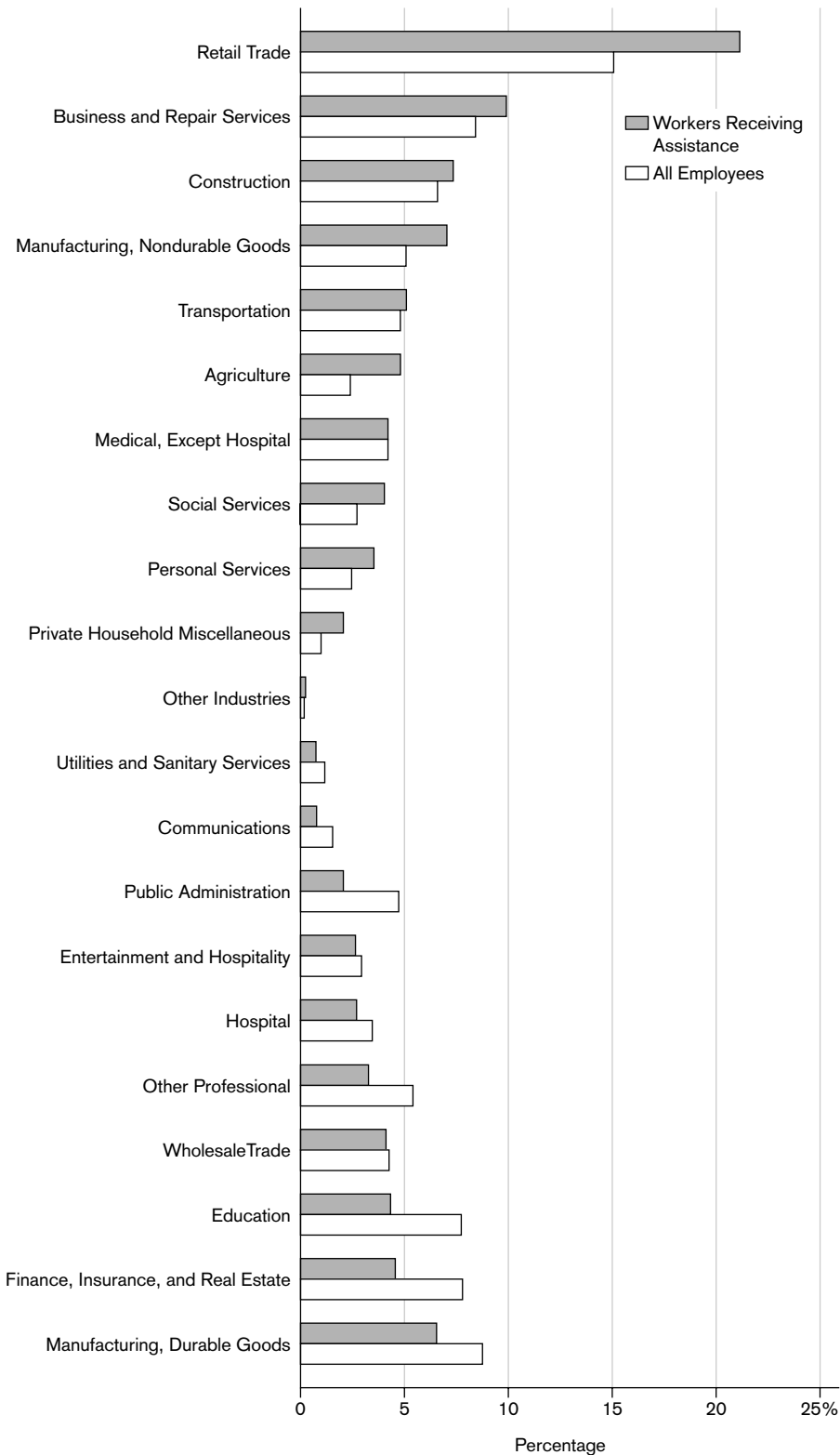


FIGURE I.16. Percentage of All Workers and Workers Receiving Public Assistance in California, by Industry, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

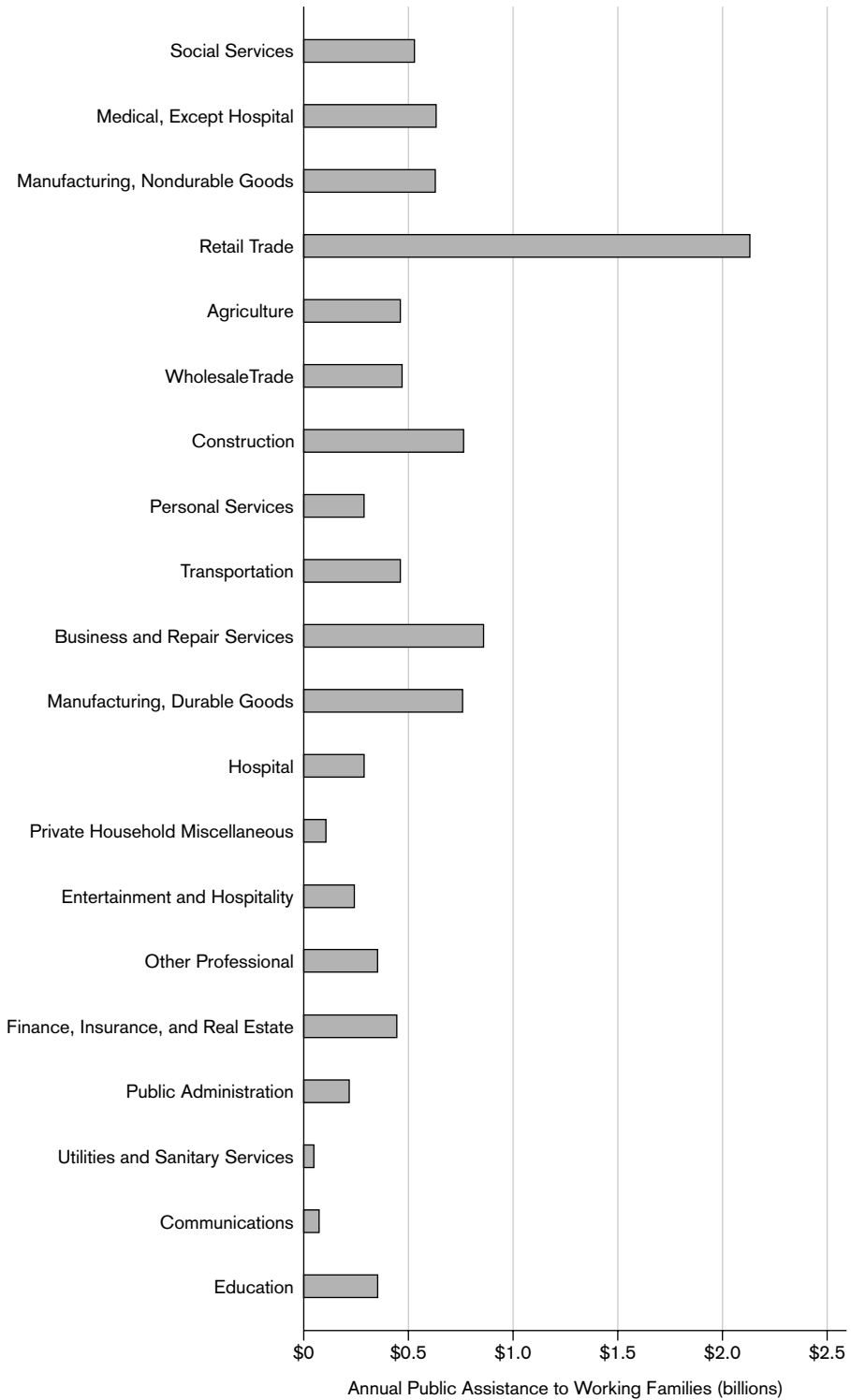


FIGURE I.17. Annual Amount of Public Assistance to Working Families in California, by Industry, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

