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More than "Bare Bones"

Justice Center exaggerates economic woes of families

Summary: The North Carolina Justice and Community Development Center released a report in May that purported to demonstrate that 60 percent of North Carolina families with children were not receiving enough income to meet a "living-income" standard. This startling statistic was the result of gross exaggerations of cost and undercounts of income, including no accounting for child support payments. Moreover, the Center's proposed solutions would increase poverty.

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In May of this year, the North CarolinaJustice and Community Development Center published a report titled "Working Hard is Still Not Enough"[1] in which some very startling and "disturbing" conclusions were reached. The study claims that "nearly two-thirds of North Carolina families with children fail to earn a living income."[2] The Justice Center based these conclusions on its Living Income Standard (LIS) which it defines as "a *bare-bones* budget indicating how much average families in North Carolina *must* have to meet their basic needs" (emphasis added). Luckily for the people of NC, the Justice Center has picked measurements of the costs of living that are anything but "bare-bones" and it has failed to include significant sources of income in determining how many citizens fall below the standard. Consequently, the center's contentions about the state's economic demise are greatly exaggerated.

What is the Living Income Standard?

The LIS is used by the Justice Center as a yardstick for determining the amount of income necessary to provide what the authors argue are minimal consumption levels of food, clothing, housing, medical and child care, transportation, and other necessities, including taxes. It was originally developed by a national group called the Economic Policy Institute in a study called "Hardships in America."[3] Both the Justice Center and EPI adopted this measurement because they believe that the federal government's officially defined poverty levels underestimate the true cost of living and do not capture large portions of the impoverished population. Not surprisingly, the Justice Center reached conclusions for NC that are very similar to those reached for the nation by EPI, namely that it takes double the federal-poverty-level income to support a family at a bare-bones subsistence.[4]

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Comparison of USDA Food Plans
Cost per Week of Food at Home

	Thrifty Plan	Low-Cost Plan
Family of Two		
20-50 years	**$ 64.10**	**$ 81.80**
51 years and over	$ 60.50	$ 78.70
Family of Four*, Couple, 20-50, and children*		
2 and 3-5 years	$ 93.20	$117.60
6-8 and 9-11 years	$107.70	$138.60

A Bare Bones Budget?

The Justice Center insists that the LIS is based on a "bare bones" budget. But in reality, the measurements used in the report reflect costs that are well above what is typically considered to be the minimum necessary. Furthermore, extra items that are buried in the category that the authors described as "miscellaneous" would not be considered necessities by most people. Also, in calculating the number of families below the standard the authors use only taxable income — thus leaving out potentially important items such as child support payments and the value of food stamps. Certainly the value of both of these items needs to be considered when determining whether a family is living below a bare-bones subsistence level.

Food and Housing**.** The best examples of the Justice Center's hyperbolic approach to assessing the cost of living are in the areas of food and housing. When determining the minimum costs for food, the Justice Center uses a food plan devised by the US Department of Agriculture called the "low-cost food plan" and, given its title, this would appear to be appropriate. But in fact this is not the measurement that the USDA typically uses for determining *minimum* food costs. For example, a common use for the USDA low-cost food plan is in bankruptcy proceedings where the purpose is to "determine the portion of a bankruptee's income to allocate to necessary food expenses."[5]

The plan that the USDA uses to determine the minimum cost of a nutritional diet is its considerably less expensive "thrifty food plan," or TFP. The Justice Center does not even consider the TFP in its analysis. According the USDA, "the TFP market baskets specify the type and quantity of foods that people could consume at home to obtain a nutritious diet at a minimum cost." The TFP is used by the government as the basis for determining food stamp allotments.[6] The cost difference between the "low cost food plan," chosen by the Justice Center and the "thrifty food plan" is considerable (see above). For a family of four the cost difference between the two plans is more than $1,600 a year.[7]

