boom, bust & beyond:
the state of working arkansas

ARKANSAS
Working
Families
PROJECT

A Special Report from the Arkansas Working Families Project
A Project of the Good Faith Fund and Arkansas Advocates for Children & Families

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Richard Huddleston
Research and Fiscal Policy Director
Arkansas Advocates for Children & Families
523 S. Louisiana, Suite 700
Little Rock, AR 72201-5707
(501) 371-9678
www.aradvocates.org

Angela Duran
Director
Good Faith Fund
2304 W. 29th Avenue
Pine Bluff, AR 71603
(870) 535-6233 ext. 40
www.goodfaithfund.org

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Designed by Jane Rice of QRT Complete Print Production
and Julie C. Robbins, Communications Coordinator, Arkansas Advocates for Children & Families

Introduction

Since the publication of the first edition of the “State of Working Arkansas” report in April 2000, much has happened to the Arkansas economy, its workers, and families. The economic boom of the 1990s has ended and the events of Sept. 11, 2001, have created uncertainty about the country’s security. At the same time, the stock market has seen significant declines, corporate accounting scandals have rocked the economy, and investor confidence has tumbled. The Arkansas economy, of course, has not been immune to these events. Unemployment rose during 2001, layoffs of Arkansas workers were commonplace, and wage growth flattened out.

Despite the slowdown in the state’s economy over the last year and one-half, it’s easy to forget the last half of the 1990s was an economic boom for Arkansas working families. Many families saw large increases in their incomes during the period. Poverty also declined during the decade, improving the living conditions and economic well-being for many families. Despite losses in the stock market over the last year, the income growth during the 1990s allowed many Arkansans to invest in the market or own assets, such as homes, for the first time. On the government side, the fast-growing Arkansas economy also generated tax revenues enabling the state to adopt several, truly remarkable changes in public policy to help low-income working families. The most important of these changes was undoubtedly the establishment of ARKids First, a health insurance program for children in low-income working families making health care coverage accessible to large numbers of uninsured children for the first time.

Nevertheless, the economic boom of the 1990s is over, at least for now. While the Arkansas economy is expected to rebound in 2003, it will face considerable challenges in the years to come, as will the workers and families depending on it to meet their basic needs. Arkansans are working longer and having less time to spend with their families, some groups and areas in the state benefited little from the boom of the 1990s (or at least not to a significant degree), a large number of the poorest families have struggled to leave welfare without making themselves worse off, income equality remains high, and many workers still don’t earn enough income to meet the basic needs of their children and families. Far too many Arkansas working families still lack access to basic services such as health care, quality early care and education, affordable housing, or an adequate education allowing them to compete for jobs paying higher wages.

Using data from a variety of government and private sources and interviews with working families, the 2002 edition of the “State of Working Arkansas” provides an in-depth look at the Arkansas economy, how Arkansas working families have fared economically in recent years, and the challenges they continue to face. Just as importantly, the report offers suggestions about how Arkansas can provide the tools working families need to continue to move up the economic ladder, while at the same time ensuring they can meet the basic needs of their children. It is our hope policy-makers, employers, the media, and the public will use this as a guide in their decisions about how best to meet the needs of the state’s working families.

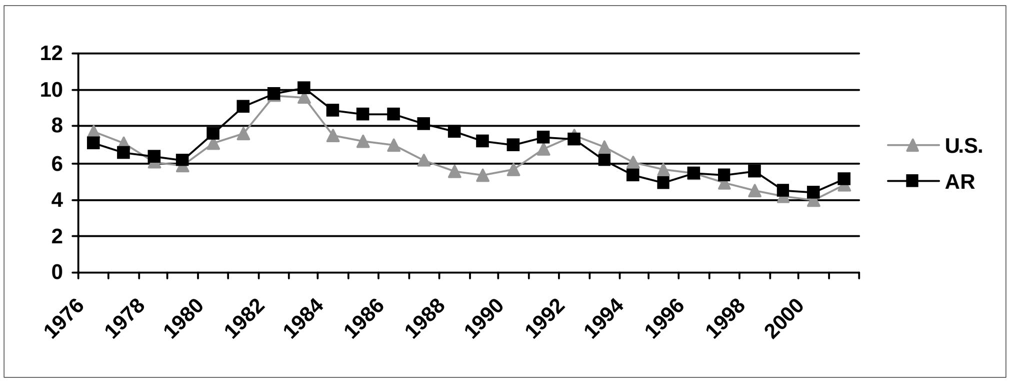
Angela Duran and Rich Huddleston

The State of Working Arkansas

Unemployment Increased During 2001 and 2002

Over the past 25 years, unemployment hit a peak of 10.1 percent in 1983 and has generally declined since then to a low of 4.4 percent in 2000. The unemployment rate started to head upward in 2001 with an annual unemployment rate of 5.1 percent. So far in 2002, the rate has climbed from 4.8 percent in January to 5.3 percent in May, with a downturn over the past few months to 5 percent in September. For the most part, the ups and downs of state unemployment rates have mirrored national trends, but for most of the past 25 years, the Arkansas rate has been higher than the U.S. rate.

Unemployment Rate



Source: U.S. Bureau of Labor Statistics

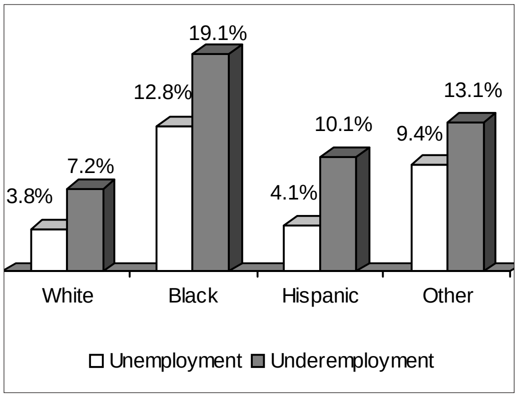
The Employment Picture is Not Good in Some Counties

Although the state's unemployment rate was 5.1 percent in 2001, the unemployment rate at the county level varied drastically, ranging from 2.2 percent in Benton County to 13.9 percent in Mississippi County. As the map shows, the lowest rates tend to be in the northwest and western part of the state. To the south and east, the higher the rates become. The only exception is Central Arkansas.

2001 County Unemployment Rate

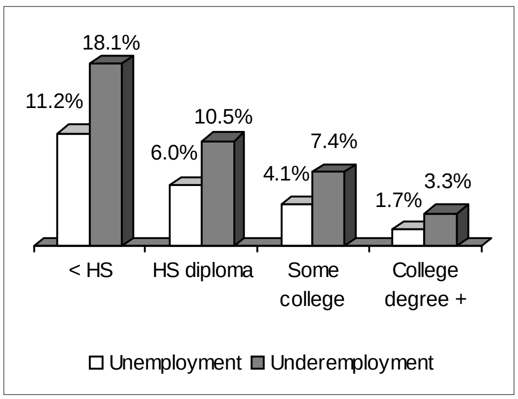
Source: U.S. Bureau of Labor Statistics

Unemployment and Underemployment, by Race



Source: Economic Policy Institute Calculations of Currernt Population Survey Quarterly Data, 2001

Unemployment and Underemployment, by Education Level



Source: Economic Policy Institute Calculations of Currernt Population Survey Quarterly Data, 2001

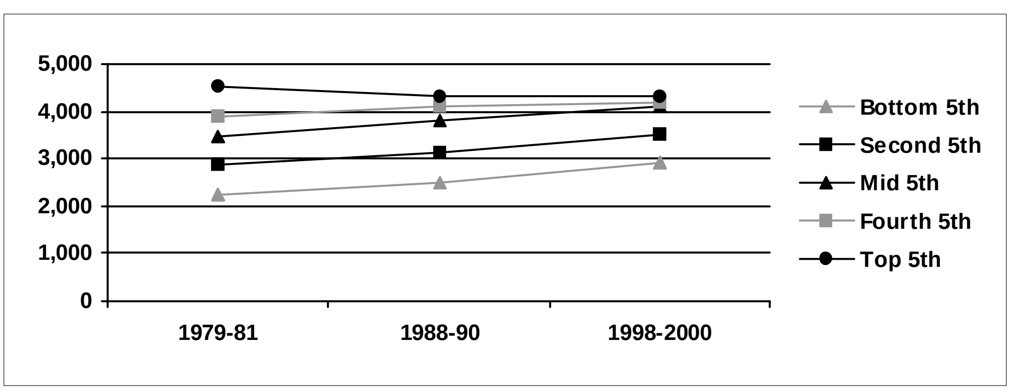
Some Groups Benefit More Than Others

While overall unemployment has been at historic lows in recent years, the benefits have not reached all Arkansans. Consider the differences in unemployment rates by education level and race. Unemployment for individuals with less than a high school education was 11.2 percent in 2001, compared to 1.7 percent for those with a college degree or higher. And African-Americans had higher unemployment rates (12.8%) than Hispanics (4.1%) or whites (3.8%). Another important measure is underemployment, which includes the unemployed and those working part-time but wanting to work full-time, those wanting to work but discouraged from searching by their lack of success, and others not working or seeking work but wanting to work. The same patterns of difference apply to under-employment, but the differences are greater. Almost 20 percent of African-Americans and those with less than a high school education are underemployed.

Most Arkansans Are Working Longer

Over the past 20 years, the number of hours worked by one or both parents in married-couple families has changed. For most families, the number of hours worked has increased. However, for families in the Top 5th of the income bracket, the number of hours worked has actually decreased. As a result, the difference in the number of hours worked between families in the Top and Bottom 5ths of the income distribution has decreased dramatically. From1979 to 1981, families in the Top 5th worked an average of 2,300 hours a year more than families in the Bottom 5th. By 1998-2000, the difference had shrunk to about 1,400 hours per year. Over the same time period, the number of hours worked by single parents has also increased. In 1979-81, single parents worked an average of 1,477 hours per year. By 1998-2000, they averaged 1,716 hours per year.

