



*Hard Times Amid
Prosperity:
A Current Profile of
Poverty in New Jersey*

*An Initial Report From
The Poverty Research Institute
of
Legal Services of New Jersey*

Legal Services of New Jersey
NJPRI
Poverty Research Institute

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Special thanks to Sen-Yuan Wu of the New Jersey Department of Labor,
and Edna Biderman of the Bureau of Labor Statistics for their assistance
and prompt response to inquiries. And to Sue Perger of Legal Services of
New Jersey, for her help with the layout and design.

Executive Summary

Intuitively one would hope—pick your cliché—that in very good economic times “a rising tide would lift all boats,” or that at least greater wealth would filter down and help everyone. In such times one would expect poverty to diminish: fewer poor, less of a gap between rich and poor, less of an absolute gap between the poverty line and the majority of those below it. As this report demonstrates, this intuitive picture is not—in several significant respects—borne out in New Jersey.

In presenting and discussing these findings, it is important to keep in mind that poverty is not the “fault” or responsibility of a particular state, state governor, federal administrator, or any other single actor. It is the result of a very complex—and constantly evolving—weave of public policies, private practices and individual capacities and conduct. The history of poverty is measured in millennia, not years or decades. This is not to say, however, that poverty is inevitable or insoluble, or that there is no clear role for government in combating poverty. New Jersey’s just-enacted Fiscal Year 2001 appropriation contains several important initiatives to alleviate poverty: a new State Earned Income Tax Credit, a new Family Care health insurance program extending healthcare for a significant number of previously uninsured people, and a new but small (\$2.5 million) rental assistance program.

In addition to these very laudable initiatives, other important state policy steps suggested by the data in this report include:

- Increasing significantly the rate of monthly assistance to welfare recipients.
- Restructuring the new state EITC to provide additional assistance to families with three or more children, and provide assistance to single individuals.
- Expanding the state’s new rental assistance program.
- Giving consideration to the special needs of the groups revealed by these figures to be relatively *more* disadvantaged: children; households headed by single adults, especially women; women and minorities seeking employment.

Major findings revealed or confirmed by the data analysis in this report include:

- A disproportionate number of New Jersey’s poor are children (37%).

- New Jersey women and Blacks fared significantly less well than the national average in finding jobs in 1999.
- Disproportionate numbers of larger New Jersey families (those with two or three children) are poor (10.2% and 19%, respectively).
- A very disproportionate percentage of families (24.0%) headed by single adults, especially women, are poor.
- There are very wide disparities among New Jersey counties with respect to the incidence of poverty and rates of unemployment.
- Inequalities in the distribution of income are increasing in New Jersey.
- Welfare recipients represent a decreasing percentage of the state's poor.

Introduction

This report is one of a series seeking to present specific information concerning the extent and impact of poverty in New Jersey. It is the product of the Poverty Research Institute, a special project of Legal Services of New Jersey (LSNJ) supported primarily by the Fund for New Jersey.

To remedy the dearth of information and statistics on poverty in the state, Legal Services of New Jersey founded the Poverty Research Institute (PRI) in 1996. The PRI is the first and only entity in New Jersey exclusively focused on developing and updating information on the extent and effects of poverty in this state. Through original research and analysis of data available from publicly available sources, the PRI seeks to increase public awareness and knowledge about poverty, and assist policymakers by providing data to support informed decisions. Recent research projects have included a study on the cost of living in the state, entitled “The Real Cost of Living: The Self-Sufficiency Standard for New Jersey”; a Budget Analysis Project which examined the TANF budget and expenditures; and the Assessing Work First series, examining how the changes resulting from Work First New Jersey have affected people on welfare and in poverty.

LSNJ, an independent, non-profit corporation, coordinates the statewide Legal Services system. LSNJ strives to ensure equal access to justice under law to all people of New Jersey, providing free legal assistance to low-income people in civil matters. Legal Services in New Jersey embraces a vision of full access to essential civil legal aid for all economically disadvantaged people who cannot secure a lawyer on their own and, through that legal aid, equal justice, both substantive and procedural.

Legal Services seeks to provide its services in the most effective and efficient manner. Consequently, LSNJ is constantly searching for approaches with potential to alleviate poverty for the poor generally, beyond just the parties to litigation. Over the years LSNJ has engaged in extensive social science research in an attempt to better understand—and address—the problems and legal needs of the poor. This approach has led to prioritizing, for example, legal representation that tends to help rebuild impoverished deteriorated communities, or that addresses in a single forum or legal action recurrent problems which otherwise would repeat themselves hundreds and thousands of times in individual cases. It also has led to considerable research on the extent and impacts of poverty.

This PRI report is the first of a series on poverty in New Jersey. In-depth reports on housing, educational attainment and the implications of upcoming Census Small Area Income and poverty data are all planned for the fall. The PRI will also maintain a continuing focus on the relationship between welfare and poverty, and the effectiveness of various anti-poverty initiatives.

A. Context—Economic Boom

These are unquestionably robust economic times for the country and for New Jersey. Many have suggested that the current economic situation, characterized by low unemployment, increased earnings and productivity, and low rates of inflation, is in fact a new paradigm for the future—the way things will be in the age of technology. Whatever the accuracy of such assertions, the facts are compelling: June 2000 marks a milestone for New Jersey—the 111th month of the state’s economic expansion, the longest in New Jersey’s history¹. While there has been some recent evidence of increased wage and price acceleration, many analysts remain optimistic about the economy’s direction². The unprecedented performance of the late 1990’s economy has had an irrefutably positive impact on the nation overall. Unfortunately, these benefits have not necessarily been shared equitably by all Americans.

While aggregate economic and poverty statistics can, to some degree, be used as a general measure of the nation’s economic health, there are implicit limitations on what they mean, particularly as they relate to smaller geographic and demographic population subsets. Broad categorizations about the economy can obscure the experiences of more vulnerable populations. While unemployment has reached all-time lows, for many increased job opportunities have not necessarily translated to an increase in real earnings, nor helped lift them from poverty. Despite the robust economy of the 1990’s and New Jersey’s relative wealth, wage stagnation and declines in living standards are very true realities for many in New Jersey.

B. Methodology

1. Sources

This report examines a variety of data on New Jersey poverty in the context of an unprecedented economy, and where possible makes comparisons between the late 1980’s and late 1990’s—both periods of strong economic growth in New Jersey. The report utilizes published state and national income, poverty and unemployment data from a variety of sources, illustrating trends and drawing inferences about their relevance to low-income individuals and families in New Jersey. The two primary data

sources are federal: the Bureau of the Census and the Bureau of Labor Statistics. The bulk of the report relies upon analysis of Census data conducted by New Jersey Department of Labor's Office of Planning and Analysis and published in New Jersey's 1999 Annual Demographic Profile. Other national sources of data analysis, such as the Center on Budget and Policy Priorities, are also used. For much of the state-specific data derived from the Census' Current Population Survey (CPS), two or three-year moving averages are used to increase reporting accuracy. All inflationary adjustments are made in 1998 dollars, the most recent year for which Census data on income is available, unless otherwise noted.

Because this report is based on a collection of different information sources, some general precautions should be taken when interpreting the data. First, because not all data contained in the report is collected or reported on an annual basis, some sections rely on base years other than 1989-90 or 1997-98. Secondly, different sections of the report may rely upon different data sources or sets for the same base year. For these reasons, care should be used when trying to make comparisons across various sections of the report.