The Justice Center takes a similar approach when calculating the "bare bones" cost of housing. As they point out in their study, the Justice Center uses the US Department of Housing and Urban Development (HUD) "fair market rent" values[8] to calculate "minimum" housing costs. Again, on its surface HUD's terminology suggests that this would be an appropriate basis for determining the minimal cost of housing. But in fact HUD means something very specific when using this terminology. The "fair market rent" is the rent that is charged for housing that is "decent, safe, and sanitary,"[9] at the 40th percentile of the rent distribution in an area.[10] This means that 40 percent of the "decent, safe, and sanitary" housing in the area actually rents for *less* than the cost figure used by Justice Center and described as "bare bones." And even this does not capture the full extent of the exaggeration. First, the Justice Center considers only the "fair market rent" of two-bedroom apartments and rules out all one bedroom and efficiency apartments, regardless of the size of the family. Apparently, they feel that it would be less than "bare bones" for a single mother and her baby to live in a one-bedroom or efficiency apartment. Also, since the HUD's fair-market rent calculation specifically excludes public housing, the Justice Center ends up ruling out the possibility that a low-income family might live in public housing and therefore receive subsidized rent.

Health and Child Care**.** The Justice Center also overstates the cost of health care to families. This is done by underestimating the percentage of the population that is receiving Medicaid assistance and by completely leaving out family benefits that are received as part of the State Children's Health Insurance program, known as S-CHIP. As noted in its study, the Justice Center took into account "the costs associated with employer-provided insurance, the costs for purchasing non-group insurance, and out of pocket expenses." It is also assumed that "any worker who did not receive health insurance through their employer or through Medicaid would purchase coverage though a non-group plan."[11] In other words, all those who receive Medicaid are supposed to be factored in to the center's calculation and the more people there are the fewer people there would be paying the full cost of health care out of pocket. This is important for calculating the number of people in the state who are living below the LIS. The problem is that the Justice Center apparently adopts the methodology of the Economic Policy Institute in making its calculations. (It uses the exact same language as EPI in describing its methodology.) EPI makes the assumption that 8 percent of the families with children are on Medicaid.[12] But this appears to be a very low estimate. While the NC Department of Health and Human Services does not calculate this figure for families with children, overall about 16 percent of the total population of the state receives Medicaid benefits.[13] It seems reasonable to assume that at least this proportion of "families with children" are also receiving these benefits. If this is not the case, the Justice Center needs to justify its assumption and show how the 8 percent is derived. Also with respect to figuring medical costs, the Justice Center fails to include benefits that families receive under S-CHIP. Under this program, families that are earning 150 percent to 200 percent of the federal poverty level in income, depending on particular circumstances, qualify for free health insurance for their children.[14] Once again, by not including these benefits the report is effectively overstating the amount of income necessary for a livable income in North Carolina.

In assessing child care expenses, the Justice Center report considers only the cost of "three star" licensed providers. The state has established a relative rating system within the context of its licensing procedure. It is based on one to five stars.[15] Typically, costs are higher for providers that are awarded more stars. For example, in Wake County the cost difference between a two-year-old going to a two-star center vs. a three-star center is more than $2,000 a year.[16] It is important to note that centers receiving two stars, or even one, are fully licensed and meet all the requirements for the licensing procedure. In other words, they are not substandard. Again the question is, are the costs associated with three-star child care facilities consistent with the "bare bones" budget that the Justice Center is claiming to be presenting? Does this also mean that the many families in North Carolina who are using one and two star facilities are subjecting their children to a substandard level of child care? These are the kinds of questions that need to be answered in order to justify ruling these less-expensive facilities out.

However, the Justice Center's child-care standard could contain a more egregious flaw. Although the specific methodology is not disclosed in the Justice Center report, the prior EPI study assumed that the absence of a parent in a household necessarily required the family to purchase child care at market rates. That is, EPI estimated year-round expenses for child care for families with no stay-at-home parent. It estimated part-time expenses for child care in proportion to how much the custodial parent worked outside the home, and so on. But this is grossly at odds with how real families, particularly those with below-average incomes, arrange child-care responsibilities for preschool children. Many parents stagger their schedules or make use of grandparents, other relatives, and neighbors to accommodate their need for short- or long-term care. According to a 2001 report from the Frank Porter Graham Child Development Center, for example, only 24 percent of North Carolina preschoolers participate in regulated day care (in centers or homes).[17] Nationally, about half of families care for their preschool children primarily by a stay-at-home parent, with another one-fourth using nonpaid relatives, friends, etc. Assuming that the Justice Center followed the EPI report's lead on child care, it grossly inflated the extent of family expenditure on it.