Average Annual Hours Worked Per Year, Married Couples with Children, by Income Level



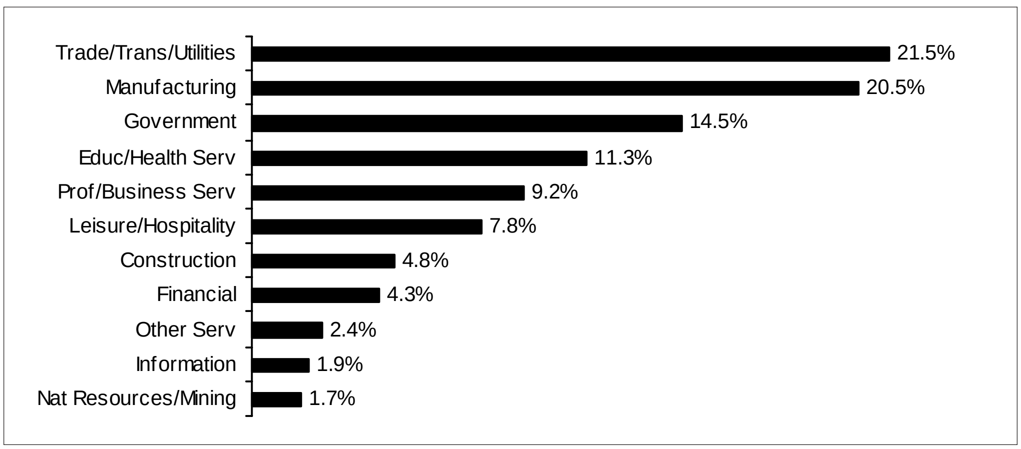
Source: Economic Policy Institute of March Current Population Survey data

The Services Sector Continues Its Rapid Growth

In 2001, the largest industry sector in terms of employment was trade, transportation, and utilities. This includes jobs in wholesale and retail trade, utilities, and transportation and warehousing. The next largest sectors were manufacturing and state and local government. The sector with the highest weekly earnings was Information at $675 a week. This sector includes publishing, broadcasting, telecommunications, and data processing. The lowest earnings are in the leisure and hospitality sector with weekly earnings of $197. This sector includes arts, sports, museums, hotels and motels, and restaurants and bars.

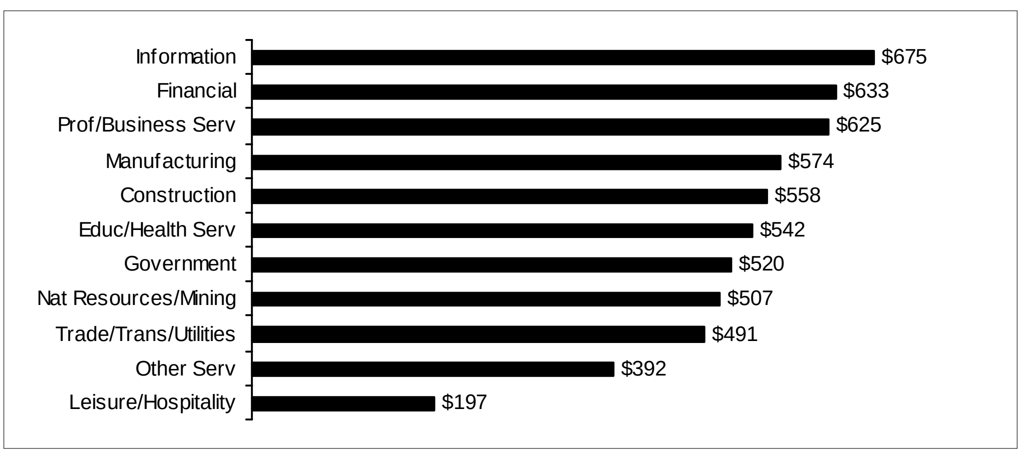
Over the past decade, the sector growing the most is services, with a 63 percent increase in employment since 1990, for a total of more than 107,000 jobs. Other sectors with high growth rates include construction, transportation and public utilities, and state and local government. After services, the sectors with the largest numerical increase in jobs were wholesale and retail trade, state and local government, and transportation and public utilities.[1]

Employment by Industry Sector, 2001



Source: Arkansas Employment Security Department, Covered Employment and Earnings 2001, May 2002

Weekly Earnings by Industry Sector, 2001



Source: Arkansas Employment Security Department, Covered Employment and Earnings 2001, May 2002

[1] In 2001, the Arkansas Employment Security Department began using a new system for classifying employment sectors, the North American Industry Classification System (NAICS). However, they will continue collecting data under the old system, Standard Industrial Classification (SIC), for several more years. This allows for comparison to data from past years.

The sectors expected to grow the most by 2008 are services, retail trade, and manufacturing. The service sector is expected to grow by 121,000 jobs, a 27 percent increase over the number of jobs in the sector in 1998. Retail trade will grow by 42,000 jobs, and manufacturing is expected to grow by 27,000 jobs.

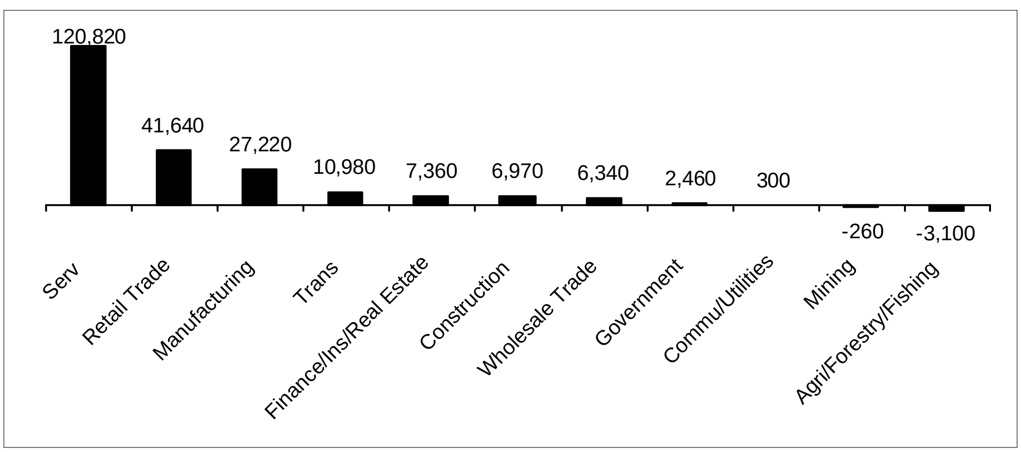
Given the large increase in service sector jobs compared to any other sector of the economy, it is interesting to take a closer look at that sector. By 2008, it is projected business services, social services, health services, and auto repair services will grow the most, between 40 percent and 50 percent each. Business services include advertising, credit reporting and collection, mailing and reproduction, computer and data processing, and personnel supply. Social services include job training, child care, and residential care.

Employment Change by Sector

	1990	2001	Change
Agri/Forestry/Fishing	13,747	16,440	2,639 (20%)
Construction	37,393	53,200	15,807 (42%)
Finance/Insurance/Real Estate	36,456	46,100	9,644 (26%)
Manufacturing	232,081	240,500	8,419 (4%)
Mining	4,193	3,900	-293 (-7%)
Services	172,186	279,900	107,714 (63%)
Government	125,697	172,500	46,803 (37%)
Transportation/Public Utilities	51,392	72,400	21,008 (41%)
Wholesale/Retail Trade	204,539	266,700	62,161 (30%)

Source: Arkansas Employment Security Department, Covered Employment and Earnings 1990 and Nonfarm Payroll Jobs 2001

Projected Employment Growth by Sector, 1998-2008



Source: Arkansas Employment Security Department, Covered Employment and Earnings 2001, May 2002

" I just can't get it saved. It just irritates me so much. I had $100 in there but the van cost $65. I want to get everything caught up and stay caught up. But I don't see that happening."
Married mother of 2, Batesville

Many Service Sector Jobs Can't Support a Family

Average annual wages in the service sector range from $11,623 for individuals working for hotels and other lodging places to $39,885 for those working in the legal field. When compared to what it really takes to support a family (see section on Arkansas Family Income Standard—FIS), only four of the 15 sub-sectors of the service sector — engineering and management, health services, legal services, and miscellaneous repair –- pay average wages supporting a two-parent, two-child family. These four sub-sectors are projected to make up only 31 percent of service sector jobs in 2008, with health services making up the largest share at 27 percent. The vast majority jobs in the service sector (69%) do not pay enough to support a family with children. This is particularly distressing given this sector will generate many of Arkansas' future jobs.

Job Growth in the Service Sector

	Share of Service Jobs, 2008	Job Growth, 1998-2008	Average Annual Wages, 2000
Amusement/Recreation Serv	1.8%	23.0%	$12,646
Auto Repair Serv/Parking	2.0%	40.0%	$21,807
Business Serv	13.7%	49.0%	$21,123
Educ Serv	19.5%	18.0%	$21,508
Engineering/Management Serv	2.5%	22.0%	$35,687
Health Serv	26.6%	41.0%	$30,812
Hotel/Lodging Serv	2.2%	16.0%	$11,623
Legal Serv	1.1%	29.0%	$39,885
Membership Orgs	4.3%	31.0%	$17,103
Misc Repair Serv	0.6%	17.0%	$29,189
Motion Pictures	0.7%	21.0%	$14,545
Museums/Botanical/Zoo/Garden	0.1%	7.0%	$13,849
Personal Serv	1.8%	11.0%	$16,539
Self-employ/Unpaid Family Workers/ Private Households	17.5%	4.0%	$12,019
Social Serv	5.7%	47.0%	$14,469

Source: 1998-2008 Industrial and Occupational Employment Projections Data - Arkansas and Covered Employment and Earnings, 2000

Arkansas Hourly Wages, In 2001 Dollars		
	Median (50th Percentile)	Low (20th Percentile)
1979	$9.34	$6.39
1989	$9.11	$5.98
1995	$9.71	$6.21
2000	$10.31	$7.03
2001	$10.32	$7.20

Source: Calculations by the Economic Insitute of Current Population Survey data from the U.S. Census Bureau

Wages Have Increased for Some Workers, But Not Others

The economic expansion of the late 1990s has resulted in some progress for low-wage workers. Since 1995, the real inflation-adjusted wages of the state's low-wage workers (workers at the bottom 20% of the wage scale) increased from $6.21 an hour to $7.20 (an increase of 15.9%). Workers in the middle of the wage scale, however, saw very little wage growth, as their real wages increased from $9.71 an hour in 1995 to $ $10.32 in 2001, an increase of just 6.2 percent. Perhaps most disturbing, from 2000 to 2001, the typical worker saw no real wage growth.

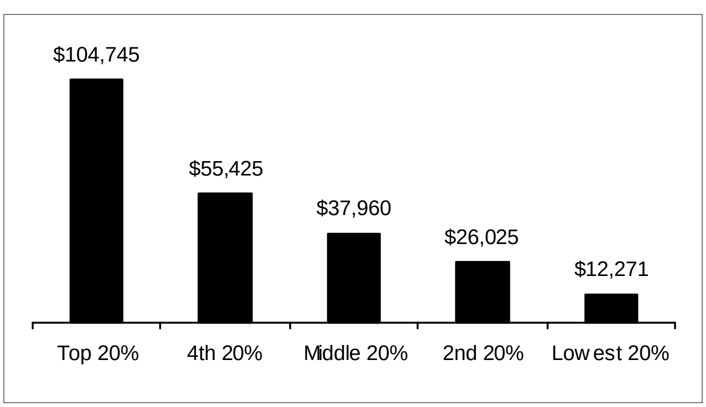
Middle-Class Incomes Grew the Slowest

There is good news and bad news on the income front for Arkansas families. The good news is the economic expansion of the 1990s helped raise the income of families at all income levels. The poorest 20 percent of families saw the greatest growth in real, inflation adjusted incomes during the decade, an increase of nearly 34 percent (an annual average growth of 3.4%), compared to 23 percent for the richest 20 percent of families. Middle class families saw the slowest growth in incomes during the decade, as their incomes increased by just 14 percent (1.4% annually).

