Making It in America: Working families, low wages and the American Dream

New strategies for communities, legislators and family advocates
"change is built on collective action, not isolated initiatives. We believe that a highly engaged and informed constituency of families can spearhead a national movement that creates economic and social equity through policy reform."

[The Marguerite Casey Foundation]

Every day, more and more working families find themselves on the negative side of the American Dream. No longer is hard work — once considered the first step toward achieving that dream — a guarantee of economic independence and social equity. For millions of low-wage workers, keeping up with the cost of living, let alone getting ahead, is proving difficult. More than 37 million families in the United States live in poverty; most work in low- or no-benefit jobs and struggle to meet basic living expenses. At issue is the $5.15 per hour federally legislated minimum wage, which in relation to the cost of living buys less now than it would have 30 years ago. Every day the minimum wage is not increased, working families lose ground. Even as the minimum wage has lost value, family support programs such as healthcare and childcare for low-income families, have been cut, or drastically reduced and, in many cases, fail to adequately serve those most in need. In addition to low wages and shrinking social services, working families confront inadequate transportation systems, predatory lending, unaffordable housing and a lack of resources to increase their financial net worth.
Concerned about these trends and committed to identifying forward-thinking solutions that bring about sustained change, the Marguerite Casey Foundation held a series of roundtable discussions in three of the Foundation’s grantmaking areas that have a concentration of low-wage workers: Jackson, MS; Baton Rouge, LA; and Los Angeles, CA. Working families, policymakers and experts from a variety of disciplines and with different ideologies exchanged ideas and policy solutions that can positively affect the lives of working families. Making It in America is the result of those discussions. A framework for change, it reflects the needs and concerns of low-wage working families, and recommends sound, innovative strategies and family-friendly policy reform that can help American families move out of poverty and reclaim the American Dream. The Marguerite Casey Foundation’s mission is to nurture a movement of working families.
Wages here have not kept up with the cost of living. We’re not getting what we need to survive, even though we work all the time. We need a higher minimum wage so we can survive in Los Angeles, but we also need a higher minimum wage so we can raise our own dignity.

— Working mother in Los Angeles
In 2004, some 7.8 million of the 37 million Americans who were living below the poverty line were considered working poor. Most of those people — nearly three out of every five — were employed full-time. And the jobs held by the working poor are, predictably, some of the toughest in the country: low-income earners often find themselves cleaning houses and hotel rooms, picking up garbage, scrubbing dishes and pots, and diapering children.

America’s working poor defy demographic classification; lines of gender, age and race are blurred. But there are some identifiable trends:

Women are more likely than men to be considered working poor, both in overall numbers and as a percentage of the population. Six percent of all women are working poor, but only four percent of men are. Far fewer women are classified as working poor when they are married, presumably because the husband is also contributing to the family’s financial situation. But the inverse is also true, and true to an extreme: nearly 17 percent of single parent, female-headed households live below the poverty line.

Black and Hispanic workers are more than twice as likely to be among the working poor than their white counterparts. Younger workers, whose lower wages are further complicated by higher unemployment rates, are more likely than older workers to find themselves in poverty; though many of the elderly are forced to work.

Educational factors stand out as well. High school dropouts are more than twice as likely as high school graduates to be counted among the working poor. And the poverty rate is lower among college graduates.
In low-wage working families, children are the most vulnerable: They are less likely to remain healthy throughout childhood, to graduate from high school, to get married before having children, and to pursue non-minimum wage careers of their own than their middle- and upper-class counterparts. And with their parents juggling multiple jobs, long commutes and the stress of meeting the basic needs of their family, they often receive less support at home.
Report Methodology

The most important voices in the debate about poverty are those of low-wage working families. After reviewing basic policy proposals, Marguerite Casey Foundation met with working families, Foundation grantees, and policy experts and makers in three cities to better understand the challenges faced by low-wage earners and to collectively come up with innovative and realistic solutions. The firsthand accounts of those working in low-wage jobs guided the dialogue and helped identify social, economic and legislative barriers to prosperity in America.

The result — Making It in America: Working Families, Low Wages and the American Dream — is a white paper that organizes the ideas, proposals and insights gleaned from our collaborative discussions. This paper is a guidepost for community leaders, advocates and legislators who want to implement thoughtful, well-informed policies to create new opportunities for America’s hard-working low-wage families.

Executive Summary

More than 7.8 million of working people living in poverty hold full-time, low-wage jobs with few or no benefits. The single biggest barrier to prosperity for these workers is the $5.15 federally mandated hourly minimum wage. The minimum wage represents about 25 percent less than what most working families need to pay for necessities such as food, clothing, utilities and, in particular, housing, which has dramatically increased in cost throughout the country. Today, the real value of the minimum wage is $3.00 less than what it was in 1968, and minimum-wage workers have lost the gains of the legislative increases legislated in 1996–1997.

Lifting working Americans out of poverty requires a national minimum wage that’s a livable wage. Raising the minimum wage to at least $7.50 per hour would significantly boost the annual income of working families and restore purchasing
power to minimum-wage workers. Successfully lobbying for living-wage legislation requires a strategic effort that involves local, state and national advocacy groups in communicating the positive economic impact of a national living wage and in helping refine federal living-wage legislation.

The living-wage movement takes as its theme the reasonable position that no one who works for a living should be poor. Thus, wages paid to even the lowest-wage workers, should, with full-time work, lift them out of poverty.²

—Jared Bernstein, former U.S. Department of Labor economist, puts it:

Other barriers to prosperity for working families
In addition to an inadequate minimum wage, our roundtable discussions identified these barriers to prosperity for low-wage working Americans:

• Underused income tax credits
• Lack of emphasis on job training and retraining
• Inadequate transportation systems
• Limited financial literacy
• Insufficient childcare options
• Scarce affordable housing

Income tax credits. The Earned Income Tax Credit (EITC) offers much-needed tax relief — up to $4,400 — to millions of hard-working low-wage families. However, only a small percentage of eligible taxpayers take advantage of this benefit because applying for the credit is complicated and cumbersome. (In 2005, Marguerite Casey Foundation published The Earned Income Tax Credit: Analysis and Proposals for Reform, which provides a detailed discussion of the EITC and the failure to meet its legislative intent.) Family incomes would significantly increase if
the EITC were improved, simplified and combined with other tax credits such as the 
Child Credit Tax, which provides eligible taxpayers with a credit of $1,000 per child.