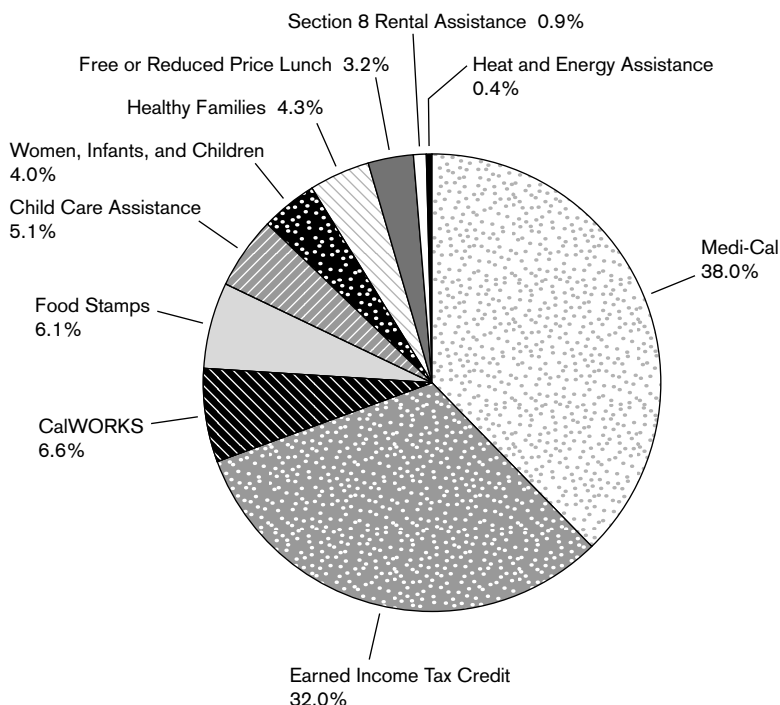


FIGURE 1.18. Percentage of Public Assistance Costs for the Retail Industry in California, by Program, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

received in California, aggregated by industry.<sup>14</sup> The importance of the retail sector is again apparent: workers in this industry received more than \$2 billion in taxpayer-funded public assistance in 2002, over twice that of any other sector. Other important sectors include business and repair services, whose workforce received about \$850 million in public assistance, and construction, which received over \$700 million in public assistance.

Figure 1.18 shows the distribution by program of public expenditures on benefits to workers in the retail industry. EITC and Medi-Cal furnished 70% of the assistance for workers in retail. In comparison, EITC and Medi-Cal accounted for approximately 57% of the ten program costs for all working families.

Figure 1.19 shows the number of employees from families receiving public assistance, distributed by the size of the firms in which they worked. These workers were concentrated in very small and very large businesses. It is notable that almost 700,000 workers—over 25% of these recipients—worked at firms with more than 1,000 employees. Figure 1.20 compares the percentage of these workers with all

14. When a family had members working in different industries, we allocated its total public assistance to its workers proportionate to each worker's hours. Then we aggregated this per-worker value by industry.

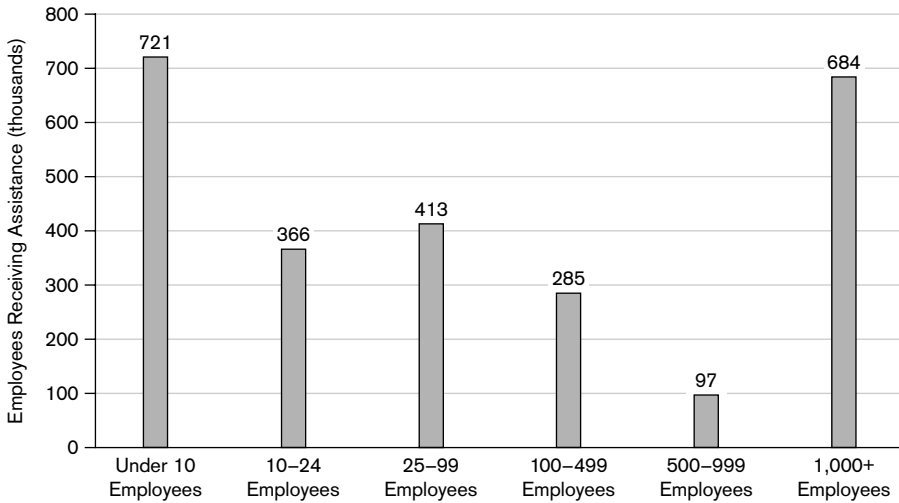


FIGURE I.19. Number of Employees Receiving Public Assistance in California, by Firm Size, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

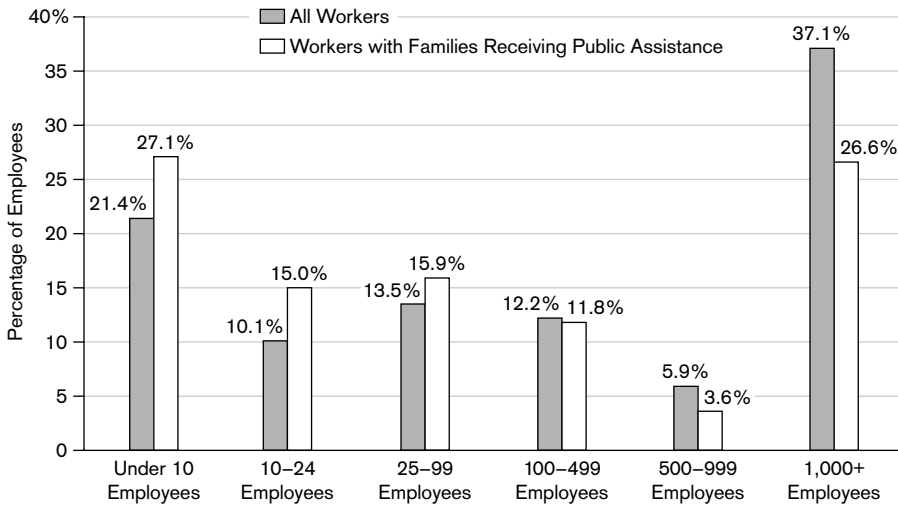


FIGURE I.20. Percentage of Employees Receiving Public Assistance in California, by Firm Size, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

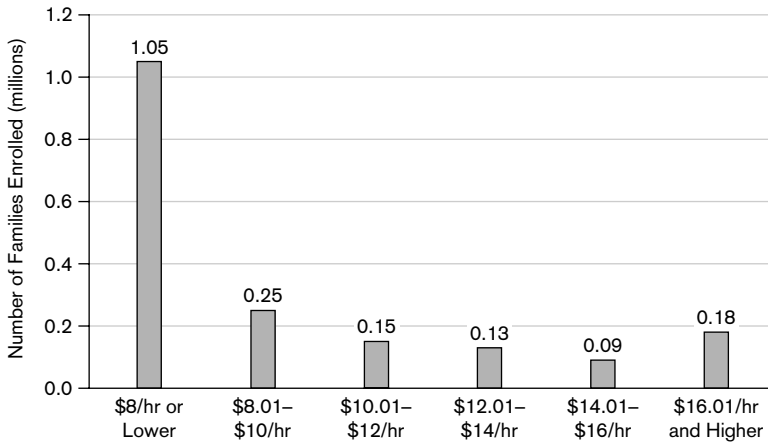


FIGURE 1.21. Number of Working Families Receiving Public Assistance in California, by Average Wage, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

workers in each category of firm size. Public subsidy recipients were disproportionately concentrated in smaller firms.

