TESTIMONY

of

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The Effect of Welfare Reform Policy in New York State

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Good Morning.

My name is Trudi Renwick. I am employed as a Senior Economist at the Fiscal Policy Institute (FPI). FPI is a nonpartisan research and education organization with offices in Latham and New York City. FPI's work focuses on a broad range of tax, budget, economic, and related public policy issues that affect the quality of life and the economic well-being of New York State residents.

I greatly appreciate the opportunity to appear before you today. This testimony will consist of three major parts.

- The first part presents a summary of the analysis of the New York State economy from the Fiscal Policy Institute's new report, **The State of Working New York 2005**. The full report is available on the Fiscal Policy web site: www.fiscalpolicy.org.

- Second, in response to the first set of issues identified in the hearing notice, "**Economic Stability of Welfare Recipients and Recent Welfare Leavers,"** I will discuss the adequacy of the current public assistance grant, the percentage of working families in New York living below the federal poverty level, specific policies that either restrict of expand opportunities for low-income families to rise above the federal poverty level, and the Economic Policy Institute 2004 family budgets as an alternative measure of self-sufficiency.

- Third, in response to the second set of issues identified in the hearing notice, "**Barriers to Employment and Self-Sufficiency,"** I will provide some data on the long-term impact of educational attainment in terms of job opportunities and overall economic stability.

The State of Working New York

The tenuous economic recovery of the past two years has been characterized by such weak wage growth that most working families have been left treading water. Although there has been a sharp decline in manufacturing jobs nationwide, the manufacturing decline in parts of upstate New York has been much steeper than for the U.S. as a whole. Across the state, the loss of thousands of well-paying jobs has meant that the "hollowing out" of the middle of New York's income distribution continued at a rapid pace in this decade. These trends add up to an economy that faces enormous challenges in achieving a shared and sustainable prosperity.

Tenuous New York and national recovery

The recession officially ended in November 2001. But the nation, as a whole, and the overwhelming majority of the states, continued to lose jobs until the spring of 2003. So far, the Empire State has gained back only half of the 273,000 jobs that it lost during the recession Since June 2003, New York's 1.5% job growth has been about half the nation's 3.0% growth.

In many ways, New York's economy is not on a firm footing. The national economy on which New York heavily depends is growing slowly and much of the growth has been propelled by borrowing. In fact, the nation's employment level is only slightly above where it was at the recession's start, an improvement that substantially trails all of the recoveries from the nine previous recessions since 1949. Total national debt -- household, government and corporate -- has grown one-and-a-half times faster than the 22% increase in gross domestic product between early 2001 and early 2005.

Weak wage growth leaves working families treading water

Workers have not been sharing fully in the fruits of the expanded production of goods and services. At the national level, corporate profits have increased five times faster than total wages since early 2001. In New York, economic output and output per worker increased by 6% from 2001 to 2004, while average wages increased by only 1.8%.

But even this very modest increase in the average wage masks the difficulties faced by most New York workers. *Real wages for workers in the bottom half of the wage distribution were no higher in 2004 than in 2001.* Only high-wage workers (80th percentile) received a modest real wage increase (2.3%) between 2001 and 2004. Through 2004, the real hourly pay for New York's low-wage workers had barely improved compared to 1990, while nationally, the 20th percentile wage rose by 12%.

Continued "hollowing out" of the labor market and family incomes

While job changes by industry vary considerably across regions, the trend from high to low paying jobs is occurring throughout the state. Industries accounting for most of the job gains since 2000 in New York State include health care and social assistance, government, educational services, and food and drinking places. While many of these sectors have good jobs, they generally tend to pay less than higher-wage, middle-income jobs in industries that have lost a lot of jobs since 2000, including manufacturing, information services, professional scientific and technical services, and wholesale trade.

The average wage for sectors that have been losing job share over the 2000 to 2004 period is $64,382, more than two-thirds higher than the average wage of $38,074 for the sectors gaining job share.