2. Defining Poverty

In recent years, our nation's official definition of poverty, first implemented in the 1960's, has come under attack as being an inaccurate and inadequate standard by which to measure need. Based on the cost of a minimal diet for a family of four, including two parents and two children, the annual federal poverty threshold was originally established in 1963 at \$3,100. The measurement assumed that food consumed a third of a family's total budget, with the remaining two-thirds used for the cost of shelter and other necessary goods and services. Since then, the threshold has been adjusted only for cost of living increases (using the CPI-U) and has not taken into account any socio-economic changes that have occurred over the last three decades.³ For example, the official definition does not distinguish between families with two wage earners (who may need child care), and families with at least one non-working adult. It does not take into account medical expenses (at the time the guideline was established health care spending was just over 5% of the GDP, while it now stands at approximately 14%)⁴. Additionally, while the official definition counts pre-tax money income, including cash public assistance benefits (such as SSI and TANF), it does not take into account significant income or resources such as capital gains, Food Stamps, and subsidized housing, or adjust for deductions, such as the Social Security payroll tax, all of which impact disposable income. The validity of the official definition is further compromised as it applies to New Jersey, a high cost state, as it does not take into account geographic variations in the cost of living, especially impacted by essential high-cost items such as housing. Although higher

thresholds exist for Alaska and Hawaii, there is one standard definition for the continental United States.

The standard federal poverty threshold referenced throughout much of this report is based on a three person, single parent household. In 1999, a family of three was considered to be living in poverty if its annual income fell at or below \$13,423. Such an income is, without question, far from adequate to meet the most basic food, clothing, shelter and medical needs of a two child, one parent family in this state.⁵

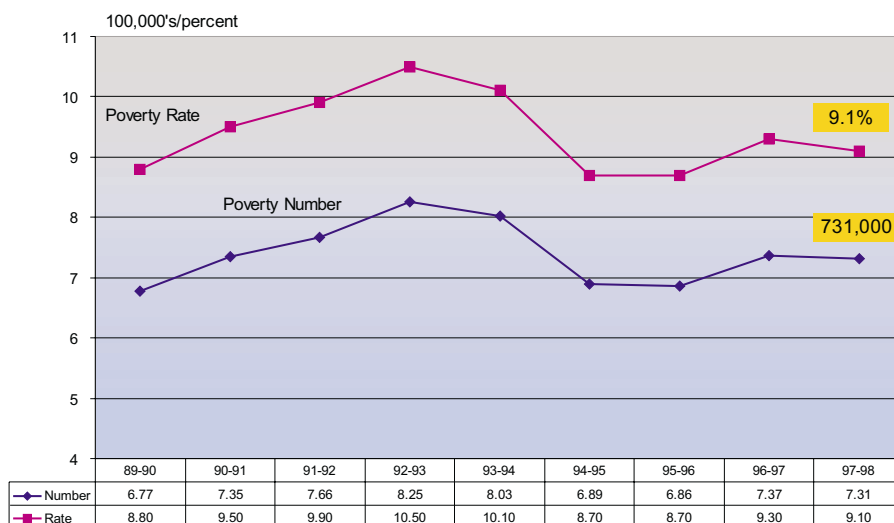
For these reasons, several New Jersey assistance programs, such as charity health care, energy assistance, and KidCare, utilize eligibility ceilings at 200% of the federal poverty level or higher. Indeed, the “Real Cost of Living” study just referenced suggests levels which are just over 200% of the federal poverty line.

This report does not attempt to reconcile the tension between the standard federal definition and the hard reality of poverty. We do emphasize that the official poverty definition is not an adequate measure of essential need, nor a proper gauge of social well-being. It is, however, the only available national standard, affording at least cross-state and longitudinal comparisons.

C. Differences Across Counties

Despite a series of fluctuations—a response to the recession of the early 1990’s and the recovery of the latter half of the decade—the poverty rate in New Jersey stands essentially equal to that of a decade ago. The two-year moving average for 1997-98 leaves New Jersey with a poverty rate of 9.1%, as compared to 8.8% in 1989-90. [Figure 1] However, primarily due to increases in New Jersey’s overall population, the number of persons in poverty in 1997-98 was approximately 50,000 higher than at the end of the 1980’s. Containing some of the wealthiest counties in the country, New Jersey’s median household income in 1997-98, historically well above the nation’s average, ranked second highest in the country at \$49,297, not statistically different from Alaska at \$49,717. Indeed, New Jersey’s median income was a full 28.9% higher than the national average of \$38,233. But New Jersey is a diverse state where wealth and poverty, cities and farmland are juxtaposed. So while statewide aggregates present a homogenized view of New Jersey, they mask the actual situations in smaller geographic areas. Small Area Income and Poverty Statistics are released by the Census Bureau every few years, providing more current estimates for small geographic areas between the decennial census. The most recent county level income and poverty estimates, released by the Census Bureau in 1998, contain data for 1995. At 8.7%, New Jersey’s overall poverty rate tied as the third lowest in the country, far below the

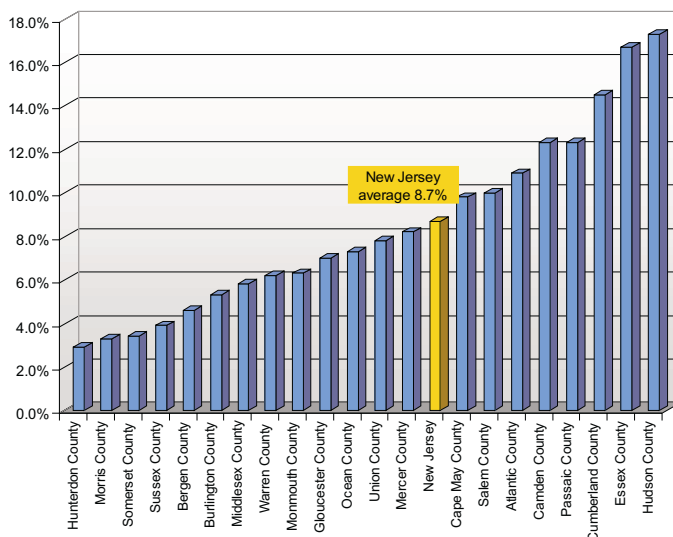
Figure 1
Poverty Rate & Number of Persons in New Jersey 1989-90 to 1997-98



Source: New Jersey Department of Labor

national average of 13.8%. However, this aggregate rate does little to paint an accurate picture of the depth of poverty in the state. Individual New Jersey county poverty rates vary widely, from 2.9% in Hunterdon to 17.3% in Hudson. Three New Jersey counties, Cumberland, Essex and Hudson, had rates in excess of the national average at 14.5%, 16.7% and 17.3%, respectively. These same three counties also met or exceeded the national child poverty average, experiencing rates of 20.8%, 24.6% and