Arkansas Family Income Trends, In 1999 Dollars					
	AVERAGE INCOME			CHANGE	
Income Group	1978-80	1988-90	1998-2000	1978-80 to 1998-2000	1988-90 to 1998-2000
Top 20%	$79,125	$85,218	$104,745	32.3%	22.9%
Fourth 20%	$44,702	$48,150	$55,425	23.7%	15.1%
Middle 20%	$31,785	$32,997	$37,690	18.6%	14.2%
Second 20%	$20,972	$21,482	$26,025	24.1%	21.2%
Lowest 20%	$9,248	$9,161	$12,271	32.7%	33.9%

Source: Center on Budget and Policy Priorities and the Economic Policy Institute, Pulling Apart: A State-by-State Report Analysis of Income Trends, April 2002

Average Income of Arkansas Families, 1998-2000 by Income Group



Source: Center on Budget and Policy Priorities and the Economic Policy Institute, Pulling Apart: A State-by-State Report Analysis of Income Trends, April 2002

Poorest Families Still Have Low Incomes

Despite the good news on wages for our poorest families, far too many families still earn low incomes. While the poorest 20 percent of families saw the largest gains (in percentage terms) of any income group during the 1990s (nearly 34%), their average annual income is still only $12,271, not enough to adequately meet all of their basic daily living needs. In contrast, the average income of the richest 20 percent of families is nearly $105,000.

Poverty Still a Major Problem, Especially for Children

The poverty rate is a key indicator of the economic well-being of families. It represents the percentage of Arkansans not earning enough income to meet their basic needs. During the 1990s, poverty rates for Arkansas fell somewhat, but still remain way too high. According to the 2000 Census, about 15.8 percent of all Arkansans were living in poverty at the end of the 1990s, down from 19.1 percent in 1989. Despite the good economic news during the 1990s, the Arkansas poverty rate is still higher than the national average of 12.4 percent.

Although poverty rates for Arkansas children declined during the 1990s, far too many children continue to live in poverty. More than one in five Arkansas children (21.4%) still live in poverty. Poverty for very young children (under age 5) is an even greater problem, as nearly one in four children live in poverty.

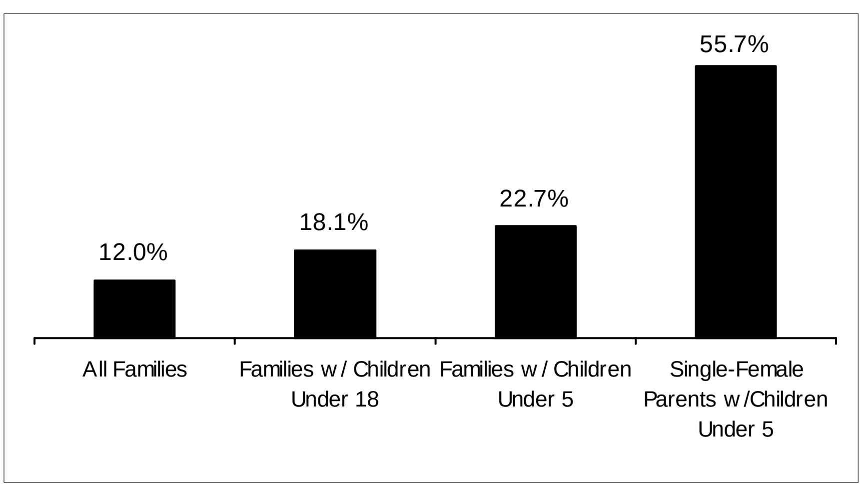
Young children in single-parent families are especially vulnerable. More than half of all children under age 5 (55.7%) living in female-headed families are in poverty.

Arkansans Living Below the Poverty Line

	1990 Census		2000 Census	
All Individuals	427,089	19.1%	411,777	15.8%
Related Children Under 18	152,891	25.0%	142,406	21.4%
Related Children, ages 5-17	106,675	23.8%	97,837	20.1%
Related Children Under 5	46,126	28.0%	44,564	24.5%
All Families	97,026	14.8%	88,478	12.0%
With Related Children Under 18	67,822	20.3%	66,975	18.1%
With Related Children Under 5	32,721	25.3%	32,816	22.7%
Families Headed by Single Female	39,345	41.2%	42,523	34.7%
With Related Children Under 5	15,937	66.9%	18,591	55.7%

Note: Income data from 1990 Census is for 1989, whild data from 2000 Census is for 1999
Source: 1990 and 2000 Census. The poverty rates for “Individual Related Children Under 5” are AACF calculations based on Census data. All other estimates are from the U.S. Census Bureau

Poverty Rates, by Family Type



Source: 2000 Census

"I have enough income to cover it all, barely. I don't shop. Most of our activities are at church. When I ate out, it was tight. I don't do that now. ... My son got mad at me just the other day because I wouldn't buy him a Coke at the store. I said, I'm sorry, but we have to save ... He didn't understand. ..."
Divorced mom of 2, Texarkana

What Does It Really Cost to Support A Family?

Earning poverty-level wages is not enough to support a family with children. For a family to be economically self-sufficient, it must earn an household income adequate to meet all of its basic daily living needs, including food, housing, utilities, health care, child care, transportation, clothing, and personal and household care expenses, without governmental or charitable assistance. The Arkansas Advocates for Children & Families' Family Income Standard (FIS) shows families must earn an income level significantly higher than the federal poverty line in order to meet their basic needs. In 1999, this level ranged from 167 percent to 189 percent of the federal poverty line (depending on family type and size).

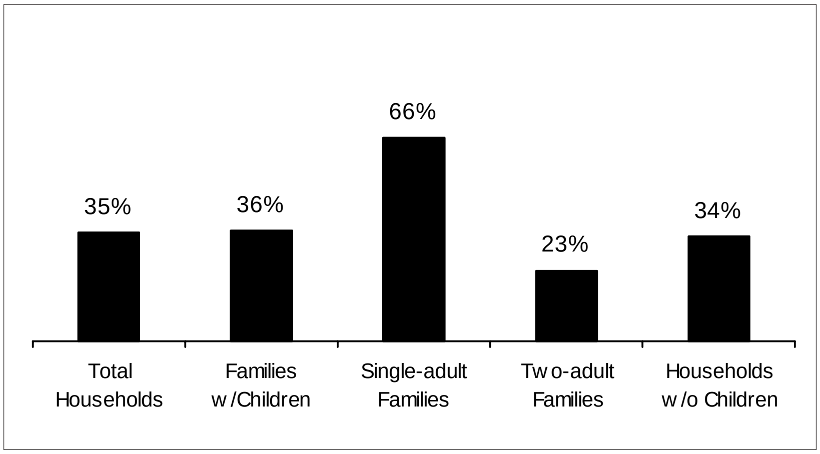
Arkansans FIS vs. the Federal Poverty Line
January 1999

Family Type	Federal Poverty Line	FIS	Difference	FIS as % of FPL
1 adult, 1 child	$11,235	$18,805	$7,570	167.4
2 adults, 1 child	$13,120	$22,375	$9,252	170.5
1 adult, 2 children	$13,133	$24,833	$11,700	189.1
2 adults, 2 children	$16,530	$28,541	$12,011	172.7

Source: Arkansas Advocates for Children & Families, Making it Day-to-Day: A New Family Income Standard for Arkansas

Many families don't earn an income adequate to meet the FIS. According to a 2000 study, 36 percent of families with children earn an income below the FIS. Nearly two of every three single-parent families earn an income below the FIS.

Arkansas Households Below the FIS, 1997-99

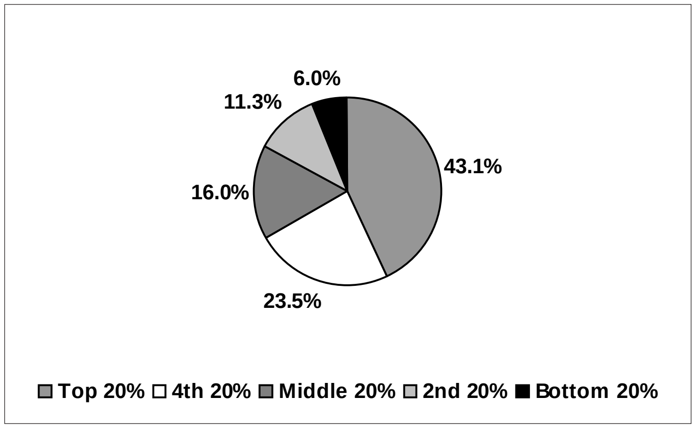


Source: Arkansas Advocates for Children & Families and the Good Faith Fund, Working Families and the New Economy: How Are Families Really Faring in Today's Job Market, October 2000

Gap Still Wide Between Rich and Poor

While poor families and low wage earners saw significant gains during the 1990s, there is still a major income gap between the rich and poor. As the new decade began, the average income of Arkansas' richest 20 percent of families was almost nine times that of the poorest 20 percent of families ($104,745 vs. $12,271). Arkansas' richest families continue to generate most of the income in the state. During 1998-2000, the richest 20 percent of families received 43 percent of all income, compared to just 6 percent for the poorest 20 percent of families.

Arkansas Income Shares
Income Received by Group, 1998-2000



Source: Estimates by teh Center on Budget and Policy Priorities, August 2002

Capital Gains Adds to Income and Wealth Disparities

Just as families vary in the wages they earn, they also differ in the income they receive from other sources, such as the money they make in the stock market or real estate. The best data about this source of income is tax data on capital gains. A realized capital gain is the new income from the sale of assets, such as the sale of stock and bonds or the appreciation in the value of a house or other real estate when it is sold. Typically, higher-income taxpayers have more capital gains income because they are more likely to own assets, such as stocks, that appreciate or increase in value over time. Capital gains thus not only represent a non-wage or salary form of income, they are also a rough measure of the likelihood that families own assets, such as stocks or bonds, that contribute to a family's ability to accumulate wealth over time.