<u>Miscellaneous</u>**.** Buried at the end of Appendix A in the report, there is a discussion of a catch-all "miscellaneous" category.[18] Included in this calculation are items such as union dues, music, and television. First, only a small portion of North Carolina's private-sector workforce is unionized. It is unclear why this item is included. It is also interesting to note that, while the study calls on employers to pay a higher minimum wage, the study does not call on unions to waive dues for low-income workers.[19] Second, it is also not clear what is meant by music and television. For example, are they referring to the purchase of concert tickets or the latest CDs? These items should not be considered necessary in a bare-bones budget. Also, since broadcast TV is free, it seems safe to assume that the Justice Center is including the cost of cable TV as an essential item.

It is also important to note the way in which the center derives the figure for miscellaneous expenses. Its formula assumes that this category is 31 percent of food and clothing. (It does not suggest an allocation for each item, only for the category as a whole.) But according to the National Research Council of the National Academy of Sciences, this is as much as double the suggested allocation for this category. The NAS has recommended in a major report requested by Congress that this category be calculated as between 15 percent and 25 percent of food and shelter.[20] Instead of following these guidelines the Justice Center chose to follow methodology of the highly politicized and ideological Economic Policy Institute.

Conclusion—Growth, Not Redistribution, is the Answer

In spite of its dire conclusions regarding the state of income levels in NC, the Justice Center offers nothing but income and wealth redistribution schemes as a way of dealing with the alleged problems. Most of what it advocates will actually make things worse for those at the lower end of the economic latter. For example, the authors propose dramatic increases in the state's minimum wage to $10.60 an hour, to pass local living-wage ordinances, and to eliminate lower pay grades for state employees. They also support business incentives for manufacturing companies that pay wages that are "10% more than the average manufacturing wage for the county or the region."[21]

All of these policies would automatically eliminate all job opportunities for those low-skilled workers whose productive capabilities are not high enough to justify the higher wages. Primarily this will be minorities who have been shortchanged by the state-run education system. It will also harm teens and college students with the ultimate elimination of many summer and part-time jobs. The only people who would benefit from such a wage policy are those more highly skilled and more experienced workers who would not have to face competition from new, less-experienced entrants into the job market. This is why unions typically favor such legislation. It prices lower-skilled and lower-paid competition out of labor markets.[22]

In the area of tax policy, the center's entire approach is redistributive, arguing that corporations and the rich need to be paying more tax. Also, it argues for a state refundable "earned income tax credit." This would mean that "tax credits" would go to those who in many cases have no income-tax liability. Again, its approach will actually harm those it is meant to help. For example, while the center calls for higher corporate taxes, the fact is that corporations, which are strictly legal entities, do not pay taxes. All corporate taxes must come from someone's pocket. These taxes are paid by consumers in the form of higher prices; workers in the form of lower wages; and shareholders, like the thousands of NC employees who participate in pension plans, in the form of lower dividends. In fact, if the Justice Center were really interested in improving wages and making products more affordable, it would be calling for the complete elimination of the state's corporate income tax.

There are tax reforms that, if implemented, would enhance job opportunities and raise the living standards for all North Carolinians. First the state should adopt a low, flat income tax rate, reducing the tax penalty on all productive activity. The focus on tax policy should not be on making sure that everyone *pays* their "fair share," but that everyone gets to *keep* what they earn. Second, the double- and triple-taxation of saving and investment should be eliminated by allowing all saved and invested income to be deducted from taxes. Taxes should be paid on that income only when it is removed from the investment stream and spent. As noted above, this should include the elimination of the fraudulently named corporate income tax. These proposals are not about redistributing a fixed economic pie but about allowing and encouraging the pie to grow. This is the only way to improve the economic well-being of North Carolina's citizens.