### Hours and Wages

Working families that participate in public assistance programs meet the means-tested eligibility requirements because their members either work but earn low wages or work few hours (or a combination of both). In addition, since income requirements differ by family size, the more dependents a family has, the more assistance they may qualify for at any given level of income. This section assesses the importance of each of these factors in the distribution of the \$10.1 billion of public assistance payments made to working families in California.

Figure 1.21 shows the number of workers from families receiving public assistance, distributed by wage level.<sup>15</sup> The largest number earned \$8.00 per hour (not much more than the current minimum wage of \$6.75 per hour) or less.

Figure 1.22 shows the cost of public assistance received by working families, distributed by the wage level of the family members who worked in 2002. Families with workers earning \$8.00 per hour or less received by far the largest portion of public assistance payments, totaling \$5.72 billion. The correlation between public assistance and wage level is clear: most of the workers in families that receive public assistance also fall into the lowest wage category.

Next we address the question of whether these workers are employed part time or full time. For the sake of clarity, we distinguish between families with one earner and

15. In multi-earner families, wage levels were calculated as the weighted average (by hours worked) of the wages received by all wage earners.



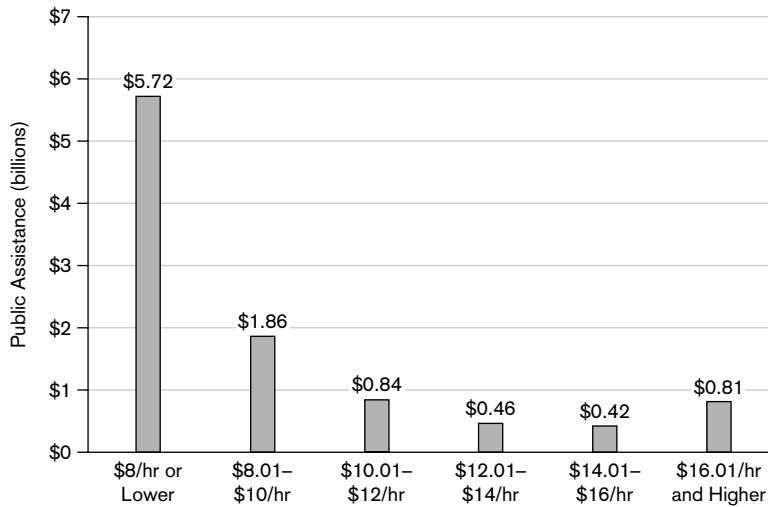


FIGURE 1.22. Public Assistance Receipts in California, by Average Wage, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

families with two earners, since the number of hours they can potentially work differs. Figures 1.23 and 1.24 show expenditures for public assistance, distributed by the number of hours worked per week for single- and for dual-earner families.<sup>16</sup> For both types, the greatest proportion of benefits went to families in which earners worked full time (at least thirty-four hours a week for single earners, and seventy hours for dual earners). For single-earner families, \$1.81 billion of assistance went to families in which earners worked less than full time. For dual-earner families, only \$.04 billion went to families whose workers together worked less than the equivalent of one full-time job, and \$1.31 billion went to families whose two workers together worked seventy hours or more, the equivalent of two full-time jobs. When single- and dual-earner families are aggregated, \$8.07 billion, or 81%, of public assistance benefits went to families with the equivalent of at least one full-time job. Moreover, \$7.44 billion, or 75%, went to single-earner families with over thirty-four hours of work per week plus dual-earner families with seventy hours or more of work per week.

## SIMULATING ALTERNATIVE LABOR MARKET STANDARDS

To get a clearer idea of what might reduce working families' reliance on public assistance, we simulate the impact of five labor market standards (LMS). The first four are

16. This discussion addresses the issue of part-time employment, but not labor force participation. Our calculation of average family work hours does not include all adults, but rather only those adults that work.

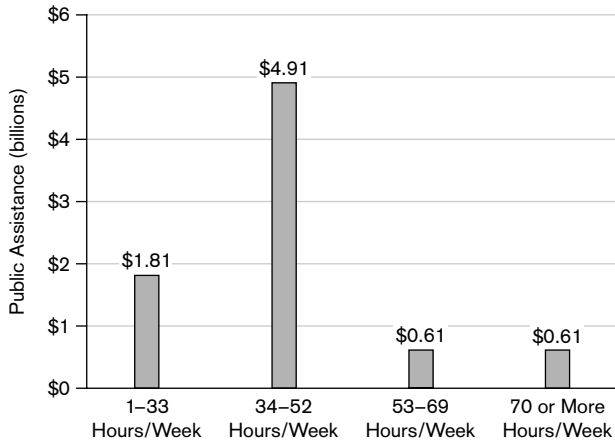


FIGURE 1.23. Public Assistance Receipts for Single-Earner Families in California, by Hours Worked, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

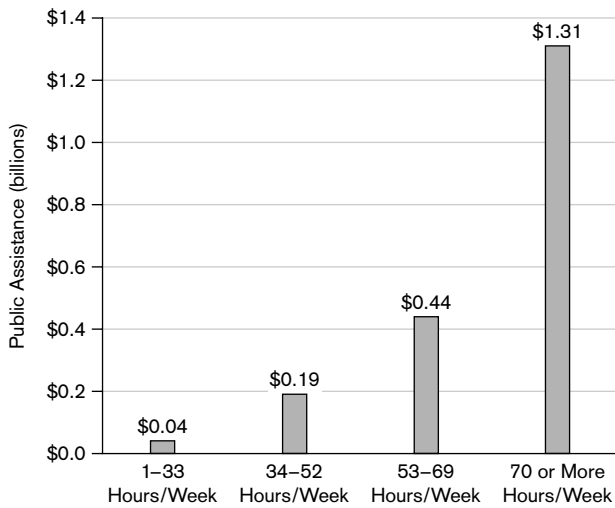


FIGURE 1.24. Public Assistance Receipts for Dual-Earner Families in California, by Hours Worked, 2002

SOURCE: Combined administrative and CPS data (see Appendix B).

wage standards of \$8, \$10, \$12, and \$14 per hour. The fifth is an employer-sponsored health insurance mandate (ESI); this analysis simulates a scenario in which all employers provide their employees with affordable family health coverage.<sup>17</sup>

We predict public assistance receipts under these LMS scenarios by utilizing a regression model.<sup>18</sup> This model allows us to compare how public assistance values vary as we change wages or benefits, adjusting for differences in family structures, demographic and geographic factors, and hours of work. For this exercise we assume that the number of hours worked is the same for all individuals—in other words, we assume that there will be no changes in labor supply or demand as a consequence of the LMS. We do not mean to suggest that imposing, say, a minimum wage of \$14 per hour would have no other impact on the labor market; rather, these simulations suggest the changes that would be needed to make a dent in the current reliance of working families on assistance programs.

We find that working families' receipts of public assistance would fall from \$10.1 billion to \$7.43, \$6.29, \$5.15, and \$4.55 billion for wage standards of \$8, \$10, \$12, and \$14 per hour, respectively, as shown in Figure 1.25. As suggested by our earlier tabulation of transfers by wage and hour categories, there is a substantial drop (nearly \$2.7 billion) in public assistance payments when wages are brought up from the current minimum wage to \$8 per hour. Consistent with our earlier findings, a movement to \$14 per hour reduces transfers by nearly 5.6 billion dollars. In other words, although upgrading minimum-wage jobs to \$8 or \$9 per hour substantially reduces working families' reliance on public assistance, given the structure of families, creation of and access to "middle-income" jobs (for example, those paying \$14 per hour and above) is needed as well. Conversely, replacing jobs paying \$14 per hour with those paying \$8 per hour is likely to prove costly not only to working families but also to taxpayers at large.