**Unemployment insurance and job retraining.** The movement of jobs to other 
countries has disproportionately hit low-wage earners in this country. To keep pace 
with this trend, current employment and training programs need to develop 
programs that transition affected workers into more stable employment situations. 
Additionally, unemployment insurance programs need to be improved to cover 
part-time and seasonal workers, address the problems of the long-term 
unemployed, and provide greater emphasis on retraining workers for careers in an 
increasingly global economy.

**Transportation systems.** Reliable transportation is a critical resource for low-
wage workers. Public transportation systems in urban areas are often inefficient and 
too expensive. In rural areas, the lack of adequate public transportation makes it 
almost impossible for low-wage earners to seek higher-paying jobs in urban areas. 
Improving mass-transit routes and subsidizing public-transportation fares would 
benefit many working families. In addition, because many low-wage workers hold 
jobs with irregular hours or that require travel from outlying areas, innovative 
government and community programs that support ride-sharing and car-buying 
opportunities would provide the convenience and flexibility most American workers 
take for granted.

**Financial literacy.** America’s working families can better manage their income if 
they are financially literate. Financial literacy can help low-wage earners avoid 
predatory lending, including high-interest payday and mortgage loans that rob 
families of their earnings. Corporations and nonprofit groups with financial expertise 
should engage low-wage communities and assist families in developing financial 
planning skills, including the use of reputable financial institutions. Federal funding
incentives are also needed to expand professional banking services in low-wage communities. And incentives such as the Saver’s Credit (a retirement savings tax credit) need greater visibility, promotion and participation to help families build financially stable futures.

**Childcare.** Women, who have historically earned less than men, are far more likely than men to be low-wage earners. A 2004 supplement to the U.S. Census notes that an estimated 3.9 million female-headed households live in poverty, and an estimated 13 million children live either below or at the poverty level. Female heads of household are often unable to look for work or keep their jobs because they have few affordable childcare options. Expansion of low-cost childcare programs would help single working mothers and nontraditional families — young working parents, custodial grandparents, foster and adoptive families — retain jobs and increase their family income.

**Affordable housing.** Lack of a living wage contributes to the disproportionate number of working families inability to increase their net worth through homeownership. Homeownership often translates to a more secure economic future; however, current homeownership incentives benefit primarily middle-class families. Outreach programs that educate low-wage families on homeownership would ease the transition from state-assisted housing to market-based housing. And rental assistance programs would increase a family’s ability to pay for essential services such as transportation, childcare and healthcare.
Part II — The Report

The voices in Making It in America are those of working people from different backgrounds and regions. Their leadership is critical to making change possible. Marguerite Casey Foundation believes the findings and proposals assembled here will help low-wage families mobilize, and challenge the nation’s leaders to take bold steps to narrow the income gap for working families.

FINDINGS AND PROPOSALS

The authors of this paper are working families trying to make it in America. They include a grandmother in Mississippi who learned to read at age 40 and worked alongside three of her daughters and one of her granddaughters at a fish processing plant in her town — until it relocated to Mexico. A young mother from New Orleans who works two minimum-wage jobs to pay for the propane that heats her family’s emergency trailer. A Los Angeles father who struggles to spend time with his children because he commutes about four hours a day to work several jobs. A homeless man in Chicago who works two jobs but is unable to afford money for an apartment’s security deposit, and who lost his car when he missed a payment after being sick for a month.

While you rarely hear about them, there are millions of workers like these in the United States. Despite years of growth in the overall economy, the wages of low-wage workers have remained stagnant. Meanwhile, the costs of shelter, food, utilities, transportation, healthcare and other necessities have risen. As a result, many people work multiple jobs, commute vast distances, sacrifice their health and
time with their families, and still find themselves in financial difficulty at the end of each month.

About 12.6 percent of the American population lives in poverty. And among the poor, 43 percent were living below half of the poverty line in 2005 — $7,800 for a family of three. That’s the highest percentage of people in “deep poverty” since the government started keeping track of those numbers in 1975.

— Census Bureau report

How far does the minimum wage take you? In large cities such as Washington, D.C., a minimum-wage worker would need to work nearly 200 hours a week to make enough money to make ends meet for a family of four. Experts estimate that one in five residents of homeless shelters are employed full-time, and food banks have seen demand for services grow in direct proportion to the declining value of the minimum wage.

In 2004, some 7.8 million of the 37 million Americans who were living below the poverty line were employed. Most of those people — nearly three out of every five — were employed full-time. Their jobs are, predictably, some of the toughest in the country: harvesting and processing food; cleaning houses, offices and hotel rooms; scrubbing dishes and pots, and caring for the youngest and eldest in our society.

America’s low-wealth workers defy demographic classification; lines of gender, age and race are blurred. But there are some identifiable trends: Women are more likely than men to be working for low wages, both in overall numbers and as a
percentage of the population. Six percent of all women are low-wealth workers compared to 4 percent of men. And nearly 17 percent of female-headed single-parent households live below the poverty line.

Black and Hispanic workers are more than twice as likely as their white counterparts to be in low-wealth jobs. Younger workers are more likely than older workers to find themselves in poverty, though many of the elderly are forced to work to survive. Education level plays a role as well, with high school dropouts more than twice as likely as high school graduates to be in low-wealth jobs.

Wages and training

The high cost of the federal minimum wage
Steady growth in the national economy — measured by increases in overall gross domestic product — is a necessary prerequisite for rising wages; unless the overall economy is growing, low-wage workers' wages are unlikely to rise. However, steady growth in the overall economy is not always sufficient, by itself, to guarantee rising wages for all workers. Indeed, over the past few years, we have seen the economy grow while the wages of low-wage workers have stagnated or even fallen.