Figure 2
Poverty Rate in New Jersey



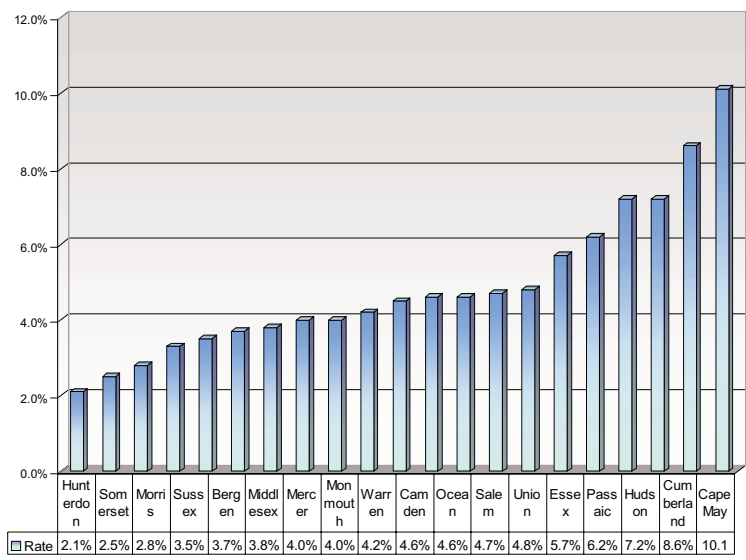
Source: US Census Bureau 1995 Small Area Income and Poverty Estimates

26.3%, respectively. Hunterdon, at 3.3%, had the lowest child poverty rate in the state. Four other counties, Atlantic, Camden, Passaic and Salem, had total poverty rates in excess of 10%, while Bergen, Morris, Somerset and Sussex joined Hunterdon with rates below 5%. Median household incomes in New Jersey followed similar patterns, deviating widely by county. Against a statewide average of \$44,345, county median household incomes ranged from a low of \$32,152 in Hudson to a high of \$66,265 in Hunterdon, a spread of more than 100%.⁶ [Figure 2]

Unemployment rates are similarly divergent. While New Jersey’s overall unemployment rate was 4.6% in 1999, rates differed substantially by county—from a low of 2.1% in Hunterdon to a high of 10.1% in Cape May. Three counties had rates below 3.0% and four were above 6.0%. [Figure 3]

A geographic portrait of poverty density in New Jersey shows a higher concentration in the urban areas of the northern and central parts of the state in close proximity to the major cities of New York and Philadelphia. [Figure 4] The five counties with the greatest **number of people in poverty** (Essex, Hudson, Camden, Passaic and Middlesex) made up 55% of the state’s total poverty population in 1995, while comprising only 37% of the state’s **total** population. The five counties with the greatest **number of children in poverty** (Essex, Hudson, Camden, Passaic and Union) made up 57% of the state’s total child poverty population, while containing only 36% of the state’s population under 18.

Figure 3
New Jersey Unemployment Rate 1999 By County



Source: Bureau of Labor Statistics

Figure 4
Number of Persons in Poverty by County



Source: US Census Bureau 1995 Small Area Income and Poverty Estimates

D. Child Poverty and Family Size

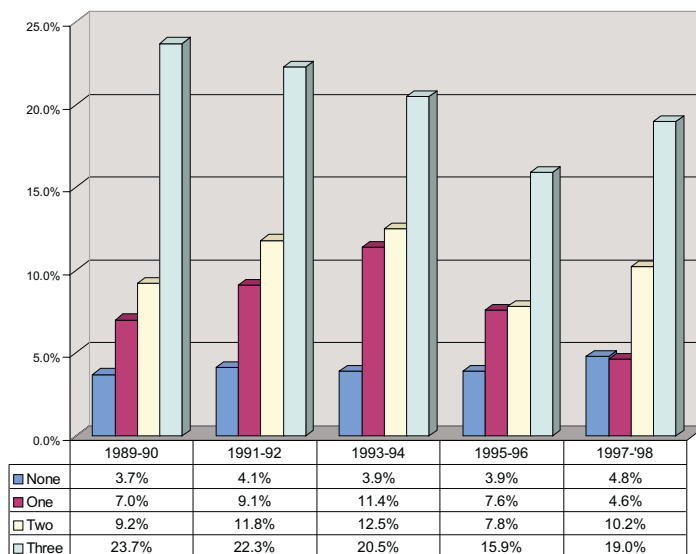
Children continue to remain a population particularly vulnerable to poverty. While poverty rates for children in New Jersey have declined in recent years, our youngest residents continue to be disproportionately represented among the state's total poverty population. For example, over the 1997-98 period, while children made up 25% of the state's overall population, they represented 37% of New Jersey's total population in poverty. Particularly disturbing are the implications for families with more than one child, as poverty rates increase drastically based on family size. In the 1997-98 periods families with one child had a poverty rate of 4.6%, while those with two children had rates more than double that, at 10.2%. And, alarmingly, a full 19% of New Jersey families with three children, or nearly one in five, lived in poverty. [Figure 5]

E. Other Vulnerable Populations

Women and minorities are more vulnerable to poverty, and the extent of the disparity in New Jersey is troubling. Overall, in 1997-98 New Jersey maintained an average poverty rate for **families** of 7.1%. The figure for White families, however, stood at just 4.2%, while Black families had a poverty rate of **21.4%**, nearly three times the state aggregate and more than five times the rate of White families. [Figure 6]

The demographic distribution of **persons** in poverty revealed similar findings. The rate for Whites, at 6.2%, was considerably lower than New Jersey's overall poverty rate of 9.1%, while the rates for Blacks and

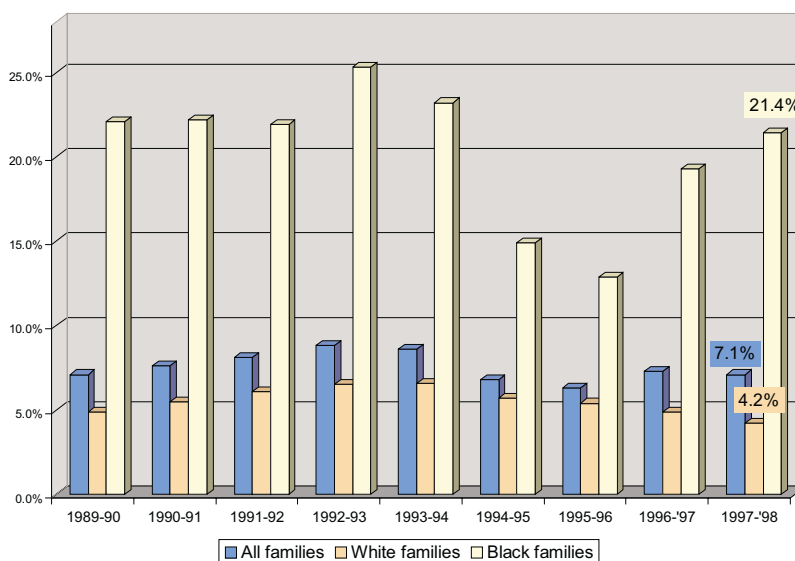
Figure 5
Families in Poverty by Number of Children 1989-90 to 1997-98