According to data from the Internal Revenue Service, only 8.2 percent of taxpayers with incomes less than $20,000 had any realized capital gains income. These taxpayers accounted for only 4 percent of all capital gains in the state. In contrast, nine out of every 10 taxpayers with incomes greater than $500,000 had capital gains income. This group also generated nearly half (46%) of all capital gains income reported by Arkansas taxpayers.

Arkansas Net Capital Gains, 2000

Income Level	Returns Filed	% of All Capital Gains	# Filed w/ Capital Gains	% at Income Level w/ Capital Gains	Capital Gains Income	% of All Capital Gains Income
< $20,000	514,262	46.0	42,022	8.2	$96,722,000	4.1
$20,000-$49,999	378,240	33.8	52,727	13.9	$149,893,000	6.4
$50,000-$99,999	176,897	15.8	53,564	30.3	$306,186,000	13.1
$100,000-$199,999	37,122	3.3	22,134	59.6	$341,017,000	14.6
$200,000-$499,999	9,669	0.9	7,735	80.0	$363,850,000	15.6
Over $500,000	2,278	0.2	2,099	92.1	$1,081,665,000	46.2
Total	**1,118,468**	**100.0**	**180,281**	**16.1**	**$2,339,335,000**	**100.0**

Source: AACF calculations of IRS data for Tax Year 2000

Many Lack Financial Assets

Low incomes not only affect a family's ability to pay their bills and meet their basic needs, it also affects their ability to save and build financial assets for the future. Low incomes and easy-to-get credit cards hurt the financial stability of many families. One measure of financial assets is net worth. Net worth is the sum of any assets minus liabilities. Compared to other states, Arkansas ranks very low on measures reflecting net worth. For many Arkansas families, their liabilities are greater than their assets or they don't have enough assets to live above the poverty level for three months without other support.

- The mean net worth of Arkansas families is $81,270 – Arkansas ranks 44thout of the 50 states.
- Twenty-two percent of Arkansas households have zero or negative net worth – Arkansas ranks 49th.
- Thirty-one percent of households do not have enough net worth to subsist at the poverty level for three months if they lost their jobs and had to depend on their savings or other assets – Arkansas ranks 49th.
- Fourteen of every 1,000 households have to declare bankruptcy each year – Arkansas ranks 44th.

Source: 2002 State Asset Development Report Card, Corporation for Enterprise Development and The Asset Index: Assessing the Progress of States in Promoting Economic Security and Opportunity, Brandeis University, Center on Hunger and Poverty, September 2002

"I'm using well water. My pump is broke and it'll cost $300 to fix. And, to put a water meter in is $600. I've got no funds or help to get a water meter. I haul water for the necessities, and go to family to take showers."
Single mother of 2, Batesville

"I've never done the advance on my tax refund. ... This past time, I had it budgeted out where that money was going to go, and stuck by it. I had pawned some of my mother's rings. They had been due over a year and I got them back. Paid on the car; wanted to pay on it to build up my credit. Paid all my bills. ... I don't have to worry about that anymore."
Single mother of 3, Texarkana

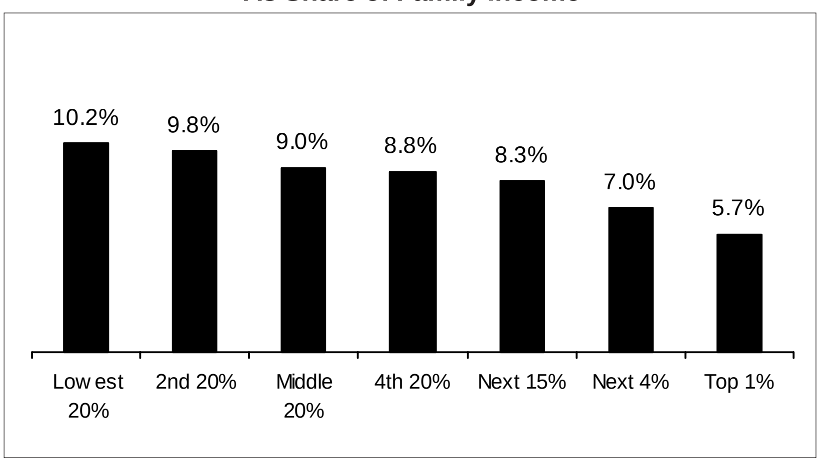
A High Tax Burden for Low-Income Working Families

The Arkansas state and local tax system is unfair for its most vulnerable families. The system is regressive, meaning that low- and middle-income families pay a higher share of their income in state and local taxes than upper-income families. In effect, it imposes the highest burden on those least able to afford it.

The poorest 20 percent of Arkansas families (those earning less than $10,000 annually) pay 10.2 percent of their income in state and local taxes. Middle-income families (the middle 20% of families with incomes from $18,000 to $28,000) pay 9 percent of their income in state and local taxes. The richest 1 percent of Arkansas families (those making more than $176,000 annually) pay state and local taxes equal to only 5.7 percent of their income.

Why is the Arkansas tax system so regressive and why does it punish the most vulnerable families? The major reason is the state's high use of state and local sales taxes. Sales taxes consume nearly 8 percent of the income of the state's poorest 20 percent of families, compared to just 1.3 percent of the income of the income of the wealthiest 1 percent of families. Why are sales taxes so unfair? The simple answer is the lower a family's income, the more of its income is spent on food, clothing, and other items subject to sales taxes. According to one estimate, low-income families spend 75 percent of their income on items subject to sales taxes, while upper-income families spend 17 percent of their income on items subject to sales taxes.

1999 Arkansas State and Local Taxes As Share of Family Income



Source: Institute on Taxation and Economic Policy, April 2000

Arkansas Has No Earned Income Tax Credit (EITC) for Working Families

Despite its increasing popularity among states, Arkansas continues to have no state earned income tax credit for low-income working families. To date, 17 states and the District of Columbia have adopted EITCs. State EITCs are similar to the federal EITC, a tax credit for low- and middle-income workers with children. The federal EITC is designed to provide tax relief and supplement earnings for working families. The EITC is refundable. That is, it provides a cash refund when the amount of the credit is larger than a family's tax liability. It is especially important in complimenting state efforts to help families make the transition from welfare to work.

How many Arkansas families would benefit from a state EITC? According to IRS data for the 2000 tax year, nearly 248,838 Arkansas families took advantage of the federal EITC (assuming each tax return equals one family). However, many Arkansas families who are eligible for the EITC don't take advantage of it. According to unpublished IRS estimates, 27 percent of Arkansas families who are eligible for the federal EITC don't claim it.

The federal EITC is a significant benefit to both low-income working families and the Arkansas economy. In 2000, Arkansas families received EITCs in excess of $439 million. Most of these – nearly $385 million — came back home to low-income families in the form of a cash refund that could be used to pay for basic needs and purchases.

Arkansas' Usage of the Fedearl EITC, 2000 Tax Year

		INCOME		
	All Returns	< $20,000	$20,000- $29,999	$30,000-- $49,999
EITC Caims	248,838	192,486	54,126	1,866
Amount of EITC	$439,734,000	$383,429,000	$56,081,000	$224,000
Average Amount of EITC	$1,767	$1,988	$1,036	$120
Refundable EITCs	212,124	178,378	33,301	445
Amount of EITC Refunds	$384,763,000	$348,988,000	$35,723,000	$51,000
Average Amount of EITC Refund	$1,814	$1,956	$1,073	$115

Source: U.S. Internal Revenue Service Web site

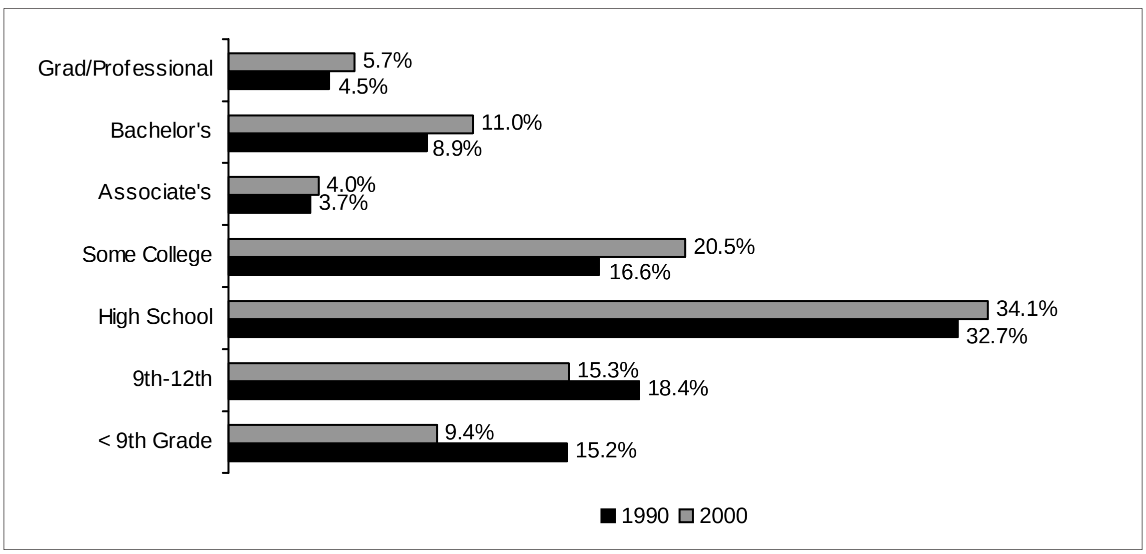
Education

Statewide, about 17 percent of all adults ages 25 and older have a bachelor's degree or higher, but 25 percent do not have a high school diploma. These rates have improved since 1990, but there has been more of a change at the lower end of the education spectrum. In 1990, 34 percent had less than a high school diploma, and only 13 percent had a bachelor's degree.

Educational attainment percentages vary across the state. The percentage of the population that has a bachelor's degree ranges from 6 percent in Poinsett County to 28 percent in Pulaski County. However, many counties cluster in the middle of the distribution. In 40 counties, the percent of the population having a bachelor's degree ranges between 10 percent and 14 percent. Those counties with the largest percentage of bachelor's degrees are in urban areas and/or are home to four-year colleges or universities.

The range of the population with less than a high school diploma varies much more across the state, from 16 percent in Pulaski County to 44 percent in Lee County. The counties with the highest percentages are clustered in the eastern part of the state, mostly along the Mississippi River.