One well-established approach to ensure low-wage workers receive the benefits of a growing economy is the federal minimum wage. In 1938, Congress enacted the Fair Labor Standards Act, which established a federal minimum wage to eliminate what Congress called “labor conditions detrimental to the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers.” The minimum wage began at 25 cents an hour, increasing to $1 an hour in 1956. Since then, Congress has increased the minimum wage several times, most recently in 1997, when it was raised to $5.15 an hour. Twenty states and the District of Columbia have minimum-wage standards higher than the federal requirement, and fair-minimum-wage campaigns are in progress in other states. Nearly 2 million workers work for the $5.15 minimum wage or less, and
another 8 million earn within a dollar or two of the minimum wage; together, these low-wage workers make up less than 10 percent of the American workforce.\textsuperscript{18}

\textit{Wages here have not kept up with the cost of living. We’re not getting what we need to survive, even though we work all the time. We need a higher minimum wage so we can survive in Los Angeles, but we also need a higher minimum wage so we can raise our own dignity.}

— Working mother, Los Angeles

Congress did not require the federal minimum wage to be indexed to inflation, so as inflation rises, the value of the minimum wage erodes. The minimum wage would need to be increased to $6 to match the value it had in 1997, and to approximately $7.50 to match its value at the minimum-wage “high water mark” in 1970.\textsuperscript{19}

Although the concept of a federal minimum wage is well accepted, a dispute about the appropriate level continues, with some arguing that a sharp increase in the minimum wage would harm small businesses and increase unemployment.\textsuperscript{20} Others, such as Marvin Kosters of the American Enterprise Institute, point out that minimum-wage workers don’t necessarily have the same monetary needs – retirees with pensions or high school students with low-paying jobs, for instance, may have fewer financial obligations than single parents with low-paying jobs.\textsuperscript{21}

Support for a significant increase in the federal minimum wage, however, appears to be growing, among the general public and among lawmakers. In 2006, the U.S. Congress considered several proposals to increase the minimum wage, and a bill that would increase the wage to $7.25, over three years, passed in the House but not in the Senate.\textsuperscript{22}
The “living wage” — an innovative approach to reducing poverty

In the last decade, an effort to establish a higher mandated wage, called a “living wage,” has gained momentum. As one of the leading advocates of living wages, Jared Bernstein of the Economic Policy Institute has written, “Though living wage ordinances come in a variety of flavors, they all amount to the same thing: they force employers who receive contracts or tax benefits from the locality to pay their workers a wage rate a few bucks over the minimum.”

The living-wage movement began in 1994, when the Baltimore City Council enacted a law requiring private contractors performing services for the city to pay their workers at least $6.10 an hour (today, at least $9.06 an hour). Since then, more than 130 communities have enacted living-wage laws. Although the details differ by community, living-wage laws apply to all companies receiving contracts from the municipal government (as well as, in some cases, to companies receiving tax benefits from the municipal government).
Depending on the cost of living in an area, the required living wage is between $9 and $15 an hour. For example, the city of Detroit requires companies receiving service contracts or subsidies worth more than $50,000 a year to pay their workers at least 100 percent of the poverty level for a family of four (at least 125 percent if the company does not provide health insurance benefits).

The proponents of a living wage argue that governments and companies that receive government benefits have a special responsibility to pay their workers enough to lift them out of poverty. As Jared Bernstein puts it: “The living wage movement takes as its theme the reasonable position that no one who works for a living should be poor. Thus, wages paid to even the lowest-wage workers, should, with full-time work, lift them out of poverty.”

The opponents of living-wage laws argue that the laws increase labor costs, reduce employment and provide limited benefits to the workers whose pay is increased. Drawing from studies of the effects of increasing the minimum wage, the Employment Policies Institute predicts: “... for every 10 percent increase in the employees’ pay from a wage mandate, at least 2 percent of the affected employees will lose their jobs as a result of that mandate.” Looking more specifically at a living-wage law enacted in Miami/Dade County, Florida, which established a living wage of $10.08 an hour, the institute estimated the increase would reduce the number of jobs by between 131,000 and 222,000. Further, the institute says that the benefits of living-wage laws are overstated because they do not take into account the impact that increased wages have in reducing other benefits available to the workers (such as the Earned Income Tax Credit).

The proponents of living-wage laws vigorously dispute these arguments; for example, the Economic Policy Institute has concluded that living-wage proposals have provided
significant benefits to workers, while having a relatively small impact on employment and municipal budgets.\textsuperscript{31}

Based on its assessment of economic evidence and on conversations with minimum-wage workers, Marguerite Casey Foundation recommends raising the federal minimum wage and moving toward a national living wage for workers. The federal minimum wage has been a basic part of the national social compact since 1938. At a time when the economy is growing but the income of low-wage workers is not, it is inexcusable for the minimum wage to have remained the same for a decade. Accordingly, Marguerite Casey Foundation recommends that the minimum wage be raised immediately, to at least $7.50, thereby matching its economic value in 1970.

The living wage is an important and innovative complement to the minimum wage. The Foundation recommends that more cities and towns implement living-wage laws, using
local government’s role as an economic force in the community to lift the wages of working families.

Marguerite Casey Foundation recommends the living-wage concept be considered at the federal level, along the lines of a Congressional bill introduced in 2004, which would require federal contractors to pay employees covered by the contract at least $8.20 an hour.

**The Earned Income Tax Credit — effective and underused**

The Earned Income Tax Credit (EITC) was enacted in 1975 to supplement the wages of low-wage workers; the principal Congressional proponent of the EITC, Senator Russell Long (D-La.), called it a “work bonus.” Since then, the EITC has been made permanent, refined, expanded, and amended several times to address noncompliance problems and to simplify the filing process. Since 1997, the EITC has been complemented by a child tax credit that provides additional benefits to many low-wealth families.

The current version of the EITC provides a limited tax credit for low-wage workers, which is based on income and family status and is fully refundable. All of the benefits of the EITC go to taxpayers earning less than $35,458 — roughly 90 percent to families in the lower one-third of income; more than 60 percent to taxpayers earning less than $20,000.