Source: New Jersey Department of Labor

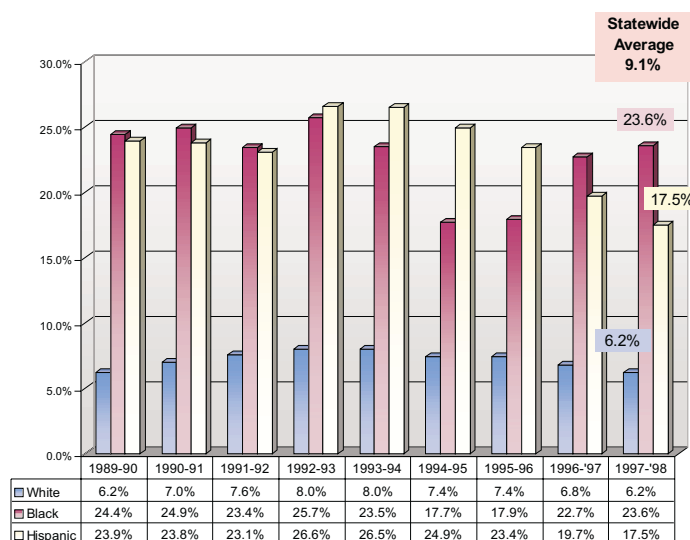
Hispanics were markedly higher, at 23.6% and 17.5%, respectively. Taking a longitudinal look, while still disproportionately high, Hispanic persons have seemingly made significant gains, essentially realizing a 27% decline in poverty over 1989-90, moving from a poverty rate of 23.9% to their current rate of 17.5%. Whites, by comparison, experienced no change over their 1989-90 rate of 6.2%, and Blacks experienced a statistically insignificant rate decline over the same period. [Figure 7]

Figure 6
New Jersey Families Below Poverty by Race 1989-1998



Source: New Jersey Department of Labor

Figure 7
Persons Below Poverty by Race 1989-1998



Source: New Jersey Department of Labor

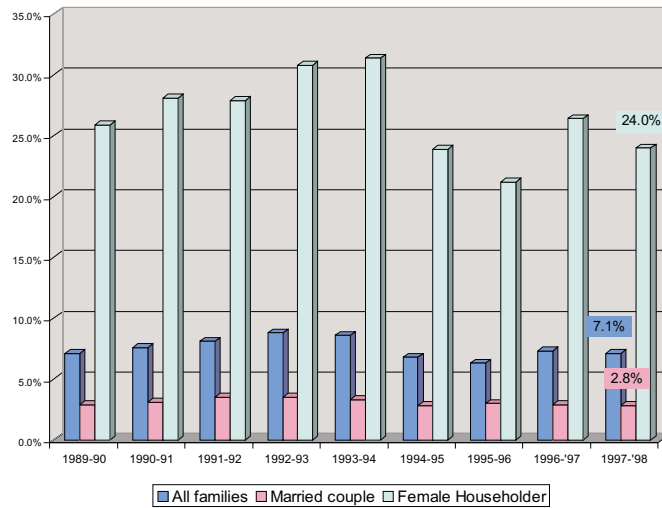
A review of changes in household income by race also raises concern. While the median income for all New Jersey households and that of New Jersey’s White households in 1997-98 remained relatively flat over 1989-90 levels, decreasing by 1% and increasing by 2% respectively, the median income of Black households decreased by 9.0%, moving from \$33,250 in 1989-90 to \$30,300 in 1997-98.

Households headed by single females remain extremely vulnerable to poverty, and made no significant gains. As cited earlier, New Jersey families had an overall poverty rate of 7.1% in 1997-98. Married couple families fared far better, with a poverty rate of just 2.8%, while single female-headed New Jersey families remained particularly vulnerable, with nearly one in four, 24%, living at or below poverty. [Figure 8] Income statistics are similarly disparate. While the average income of New Jersey families was \$59,231 in 1997-98, married couple families, at \$68,475, had median incomes 15.6% above the state average. Single female-headed households, however, had annual incomes of just \$28,634—less than half the state average.

F. Income Inequality

It is well documented that income disparities, the gap between our wealthiest and lowest-income residents, have grown nationally⁷. If we break the population of earners into fifths, or quintiles, we see wide disparities in the respective shares of total aggregate income. Nationally, in 1998, 3.6% of the country’s aggregate income went to the bottom fifth

Figure 8
New Jersey Families Below Poverty Level by Marital Status 1989-1998

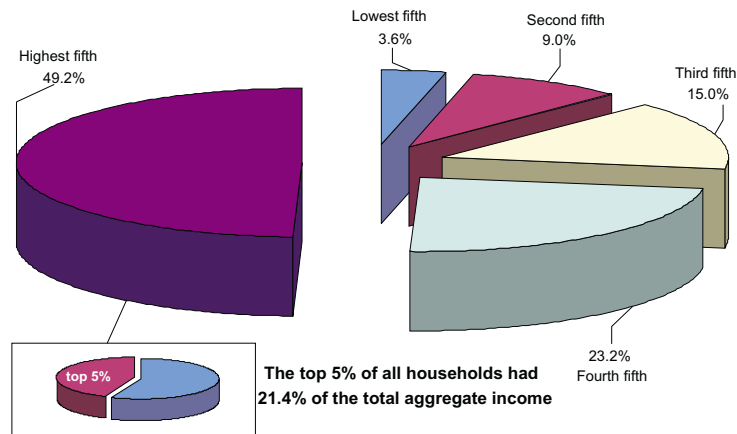


Source: New Jersey Department of Labor

of earners, while nearly half, 49.2%, went to the top fifth. Stated another way, the top 20% of all earners controlled nearly as much income as the other 80% combined. The nation's aggregate income was further concentrated—with the top 5% possessing 21.4% of the total income. [Figure 9]

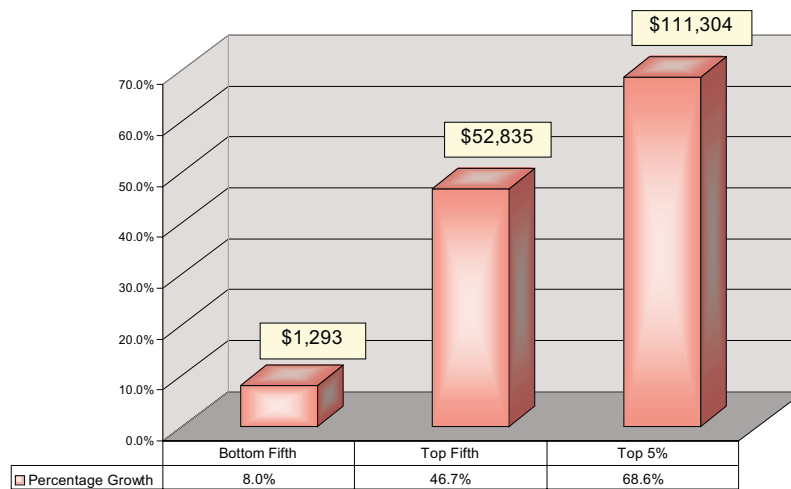
Increased income polarization is also a reality for New Jersey. Real median income, or income adjusted for inflation, grew for all New Jersey households over the past two decades. Real income, however, grew at far greater rates for wealthier households. Between the late 1970's and late 1990's, income for the bottom fifth of all New Jersey households

Figure 9
Share of Aggregate Income Received by Each Fifth of Households United States 1998