Between 2000 and 2004, according to Census Bureau data, there was a decline of 70,000 families with incomes between $35,000 and $150,000 in New York State, reflecting a decline in the middle-income share of all families of 1.7 percentage points. The nation as a whole experienced a much smaller (-0.6 percentage point) decline in the percentage of families in the middle-income range. For both New York and the rest of the nation, the increase in the share of families at the bottom substantially exceeded the increase at the top of the income distribution. The share of families with high incomes ($150,000 or more) has increased more in New York than in the U.S., with most of New York's increase occurring in 2002 and 2003, while the high income share only increased for the rest of the U.S. in 2004.

Because it lost so many well-paying jobs and had a very high rate of net domestic out-migration, New York City experienced an even sharper decline in the middle-income range than the state overall. New York City's middle income range shrank by 3.3 percentage points. The share of the city's families with middle incomes was 53.4% in 2004, well below the 62.5% share for the balance of the U.S. The city had a comparable gain in the high-income share between 2000 and 2004, but a much larger increase in the share of families in the low-income range.

Precipitous manufacturing decline

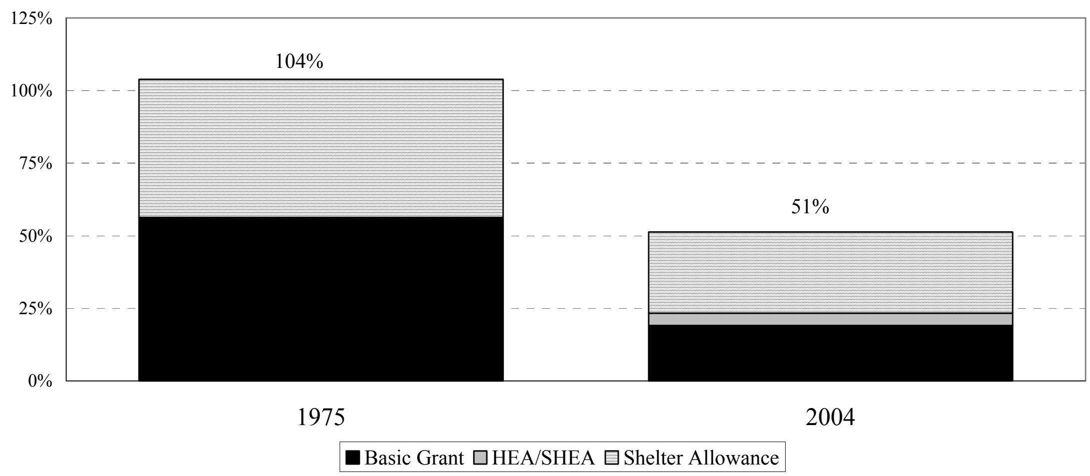
Although there has been a sharp nationwide manufacturing decline, the drop in New York manufacturing jobs has been far steeper than in the U.S. as a whole since 2000. In New York, the manufacturing job decline has been nearly 21%, a percentage drop exceeded among large manufacturing states only by North Carolina, Massachusetts and Michigan. While net job losses since 2000 are by no means limited to the manufacturing sector, manufacturing jobs have been the backbone of several upstate regions for several decades and will be hard to replace. The information sector also has declined sharply and both finance and professional services are well below 2000 job levels.

Three of the upstate metro areas -- Rochester, Binghamton and Elmira - continued to lose jobs into the first part of 2005 and have experienced net job declines over the four-year period of 5% to 10%. Problems besetting the leading manufacturers in these areas have cascaded through these communities to their suppliers and other local businesses that traditionally have relied on the orders, jobs and wages these major employers have provided. These areas have not had enough other sources of job growth to offset the continued erosion in their manufacturing sectors. These and many other upstate areas will likely continue to experience the decline in their young working age population (ages 20-34), a trend that became pronounced during the 1990s.