The EITC has become the nation’s largest federal program to support low-wage working families. In 2003, the credit directly benefited 19.6 million working families, at a cost of $34 billion, and each year it is responsible for lifting millions of people, including more than 2 million children, out of poverty. The credit also provides an important incentive to work, increasing the effective wage for a single parent with one child by $1.25 an hour; a Treasury Department expert recently wrote: “. . . the EITC encourages work, as well as alleviates poverty.” Eighteen states have
adopted their own versions of the EITC, which “piggyback” on the federal EITC, thereby magnifying its impact.39

There is widespread agreement that the EITC is effective. However, even among its supporters, several key concerns about its structure and operation exist. One concern is lack of participation: As many as 25 percent of the taxpayers eligible for the EITC fail to claim it.40 Another concern is noncompliance: The IRS estimates that about one-third of people claiming the EITC overestimate their benefits because of either honest mistakes caused by the credit’s complexity or deliberate fraud.41 A third concern is the EITC’s uneven impact on working families with different family structures: the EITC provides relatively generous benefits for families with one or two children, but much smaller relative credits for others, such as childless workers or families with more than two children.42

Opposition to the EITC, or at least to its expansion, centers around criticism that the EITC is too generous and not sufficiently integrated with other public welfare programs, such as benefits under the Temporary Assistance for Needy Families (TANF) program and the Food Stamps program.43

Based on conversations with families eligible for the EITC, Marguerite Casey Foundation recommends several reforms to the EITC. First, it should be simplified, either through a comprehensive simplification that combines the EITC with other relevant provisions of the tax system, such as the child tax credit, to establish a unified credit for low-wage working families, or through narrower reforms such as the elimination of the current test for disqualified investment income. Second, the structure and level of the EITC should be improved to better achieve the goals of eliminating federal taxes on low-wage working families and offsetting payroll taxes. Greater EITC benefits should be provided to families with more than two children and to childless workers.
Third, improved outreach is necessary, so that potential beneficiaries are aware of the EITC and have access to appropriate training and assistance to apply. Finally, taxpayer-protection education and legislation, such as limitations on refund-anticipation loans, are needed to complement the EITC.

Simplification of the language used in the EITC instructions — and in the form itself — are critical to expanding participation in the EITC program. One of the fundamentally important elements [in the development of a local match program in Denver] was to dramatically reduce the paperwork, simplify the language and make the forms more consumer-friendly. This helped us increase the number of eligible low-wage families accessing the EITC.

— Marguerite Casey Foundation grantee and service provider, Denver

Jobs and training in a shifting economy

Although the current unemployment rate is low by historical standards, more than 7 million Americans are unemployed. Those who are employed, however, often have less job security than comparable workers had decades ago because the economy has shifted from one in which most workers expected to spend their entire careers with the same employer (or at least in the same industry) to one in which layoffs are more frequent and wholesale career changes more likely. As a result, hundreds of thousands of low-wage working families are struggling to find employment that works for their families and for their futures.
Unemployment insurance program

The main program for meeting the needs of people who find themselves out of work through no fault of their own is the federal-state unemployment insurance program, which provides compensation for up to 26 weeks (and for longer periods of time in areas of high unemployment) to people actively looking for full-time work.

Proposals to reform the unemployment insurance program include extending unemployment insurance to part-time workers, modifying the “base period” used to calculate benefits, and addressing the special needs of the long-term (that is, beyond 26 weeks) unemployed.45

Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation believes those proposals would improve the operation of the unemployment insurance program and recommends their adoption. The Foundation also recommends consideration of more sweeping reforms, using the following as models: The Defense Economic Adjustment Program, which helps communities address the economic challenges brought about by military base closures, and the Trade Adjustment Assistance Division (TAA), which addresses job losses caused by changes in international trade.46 For example, TAA provides longer periods of coverage (76 weeks), training and job search services and a tax credit to help displaced workers maintain healthcare coverage. It also established a small program to test the operation of federal “wage insurance,” under which the government provides a wage subsidy to workers who take lower-paying jobs, with the expectation that, over time, their wages will rise.47

Job training

As the American economy has changed and continues to change with the growth of a global economy, our job training and retraining programs are not keeping pace.
Marguerite Casey Foundation recommends the continuation and full funding of programs and initiatives such as the Work Incentive Grant Program to enhance the employability and career advancement of people with disabilities; the Technical Skills Training Grant Program, which awards grants to projects that train workers in skills needed for software and communications services, telecommunications, systems installation and integration, computers and communications hardware, advanced manufacturing, health care technology, biotechnology, and biomedical research and manufacturing; and the American Competitiveness Initiative, the Community Outreach Partnership Program, and the Community College Labor Market Responsiveness Initiative, which are designed to help community colleges serve as the engines behind community training and leadership development.

I realize now that since I’m trained as a security guard, I’m always going to be a security guard. I’m never going to be able to get access to any other skills. And the thing is, there are certain skills that just correlate with poverty. There’s no way to get out of this kind of job, and even though I like it, there’s nothing else I could do if I wanted to, or if I was trying to get ahead more.

— Father of three, Los Angeles

Affordable housing
American families spend more on housing than on any other necessity, and the percentage of family income allocated to housing is at an all-time high. Because of the high cost of housing and its limited availability, experts state that every low-
wage family struggles to find adequate and affordable housing. Many eventually lose that struggle and find themselves moving in and out of homeless shelters — an especially stressful circumstance for families with children. Many of Marguerite Casey Foundation’s grantees work with families facing these challenges.

Programs such as Section 8, which provides housing vouchers that assist families with rent payments in the commercial market, and Hope VI, which redesigns public housing projects to be mixed-income and mixed-use, have received a significant amount of attention and scrutiny. Critics claim that Section 8 fails to support families as they make the transition to market-based housing; many families claim they suffer discrimination, and still others state that their new neighborhoods are as bad as their old ones. Hope VI has been commercially successful, but experts
believe the program is forcing poor families out of their neighborhoods as
gentrification turns former projects into desirable real estate.\textsuperscript{55}

Though Marguerite Casey Foundation believes the Section 8 and Hope VI programs
should be revisited based on those reactions, few working families participating in
the roundtable sessions the Foundation attended discussed those programs or
issues. Instead, they focused on housing affordability and security.