Education Attainment in Arkansas, Age 25+



Source: Census 2000

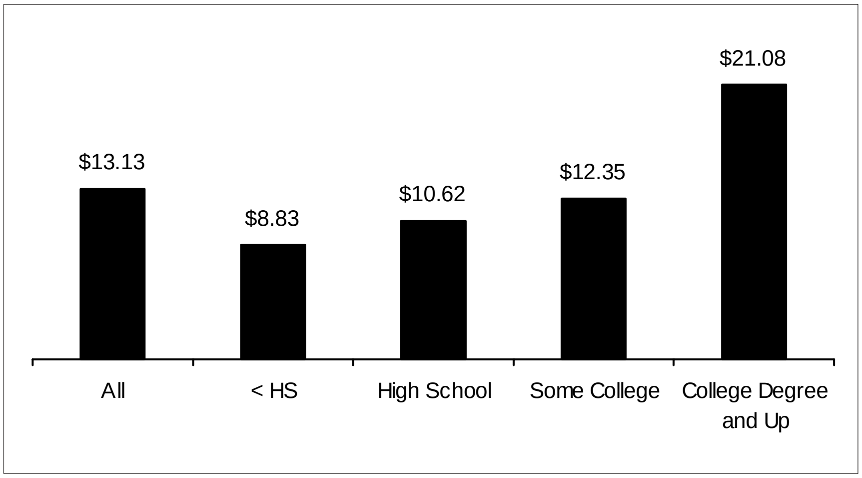
"I'm not sure about how to go about taking classes, and not sure I have the time or who would watch my kids while I did it. I don't want to work at night and go to school because I'd never see the kids. Maybe I'll have to wait until the kids are out of school themselves."

Divorced mom of 2, Texarkana

Earnings and Education

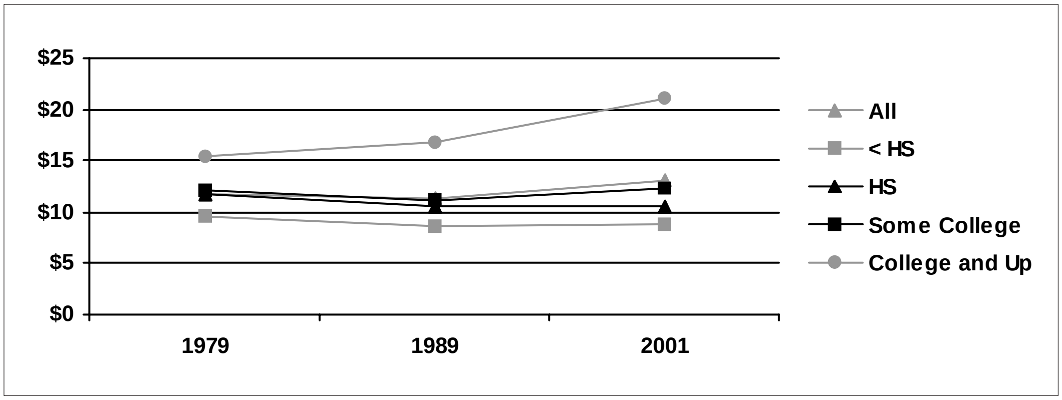
The level of education a person has affects the hourly wage he earns. As education level increases, hourly wage increases. In 2001, the average hourly wage for those individuals with less than a high school diploma was $8.83. Individuals with a college degree or more have average hourly wages of $21.08. It is also interesting to note how the difference in hourly wages by education level has changed over time. The value of a high school education has decreased and, at the same time, the value of a college degree has increased significantly. In 1979, the average hourly wage for someone with a college degree or more was $15.52. That wage has increased to $21.08 in 2001. The value of a high school diploma has dropped from $11.70 in 1979 to $10.62 in 2001.

Hourly Wage by Education Level, 2001



Source: Economic Policy Institute caluculations of Current Population Survey data

Hourly Wage by Education Level, In 2001 Dollars



Source: Economic Policy Institute caluculations of Current Population Survey data

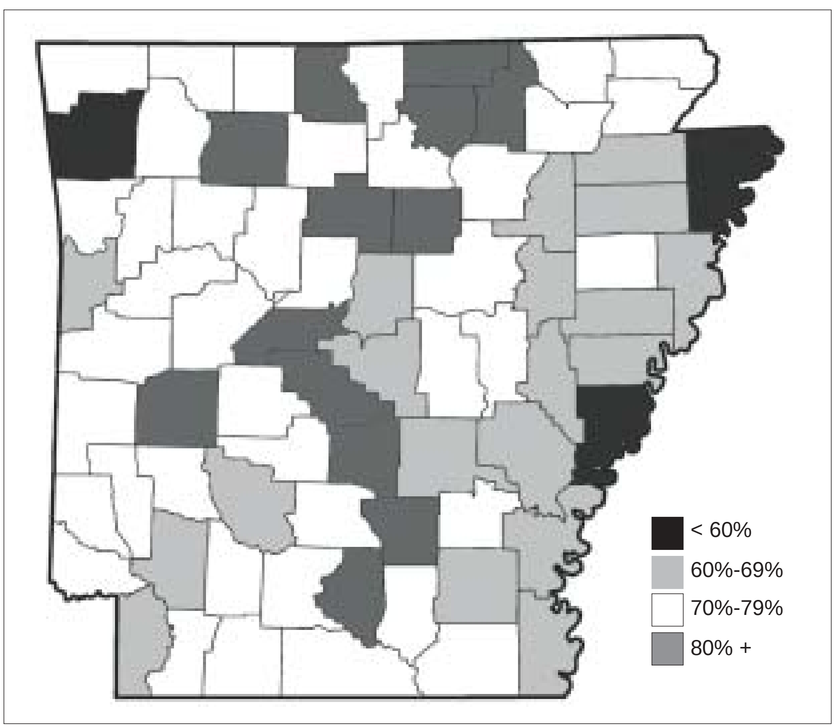
Home Ownership and Housing Affordability

Statewide, 69 percent of all housing units are occupied by an owner rather than a renter (no change in rate since 1990). This ranges from a low of 56 percent in Phillips County to a high of 83 percent in Montgomery County. Those counties with the lowest homeownership rates tend to be in eastern Arkansas, in urban areas like Little Rock, Fort Smith, or Texarkana, or in areas where there are colleges or universities, such as Arkadelphia, Conway, or Fayetteville. Possible explanations for these low rates include lower incomes in the Delta, the high cost of houses in urban areas, and the prevalence of college students who are more likely to be renters.

It is important to look at housing affordability. One way to look at affordability is the percentage of household income spent for housing. It is generally accepted if a household spends more than a third of its income on housing, it is considered to be unaffordable. The Census shows how many households spend more than 30 percent of its income on housing. Statewide, a third of households cannot afford their rental housing costs. At the county level, this ranges from 17 percent in Montgomery County to 41 percent in Phillips County. The percentage of homeowners who cannot afford their mortgage payments is lower, probably as a result of income and debt guidelines set by mortgage lenders. Statewide, 17 percent of homeowners cannot afford their mortgage payments. This ranges from 11 percent in Grant County to 26 percent in Chicot County.

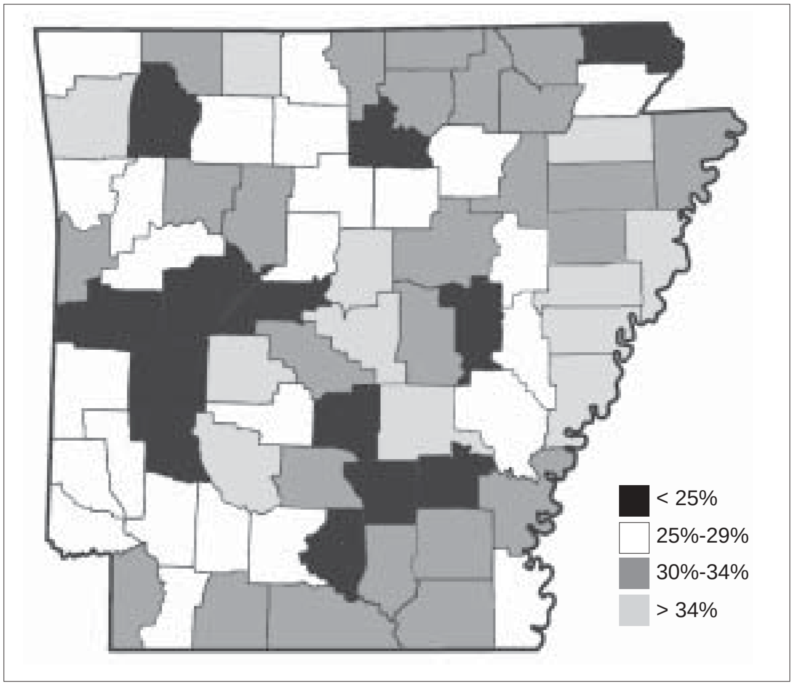
Median home prices vary across the state. The lowest home values can be found in South and East Arkansas, where many counties have median home prices of less than $50,000. The counties with the highest median home prices are in Central and Northwest Arkansas. They also are high in counties with a lot of second or vacation homes, including Garland and Cleburne counties.