Economic Stability of Welfare Recipients and Recent Welfare Leavers

While New York's Office of Temporary and Disability Assistance (OTDA) prides itself on the dramatic decline in public assistance caseloads over the past nine years, New York's progress in reducing poverty has been significantly slower. Since January 1995, the number of New Yorkers receiving cash public assistance has fallen from over 1,643,832 to 599,148 in July 2005, a decline of more than 63%. Over this same period of time, New York's poverty population has declined a mere 6% --- from 3,020,000 in 1995 to 2,844,000 in 2004. While NYS child poverty rates have fallen from 25% in 1995 to 20% in 2004, the child poverty rate and number of children in poverty in 2004 are about the same as they were when the federal government first started measuring poverty at the state level in 1980.

NYS Public Assistance Grant as a Percent of the Federal Poverty Line: Family of Four in NYC



New York State's welfare recipients have rarely been less economically secure. Even with the 2003 increase in the shelter allowance, the public assistance grant levels are far below the federal poverty line. The basic public assistance grant has not been increased since 1990 --- resulted in an erosion of its purchasing power by more than 50%.

The inability of families to provide for basic needs has resulted in rising numbers of homelessness and increasing demands on food pantries, soup kitchens and other emergency nutrition providers.1

The hearing notice asks:

- What percentage of individuals leaving welfare currently earn enough to put their household income above the federal poverty level (FPL)? How does this figure compare with statewide statistics of working families living below the FPL?

1 For data on the increase in homelessness, see the NY Coalition on the Homeless web site http://www.coalitionforthehomeless.org/advocacy/basic_facts.html#current_data. For data on the increased demands on emergency food providers see Hunger Action of NYS 2003 survey, available at http://www.hungeractionnys.org/EFP-Survey-report-2003.pdf.

The most recent report on New York State “recent welfare leavers” was released in June 2002 by the Rockefeller Institute of Government (Leaving Welfare: Post TANF Experiences of NYS Families) and was based on intereviews conducted between September of 2000 and April of 2001. This report found that 48.2% of the families studied had incomes above the official poverty threshold. According to the Center of Budget and Policy Priorities analysis of US Census Bureau CPS data, in 2003 approximately 91% of New York’s working families with children had incomes above the official poverty line. While the poverty rate for all New York working families was about 9%, the poverty rate for recent welfare leavers exceeded 50%.

The hearing notice asks:

- Is there any identifiable relationship between overall poverty rates throughout the State and the impact of welfare reform policies? Are there any specific policies that either restrict or expand opportunities for low-income families to rise above the FPL?

i. *Minimum Wage Increase*

One policy that will certainly expand opportunities for low-income families to rise above the FPI is the increase in the New York State's minimum wage. The first step of a three-step increase occurred on January 1, 2005, when the state raised its minimum wage from the federal $5.15 an hour to $6.00 an hour. This increase benefited thousands of low-wage New York workers. Contrary to the warnings of opponents of the minimum wage hike, employment in industries employing large numbers of low-wage workers grew significantly. The number of retail jobs in New York increased by 1.8% in the first half of 2005 compared to the first half of 2004, considerably faster than the state's overall 1.0% job gain over this period and the 0.9% national growth in retail employment. Nor have businesses reduced the hours of work for low-wage workers. The average worker in the lowest decile worked more hours in the six months following the wage hike than during the year-earlier period.

ii. *Use of TANF block grant funding*

Over the last nine years, the interaction of two major developments – dramatic reductions in the number of needy families receiving governmental cash assistance and major changes in the way that the federal government shares in the costs incurred by the states in providing such assistance and related services --- have given the states an unprecedented level of resources that can be used with an unprecedented degree of flexibility in meeting the needs of families that continue to receive cash assistance and families that need additional supports to successfully remain working.