Source: US Census Bureau, CPS 1998

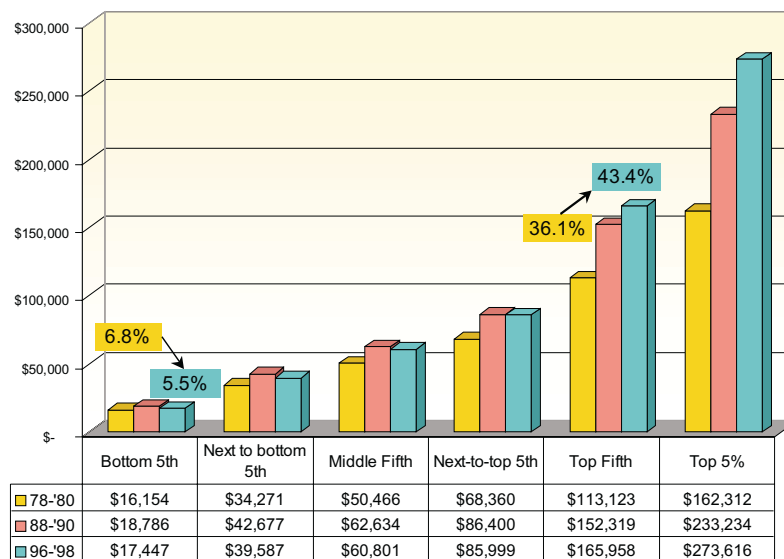
Figure 10
Change in Average New Jersey Income & Percentage Change 1978-80 to 1996-98



Source: Economic Policy Institute/Center on Budget and Policy Priorities

increased by only 8%, while increasing by 47% for the top fifth. For the very wealthiest in our state, those in the top 5% of households, income increased by 69%. Though the percentage increases are startling, the disparity in the increases in actual dollar value are astounding. While annual inflation-adjusted income for the bottom fifth of all New Jersey households has increased by \$1,300 since the late 70's, real income for the top fifth increased by \$53,000, and that of the top five percent by over \$110,000. Consequently, while all quintiles realized actual dollar

Figure 11
Average Incomes of New Jersey Families 1978-80 through 1996-98

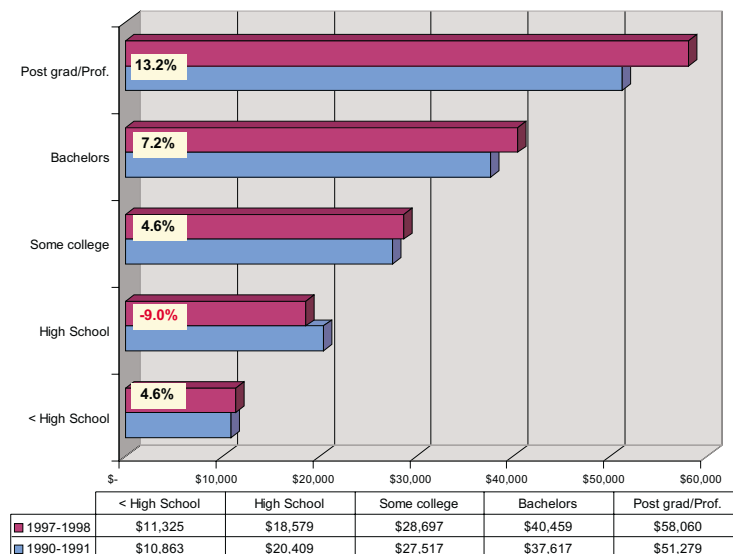


Source: Economic Policy Institute/Center on Budget and Policy Priorities

increases, the share of the state’s collective income held by lower income groups fell. For example, the percentage of New Jersey’s total income held by the bottom fifth of households decreased, from 6.8% in the late 1970’s to 5.5% in the 1990’s, while that of the top fifth grew—from 36.1% to 43.4% over the same period. Alarming, while increases in real income were realized across all income quintiles in New Jersey over the past 20 years, a snapshot of just the last decade paints a bleaker image. During the 1990’s real income **increased only for those in the top 20%** of New Jersey households. Income for all other quintiles, including those that comprise the middle class, fell. [Figures 10 & 11]

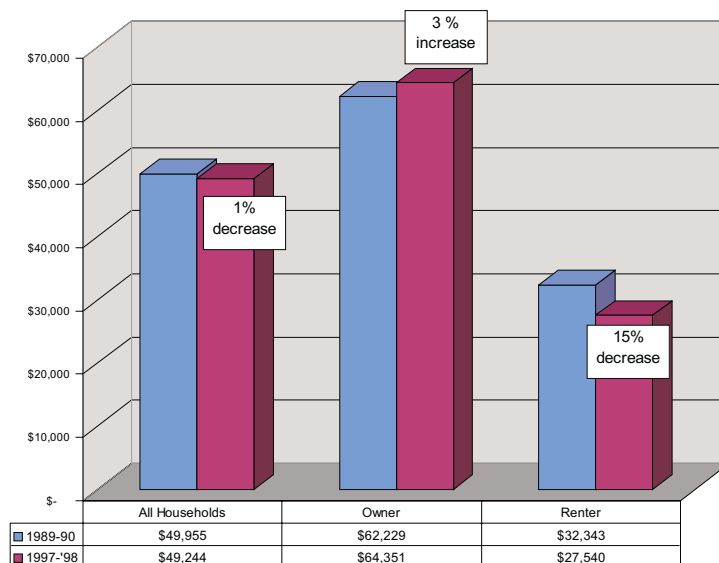
The widening gap in income is mirrored when one examines educational background. While it is well understood that income levels correlate highly with educational attainment, increases in real income have grown at much higher rates for those at the upper end of the scale. In New Jersey, 1997-98 annual median personal income varied widely, from \$11,325 for a person with less than a high school diploma to \$58,060 for those with a post-graduate or professional degree. However, while 1997-98 median income for persons with less than a high school diploma increased by 4.6% over 1990-91 when adjusted for inflation—probably due to tightening pressure at the lower end of the labor market—real median income **fell by 9.0%** for those with just a high school diploma. Persons with some college saw an increase of 4.6%, while those with a bachelor’s degree realized an increase of 7.2%, and those with post-graduate or professional degrees experienced the only increase in double digits—13.2%. [Figure 12]

Figure 12
Change in Real Median Personal Income by Level of Educational Attainment
New Jersey 1990-91 to 1997-98



Source: New Jersey Department of Labor, Author’s Calculations

Figure 13
Median Household Income in New Jersey 1989-90 & 1997-98 (1998 dollars)