— Dr. Roy Cordato, Vice President for Research and Resident Scholar

Notes

1. Sorien K. Schmidt and Elizabeth A. Jordon, "Working Hard is Still Not Enough" North Carolina Justice and Community Development Center, May, 2003. Found at www.ncjustice.org.
2. Ibid. p. 5.
3. "Hardships in America," The Economic Policy Institute, 2001. Found at www.lights.com/epi/virlib/Studies/2001/hardshipsi/index.html.
4. Op. Cit. at note 1, p. 8.
5. "The Low-Cost, Moderate-Cost, and liberal Food Plans: 2003 Administrative Report," U.S. Department of Agriculture, Center for Nutrition Policy and Promotion. Found at www.usda.gov/cnpp/FoodPlans/FP2003/Executive%20Summary.pdf.
6. "The Thrifty Food Plan, 1999: Executive Summary," U.S. Dept. of Agriculture, Center for Nutrition Policy and Promotion, August, 1999. Found at www.usda.gov/cnpp
7. "Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, March 2002" USDA Center for Nutrition Policy and Promotion. Found at www.cnpp.usda.gov.
8. Note 1, p. 38.
9. Only housing that is considered "decent, safe, and sanitary" is considered in the HUD survey so lower rent housing is not lower rent because it is sub-standard. See the Federal Register, Department of Housing and Urban Development, document 24 CFR Part 88, p.1. Found at www.huduser.org/intercept.asp?loc=/Datasets/FMR/fmr2003p.pdf
10. "Fair Market Rents For The Section 8 Housing Assistance Payments Program," U.S. Department of Housing and Urban Development, Office of Policy Development Research, October, 1995. Found at www.huduser.org/datasets/fmr.html. Also see Ibid.
11. Op. cit. note 1, p. 40.
12. Op. Cit. at note 2, p. 54.
13. Calculated from data in "Medicaid in North Carolina Annual Report, State Fiscal Year 2001, NC Department of Health and Human Services, Division of Medical Assistance, August 2002, p. 6.
14. "North Carolina Title XXI Program fact Sheet," Center for Medicare and Medicaid Services. Found at http://cms.hhs.gov/schip/chpfsnc.asp.
15. See "Overview" NC Department of health and Human Services. Found at http://149.168.194.28:8000/parents/pr_sn2_ov_sr.asp.
16. NC Division of Child Development Subsidized Child Care Market Rates for Child Care Centers, effective 4/1/03. Found at http://149.168.194.28:8000/county/cs_countyforms.asp.
17. Karen Taylor, Kathleen Bernier, Donna Bryant, Satsuki Scoville, and Joy Sotolong, "Reaching Out to All Children in North Carolina: Summary of Efforts by Local Smart Start Partnerships to Locate Children Aged 0-5 Who Are Not in Regulated Child Care," Frank Porter Graham Child Development Center, Fall 2001, p. 1.
18. Op. cit., note 1, p. 40.
19. It should be noted that NCJCDC acknowledges the input of the AFL-CIO in providing information on "issues and policies discussed in this publication." p. 47.
20. Constance citro and Robert T Michael, eds. *Measuring Poverty : A New Approach*. (Washington, D.C.: National Academy Press) 1995, pp. 6, 51, and 57 as cited in "Measuring Poverty in America: Science or Politics," Employment Policy Institute. www.Eponline.org.
21. Op. cit., note 1, pp. 31-33.
22. It should be noted that high minimum wages have been motivated by racist consideration. In South Africa, for example, high minimum wages were supported by "whites only" unions to keep blacks from competing for jobs in construction and the diamond mines. See Walter Williams, *The State Against Blacks*, (New York: McGraw-Hill) 1982, pp. 34-50; and *South Africa's War Against Capitalism*, (New York: Praeger) 1989, pp. 62-75.