17. We do not assume that all current enrollees for Medi-Cal and Healthy Families who are working family members will stop taking up public health with the ESI mandate. We allow take-up of "wrap-around" public coverage as it empirically occurs for similar families who currently enroll in employer-provided family health coverage.

18. The regression utilizes data from 2000 through 2002, but predictions are made only for 2002. We ran separate regressions for each program. For each regression the outcome variable is total current public assistance received. Since the outcome variable is censored at zero, we use a censored normal regression model. The key independent variables are twenty-eight categories of family wages and hours interaction and ESI. Control variables are family structure, family size, number of children below six years of age, race composition, gender composition, age composition of adults, income other than earnings and public assistance, presence of disabled individuals in the family, year variables, and county of residence. After estimating the model, we simulated public savings under alternative LMSs by changing workers' wages while holding constant their hours of work. Finally we aggregated over all ten programs. By considering the twenty-eight categories of wages and hours interaction, and by considering each program separately, we allow for a varied impact of wages on public assistance for each program and family work configuration.

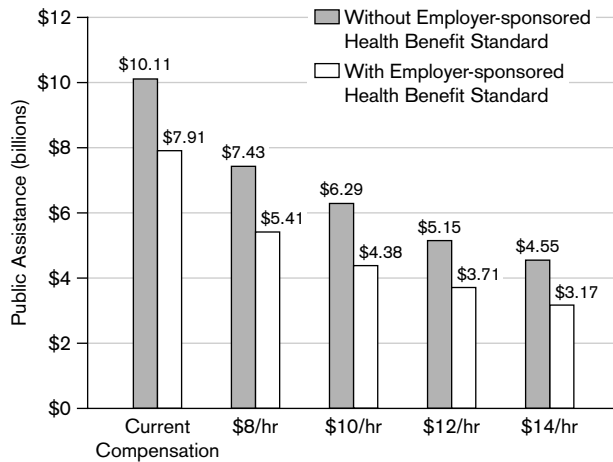


FIGURE 1.25. Current (2002) and Predicted Total Public Assistance to Working Families in California under Alternative Wage and Benefits Standards, by Wage Level

SOURCE: Combined administrative and CPS data (see Appendix B).

Figure 1.25 also illustrates, for each simulated wage level, the decline in public assistance if employers were to provide affordable health insurance. We find that with a mandated ESI, public assistance to working families would fall by \$2.2 billion without any additional wage standards, \$2.02 billion with a wage standard of \$8 per hour, and so on. This drop in payments occurs because the costs of Medi-Cal and Healthy Families would be reduced substantially. The savings from an ESI mandate decline when wages increase because both wage and benefit standards can reduce public health enrollment—the former through reducing eligibility and the latter through reducing take-up (the number of workers who enroll).

Figure 1.26 shows the predicted reduction in public assistance with a wage floor of \$14 per hour for each of the ten programs under study. Decreases in program payments range from a greater than 30% reduction in School Lunch costs to an almost 80% reduction in Rental Assistance.

This simulation assumes that there would be no employment loss resulting from an increase in wages and, thus, no increase in the number of families participating in programs as a consequence of this employment loss. In fact, most studies show that little or no employment loss has resulted from minimum wage increases in the United States (see Bernstein and Schmidt 1998; Brown 1999; Card and Krueger 1995). In California a number of studies have shown no negative employment effect from increases in the minimum wage in recent years, for increases comparable, in percentage terms, to the increase from the current minimum wage of \$6.75 per hour to an \$8.00 per hour standard (Card 1992; Reich and Hall 2001; Woods 2002). Even with

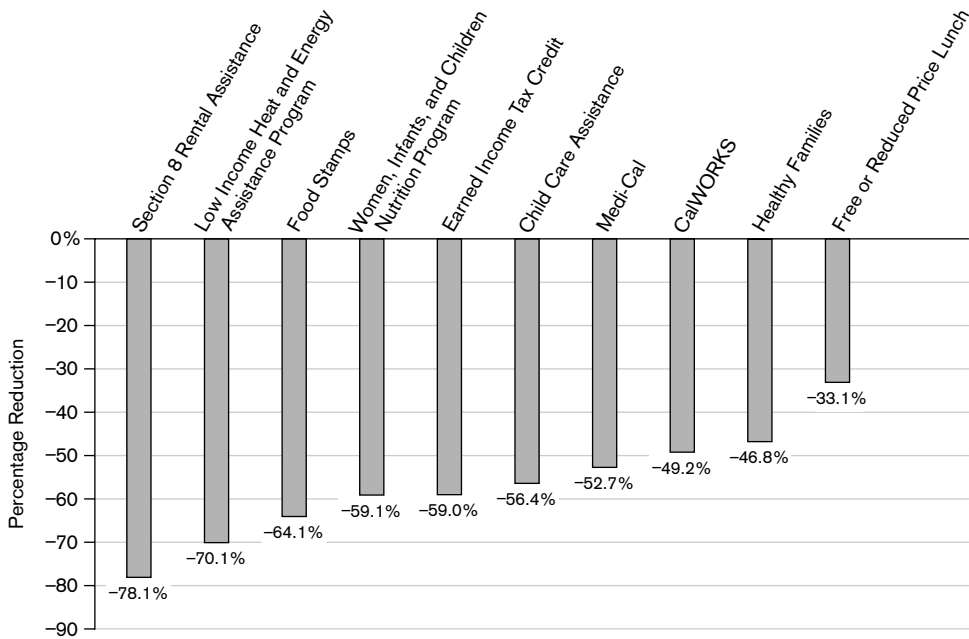


FIGURE I.2.6. Predicted Reduction in Public Assistance in California with a \$14 per hour Wage, by Program

SOURCE: Combined administrative and CPS data (see Appendix B).

very pessimistic assumptions about the employment loss resulting from a wage standard and very generous assumptions about the amount of public assistance that would go to the potential newly unemployed families, we calculate that the savings that would incur from reduced public assistance for workers earning at least \$8.00 per hour would be much greater than the additional cost of public assistance to these potentially newly unemployed families.

The following calculations establish an *outer limit* for the possible effect of a wage mandate on employment and hence on public assistance payments. First, we calculate potential employment loss by using the most pessimistic estimate of the negative employment effect of a wage mandate, provided by Neumark, Schweitzer, and Wascher (1999), vocal critics of minimum wage increases. They suggest that a 10% increase in wages causes about a 1% reduction in employment (i.e., an elasticity of  $-0.1$ ). According to the CPS, 2.4 million California workers earned \$8 an hour or less in 2002. If these workers all earned the minimum wage of \$6.75 an hour and received a full \$1.25 an hour raise and worked 40 hours a week, wages would increase 18.5% ( $\$1.25 \div \$6.75$ ) for this set of workers. The elasticity estimate of  $-0.1$  implies that 44,400 workers may lose work because of the wage mandate (2.4 million  $\times$  10%  $\times$  18.5%).

Second, we calculate the increase in public assistance payments to those families who have, in this exercise, lost their jobs because of an \$8.00 wage mandate. Those

losing work might receive the public assistance payments we identified as well as unemployment insurance (UI) benefits. Although less than 45% of unemployed workers actually qualify for UI, and take-up of other public assistance is substantially less than 100%, we will assume all newly unemployed workers will qualify for and will enroll in UI as well as other public assistance. The CPS shows that for non-working families that receive both UI and public assistance benefits, total annual receipts of UI plus public assistance amount to \$12,100 per year for those at the seventy-fifth percentile of the distribution of these families. This produces an annual increase in public assistance (including UI) of around \$538 million ( $44,400 \times \$12,100$ ).<sup>19</sup>

When we compare the cost of employment loss—\$538 million—to the savings realized with an \$8.00 per hour wage mandate—\$2.7 billion—we find that the cost would be less than one-fifth of the savings. This calculation uses assumptions that we believe overestimate the added public cost of wage mandates.