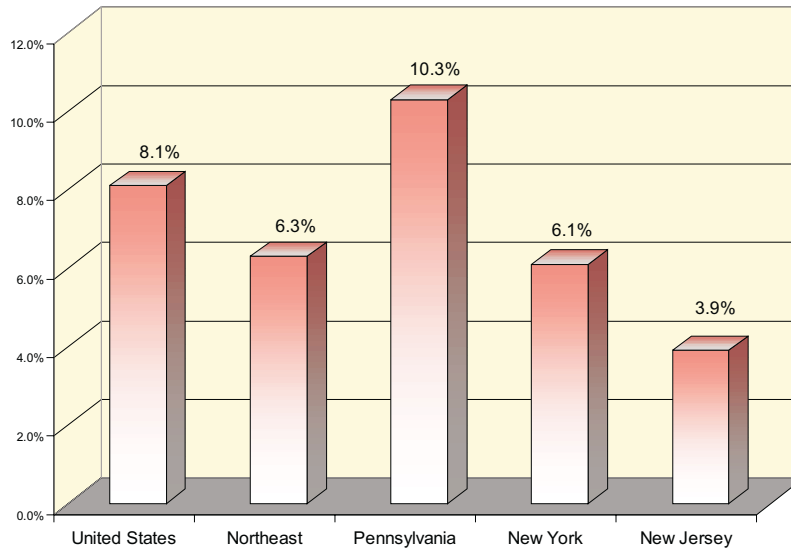


Source: New Jersey Department of Labor

G. Housing in New Jersey

Statistics on income by type of residence are consistent with findings that real median household income declined for less affluent people. While overall household income in New Jersey remained relatively constant over the past decade, the real income of home owners increased by approximately 3%. There was a concomitant decrease of 15%, however, in the income of renters, moving from \$32,343 in 1989-90 to \$27,540 in 1997-98. [Figure 13]. New Jersey is well known for its comparatively very high cost of rental housing. Indeed, HUD's Fair Market Rate (FMR) schedule reveals that New Jersey housing is some of the most expensive in the country. New Jersey's median rent for a two-bedroom unit increased by 58.7% between 1990 and 1999, moving from \$521 to \$827, while privately owned housing costs increased by only 24% over the same period. Compounding the problem is the lack of rental vacancies. Recent statistics released by the Census Bureau identify New Jersey as having one of the tightest rental markets in the country.⁸ With a vacancy rate of just 3.9%, the availability of rental housing falls far short of the national average of 8.1%, and of neighboring states. [Figure 14] A report to Congress, recently released by HUD, finds that worst case housing needs are increasing.⁹ In fact, despite the robust expansion of the late 1990's, in 1997 worst case housing needs reached all-time highs, affecting 5.4 million families—12.3 million individuals.¹⁰ The falling income of renters, increased costs of rental housing and low vacancy rates all point toward the need to address the lack of affordable housing for low-income New Jersey residents.

Figure 14
1999 Rental Vacancy Rates



Source: US Census Bureau

H. Unemployment

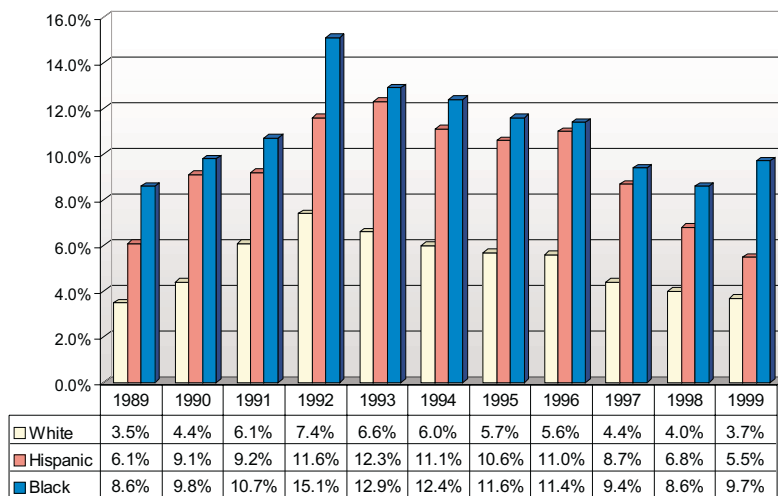
Throughout the 1980's, New Jersey enjoyed unemployment rates well below the national average. Eventually the prosperity of the 1980's gave way to the recession of the early 1990's. New Jersey was particularly hard hit and in 1992 the state's unemployment rate rose above the nation's. Recent years have seen a convergence of the national and state rates, and in 1999 New Jersey's unemployment rate stood at 4.6%, just a few tenths of a percent higher than the national rate of 4.2%. Several disturbing deviations, however, have presented themselves. Current national labor statistics indicate that significant, across the board gains by groups historically prone to high rates of unemployment were realized in 1999. Indeed, between 1998 and 1999, national unemployment rates in all reported racial and gender categories (White, Black and Hispanic men and women) fell, with significant gains being made by Black and Hispanic men and women. Nationally, Black men moved from an unemployment rate of 8.9% in 1998 to 8.2% in 1999; Black women from 9.0% to 7.2%; Hispanic men from 6.4% to 5.6%; and Hispanic women from 8.2% to 7.6%.

Unfortunately, while substantial gains were made nationally, similar gains were not realized in New Jersey. While the rate for White women remained relatively constant (decreasing by .1%), the large declines by Black and Hispanic women pushed the overall rate for women in New Jersey up, moving from 4.6% in 1998 to 4.9% in 1999. Minority women were especially vulnerable. While Hispanic men in New Jersey realized a huge decline in unemployment, moving from a rate of 7.3% in 1998 to

4.2% in 1999, the rate for Hispanic women rose, from 6.3% to 7.0%. Rates for Black women jumped significantly, from 7.9% to 9.6%. Unemployment trends for Black persons in New Jersey are also of concern, as the overall unemployment rate for Blacks, 9.7%, now stands nearly a full two percentage points higher than the national average of 8.0%. The overall Black unemployment rate in New Jersey increased more than a percentage point in 1999—up from 8.6% in 1998, while falling nearly a percentage point nationally—dropping from its rate of 8.9% in 1998. At the same time, the huge drop in the unemployment rate of Hispanic men pushed New Jersey’s overall unemployment rate for Hispanics, 5.5%, below the national average of 6.4%. In contrast, the state’s rate for Whites, which stood at 3.7% in 1999, was equal to that for Whites nationally, also at 3.7% in 1999. [Figure 15]

It is important to understand that unemployment statistics do not represent the full universe of persons not working, but only those persons **actively** looking for work. The unemployment rate also does not take into account underemployment—part-time or temporary workers who are seeking or would prefer full-time work (in most cases you are considered to be employed if you work one hour or more per week), or those who may have been discouraged from looking for employment. The rate also does not include those passively looking for work, such as those reading the want ads or attending a job training program or course.¹¹