Housing Units Occupied by the Owner



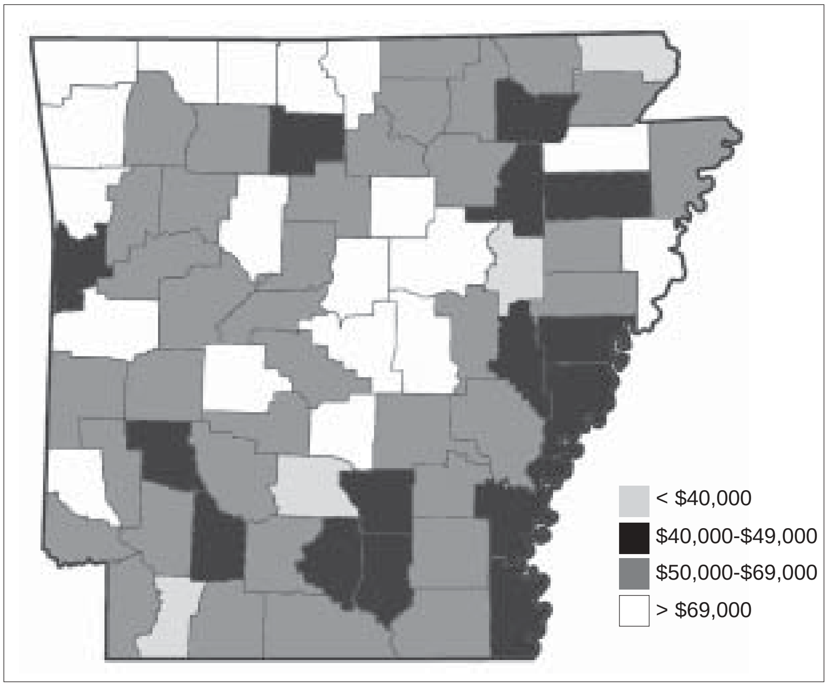
Source: 2000 Census, U.S. Census Bureau

Households That Can Afford Their Rents



Source: 2000 Census, U.S. Census Bureau

Median Home Prices



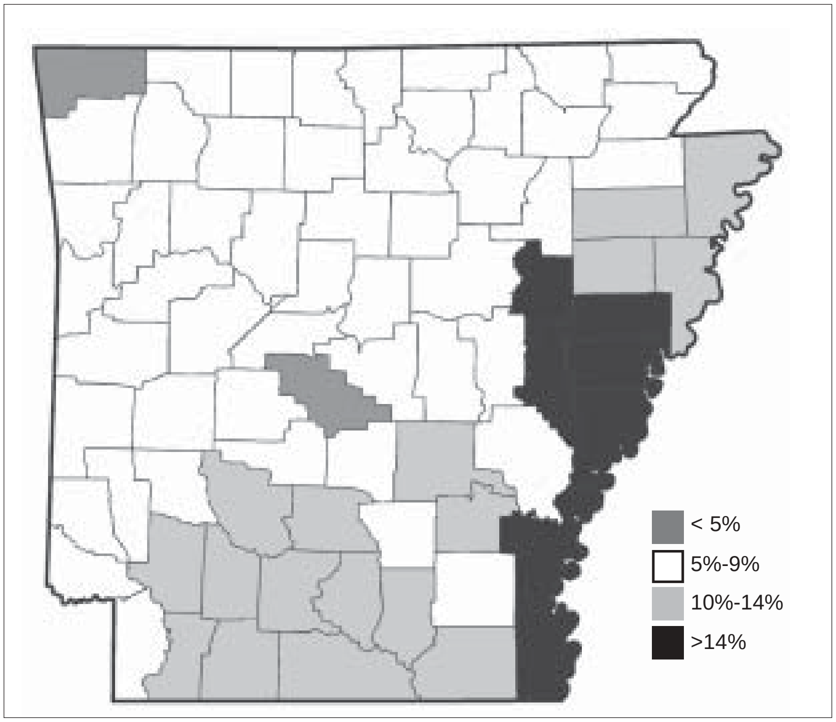
Source: 2000 Census, U.S. Census Bureau

"I worry the house is falling apart. ... I don't have hot water in the kitchen. The bathroom sink hasn't worked for four or five years now. ..."
Divorced mom of 2, Texarkana

Many Arkansans Don't Have a Car for Work

Being able to get to work and keep a job are highly dependent on having a vehicle. Statewide, 8 percent of households do not have an available vehicle. This ranges from 4 percent in Saline and Benton counties to 21 percent in Phillips County. There are clear geographic patterns in terms of access to a vehicle. The counties where the most households do not have a car are in South and East Arkansas.

Households Without Access to a Vehicle



Source: 2000 Census, U.S. Census Bureau

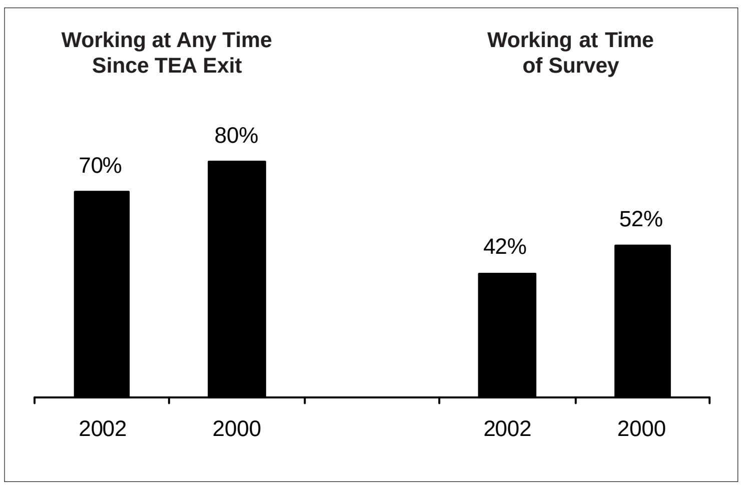
The Road Off Welfare Is Not An Easy One

The road off welfare to economic self-sufficiency has not been an easy one for Arkansas' poorest families. Although Arkansas policy-makers have been quick to cite the significant reduction in the state's welfare caseload since the Transitional Employment Assistance Program (TEA) was established in July 1997, other results have been mixed. According to a survey of former TEA clients by the Hudson Institute in 2002, many former TEA families continue to struggle to find and maintain employment and earn enough income to meet the basic needs of their children.

According to the survey, while nearly 70 percent of adults leaving the TEA program between 2000 and 2002 reported working at some point since then, only 42 percent were working at the time of the survey. This means nearly sixvin ten former TEA adults were not working at the time of the survey. Perhaps more importantly, these rates are lower than reported in an earlier 2000 survey. That survey found 80 percent of former TEA clients had worked since leaving the program, and 52 percent were working at the time.

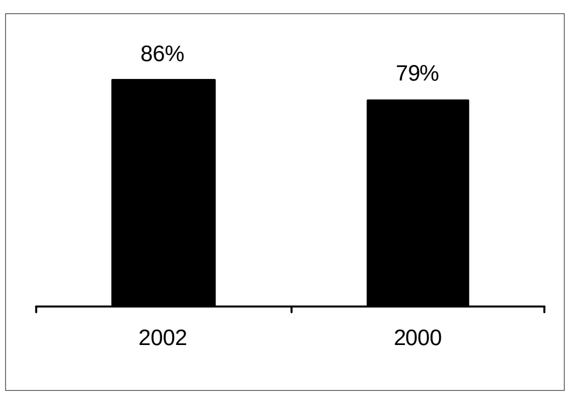
Similarly, former TEA clients surveyed in 2002 were more likely to be living in poverty than those surveyed in 2000. Eighty-six percent of former TEA households in 2002 reported incomes below the poverty line, up from 78 percent in 2000.

Employment of Former TEA Recipients



Source: Hudson Institute, Survery of Former Transitional Employment Assistance (TEA) Program Participants, July 2002

Former TEA Households Below Poverty Line



Source: Hudson Institute, Survery of Former Transitional Employment Assistance (TEA) Program Participants, July 2002

"I was offered a third-shift [graveyard] job at an automotive parts factory, but I have to have a day job, being that I'm a single parent and day care is not available. I cannot possibly work the third-shift job because there's no one to watch my child."
Single mother of 2, Batesville

Working Families Often Lack Access to Quality Early Care

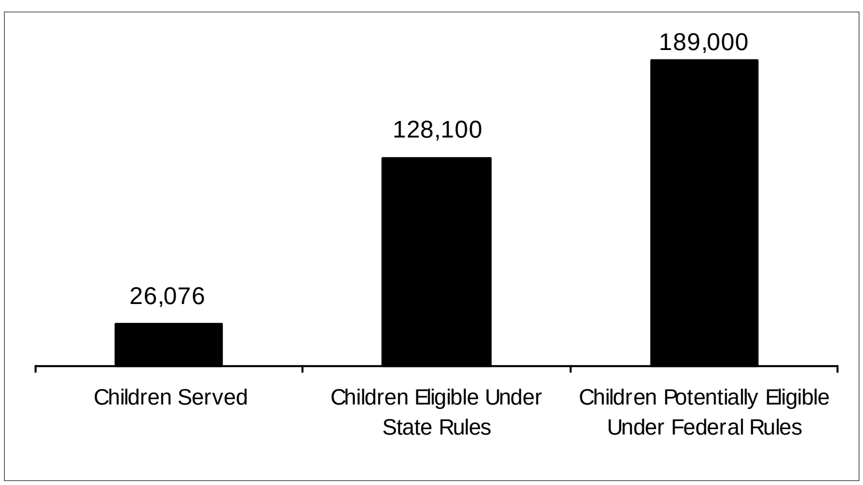
Access to quality early care programs is a critical need for working families. Increased labor force participation by women with young children, more single-parent families, and stricter work requirements and time limits brought about by welfare reform have increased the need for quality care. According to the Center on Budget and Policy Priorities, about 189,000 Arkansas children ages 0-12 are potentially eligible for subsidized early care. All are in poor or near-poor working families with incomes below 85 percent of the state median income (a level equal to about $37,856 or 209% of the federal poverty line).

During state Fiscal Year 2002, Arkansas provided subsidized care to about 11,667 children monthly through its Child Care Development Fund -- or about 6.2 percent of those potentially eligible for subsidized care. If all other early childhood education programs are included (Head Start, Early Special Education, ABC), about 26,076 children (13.8%) of the 189,000 children in low-income working families receive full or part-time care in the average month.

While greater access to subsidized care is needed, there is a growing recognition of the critical importance of quality early childhood education for the state's youngest children. Currently, there are about 73,030 3- and 4-year old children in the state. Existing programs reach about 17,801 children (24.4%), of this population.

Arkansas has made progress during the past two years in providing access to early care and promoting quality early childhood education. During the past year, the state has been able to dedicate new state and federal resources for working families. As a result, the waiting list for subsidized care has shrunk from 5,191 in July 2001 to 1,376 in September 2002. Perhaps more importantly, the state Board of Education adopted new quality standards designed to ensure all state-funded early care programs provide a quality learning experience.

Accces by Working Families to Early Care

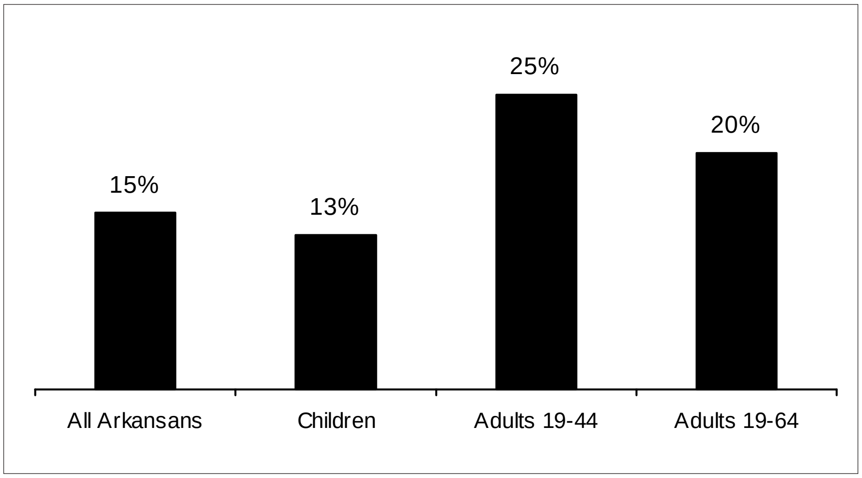


Source: AACF estimates based on state agency, Center on Budget & Policy Priorities and Current Population Survey data

Lack of Health Care Coverage

As a result of the establishment of the ARKids First program in 1997, the state has significantly reduced the number of uninsured children. According Arkansas Advocates for Children & Families' analysis of Current Population Survey data, Arkansas led the nation in reducing its the percent of uninsured children from 1997 to 2000. The percent of children with no health care coverage declined from 23 percent in 1997 to 14 percent in 2000, a decrease of 39 percent over the four-year span. This estimate was recently confirmed in the 2001 Arkansas Household Survey of Health Insurance Coverage, which found 13 percent of all children lack coverage.