## **FINDINGS, IMPLICATIONS, AND POLICY RECOMMENDATIONS**

The analysis of the ten California public assistance programs studied here reveals the following key findings:

- Many of the families receiving public assistance are receiving aid not because they are unable to work, but because the work they do does not pay them enough to meet basic needs. Working families (those with at least one member who works at least forty-five weeks per year) comprise over half (53%) of the families enrolled in at least one of the ten programs we analyzed. Of the \$21.2 billion of public assistance to low-income families received by California families in 2002, 48%, or \$10.1 billion, went to working families.
- Some of the largest programs supporting working families include medical care, the Earned Income Tax Credit (EITC), and Child Care Assistance. Of the \$10.1 billion in public assistance expenditures that went to working families, \$3.57 billion (35%) was for Medi-Cal, \$2.66 billion (27%) for the EITC, and \$1.24 billion (12%) for Child Care Assistance.
- The data indicate that most working poor are not employed in sectors that face competition from low-wage states or countries. Workers employed in the sectors that are more likely to face some out-of-state or international competition collectively received about \$2.9 billion of public assistance benefits, whereas those in the sectors that face little out-of-state or international competition received about \$7.2 billion.

19. An alternative method of calculating UI benefits is to take 50% of annual earnings at the new \$8 per hour wage and assign eligibility and take-up rates. Even high rates of UI eligibility or take-up produce estimates in the same range as the figure in the text.

- Public assistance was concentrated among workers in several sectors. For instance, workers in the retail industry collectively received over \$2 billion of public assistance, over twice the amount received by workers in any other sector.
- Most of the public assistance that went to working families went to families with workers earning very low wages: \$5.72 billion went to families whose workers had average wages of \$8 per hour or less. Another \$1.86 billion went to those with wages between \$8 and \$10 per hour.
- Most of the public assistance to working families went to families with full-time workers, dispelling the notion that part-time work largely accounts for the low earnings of poor working families. A total of \$7.63 billion, or 76%, went to single-earner families with thirty-four hours or more of work per week plus dual-earner families with seventy hours or more of work per week. Moreover, \$8.26 billion dollars, or 82%, of public assistance benefits went to families with the equivalent of at least one full-time job (thirty-four or more hours per week).
- The simulation we conducted on wages predicts that a drop in public assistance payments from \$10.11 billion to \$7.43 billion (a nearly \$2.7 billion difference) would occur if the current group of public assistance recipients earned at least \$8 per hour. Simply raising wages for workers earning the minimum wage and slightly above would help working families and could potentially save billions of dollars in program expenditures.
- The simulation we conducted on employer-provided health insurance predicts that, at current wage levels, public assistance payments would drop from \$10.11 billion to \$7.91 billion (a \$2.2 billion difference) if the working families currently receiving assistance had access to affordable health insurance through their employers. When combined with employer-provided health insurance, payments would fall to \$5.41 billion with a wage floor of \$8 per hour, \$4.38 billion with a wage floor of \$10 per hour, \$3.71 billion with a wage floor of \$12 per hour, and \$3.17 billion with a wage floor of \$14 per hour.

The findings in this report provide direction for current policy discussions on the costs of the hourglass economy. First, the findings in this report dispel a widely held misperception that part-time work largely accounts for the low earnings of poor working families. Instead, our analysis points to low wages as a primary factor leading workers to turn to public assistance. Pulling this set of families out of poverty and thus reducing their need for public assistance will likely be more dependent on finding ways to improve wages than on finding ways to increase the number of hours that they work. (A different set of policy considerations applies to the 47% of public assistance recipients that are members of families with no year-round workers.)

Second, our simulations show that savings in public assistance payments would be in the billions of dollars if the current group of recipients earned at least \$8.00 per hour (savings of nearly \$2.7 billion) or had affordable employer-provided health insurance (savings of \$2.2 billion). Policies that improve wages and benefits would

allow public assistance programs to reach more families by moving people off waiting lists and into current programs and extending their eligibility.

Finally, the public assistance payments that flow to workers are of a magnitude that can change economic incentives for the businesses in which they are employed. This lends fuel to the growing concern that employers are increasingly relying on public assistance programs to supplement their workers' wages. Given our current relatively low labor standards, employers face incentives to take the "low road" and shift some of their labor costs to the public. This "crowding out" effect has long been recognized in the public health arena; recent research suggests that it may also apply to the EITC. The policy implication is that programs like the EITC and the minimum wage are complementary, because a binding minimum wage would insure that the benefits from the EITC are not diverted into lower take-home wages. Thus, it is critical to couple public assistance programs for low-wage workers and their families with stronger labor standards, both to make the most effective use of existing public resources and to avoid creating negative incentives for employers.

Overall, this report suggests that public assistance programs could be much more effective if they were combined with policies and programs that improve wages and benefits. Policies to improve compensation fall into two main categories. One set of policies creates a floor on wages and benefits through labor market standards and/or strengthening the right of workers to organize and bargain collectively; the second set helps workers improve their skills while improving the productivity of the businesses in which they work. The two can be seen as complementary strategies. On the one hand, closing off the "low road" through labor market standards removes the incentives that employers currently face to pass on the costs of health care and non-self-sufficiency wages to the taxpayer. On the other hand, paving the "high road" through industrial upgrading and worker training can help employers absorb the costs of higher wages.

### **Labor Market Standards**

A wide variety of policies can serve to raise the floor on wages and benefits, including minimum wage laws, living wage policies, benefits mandates, and policies that improve workers' rights to organize and bargain collectively. Minimum wage increases apply across the board to all businesses. Other policies are targeted to specific industrial sectors; prevailing wage laws in construction provide one example. The recently passed California Health Care Insurance Act (which will be put before the voters in November 2004) would function as a health benefits mandate, requiring firms with more than 50 workers to provide individual health benefits, and firms with 200 or more workers to provide family benefits.

Another set of policies in this category promotes the creation of new jobs that allow workers to become self-sufficient and the upgrading of existing jobs to self-sufficiency level. In contrast, traditional state and local economic development



strategies focus on attracting jobs without considering wages and benefits. Cities and counties around the country have passed living wage ordinances requiring firms that receive public subsidies to meet wage standards. Several California cities and counties are considering policies that would require community impact reports for economic development projects receiving public subsidies. These policies include consideration of wages and health insurance along with other community benefits. In 2002 California distributed \$5.5 billion in economic development subsidies to businesses, yet recipients did not—and currently do not have to—offer any accounting of how many jobs were created by the subsidies or what wages and benefits were provided (California Budget Project 2002). Nine states have passed disclosure requirements for economic development projects.<sup>20</sup>

The costs of labor market standards are greatest when employment is concentrated in sectors that face competition from regions or countries with lower wages. Our findings show that the bulk of workers receiving public assistance are employed in sectors that do not face significant international or even out-of-state competition, reflecting the distribution of low-wage work in the economy at large. In this context, higher wages and benefits are much less likely to result in a significant loss of employment. The disproportionate share of payments to workers in the retail sector suggests that sector-specific strategies, which may be combined with productivity-improving workforce training programs, could be successful. That 30% of the total payments to working families—\$3 billion a year—go to workers (and family members) in firms with 500 or more employees suggests that policies could be established that would address “crowding out” without negatively impacting small businesses. To make effective use of public resources, labor standards are best coupled with public assistance programs for low-wage workers and their families. Along these lines, the city of San Francisco, which recently instated an \$8.50 per hour minimum wage, is considering a local EITC.