Figure 15
Unemployment Rate By Race New Jersey 1989-1999

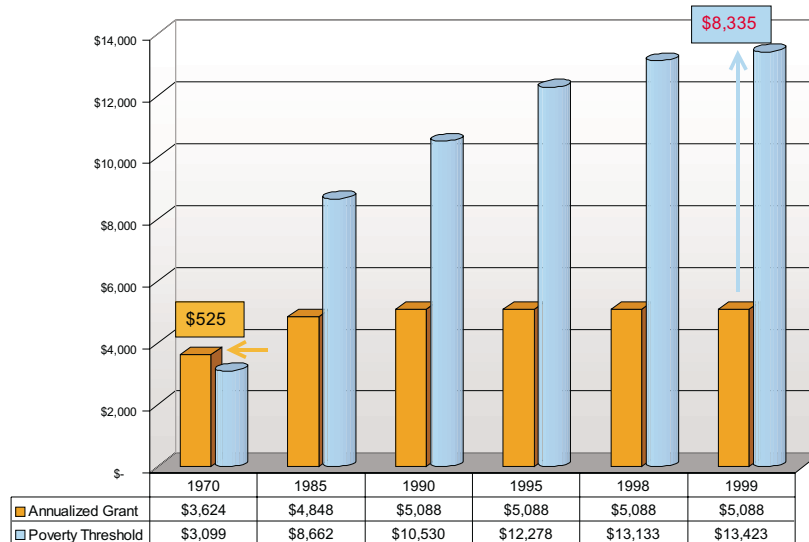


Source: Bureau of Labor Statistics

I. The Declining Value of Welfare Benefits

The value of welfare benefits has eroded steadily and substantially over the last few decades, with state declines ranging from 23% to 69% between 1970 and 1997.¹² The value of New Jersey's grant experienced a 66% decline over the same period, the **second greatest in the nation**, exceeded only by Texas. New Jersey's current benefit for a family of three stands at \$424 per month—\$5,088 annually—just 38% of the federal poverty level. When coupled with food stamps, the state's TANF benefit still leaves a family at just 68% of the guideline. New Jersey's welfare benefits have increased only two times since 1970, when the monthly grant for a family of three stood at \$302. Adjusted for inflation, today's **monthly** grant would need to exceed \$1,300 to have the same purchasing power that the grant of \$302 had in 1970, and \$622 monthly to have the buying power it had in 1987, the last year in which the grant was increased¹³. In fact, the annualized 1970 welfare grant actually brought a family of three \$525 above the federal poverty guideline (the equivalent of over \$2,250 in current dollars). Today's grant leaves that same family **\$8,335 below** the poverty level. [Figure 16] In 1997, twenty states had monthly grants which exceeded New Jersey's maximum grant payment for a family of three; of these, thirteen had monthly grants which exceeded \$500 and six had monthly payments in excess of \$600.¹⁴

Figure 16
Welfare Benefit as a Proportion of Poverty Threshold for Three-Person Household



Source: Author's Calculations

J. Escaping Poverty

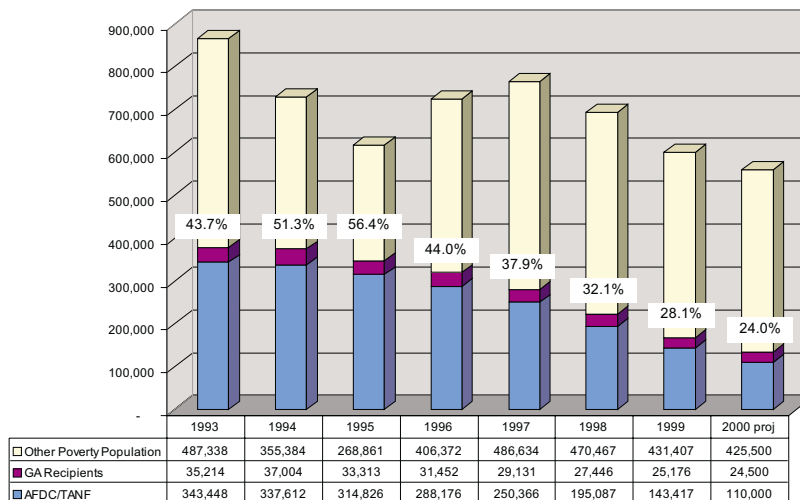
1. Off of Welfare But Not Out of Poverty

The cultural paradigm shift, ending “welfare as we know it,” has in fact taken hold. Few would disagree that the emphasis and focus of current cash assistance programs for able-bodied individuals is on securing work. What is not clear is how this emphasis and focus relates to moving people out of poverty. While recipients are leaving TANF rolls at unprecedented rates, they are not necessarily escaping poverty. Estimates show that welfare recipients in New Jersey represent an ever decreasing percentage of the state’s poor. [Figure 17] In other words, while there have been slight declines in the number living in poverty in recent years, these declines have been much less than the rapid reductions in welfare caseloads. Estimates show that in 2000 less than 25% of the state’s poor will be receiving cash assistance through traditional welfare programs—down from over 56% in 1995.

2. The Working Poor and Minimum Wage

In an era of unprecedented economic expansion and consequent low unemployment, one group has been glaringly left behind. Though perhaps counterintuitive and antithetical to the principles that underlie the American work ethic, that group is the working poor. National data suggests that, while greater numbers are able to find jobs, increasingly full-time year-round wages are insufficient to lift a family from poverty.¹⁵ Indeed, while the United States experienced a decline in the number of

Figure 17
AFDC/TANF & GA Recipients as a Percentage of Poor Persons in New Jersey 1996 to 1999



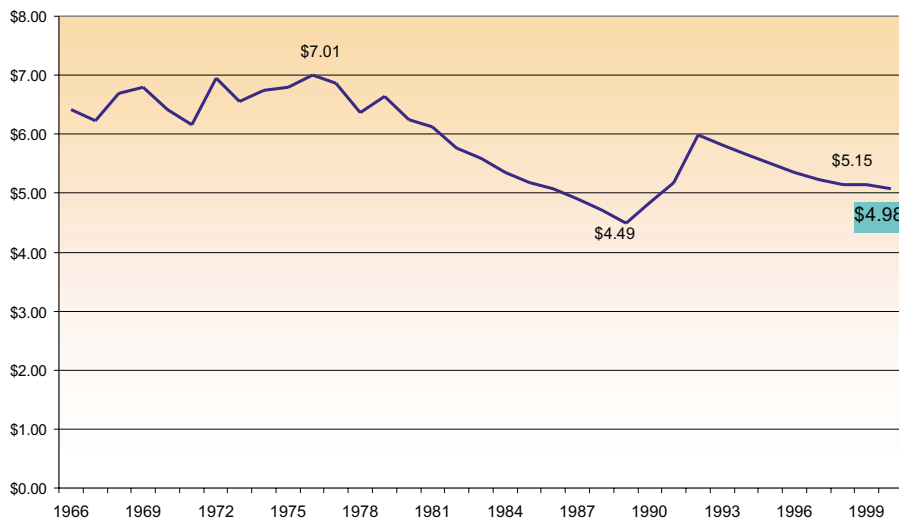
Source: US Census Bureau CPS Data 1993-98, Author's Projections 1999 & 2000
NJ Department of Human Services 1993-99, Author's Projections 2000

persons living in poverty in 1998, there was a concomitant increase, by almost 500,000, in the number of persons over age 16 who worked full-time year round and yet lived in poor households. This number has increased by more than 700,000 since 1990, and by more than 1,100,000 since 1980.¹⁶ While the rate of working poor remained relatively constant throughout the 1990's, the percentage of people working full-time year round increased substantially, moving from 9.8% in 1990 to 12.6% in 1998.

During the mid-1990's, New Jersey had an annual average of 98,000 working poor families with children, comprising 177,000 people in poverty—the majority of them under age 18. 19,000 of these families contained a full-time year round worker, representing 19.5% of all poor families with children in which parents were not ill, disabled, or retired. The majority of these families, 54.3%, were headed by women.¹⁷

New Jersey's minimum wage, first instituted in 1966, has lost value. Adjusted for inflation to 1999 dollars, the \$1.25 an hour statutory minimum wage of 1966 had a purchasing power ("value") equal to \$6.41. Through a series of adjustments, the value of the minimum wage remained relatively steady throughout the 1960's and 1970's, reaching a peak, the equivalent of \$7.01, in 1976. 1981 saw the last increase in New Jersey's statutory minimum wage for nearly a decade, moving to \$3.35 an hour, where it remained until 1990, when it was increased by \$.45. The value of this statutory minimum wage declined significantly during the 1980's, from \$6.13 in 1981 to a low of \$4.49 in 1989, and has never fully recovered. Last increased in 1999, today's statutory rate of \$5.15 is consistent with the federal minimum wage. But without adjustments it too

Figure 18
New Jersey Minimum Wage In 1999 Dollars Adjusted for Inflation



Source: Author's Calculations

has lost and will continue to lose ground. Using the most current CPI figure, the value of New Jersey's statutory minimum wage has already fallen to \$4.98, relative to its purchasing power in 1999.¹⁸ [Figure 18] Today's minimum wage leaves a family of three **more than \$2,700 below** the federal poverty guideline.