Homeownership Rate by Household Income in 2001

Public housing programs used to dominate discussions about shelter solutions for
low-wage families. However, recent innovations and policy changes have pushed
federal housing project programs to the periphery for most low-wage families, as
the number of apartments shrinks and waiting lists grow. Furthermore, Section 8
vouchers are increasingly difficult to obtain, and studies abound about the poor
quality of Section 8 neighborhoods and landlords.\textsuperscript{56}

These unsupportive environments lead many Section 8 families, as well as families
making the transition from state-sponsored to independently subsidized housing,
not to thrive in the private market. Based on conversations with minimum-wage
workers and their families, Marguerite Casey Foundation recommends that programs need to be designed to assist families in the transition to housing independence. For example, education on predatory lending practices, building capital, responsible borrowing and saving for goals can help families in the transition.

*About 40 percent of the people living in homeless shelters are working in a steady job where they’re making minimum wage. Many of the rest are working off and on. But they never have enough to afford market-rate housing. There aren’t enough jobs to get them out of poverty, and making $1,000 a month doesn’t even allow you to pay your rent. Literally everyone we work with struggles with housing.*

— Church worker, Jackson, Miss.

Affordable and safe rental housing often leads to homeownership

Currently, most government support programs for low-wage individuals help families move from unpredictable and financially unsound rental situations into homeownership. Although increased homeownership is an important part of national economic growth, many low-wage families are renters.

Marguerite Casey Foundation recommends that tax incentives and other forms of federal support should target families whose lives are increasingly unstable because of the dearth of affordable and safe rental housing. Illinois has a program that does just that. “We passed a bill that required the state to pay subsidies to help struggling families pay for rental housing,” says a Chicago-based housing expert.
“This is different from Section 8 housing, because the money goes directly to the participating landlords rather than going through the tenant first. We’re hoping this may make it easier for tenants to find housing, since they often struggle when they receive Section 8 vouchers.”

Experts believe that attempts to keep housing costs reasonable for low-wage families will decrease homelessness and increase job stability. Local efforts, such as those in Illinois, have proven those theories, as low-wage families taking advantage of rent-controlled apartment stock have found better jobs and moved less frequently.

It should also be noted that the amount of federal funding dedicated to supporting affordable housing for the low-wage market is dwarfed by the incentives directed to the middle- and upper-class homeowners of America, primarily through the tax deduction for home mortgage interest. Based on discussions with minimum-wage workers and their families, Marguerite Casey Foundation recommends that more funding be aimed at the population needing it most — America’s low-wealth working families.

Buying a home is scary for people whose jobs aren’t stable. For instance, a woman in my neighborhood bought her house, did everything right, and then her job was cut. Now they’re going to foreclose on it and take everything she’s worked for. How do you sustain the type of moves she’s making when her job isn’t even stable enough to support her?

— Mother of three, Jackson, Miss.
**Asset-building**

A savings account is worth far more than just the financial assets it contains. The accumulation of financial assets makes it possible for families to plan for the future, weather unexpected financial crises and provide increased opportunities for their children. In short, families with savings have a much greater degree of economic security and independence than families that have been unable to save.

The federal government operates several programs designed to encourage savings, including tax incentives for Individual Retirement Accounts, 401(k) plans and savings accounts for college expenses. In 2005, these programs provided incentives worth about $165 billion.

Extensive as they may be, however, very few low-wage working families participate in these programs. More than 33 percent of the benefits go to the richest 1 percent of families (those earning more than a million dollars each year); in contrast, less than 5 percent go to the poorest 60 percent of families. A recent Brookings Institution report concluded: “Despite the accumulation of vast amounts of wealth in pension accounts, concerns persist about the ability of the pension system to raise private and national saving, and, in particular, to improve saving outcomes among those households most in danger of inadequately preparing for retirement.”

To support asset-building among low-wage families, Marguerite Casey Foundation recommends:

- Improving promotion and implementation of the saver’s credit and Individual Development Accounts (IDAs).
- Expanding private sector and nonprofit organization initiatives.
- Improving regulation of predatory lending practices.
Government incentive programs

The following government incentive programs have made a substantial difference in the lives of many low-wage working families. However, the programs do not reach enough eligible men and women and could be streamlined and improved for greater results.

Saver’s credit. The saver’s credit enacted in 2001, is the first piece of major legislation designed to help low-wage families save for retirement. It provides a federal match of up to 50 percent, in the form of a tax credit, for individual savings of up to $2,000 a year; it is available only to taxpayers who earn less than $50,000 a year (for a couple filing taxes jointly). In 2002, the first year that the credit was fully in effect, more than 5 million taxpayers claimed the credit.

The saver’s credit solves one of the primary problems with the current system of tax incentives, which generally favors higher-income taxpayers; in the case of the saver’s credit, the less money a family makes, the greater the government’s matching tax credit. Further, the credit is coordinated with other features of 401(k) plans designed to increase participation, such as employer matching contributions and automatic enrollment. As a result, every $100 that a low-wage worker contributes will generate accumulated savings of as much as $187.50, when employer and tax credit matching contributions are taken into account.

Congress recently made the saver’s credit permanent. Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation recommends two further improvements: making the credit refundable and increasing the income thresholds for participation so that more lower-middle income families can participate.
In addition, Marguerite Casey Foundation recommends that the Internal Revenue Service and nonprofit organizations intensify their efforts to promote the credit and educate families about how to take maximum advantage of the credit.

**Individual Development Accounts (IDA).** Established as part of the 1996 Welfare Reform Act, the IDA program allows states to establish programs for low-wage workers to save money for college or to purchase a home or to start a business. The taxpayer contributes funds to this account, tax free, and the funds are matched, either by the government, businesses (which receive a tax credit to offset part of their matching contribution) or nonprofit organizations. As a further incentive, the receipt of matching funds does not count against a person’s eligibility for income support payments, Medicaid and other low-wage support programs.