### **Policies to Improve Workers’ Skills and Firms’ Productivity**

Improving workers’ skills is another strategy for improving wages and benefits. Higher skill levels increase workers’ access to good-paying jobs, and they increase firms’ productivity and their ability to compete, and thus their capacity to pay higher wages. Successful strategies along these lines include sectoral training partnerships, which not only link training with complementary efforts to improve the productivity and competitiveness of entire industries within a region but also link productivity improvements with higher compensation. These efforts encourage collaboration among companies and between companies and unions in a specific industry and harness the resources and expertise of organizations such as community-based nonprofits,

20. These states are Minnesota, Maine, Connecticut, North Carolina, Louisiana, Texas, West Virginia, Ohio, and Nebraska; see Greg LeRoy et al. 2002.

community colleges, labor organizations, and others. Sectoral partnerships have a strong record of retaining well-paying jobs, which provide career ladders for incumbent workers and good opportunities for new workers. In a complimentary approach, some Workforce Investment Boards have begun using the self-sufficiency standard as an assessment tool to evaluate the success of their One-Stop centers in moving workers into self-sustaining jobs.

The findings also highlight the importance of improving access to education, a strategy with one of the strongest relationships to income adequacy. Only 9% of adults in families enrolled in public subsidy programs had a college degree, compared to 29% of all adults. Budget shortfalls triggered cuts to course offerings in California's community college system that fell disproportionately on vocational education and resulted in an enrollment drop of 90,000 students in 2003 (California Community Colleges 2003). Proposed cuts in enrollment and higher tuition at the California State University and University of California systems will disproportionately reduce the access of low-income working family members to higher education. The cuts bring immediate savings to the state budget, but the long-term effect on family income, job attraction, and social service costs must be considered.

In summary, improving conditions for the working poor in California will require a combination of policy solutions. The public assistance programs discussed in this report provide vital support for millions of California's working poor, and many of these programs are facing probable budget cuts at the very moment that the economic downturn has increased demand for their services. In this context, a fiscally responsible policy approach for improving the lives of the working poor in the state would combine targeted income support programs with policies that establish labor standards, promote the development of self-sufficiency jobs, and increase access to education and training.

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## **APPENDIX A. Description of the Ten Public Assistance Programs**

### **Earned Income Tax Credit**

The Earned Income Tax Credit (EITC) is a refundable federal tax credit for eligible individuals and families that work and have earned income under \$33,692 (\$34,692 for married individuals filing jointly). The EITC reduces the amount of tax a worker owes, and it may result in a refund.

To qualify for the credit a worker must have earned income during the year. Total earned income and modified adjusted gross income must be less than: \$11,230 (\$12,230 for married individuals filing jointly) with no qualifying children; or, \$29,666 (\$30,666 for married individuals filing jointly) with one qualifying child; or, \$33,692 (\$34,692 for married individual filing jointly) with more than one qualifying child.

Workers also must have less than \$2,600 in investment income to be eligible for the credit.

Married persons filing separate returns and qualifying children of another person are ineligible. Members of married couples filing jointly cannot be qualifying children of another person. A qualifying child cannot be used by more than one person to claim the EITC. Detailed information about the EITC is available at <http://www.irs.gov/individuals/article/o,,id=96466,oo.html>.

### **CalWORKs (TANF)**

CalWORKs is a welfare program that gives cash aid and services to eligible needy California families. The program serves all fifty-eight counties in the state and is operated locally by county welfare departments. A family that has little or no cash and needs housing, food, utilities, clothing, or medical care may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance receive money each month to help pay for housing, food, and other necessary expenses.

CalWORKs payments are issued in the form of a check. The amount of a family's monthly assistance payment depends on a number of factors, including the number of people who are eligible and the special needs of any of those family members. The income of the family is considered in calculating the amount of cash aid the family receives.

Specific eligibility requirements take into account an applicant's citizenship, age, income, resources, assets, and other factors. Generally, services are available to: families with a child (or children) in the home who has been deprived of parental support or care because of the absence, disability, or death of either parent; families with a child (or children) and both parents in the home, but the principal earner is unemployed; and needy caretaker relatives of a foster child (or children).

More information about CalWORKs is available at <http://www.deltacollege.edu/dept/calworks>.

### **Low Income Heat and Energy Assistance Program**

The Low Income Home Energy Assistance Program (LIHEAP) Block Grant is funded by the federal Department of Health and Human Services (DHHS). It provides two basic types of services. Eligible low-income persons, via local governmental and nonprofit organizations, can receive financial assistance to offset the costs of heating and/or cooling their dwellings, and/or have their dwellings weatherized to make them more energy efficient.

This is accomplished through three program components.

The Weatherization Program provides free services to improve the energy efficiency of homes, including attic insulation, weather-stripping, minor housing repairs, and related energy conservation measures.

The Home Energy Assistance Program (HEAP) provides financial assistance to eligible households to offset the costs of heating and/or cooling dwellings.

The Energy Crisis Intervention Program (ECIP) provides payments for weather-related or energy-related emergencies.

Eligibility for each program component is determined by a verified monthly and annual income adjusted for household size. A detailed table of income guidelines is available at <http://www.csd.ca.gov/incometable.html>.

## **Section 8 Rental Voucher Program**

The Section 8 Rental Voucher Program increases affordable housing choices for very low-income households by allowing families to choose privately owned rental housing. The public housing authority (PHA) generally pays the landlord the difference between 30% of household income and the PHA-determined payment standard—about 80% to 100% of the fair market rent (FMR). The rent must be reasonable. The household may choose a unit with a higher rent than the FMR and pay the landlord the difference or choose a lower cost unit and keep the difference.

HUD contracts with housing authorities to provide Section 8 assistance to very low-income households, households already assisted under the Housing Act of 1937, and households with incomes up to 80% of the area median that qualify to receive a voucher in connection with other HUD programs. HUD determines median income levels for each area annually. Further details are available at <http://www.hud.gov/progdsc/voucher.cfm>.

## **Child Care Assistance**

California provides a comprehensive array of child development programs to meet the needs of a variety of parents and children. Relevant programs for this analysis include: General Child Care and Development, Migrant Child Care and Development, Campus Child Care and Development, State Preschool Program, State Preschool Full-Day Program, School Age Community Child Care Program (Latchkey), and CalWORKs Child Care.

By statute, all eligible children must be under the age of thirteen, or under the age of nineteen if physically or mentally incapable of self-care, or under court supervision; children must also (1) reside with a family (a) whose income does not exceed 85% of the State Median Income (SMI) for a family of the same size and (b) in which the parent (or parents) is working or attending a job training or educational program, or (2) receive or need to receive protective services. Income counted to determine eligibility includes all sources of income to the family except: earnings of a child under eighteen years of age; loans, grants, and scholarships obtained under conditions that preclude their use for current living costs; grants or loans to students for educational purposes made or insured by a state or federal agency; allowances received for food, shelter, or uniforms or other work-required clothing; business expenses for self-employed family members; and income of a recipient of federal supplemental security income benefits pursuant to Title XVI of the Federal Social Security Act and state supplemental program benefits pursuant to the Federal Social Security Act and the Welfare and Institutions Code.

According to California Education Code, a family is “income eligible” if a family’s adjusted monthly income is at or below 75% of the SMI, adjusted for family size, and adjusted annually. Further details are available at [http://www.cde.ca.gov/cyfsbranch/child\\_development/downloads/finalplano405.pdf](http://www.cde.ca.gov/cyfsbranch/child_development/downloads/finalplano405.pdf).