Arkansans Lacking Health Care Coverage



Source: 2001 Arkansas Household Survey of Health Care Coverage, Final Report of the Arkansas Health Insurance Expansion Initiative 2001 Roundtable, March 2002

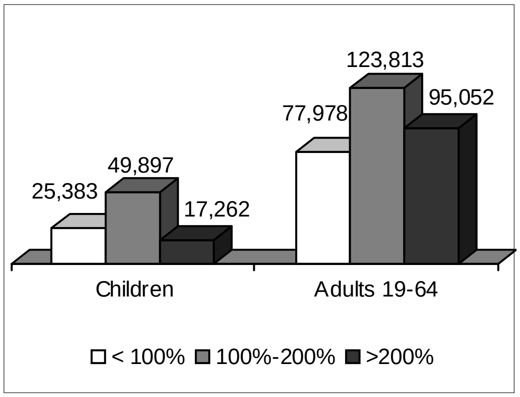
While ARKids First has been very successful, too many children (13%) still lack coverage. The problem is even more severe for parents and other adults. According to the 2001 Arkansas Household Survey of Health Insurance Coverage, more than 15 percent of all Arkansans are uninsured. Nearly one in five adults ages 19-64 lack basic coverage. Adults between the ages of 19-44 are particularly vulnerable, as nearly one in four lack health insurance. Most of these adults are working. Nearly all of Arkansas' senior citizens are covered by the federal Medicare program.

"My employer offers health insurance but it's not worth the money you pay for it; it doesn't cover very much. The employer pays most of the premium. I only have to pay $2 a paycheck, but I don't do it. I'd have to pay for almost the whole cost of a visit to see an OB/GYN."
Separated mom of 2, Monticello

Most of the state's uninsured children (81% or 75,280 children) are in families earning less than 200 percent of the federal poverty line. Conversely, nearly 19 percent of the state's uninsured children are in families earning more than 200 percent of poverty. Many more of the state's uninsured adults ages 19-64 (95,052 or 32% of uninsured adults) earn more than 200 percent of the federal poverty line.

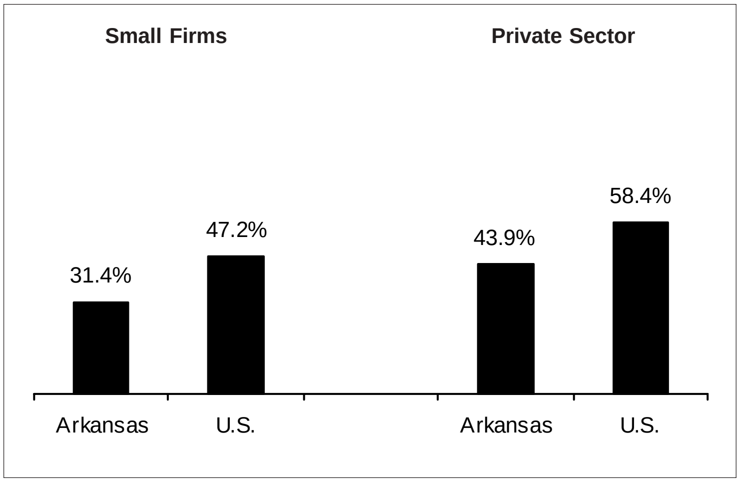
One of the reasons why the number of uninsured Arkansans has remained high is because many Arkansas employers do not offer health insurance coverage to their employees. In 1999, for example, only 44 percent of private sector establishments in Arkansas offered health insurance. Health coverage in small firms is especially a problem, as fewer than one in three firms offer health insurance.

The Arkansas Uninsured by Federal Poverty Line



Source: 2001 Arkansas Household Survey of Health Care Coverage, Final Report of the Arkansas Health Insurance Expansion Initiative 2001 Roundtable, March 2002

Employers Offering Health Insurance, 1999



Source: Medical Expenditure Panel Survey Household Component, Final Report of the Arkansas Health Insurance Expansion Initiative 2001 Roundtable, March 2002

"I work at the Holiday Inn cleaning rooms and making $5.15 per hour and work 20-30 hours a week. I've been employed there for four weeks. I was a server in a lunchroom for a factory that closed. I made $6 an hour and worked for eight months before they closed. I have no benefits. My monthly income is $600. I receive no child support."
Single mother of 2, Batesville

Hunger Still a Risk for Many Families

Despite the economic boom of the late 1990s, many low-income families are at risk of going hungry. Nearly 12 percent (119,000) of all Arkansas households are food "insecure." A household is food insecure whenever the availability of nutritionally adequate and safe food, or the ability to acquire it, is limited or uncertain. More than 3 percent (33,000) are food insecure and experience hunger at least once during the year.

Nearly 331,000 of Arkansas children are food insecure. About 74,000 children live in households where at least one family experienced hunger during the year.

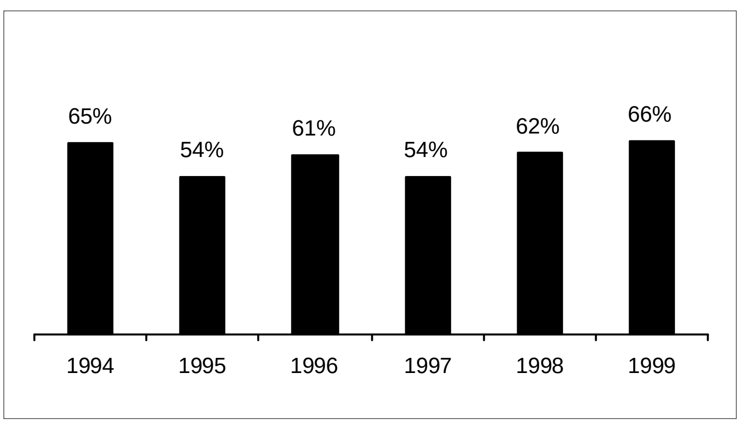
The Food Stamp Program remains a valuable nutritional support for Arkansas low-income families. While Arkansas did a better job than the rest of the country in serving Food Stamp-eligible families (66% vs. 57% in 1999), it can do better. Fully one-third of those eligible for Food Stamps are not participating in the program.

Food Insecurity and Hunger in Arkansas, 1998-2000

	Food Insecure	Food Insecure w/ Hunger
Households (%)	119,000 (11.7)	33,000 (3.2)
Individuals	331,000	74,000
Children	128,000	23,000
Adults	203,000	51,000

Source: Ashley F. Sullivan and Eunyoung Chi, Hunger and Food Insecurity in the Fifty States: 1998-2000, Center on Hunger and Poverty, Brandeis University, Massachusetts, August 2002

Arkansas Food Stamp Participation Rates



Source: Allen Schirm and Laura A. Castner, Reaching Those in Need: State Food Stamp Participation Rates in 1999, U.S. Department of Agriculture, June 2002

Who Are Arkansas' Low-income Working Families?

Low-income working families are diverse. Poverty among Arkansas' working families is not confined to any particular type of family, educational level, age, or race. It affects all types of working families with children, regardless of whether they are black or white, young or old, single or married.

Although low-income working families are more likely to be headed by single parents (7 of 10) nearly three in 10 are two-parent families. Having two parents does not guarantee a family will stay out of poverty.

Contrary to popular belief, white families make up more than half of Arkansas' working poor families. Nationally, whites comprise just 44 percent of low-income working families.

Similarly, most Arkansas low-income working families have at least a high school degree (50%) or some college (20%).

Arkansas' Working Poor Have Strong Work Ethic

Many Arkansas poor families are working hard and playing by the rules. Low-income families in Arkansas are more likely to work than families elsewhere. They are also more likely to depend on work earnings, rather than public assistance, for the majority of their income.

As in the rest of the United States, Arkansas low-income families can be found working in all types of jobs and industries. However, they are more likely to be found working in some sectors than others.

More than one in three working parents with low hourly earnings work in services. Another sector, retail trade, makes up 24 percent of the jobs for low-income working families. Surprisingly, a large share of low-income working parents (22%) work in manufacturing, a sector that historically has paid higher wages than other sectors.

Characteristics of Working Poor Families, 1997-99

	Arkansas	United States
FAMILY TYPE		
Married	28%	42%
Female-headed	63%	52%
Male-headed	10%	6%
RACE and ETHNICITY		
White	55%	44%
African-American	41%	24%
Hispanic	2%	28%
Other	1%	5%
EDUCATION LEVEL		
< High School	26%	36%
HS or GED	50%	39%
Some College	20%	20%
College or More	3%	5%
AGE OF FAMILY HEAD		
< 25	23%	16%
25-34	38%	39%
35-44	24%	33%
> 44	15%	12%
RESIDENCE		
Urban	44%	76%
Rural	56%	34%
Work Ethic		
Working More than 13 Weeks a Year	73%	66%
Full-time, Year-round Worker	30%	30%
Earnings as Majority of Income	69%	64%
Public Assistance as Majority of Income	9%	17%
Low Hourly Earning by Industry, Late 1990s		
Services	34%	41%
Retail Trade	24%	25%
Manufacturing	22%	12%
Construction	5%	5%
Government	3%	2%
Agriculture	4%	4%
Other	7%	10%

Note: Totals may not add up to 100 percent because of rounding.
Source: Center of Budget and Policy Priorities, Poverty Despite Work Handbook, 2001

Voters Believe in Supports for Working Families

Three recent polls conducted in January 2001, February 2002, and August 2002 by the Arkansas Kids Count Coalition found Arkansas voters overwhelmingly approve of policies to support working families.

Support for Programs Helping Children

- 70 percent favor raising taxes if the state does not have enough money to fund services for children, such as education, health care, or child abuse. Only 17 percent favor cutting services, while 2 percent support raising taxes and cutting services.
- 58 percent of Arkansas voters think the state does too little to help children. Twenty-seven percent think the state does enough, while only 1 percent think the state does too much (14 percent had no opinion).

Income Supports for Low-Income Families

Voters recognize the major economic obstacles faced by low-income working families and support a government role in helping families meet the basic needs of their children.

- 83 percent favor increasing the minimum wage, even if it means an increase in their taxes. Only 15 percent oppose an increase in the minimum wage if it means an increase in their taxes.
- 67 percent think families with incomes below $17,000 a year (an amount close to the federal poverty line in 2001) should be exempt from state and local taxes.