The IDA program remains relatively small, with only about 10,000 participants in 2003. However, 34 states have established IDA programs (although the level of assistance varies widely), and many state programs have had promising results. For example, some IDA programs have focused on elementary- and middle-school students, offering comprehensive and entertaining financial planning seminars in schools, at the conclusion of which students are provided IDAs that provide matching grants offered by local nonprofits or banking companies. These seminars help students and their families save for college education, while simultaneously providing valuable financial planning lessons at a critical point in students’ lives.

Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation recommends that the IDA program be enhanced and expanded to benefit a greater cross-section of the community. Further, to encourage continued and increased private-sector participation, Marguerite Casey Foundation recommends the federal government increase its financial support of IDAs and play
a greater role in encouraging their use, such as through education and outreach programs.

Electronic and direct-deposit programs

Low-wage families lose a large amount of their earnings to transaction fees — an amount significantly greater than that lost by middle- or upper-class families. While families without banking accounts pay, at the minimum, at least $250 of their average $12,000 salaries just to cash checks each year, most families with bank accounts pay nearly nothing at all, especially if they are able to maintain minimum savings balances. One potential solution to this problem, a predatory lending prohibition, is discussed later. In addition, the government and private sectors can help minimize transaction costs by “cutting out the middle-man.” For example, in some communities where check cashers and lenders are overcharging low-wealth working families, private banks have recently been establishing direct-deposit programs.

Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation recommends that federal government follow the private sector’s lead by establishing initiatives to make benefit and income transfers electronic. By doing so, the government will not only save money on administrative costs, but also help lower-income families by reducing their transaction costs and the need for costly “payday loans.”

Private and nonprofit initiatives

Nearly a quarter of low-wage families — more than 8.4 million families earning less than $25,000 a year — could potentially be served by savings vehicles designed with their needs in mind. However, for people considering owning small savings accounts, transaction costs for standard accounts may seem incredibly high. Moreover, potential small account holders can be overwhelmed by the institutional
offerings of large banks. But for working families, the alternative to standard bank accounts is equally unattractive: Neighborhood check-cashers charge as much as $300 annually simply to cash payroll checks, a rate much higher than if the family had a traditional bank account not accompanied by a savings vehicle.\textsuperscript{79}

Many banks are not interested in operating in low-wage areas. However, a few have approached the issue with innovative mindsets, establishing creative savings vehicles designed to promote asset-building by working families.

For example, Fleet Bank has paired with large corporations to help both employees and employers save through direct-deposit mechanisms. Shore Bank has taken advantage of local resources that provide funding for financial education services, and offers these subsidized classes to low-wage families, who then participate in savings programs through the bank. Shore Bank also attracts potential low-wage customers through its tax return program, which is free and staffed by community volunteers. Participants receive their returns faster than usual because they are deposited in their recently created accounts; furthermore, families have consulted experts and are more likely to take advantage of programs like the EITC because of this consultation.

Banco Popular has instituted a “savings pocket” program that takes just a few dollars from a customer’s account each month. The program comes with an online tutorial, and customers are encouraged to go to the bank’s Web site — using a bank computer, if need be — to see how much their savings pocket is bulging.\textsuperscript{80}

Initiatives designed to get “unbanked” families into the formal financial system had governmental support in the mid-1990s. The federal government provided funding to banks reaching into new markets and helped fund efforts to provide automated teller machine services in traditionally underserved neighborhoods. Money was
available for financial literacy programs, and institutions were even able to apply for help in developing new savings vehicles for low-wage customers. These funds have been cut in recent years.

Marguerite Casey Foundation, believing governmental support encourages private institutions to bring more low-wage families into the formal financial sector so that they can build assets, recommends the federal government take appropriate steps to encourage such corporate behavior.

**Predatory lending practices**

Low-wage families face tremendous hurdles to save money. As they attempt to build capital and make significant life-improving purchases, they may come up against exorbitant interest rates and fees from lending institutions — sometimes as high as 400 percent annually.  

*If I am working and barely making it, I may need a little extra money to pay the bills, so I must borrow from these lenders. The interest is so much higher. So now, I’ve paid the bill, but I’m in a worse predicament than before because I still don’t have the money and now I owe high interest on it. If you look at how we are being ripped off, in some places it’s dollar for dollar. Some parents have no other means of borrowing and need to support their kids, so they get paid, they go to the pay-day lenders, and they end up owing more and more. We work and work and can’t make ends meet.*

— Mother of four, Indianola, Miss.
The best way to reduce predatory lending is to help families build their financial assets. Families with bank accounts get better loan rates, have better credit scores and can take advantage of direct-deposit programs that accelerate their deposits and minimize the chance they will need to take out a payday or refund-anticipation loan, both of which impose extremely high transaction costs.  

Banks like Banco Popular, Shorebank and Fleet have begun working with low-wage families, contributing to the community while simultaneously advertising and increasing their customer base. Some are even forging links with banks in other countries to help reduce the fees associated with sending remittances out of the country.

Clearly, encouraging banks to serve low-wage families — and encouraging low-wage families to use banks — makes sense for communities and banks alike. Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation recommends that government encourage such programs, including providing tax incentives for banks to reach into nontraditional markets.

The Foundation believes the states that have instituted legal standards for interest, lending and transaction fees are appropriately serving their residents — particularly those new to the financial sector with few options and little time and ability to investigate alternatives. Putting carefully tailored caps on the lending industry helps financially fragile families achieve economic independence and allows workers to dedicate funds to education, big-ticket purchases like automobiles and homes, and family support expenses. Based on discussions with minimum-wage workers and their families, the Foundation recommends that more states establish lending standards and encourages the federal government to consider adopting such an approach as well.
Transportation

Low-wage jobs are among the most insecure in the American economy. In addition to the macroeconomic concerns that affect job security,86 working families face the microeconomic concern of simply getting to work and back every day.87 As shown below, transportation costs are the same as food costs for low-wage families. Yet, transportation systems in many communities fail to serve those families because the services are too expensive, time-consuming or geographically limited.