## **Medi-Cal (Medicaid)**

Medi-Cal is California’s Medicaid health care program. This program pays for a variety of medical services for children and adults with limited income and resources. Medi-Cal is supported by federal and state taxes. Once eligibility is established, Medi-Cal benefits are available as long as eligibility requirements are met.

An individual is automatically eligible for Medi-Cal if she or he receives cash assistance under one of the following programs: SSI/SSP (Supplemental Security Income/State Supplemental Program); CalWORKs (California Work Opportunity and Responsibility to Kids)—previously called Aid to Families with Dependent Children (AFDC); Refugee Assistance; and Foster Care or Adoption Assistance Program.

Individuals not receiving cash assistance may be eligible for Medi-Cal if they are one of the following: age sixty-five or older, blind, disabled, under twenty-one years of age, pregnant, diagnosed with breast or cervical cancer, in a skilled nursing or intermediate care facility, a person with refugee status during a limited period of eligibility (adult refugees may or may not be eligible depending upon how long they have been in the United States), a parent or caretaker relative of a child under twenty-one years of age. Also eligible is a child whose parent (a) is the primary wage earner and is unemployed or underemployed, or (b) is deceased or doesn't live with the child, or (c) is incapacitated.

Further details are available at <http://www.dhs.ca.gov/mcs/medi-calhome/FAQs2.htm>.

### **Healthy Families Program (SCHIP)**

The Healthy Families Program is a state- and federally funded health coverage program for children up to the age of nineteen whose family incomes are above the level eligible for no-cost Medi-Cal and below 250% of the federal poverty income guideline (\$38,160 for a family of three) and who have been without employer-sponsored health insurance in the last three months.

Parents, legal guardians, stepparents, foster parents, or caretaker relatives may apply for insurance for a child living in their home. Only the parents' income will be considered. The income of a legal guardian, stepparent, foster parent, or caretaker relative who lives with a child will not be used to qualify the child for the program. Additional qualification criteria are available at [http://www.healthyfamilies.ca.gov/English/about\\_join.html](http://www.healthyfamilies.ca.gov/English/about_join.html).

### **Nutrition Program for Women, Infants, and Children**

The Special Supplemental Nutrition Program for Women, Infants, and Children—better known as the WIC program—serves to safeguard the health of low-income women, infants, and children up to the age of five who are individually determined to be at “nutrition risk” by a health professional. WIC provides nutritious foods, nutrition counseling, and referrals to health and other social services to participants at no charge.

WIC is not an entitlement program; that is, the U.S. Congress does not set aside funds to allow every eligible individual to participate in the program. Instead, WIC is a federal grant program for which Congress authorizes a specific amount of funding each year for program operations. The Food and Nutrition Service, which administers the program at the federal level, provides these funds to WIC state agencies (state health departments or comparable agencies) to pay for WIC foods, nutrition counseling and education, and administrative costs.

To be eligible, an applicant's income must fall at or below 185% of the federal poverty income guideline (currently \$33,485 for a family of four). A person who participates or has family members who participate in certain other benefit programs, such as the Food Stamp Program, Medicaid, or Temporary Assistance for Needy Families, automatically meets the income eligibility requirement. Detailed information about the program is available at <http://www.fns.usda.gov/wic/aboutwic/default.htm>.

## **Food Stamp Program**

The Food Stamp Program serves as the first line of defense against hunger. It enables low-income families to buy nutritious food with coupons and Electronic Benefits Transfer (EBT) cards. Food stamp recipients spend their benefits to buy eligible food in authorized retail food stores. The program is the cornerstone of the federal food assistance programs, and it provides crucial support to needy households and to those making the transition from welfare to work.

Households may have \$2,000 in countable resources, such as a bank account. Households may have \$3,000 if at least one person is age sixty or older or is disabled. Certain resources are not counted, such as an applicant's home and lot and the resources of people who receive Supplemental Security Income (SSI) or benefits under the Temporary Assistance for Needy Families (TANF) program. Detailed eligibility guidelines are available at [http://www.fns.usda.gov/fsp/applicant\\_recipients/fs\\_Res\\_Ben\\_Elig.htm](http://www.fns.usda.gov/fsp/applicant_recipients/fs_Res_Ben_Elig.htm).

## **National School Lunch Program**

The National School Lunch Program is a federally assisted meal program operating in more than 99,800 public and nonprofit private schools and residential child care institutions. It provides nutritionally balanced, low-cost or free lunches to more than 26 million children each school day. In 1998 Congress expanded the National School Lunch Program to include reimbursement for snacks served to children (through eighteen years of age) in after-school educational and enrichment programs.

The Food and Nutrition Service administers the program at the federal level. At the state level, the National School Lunch Program is usually administered by state education agencies, which operate the program through agreements with school authorities.

Any child at a participating school may purchase a meal through the National School Lunch Program. Children from families with incomes at or below 130% of the federal poverty income guideline are eligible for free meals. Those with incomes between 130% and 185% of the poverty guideline are eligible for reduced-price meals, for which students can be charged no more than forty cents. Children from families with incomes over 185% of the poverty guideline pay full price, although their meals are still subsidized to some extent. Local school authorities set their own prices for full-price (paid) meals, but they must operate their meal services as nonprofit programs.

After-school snacks are provided to children on the same income eligibility basis as school meals. Snacks are free, however, in programs that operate in areas where at least 50% of students are eligible for free or reduced-price meals.

Additional details are available at <http://www.fns.usda.gov/cnd/Lunch/default.htm>.

## **APPENDIX B. The Combined Administrative and CPS Data Set**

To carry out our analysis we needed to combine the detailed information available in the Current Population Survey (CPS 2000–2002) with the government administrative data on program enrollment and costs. This was necessary because the administrative data, which are derived from the programs themselves, rather than the self-reported responses of a small sample of California households, are a more accurate source of enrollment and cost information than the CPS. In addition, the CPS's self-reported values of cash transfers (such

as CalWORKs or EITC) and the estimated “fungible” values of non-cash payments (such as Medicaid) are unreliable measures of how much the benefits are costing taxpayers. We assume that although the CPS may result in an over- or undercount of program participation, this discrepancy is evenly distributed vis-à-vis the CPS household and demographic characteristics, resulting in an unbiased sample of households across all the other variables we use in this analysis.

Therefore, our task was to adjust the CPS enrollment figures to reflect official administrative statistics. The discrepancy can be substantial for particular programs. To quantify this potential discrepancy, we compiled specific administrative enrollment and benefit costs for California for the ten programs examined in this report.

As shown in the table below, there are indeed substantial differences between the CPS-based estimates and the administrative figures for enrollment and benefit costs.

	ADMINISTRATIVE DATA	CPS DATA	CPS OVER- OR UNDERCOUNT
<b>Individual Level Data</b>			
Medi-Cal (Medicaid)	4,598,047	3,692,319	-19.7%
Earned Income Tax Credit (EITC)	2,272,298	2,084,120	-8.3%
CalWORKs (TANF)	1,390,529	1,023,126	-26.4%
Child Care Assistance	584,385	162,446	-72.2%
Food Stamp Program	1,741,007	1,572,003	-9.7%
Nutrition Program for Women, Infants, and Children (WIC)	1,266,813	1,345,075	6.2%
Healthy Families (SCHIP)	561,631	489,566	-12.8%
National School Lunch Program	2,582,835	2,215,934	-14.2%
<b>Family Level Data</b>			
Section 8 Rental Voucher Program	295,588	195,138	-34.0%
Low Income Heat and Energy Assistance Program (LIHEAP)	191,963	227,310	18.4%

Most programs have an undercount in the CPS of between 8% and 34%. Two notable exceptions are Energy Assistance, which has an 18% overcount, and Child Care Assistance, which has a very large undercount of 72%.