Without continued increases the minimum wage will impede the ability of hard-working Americans to earn their way out of poverty. Currently, eleven states have implemented minimum wages that are above the federal wage; six states have hourly wages that exceed \$6.00.¹⁹

K. New Jersey's EITC

In recent years the Earned Income Tax Credit (EITC) has become increasingly accepted as a critically important program, used to supplement the wages of low-income earners and moving them closer to the poverty threshold. New Jersey's recently enacted state-based EITC will assist tens of thousands of residents in the coming years. When fully implemented in 2003 at 20% of the federal credit for families earning up to \$20,000, the state credit will have maximum benefit levels of approximately \$400 for families with one child and \$800 for families with two or more children. The state and federal benefits can combine to offer substantial financial relief to working poor families. While establishment of the state-based credit is an important acknowledgement of and investment in the state's working poor, the structure of the credit does not address some very critical needs. As previously noted, data shows significant disparity in the poverty rates of families, based on the number of children in the household. In 1997-98, poverty rates ranged from 4.6% for families with one child, to 10.2% for families with two children, to 19.0% for families with three or more children. While the benefit amount of both the federal and state EITC adjust upward for families with two children, there is no additional increase in the amount of the credit for families with three or more children. For example, while the maximum federal credit for 2000 increases from \$2,353 for families with one child to \$3,888 for families with two children, families with three or more children continue to receive a maximum benefit of \$3,888, despite the increased financial burden incurred by families with additional children and a corresponding increase in the federal poverty threshold. This failure to scale benefits upward for larger families is a recognized deficiency of the federal EITC. President Clinton's 2001 budget includes a proposal to expand the federal credit to include an increase for families with three children. Wisconsin's state-based credit currently includes an additional benefit for three child households.

Conclusion

These data compilations are suggestive of several policy initiatives for the State of New Jersey in the immediate future, as well as a number of areas for further consideration, research, and tracking.

Policy initiatives supported by the data include:

- Increasing significantly the rate of monthly assistance to welfare recipients.
- Restructuring the new state EITC to provide additional assistance to families with three or more children, and provide assistance to single individuals.
- Expanding the state's new rental assistance program.
- Giving consideration to the special needs of the groups revealed by these figures to be relatively *more* disadvantaged: children; households headed by single adults, especially women; women and minorities seeking employment.

Areas for further research and tracking include:

- Tracing actual impacts of various anti-poverty initiatives, such as the EITC, over time.
- Tracking and seeking explanation for any differential rates in poverty or unemployment among subsets of the poverty population, as was revealed in unemployment rates for women and Blacks over the last year.
- Examining whether more people are continuing to move *into* the ranks of the *effectively poor* (between 100% and 200% of poverty), as was the case during the last decade, and the possible explanations for such movement.

Endnotes

- 1 Hughes, James and Seneca, Joseph, *New Millennium Economic Musings*, Sitar-Rutgers Regional Report, February 2000.
- 2 *Leading Economic Indicators Declines Slightly*, The Conference Board, July 4, 2000
Uchitelle, Louis, *Prices Spurt 3.2% as Economy Posts Another Big Gain*, New York Times, April 28, 2000
Crawford, Dan, *Outlook: Strong Economy Slows Modestly in 2000*, American City Business Journals, Inc. 1999.
- 3 The CPI represents changes in prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer service) and sales and excise taxes paid by the consumer are also included. Income taxes and investment items (like stocks, bonds, and life insurance) are not included. The CPI-U includes expenditures by urban wage earners and clerical workers, professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, retirees and others not in the labor force.
- 4 Siegel, Charles, *The End of Economic Growth*, Preservation Institute 1998
Weiner, Neil, *Health Cost Crib Sheet*, 1993.
- 5 Pearce, Diana, *The Real Cost of Living: The Self-Sufficiency Standard for New Jersey*, Legal Services of New Jersey Poverty Research Institute, 1999.
- 6 Small Area Income Estimates have not been adjusted for inflation and remain constant in 1995 dollars.
- 7 *A Pulling Apart, State Income Trends*, Center on Budget and Policy Priorities, 1999
Fischer, Claude, et al, *Inequality by Design, Cracking the Bell Curve Myth*, Princeton University Press, 1998
Weinberg, David H., *A Brief Look at Postwar U.S. Income Inequality*, U.S. Census Bureau, June 1996.
Bluestone, Barry, *The Polarization of American Society, Victims, Suspects, and Mysteries to Unravel*, New York: Twentieth Century Fund Press, 1995.
- 8 *Housing Vacancies and Homeownership, Annual Statistics: 1999*, U.S. Census Bureau.
- 9 *Rental Housing Assistance—The Worsening Crisis: A Report to Congress on Worst Case Housing Needs*, United States Department of Housing and Urban Development, March 2000.
Families who have “worst case needs” are defined as those who:
 - Are renters;
 - Do not receive housing assistance from Federal, State or local government programs;
 - Have incomes below 50 percent of their local area median family income, as determined by HUD; and
 - Pay more than one-half of their income for rent and utilities or live in severely substandard housing.
- 10 *Ibid*

- 11 Bureau of Labor Statistics, *How The Government Measures Unemployment*, February 1994.

Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work.

Actively looking for work may consist of any of the following activities:

- Contacting:
 - An employer directly or having a job interview;
 - A public or private employment agency;
 - Friends or relatives;
 - A school or university employment center;
- Sending out resumes or filling out applications;
- Placing or answering advertisements;
- Checking union or professional registers; or
- Some other means of active job search.

Passive methods of jobsearch do not result in jobseekers actually contacting potential employers, and therefore are not acceptable for classifying persons as unemployed. These would include such things as attending a job training program or course or merely reading the want ads.

Workers expecting to be recalled from layoff are counted as unemployed, whether or not they have engaged in a specific jobseeking activity. But, in all other cases, the individual must be actively engaged in some job search activity and available for work (except for temporary illness).

- 12 *1998 Green Book, Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, 1998.
- 13 Adjusted using the June 2000 Consumer Price Index.
- 14 *Ibid.*
- 15 *Does a Rising Tide Lift All Boats? America's Full-Time Working Poor Reap Limited Gains in The New Economy*, The Conference Board, June 2000.
- 16 While increases in the absolute number of working poor can be attributed to general increases in the workforce population, research shows that the numbers of full-time workers in poverty are rising even if adjusted for the effects of workforce growth. *Ibid*
- 17 *The Poverty Despite Work Handbook*, Center on Budget and Policy Priorities, April 1999
- 18 Adjusted using the June 2000 Consumer Price Index.
- 19 Washington \$6.50
Oregon \$6.50
Connecticut \$6.15
District of Columbia \$6.15
Massachusetts \$6.00 (\$6.75 effective 01/01/01)
California \$5.75
Vermont \$5.75
Alaska \$5.65
Delaware \$5.65 (\$6.15 effective 10/01/00)
Rhode Island \$5.65
Hawaii \$5.25