Reliable transportation

Without reasonable transportation options, low-wage workers are unable to compete for good jobs. “As a nation, we need to be doing what we can so that people who need to get to locations that enable them to seize opportunities can seize those opportunities. We need to say to people that they have access to societal advantages,” said Horace Cooper, of George Mason University School of Law, to a panel of working families in Los Angeles.
Workers are often unable to keep a job if their transportation methods are unreliable, inflexible or expensive. Equally important, flexible and dependable transportation gives low-wealth families the ability to handle crises independently, whether they need to pick up a sick child at school, travel to a doctor’s office or to an emergency room late at night, or flee a hurricane such as Rita or Katrina.

An appropriate transportation policy should help low-wage families manage their second-largest expense while helping them attain independence and move them toward financial success. But families struggling with transportation live in all sorts of environments, making it difficult for policymakers to propose any one solution.

Many people in our community don’t have transportation. It’s hard because they can’t get to the places they need to go, even to work. They have to rely on friends if they’re lucky, and that’s not reliable enough to keep a job. If they can’t get to work, if they can’t pick up their kids to take them to school or to childcare, they have a real problem. How can they get ahead with problems like that?

— Single mother, Indianola, Miss.

For years, the federal government has subsidized public transportation projects and encouraged local governments to prioritize such projects in their budgets. Some families have benefitted tremendously from the subways, train systems and bus routes that now run throughout many American cities. But for the majority of working families, public transportation systems are not enough. Even families living in America’s biggest cities — Los Angeles, Phoenix, Dallas — are inadequately
served, to say nothing of the millions of families living in suburbs, exurbs and rural areas that lack public transportation altogether.²¹

If families can avail themselves of public transportation systems, that transportation may be prohibitively expensive and/or incredibly time-consuming.²² Monthly bus passes may cost as much as $250, a large portion of a minimum-wage worker’s monthly salary,²³ and commutes of two hours each way are commonplace because many low-wage families live in urban cores and nearly two-thirds of low-wage jobs are located in suburban areas.²⁴ Those long, unpredictable commutes can easily result in lost wages and increased childcare expense.²⁵ So, it is clear that public transportation projects, though they have been a policy focus for several decades, do not adequately meet the needs of millions of minimum-wage workers.

**Car ownership programs.** The best way to further address the transportation needs of low-wage families is through car ownership programs. Fifteen percent of low-wealth workers do not own cars, compared with less than 2 percent of their wealthier counterparts.²⁶ As transportation specialist Margy Waller says: “[T]he reality is that you need a car. You can make more money, you can get ahead, you can be independent. We know that if we can help people get cars and insurance, they will do better and their children will, too. We should still invest in making public transportation better, but we need to realize that most people, especially those with children, are going to need a car.”

Research indicates that wage earners with cars have access to nearly 60 times as many jobs as their non-driving counterparts.²⁷ Ms. Waller writes, “[N]ot having a car isn’t just a consequence of poverty — it’s a barrier to escaping it.” Car ownership is also clearly connected to quality-of-life issues, since families without cars are often unable to relocate to better neighborhoods even if they can afford better housing.
Several nonprofits, such as Working Wheels in the Seattle area and Vehicles for Change in the Baltimore area, run car assistance programs that help low-wage families find reliable, affordable transportation that helps them get to work on time each day, minimizing the uncertainty felt by both the workers and their employers. The most successful of these programs include courses designed to help families make informed large purchases; in addition, many programs educate at-risk borrowers about the perils of high-interest and predatory lending. Some programs even have mentoring programs that help new car owners target jobs that provide them with more advancement opportunities and are more closely aligned with their skills and interests.

Car ownership is not without its problems, of course. But fuel, insurance, maintenance and parking expenses, and the risk of accidents and/or injury are expenses and risks working families of all economic levels face. Nonprofits help counsel families to compensate for periodic costs and to prepare for and guard against accidents as much as possible. Vehicles for Change has organized automobile mechanics throughout the Baltimore and Washington, D.C., areas who are willing to work with low-wage families on upkeep and provide discount rates on tune-ups and oil changes. The organization reports that nearly all the families participating in the program take excellent care of their cars.

Though environmentalists and urban planners worry that increased car ownership will exacerbate air pollution and clog already congested roads, experts estimate that the number of vehicles on the road would increase by only 3.5 percent if every low-wealth family had a car. Still other experts have proposed that the money saved by governments on public transportation subsidies could be used to offset the environmental impact of increased automobile miles traveled.
Based on conversations with minimum-wage workers and their families, Marguerite Casey Foundation recommends that the federal government alter its transportation funding patterns and prioritize car ownership programs. Furthermore, the Foundation recommends that state and local governments follow this lead, opening the door for minimum-wage workers and their families to make advances through increased mobility.

**Car-sharing programs.** Many families would benefit from having access to an automobile on an as-needed basis. With this in mind, nonprofits in cities across the country have offered car-sharing programs designed to help families who use public transportation, but occasionally need a car, for example in an emergency, to make a large purchase or to attend periodic training programs. Participants apply for membership and pay either by the hour, by the mile or both. Program participants need not worry about insurance or upkeep; in some cities, program managers even take care of filling the gas tank when it gets low. Data from a nonprofit car-sharing program in Portland, Ore., places the cost of running the program at 27 cents per user mile. Experts believe this number is a fraction of the cost per user mile of public transportation in most cities.

While car sharing is a promising option in urban areas, it does not work for rural families unable to get to a central rental location. Car sharing is best at helping families apply and interview for new jobs, but is less useful once new employment is obtained. With that in mind, many car-sharing programs, such as one in Washington state, are designed particularly to support the job search process. During the job search, participants are able to borrow program cars. Once participants receive an offer, they are referred to other transportation programs.

Marguerite Casey Foundation recommends that local, state and federal governments work alongside private and nonprofit entities to provide car-sharing
programs in areas where public transportation does not sufficiently enable working families to expand their job searches and make meaningful advances in their lives.