To address this discrepancy, we adjusted the CPS data on enrollment and benefit costs using the administrative figures. We used administrative figures for overall enrollment to adjust the population weights in the CPS dataset. Specifically, we multiplied the population weight by the ratio of the number of enrollees from the administrative data to the number of enrollees estimated from the CPS. This ensured that the CPS-based analysis produced an aggregate enrollment that matched the administrative data. When non-enrollees were used in the analysis (for example, in our simulations), their weights were reduced to make sure the total state population was the same as the original CPS figure. In addition, since the benefit amounts are likely to vary between working family members and members of families with no year-round workers, for each program we adjusted the individual CPS benefits by the ratio of average administrative benefit level to average CPS benefit level. Details of this adjustment vary somewhat from program to program and are provided below. Note that whereas we feel comfortable with this adjustment for most programs, the severity of the



undercount in the case of Child Care Assistance means that one should be cautious regarding estimates for that program.

## **PROGRAM ENROLLMENT VARIABLE CONSTRUCTION AND COST ADJUSTMENT METHODOLOGY**

### **Earned Income Tax Credit**

The CPS identifies EITC recipients in the data set at the individual level using the *EIT-CRED* variable to report the total credit received. Administrative data report enrollment at the individual level. The *EIT-CRED* value was assigned to the individual recipient and applicable family members as both a yes/no variable ( $p\_eitc$ ,  $f\_eitc$ ) and a total value ( $p\_eitc\_v$ ,  $f\_eitc\_v$ ). The adjusted CPS value ( $f\_eitc\_a$ ) was calculated by multiplying the ratio of  $p\_eitc\_v$  to its mean by the per capita cost of administrative cost to CPS reported enrollment, then aggregating the result ( $p\_eitc\_a$ ) to the level of the family ( $f\_eitc\_a$ ).

### **Section 8 Rental Voucher Program**

The CPS identifies Section 8 recipients at the family level using the *FHOUSSUB* variable and the monthly value of the benefit using *FHOUSVAL*. Administrative enrollment is based on the number of vouchers in use, which are usually given to the family's reference person. Because our construction of the family variable is more restrictive than that used in the CPS data, it may be possible that more than one "family" is receiving benefits under one voucher and that some cases are double-counted during the calculation of the CPS's total annual amount. To remedy this problem we identified individuals in families receiving the benefit ( $p\_sec8$ ) and calculated the annual per person per family cost of Section 8 benefits ( $p\_sec8\_v$ ) using the CPS's original family ID, then summed the values to the level of our new family ID to create a new family designation ( $f\_sec8$ ), which corresponds to the *FHOUSSUB* variable and a correct annual cost ( $f\_sec8\_v$ ). This then allowed us to calculate the adjusted CPS value ( $f\_sec8\_a$ ) using the methodology described above.

### **Low Income Heat and Energy Assistance Program**

The LIHEAP program is coded at the household level for both enrollment (*HENGAST*) and value (*HENGVAL*) in the CPS. Administrative enrollment figures are also at the household level. This variable presents a similar situation as above, and we used the same methodology to calculate the per-person, per-family benefit value ( $p\_heap\_v$ ) and family-adjusted value ( $f\_heap\_a$ ).

### **CalWORKs (TANF)**

The CPS reports CalWORKs recipients at the individual level as both a yes/no variable (*PAWYN*) and a total value (*PAWVAL*) for all recipients. Administrative enrollment is reported at the individual level. Persons were assigned both a yes/no variable ( $p\_tanf$ ) and value ( $p\_tanf\_v$ ). Families were assigned a corresponding yes/no variable ( $f\_tanf$ ) and a total value

( $f\_tanf\_v$ ), which is the sum of  $p\_tanf\_v$  for all family members. Using the methodology described above, the adjusted CPS value ( $p\_tanf\_a$ ) is the product of the ratio of  $p\_tanf\_v$  to its mean and the per capita cost of administrative cost to CPS reported enrollment. The values were summed across the family to calculate the  $f\_tanf\_a$  variable.

### **Medi-Cal (Medicaid)**

The CPS reports Medicaid take-up ( $MCAID$ ) and market value ( $P-MVCAID$ ) at the individual level. Administrative enrollment is reported at the individual level with different average costs for children under the age of eighteen and adults, and separately for those who are elderly or disabled. Each recipient was identified either as a youth ( $py\_caid$ ) or an adult ( $pa\_caid$ ). Families were assigned a value of the sum of  $P-MVCAID$  for all recipients in the family who were (a) not disabled, and (b) not 65 years of age or older. Adjusted CPS values at both the individual ( $pa\_aid\_a$ ,  $py\_aid\_a$ ) and family levels ( $f\_caid\_a$ ) were calculated using the same methodology described above.

### **Food Stamp Program**

The CPS reports food stamp recipients at the household level ( $HFOODSP$ ) and market value at the family level ( $F-MV-FS$ ). Administrative enrollment figures are for all persons in a family receiving benefits. To calculate adjusted CPS costs all persons with a family food stamp market value above zero were assigned yes/no ( $p\_fs$ ) and value ( $p\_fs\_v$ ) variables. The methodology described above was used to calculate an adjusted individual value ( $p\_fs\_a$ ), which was then summed across the family ( $f\_fs\_a$ ).

### **National School Lunch Program**

The CPS reports take-up of free and reduced-price school lunches at the household level ( $HFLUNCH$ ) and market value of school lunches at the family level ( $F-MV-SL$ ). Administrative data report enrollment as the number of children receiving the benefit. In addition to the inconsistency between the units of measure for CPS and administrative enrollment, there is a wide discrepancy between the family and household variables in the CPS since some families with a positive school lunch market value are not identified as being in households receiving a free or reduced-price lunch. To correct for this, all eligible children in households receiving the benefit or in families with a positive market value were assigned the variable  $p\_sl2$ . The sum of enrolled children was aggregated to the level of the family ( $f\_sl2\_n$ ), which allowed the calculation of the per capita CPS ( $p\_sl2\_v$ ) and adjusted CPS ( $p\_sl\_a$ ) values of school lunch benefits using the methodology described above. The adjusted value was summed to the level of the family ( $f\_sl2\_a$ ).

### **Child Care Assistance**

The CPS identifies the persons (adults) who received child care assistance benefits ( $CCAYN$ ) in 2001 and the number of persons in a household receiving the benefit ( $HRNUMCC$ ), whereas the administrative data report the number of children served annually. To reconcile these two data sets, the eligible children in households receiving the benefit were identified as

$p\_cca$  then aggregated at the family level as  $f\_cca$ . Since there is no CPS reported market or fungible value for the assistance benefits, each case was assigned a ratio of 1 when using the methodology described above for calculating the total family value.

### **Healthy Families (S-CHIP)**

The CPS identifies children who were enrolled in the State Child Health Insurance Program in 2001 (PCHIP). Administrative data specify the number of children enrolled in the program. Since there is no CPS reported market or fungible value for the assistance benefits, each case was assigned a ratio of 1 when using the methodology described above for calculating the total family value.

### **Nutrition Program for Women, Infants, and Children**

The CPS identifies mothers and pregnant women receiving WIC benefits (*WICYN*), but not their children. Administrative data provide enrollment figures for all persons in the program. Children of enrolled mothers were identified based on eligibility and, along with their mothers, assigned a yes/no value ( $p\_wic$ ). Since there is no CPS reported market or fungible value for the assistance benefits, each case was assigned a ratio of 1 when using the methodology described above for calculating the total family value.

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*The State of California Labor*, Vol. 4, pp. 3–44, ISSN 1531-9037, electronic ISSN 1541-9045.

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