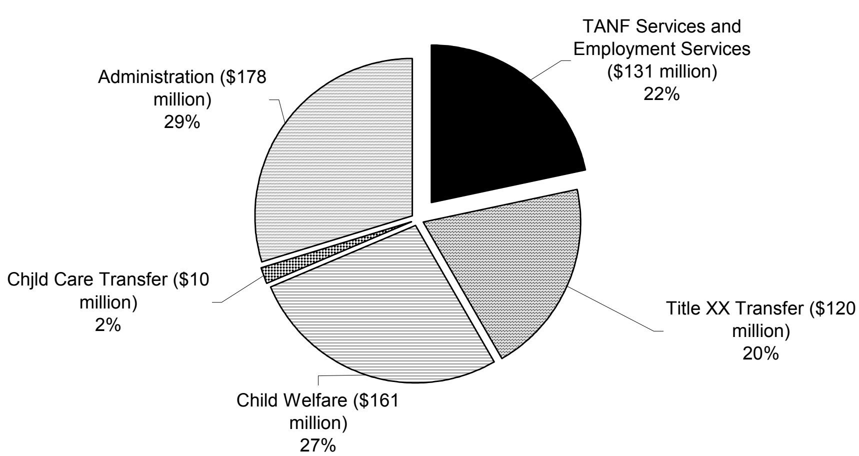
Despite the precipitous decline in the welfare rolls, since December 1996 New York has received a fixed amount of money from the federal government (approximately $2.44 billion per year) for "temporary assistance to needy families (TANF)." This combination of fixed funding and falling caseloads has resulted in the so-called “TANF surplus.” In its simplest formulation, this surplus is the difference between (a) the $2.44

billion in federal aid that New York receives in a particular federal fiscal year under the TANF Block Grant and (b) the amount that it needs to cover the federal portion of cash assistance to needy families (about $743 million this fiscal year).

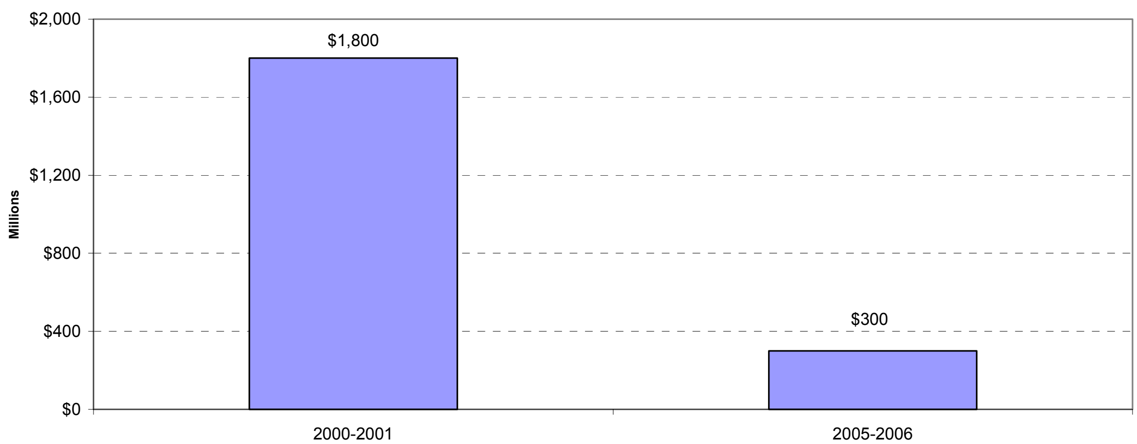
New York is allowed to use these "additional" resources to (1) invest in programs and services that assist needy families in becoming and remaining self sufficient and/or, (2) subject to some restrictions imposed by federal guidelines, fund certain existing programs of assistance to needy families, thus providing fiscal relief to the state by allowing it to reduce the amount of General Fund resources necessary to continue those programs and/or (3) to build up reserve (or “rainy day”) funds for use during economic downturns when caseloads (and therefore, cash assistance expenditures) are likely to increase.