**Bus rider and public transportation subsidies.** Though public transportation is highly subsidized by federal and local governments, it is not free for its riders. In areas that have robust and efficient public transportation systems, low-wage working families often struggle to pay the hefty fees to use these systems. The application process for reduced-fare passes may be cumbersome and time-consuming as well. Marguerite Casey Foundation recommends that federal and local governments reduce public transportation costs for low-wage families and streamline the process used to receive these rate reductions.

*Minimum-wage workers can’t afford the price of a monthly bus pass, but they have to rely on the bus to get to work. I don’t know how people can pay for transportation for their whole families — it’s a couple of hundred dollars for transportation alone, and that has nothing to do with living expenses and food and stuff. They have a saying: “Work in Los Angeles, live in Los Angeles.” If I lived in Los Angeles, I wouldn’t be able to eat!*  

— Father of three, Los Angeles
There should be more programs telling people about what organizations can help them. I didn’t know I was eligible for Medicaid, and I didn’t know about the government programs designed to help put me back in the workforce. It’s like having a card for a club that you don’t know how to use.

— Workforce training program participant, Grenada, Miss.

We believe low-wage working families will lead the next movement for economic equity in America. Our role at Marguerite Casey Foundation is to support — through community grants, nonprofit networks and communications — the growing demand of working families for a voice in their economic future.

CONCLUSION AND RECOMMENDATIONS

The American economy is robust and thriving. Yet, many working families are economically stranded by low wages, shrinking social services, poor transportation, unaffordable housing and the lack of resources to build net worth. For millions of low-wage workers, keeping up with the cost of living, let alone getting ahead, is extremely difficult.

The Foundation’s chief recommendation is to immediately raise the federal minimum wage and then move toward a livable-wage system that gives low-wage working families a chance to achieve financial security and success.

Making It in America amplifies the need for policymakers to expand and support programs that allow low-wage working families to prosper. Working families cannot shoulder the rising cost of living and healthcare costs on $5.15 an hour. The recommendations put forth by Marguerite Casey Foundation will give working
families the ability to provide for the basic needs of their families — and the opportunity to claim the American Dream.

**Recommendations**

- Increase the minimum wage to at least $7.50 an hour.
- Move toward a national living wage by enacting living-wage programs on state and local levels and considering a federally mandated livable wage.
- Improve the Earned Income Tax Credit program by simplifying it, improving the structure and level of the credit, providing greater benefits for families with more than two children and for childless workers, and improving outreach to potential EITC beneficiaries.
- Improve the unemployment insurance program by covering part-time workers, modifying the base period for calculating benefits, and addressing the special needs of the long-term unemployed.
- Improve the unemployment insurance program by putting a greater emphasis on retraining workers for new careers, such as through the establishment of wage insurance programs.
- Enhance federal programs designed to help low-wage families build assets by expanding the saver’s credit and Individual Development Account programs, encouraging the use of electronic benefit transfer and direct-deposit initiatives, providing federal funding incentives to expand banking services in low-wage communities, and regulating predatory lending.
- Focus federal attention on rental assistance programs rather than homeownership assistance programs.
- Design educational outreach programs to help families moving from public housing to market-based housing maintain their financial independence.
• Develop more comprehensive car-ownership assistance programs and car-sharing programs to operate in areas where public transportation is inadequate.

• Streamline and augment subsidies for public transportation expenses for low-wage families.

• Develop programs that increase corporate presence and job creation in low-wage communities.

• Create job training and unemployment insurance programs closely calibrated to our changing economy.

Postscript

While conducting the community roundtable sessions, Marguerite Casey Foundation staff visited some of the areas most devastated by Hurricanes Katrina and Rita. Here, we saw firsthand, what it’s like for families to be held back by inadequate education, housing and healthcare and how poverty erodes hope in the lives of low-wage Americans. The natural disasters in Louisiana and Mississippi highlighted the lack of emergency services for families in crisis. But, more important, it demonstrated the long-term need for initiatives, programs and policies that promote sustainable family life built on a living wage and effective social services.

The mission of Marguerite Casey Foundation is to strengthen the voice of working families so that they can create change in local, state and national policy. Our forums provided a platform for low-wage working families to articulate their daily struggle as they strive to make it in America’s economy. The Foundation’s hope is that the proposals put forth in Making It in America will motivate communities to challenge our leaders to take the bold steps needed to reduce poverty and narrow the income gap for low-wage working Americans.
Endnotes


5. *Id.*


9. *Id.*

10. *Id.; see also supra note 4.*

11. *Id.*

12. *Id.*

13. *Id.*

14. *Id.*

15. *Id.*


18. *See supra note 4.*


21 Mr. Kosters made this comment at the Marguerite Casey Foundation listening session in Baton Rouge, La. on June 6.
26 Detroit, Mi., Detroit Living Wage Ordinance, Ordinance No. 45-98, Detroit City Code §§ 18-5-81-86 (2003).
29 Id. at 7.
37 Id.
40 Id. at 11.
41 Id.
42 Id.
43 Id. at 11-12.
47 Id.
55 See, e.g., Urban Institute, A Decade of Hope VI: Research Findings and Policy Challenges (May 2004).
56 Andy Nelson, The Struggle for Section 8 is About to Get Harder, Christian Science Monitor (May 12, 2004).

Id.; see also Ehrenreich, supra note 6.


Andrea Levere, Helping the Poor Accumulate Assets, Corporation for Enterprise Development (Winter 2006).

Id.


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See Gale et. al., supra note 22.

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Id.

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Michael S. Barr, Banking the Poor, Yale Journal on Regulation (2004); see also Gale et. al., supra note 19.

Id.

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Id.; see also Amy Brown et. al., Refund Loan Products and VITA: A Summary of Issues and Options, (November 2004).

Id.

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See Center for Responsible Lending, supra note 42.


See, e.g., Ehrenreich, supra note 6.


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See Bus Rider’s Union, supra note 53.

See Waller, supra note 50.


See Ehrenreich, supra note 6.

See Waller, supra note 50.

Amanda Quester and Jean Ann Fox, Center for Responsible Lending, Car Title Lending: Driving Borrowers to Financial Ruin (April 14, 2005).

See Waller, supra note 50; see also Cox, supra note 55.

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