New York uses a large and growing portion of its TANF “surplus” to fund two critical tax credits for low-income working families --- the NYS Earned Income Tax Credit and the NYS Child and Dependent Care Credit. Together, spending for these two tax credits make up $686 million for SFY 2005-2006 or 37% of the $1.8 billion in so-called TANF surplus funds. Approximately $380 million of the TANF surplus will be spent on child care this year and the new Flexible Fund for Family Services will absorb another $600 million leaving a mere $168 million for all other education, training, and transitional services initiatives. According to OTDA’s analysis of the county Flexible Fund for Family Services plans, only $131 million of the Flexible Fund for Family Services will go towards TANF services and employment services with $10 million transferred to the child care block grant. Therefore, at most there will be less than $300 ($168 plus $131) million available for all education, training, and supportive services for TANF recipients and other low-income working families in New York. This is less than one sixth the $1.8 billion New York allocated for these purposes as recently as state fiscal year 2000-2001.

Flexible Fund for Family Services: Proposed Uses



NYS TANF Spending on Employment and Transitional Services



iii. *185% of Standard of Need as Limit for Cash Assistance*

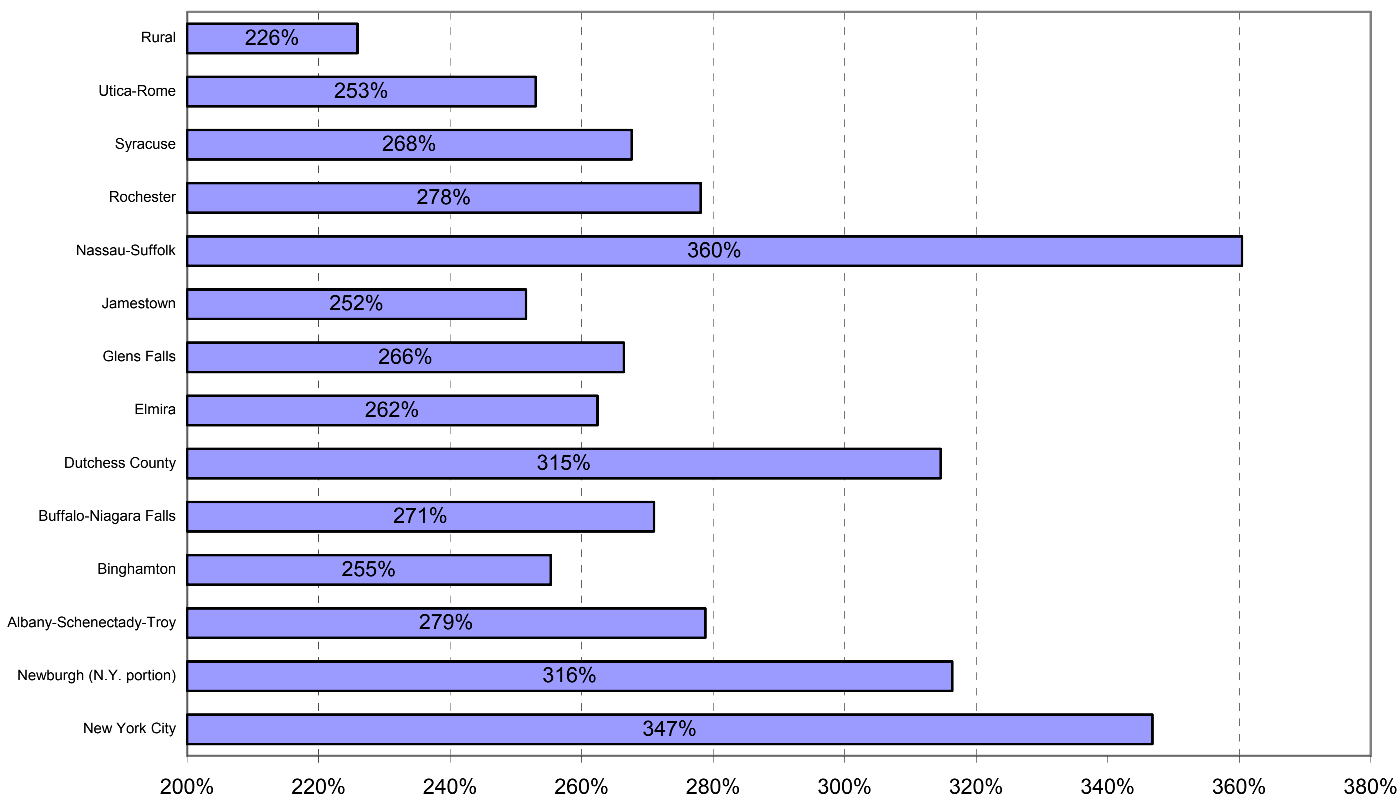
Currently recipients are ineligible for cash public assistance when their total monthly income exceeds the lower of the poverty level or 185% of the standard of need. New York should change its eligibility rules to permit benefits until income reaches the higher limit to provide benefits for families with incomes up to the poverty level in the 54 of the 58 social services districts for which 185% of the standard of need is less than the poverty level and to recognize the increased costs faced by families in those four counties where 185% of the standard of need exceeds the poverty threshold. The social services districts in which 185% of the standard of need exceeds or equals the poverty level for a family of three are Nassau, Suffolk, Rockland and Orange counties. In all other counties and New York City, families with incomes below the poverty level but above 185% of the standard of need are ineligible for assistance.

The hearing notice asks:

- Is there any discrepancy between earnings of welfare recipients/recent leavers and the actual cost of living ("Self-Sufficiency Standard") in various localities? What evidence exists demonstrating how to most accurately calculate the Self-Sufficiency Standard?

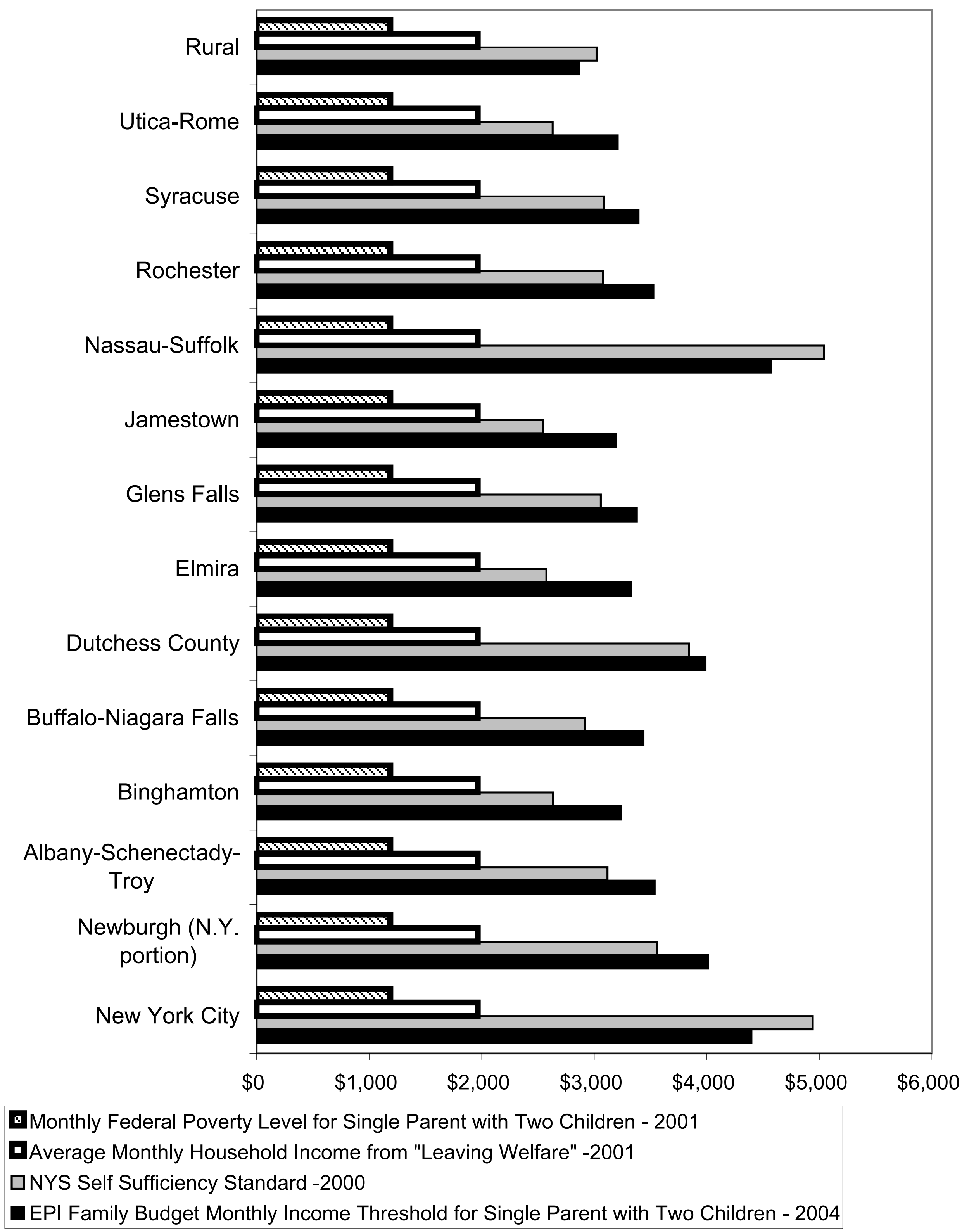
There is a growing body of evidence that families cannot provide for their basic needs with incomes at or below the federal poverty line. In September of this year the Economic Policy Institute released an updated version of their "family budgets" providing estimates of the before tax income needed by families with children to maintain a "decent" standard of living. This report found that 35% of New York's families with one to three children had incomes below the family budget amount. More than one million New Yorkers live in families with incomes below the family budget amount. Only California and Texas have larger poverty populations. As shown in the following table, these family budget income estimates exceeded the federal poverty line for all areas of New York State ranging from 226% of the federal poverty level in rural areas of New York to 360% in Nassau-Suffolk Counties.

2004 EPI Family Budget as a Percent of Federal Poverty Threshold: Single Parent with Two Children



The Rockefeller Institute *Leaving Welfare* study found that recent welfare leavers who were employed reported average monthly household income from all sources of $1,965. While this is above the federal poverty threshold for most families, it is far below the estimates of income necessary to achieve self-sufficiency. The following table compares the average monthly household income of welfare leavers to the monthly required income to support the EPI 2004 family budgets and the 2000 New York State Self Sufficiency Standard for a family with one adult and two preschool children.

Average Monthly Household Income After Leaving Welfare Compared to Poverty Line, EPI Family Budgets and NYS Self-Sufficiency Standard



Barriers to Employment and Self-Sufficiency,

The hearing notices asks:

- How does access to basic education, literacy/ESL classes, and post-secondary college education affect employment outcomes for both current and former welfare recipients? What is the long-term impact of educational attainment in terms of job opportunities and overall economic stability?

Without question, quality education is fundamental to improving opportunities for those relegated to, or heading towards, the low end of the labor market. Literacy and problem-solving abilities are increasingly important for careers that lead to higher pay and benefits. Therefore, access to basic education, literary/ESL classes and post-secondary college education are central to the future of low-income New Yorkers and their children.

Increasingly, the extent to which hourly pay improves depends on educational attainment. While the median wage for New York workers with a bachelor's degree or higher has increased by 8.7% since 1990, workers with less than a high school education have seen their wages decline by 13.3%. New York has a higher percentage of its 25 year + population with a bachelor’s degree or higher (30.5%) than the nation (27.0%), but both New York and the U.S. have the same 16.1% of their 25-year plus population with less than a high school diploma.