Support for Health Care

Voters support a strong government role for ensuring health care is available to the state's children and families.

- 85 percent believe government should provide help with health insurance even if it means an increase in taxes.
- 83 percent support increasing the amount of money the state spends on school nurses to ensure every student has access to health care at school.

Support for Early Care and Education Opportunities

Voters voice support for a strong government role in making quality early care and education available on to families.

- 77 percent believe government should provide financial assistance with early care and education expenses even if it means an increase in taxes.
- 75 percent believe public schools or state-supported programs should make early care and education available for all 3- and 4-year olds.
- 59 percent are willing to pay higher taxes so the state can offer quality early care and education programs for all 3- and 4-year olds.

Support for Education

Voters favor a strong government role in ensuring quality education for the state's citizens and leaders of tomorrow.

- 85 percent believe government should increase funding for K-12 public education even if it means an increase in taxes.
- 79 percent support helping students and their families with higher education expenses even if it means an increase in taxes.
- 80 percent would be willing to pay higher taxes if the Arkansas Supreme Court required the state to raise new funds to improve public education. (Since this poll, the Supreme Court has upheld the lower court's ruling that the state's system of funding of public education is inadequate and unconsitutional.) While 44 percent would only be willing to pay higher taxes up to $100, 32 percent would be willing to pay $100-$200, while 8 percent would be willing to pay more than $200 a year. Only 10 percent would be willing to pay no more new taxes.

Support for Workforce Development

Arkansas voters believe the state should have an active role in ensuring adults have the skills and training to compete for the higher-paying jobs requiring greater skill levels.

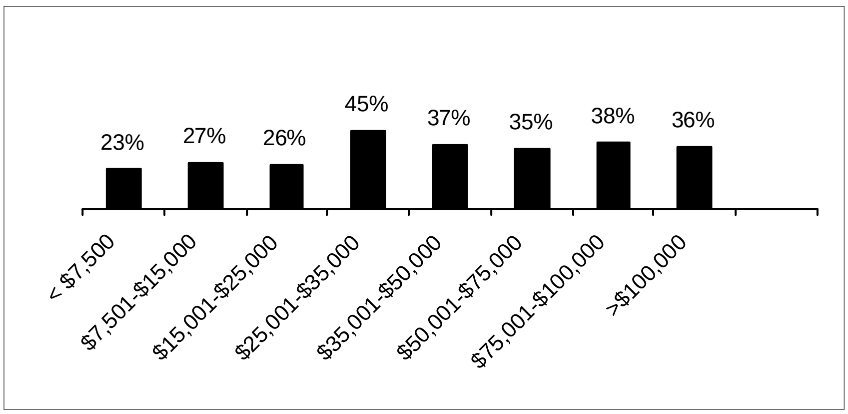
- 76 percent of Arkansans think government has average or greater responsibility to provide training to adults with limited skills and need more education and training to get good jobs. Eighty-three percent of Arkansans think employers have average or greater responsibility to provide training to adults with limited skill and need more education and training to get good jobs.
- 73 percent of Arkansans agree the state should provide funding for non-credit classes at two-year colleges teaching important job skills but do not necessarily lead to a degree. Forty-six percent strongly agree.
- 80 percent of Arkansans agree part-time students and students who do not go directly from high school to college should be eligible for state college scholarship programs. Sixty-three percent strongly agree.
- 59 percent of Arkansans think providing direct financial assistance to people who need it to pay for education and training would be very effective in helping people to obtain the job training and education they need.
- 56 percent of Arkansans think providing tax credits for employers to train workers would be very effective in helping people to obtain the job training and education they need.

Working Families Remain Concerned About State's Economy

In an October 2002 poll conducted by the University of Arkansas, Arkansans said economic issues were the most the most pressing concerns facing the state. Twenty-eight percent of respondents identified the economy as the state's most pressing issue. These numbers are up dramatically from a similar poll conducted in the 1999. In the 1999 poll, only 13 percent said economic issues were the most pressing issues facing the state.

As part of the 2002 poll, Arkansans were also asked how they were doing financially compared to last year. Only 33 percent said they were better off than last year; 39 percent said they were about the same; 27 percent said they were actually worse off. These results varied by income group. Less than one in four (23%) respondents earning incomes below $7,500 said they were better off, while 36 percen of those earning above $100,000 thought they were better off.

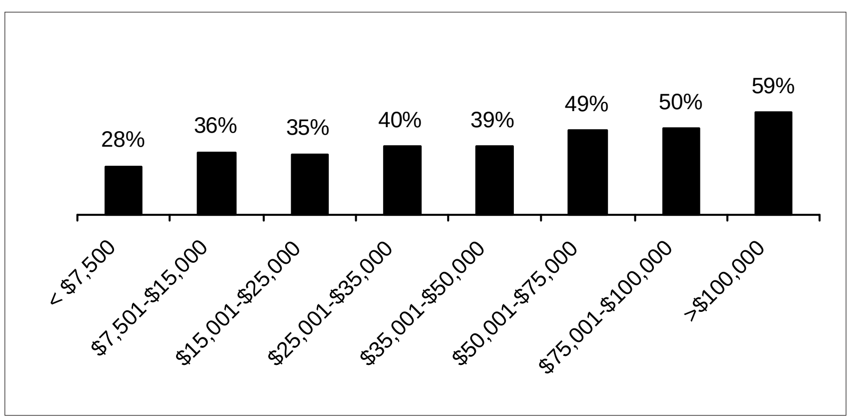
Arkansans Who Say They Are Better Off Than Last Year



Source: The Arkansas Poll, University of Arkansas, Fall 2002

Similarly, low-income families were less optimistic about their future financial security. Only 28 percent earning incomes less than $7,500 thought they would be better off in the future, compared to 59 percent of those earning incomes over $100,000. Overall, about 40 percent said they would be better off; 10 percent, worse off; and 45 percent, about the same.

Arkansans Who Say They Will Be Better Off Next Year



Source: The Arkansas Poll, University of Arkansas, Fall 2002

Policies to Support Arkansas' Working Families

While working families benefited from the economic boom of the late 1990s, more work needs to be done. Far too many families still do not have the skills to compete for better paying jobs, earn low incomes, have trouble meeting their basic daily living needs, and lack access to important supportive services helping them meet these needs as they climb the economic ladder. With the boom times of the late 1990s now gone (at least for now), it is more important than ever to find ways to improve the ability of working families to earn higher incomes while at the same time ensuring they have access to supportive services helping to meet their basic needs.

While there are a variety of policy options the state could examine to support working families, this report focuses on those having been mentioned by policy-makers and supported by the public, including:

- Reducing the tax burden on low-income working families;
- Improving access to quality early care and education so parents can work and children can receive the start they need to compete educationally with their peers;
- Improving access to health care for all children and their parents;
- Providing greater access to education and training to build the skills of low-income workers so they can move up the economic ladder;
- Assisting with asset-building policies, such as individual development accounts, so working families can accumulate wealth and build hope for the future.

Given the recent slump in the state's economy, its recent budget woes and the competition over state revenues, it would be far too easy to simply dismiss better policies for working families as unrealistic and unattainable in the current environment. It is during tough economic times, when the needs of working families are the most critical, that payoffs from establishing new policies the greatest.

Tax Policy

The Arkansas tax system is clearly regressive. That is, low- and middle-income working families pay a higher share of their income in state and local taxes than do upper-income families. Low-income families, the families least able to afford to pay taxes, are required to pay more than 10 percent of their income in state and local taxes. Arkansas is one of the few remaining states fully taxing groceries. It also imposes one of the highest state income tax burdens on families with incomes below the poverty line ($326 annually).

Arkansas has three major options for reducing the tax burden on low-income working families. One is to establish a state-level version of the federal EITC, a proven tax credit designed to provide income support for low- and middle-income working families, mostly with children. Another is to exempt families with incomes below the federal poverty line (currently $18,100 for a family of four) from paying state income taxes. Currently, an Arkansas family of four begins paying state income taxes at an income of $15,600. At the federal poverty line, a family would pay $326 in state income taxes. While the Arkansas General Assembly did raise the level at which families begin paying state income taxes in 1997, it could set this level to the federal poverty line and index it to future changes in inflation. A third option would be to reduce the sales tax burden on low-income families, especially the sales tax on food. The voters overwhelmingly rejected a proposed constitutional admendment to eliminate the sales tax on food during the November election because ti would have reduced vital funding for public services, many of which benefit low-income families. Reducing the sales tax burden on low-income families is still a good idea only if the lost revenue is replaced with a more progressive tax protecting services for low-income families and lowering their tax burden. A much less costly alternative to eliminating the food tax would be to offer a sale tax rebate targeted at low-income families.

Quality Early Care and Education

In November, the Arkansas Supreme Court upheld a lower court's decision in the *Lake View* school-funding case that the state's system of funding public schools is inadequate and unconstitutional. One option for improving the state's school system is to dramatically expand access to quality early care and education programs, such as those in the Arkansas Better Chance (ABC) program. Arkansas should embrace this mandate as a unique, once-in-a-lifetime opportunity to give all 3- and 4-year old children the start they need to compete educationally with their peers. This includes providing funding to serve all children whose parents choose to take advantage of quality early care and education for their children. Enrollment in early care and education programs would not be mandatory for families, but would be at the discretion of the parents. It also includes adopting the concept of allowing "any willing provider" the opportunity to participate in the program, provided they meet the meet the quality standards (developed by the ABC task force and adopted by the Arkansas State Board of Education). Similarly, the state should examine strategies, such as tax credits, for parents who want to stay home to care for their young children.

Health Care

The best way to assist working families with unmet health care needs is to provide quality health care insurance to their children. Arkansas has made significant progress in expanding health care coverage to uninsured children in families with incomes up to 200 percent of the federal poverty line through ARKids First. However, there are increasing anecdotal signs of employers and moderate-income families (those with incomes between 200%-400% of poverty) being priced out of Arkansas' private health care insurance market. This has important implications not just for uninsured children, but for their parents as well. When children are uninsured, one or more of their parents are also likely to be uninsured. More needs to be done to extend coverage to moderate-income families.

One option for covering children would be to extend the reach of ARKids First beyond 200 percent of poverty (possibly up to 300% or 400% of poverty) by allowing families to buy into the program through premiums and co-payments. An option for covering more adults would be to explore the use of federal SCHIP funds to cover the parents of uninsured children (but not at the exclusion of children who need it). Arkansas should also explore allowing small business owners to purchase basic health care insurance for their employees by buying into the program.

Workforce Development

Workforce development, often defined as increasing the education and training of adults in the workforce, is a critical policy for increasing the incomes of working Arkansans and developing the state's economy. A recent study by the Arkansas Department of Higher Education estimates if Arkansans had the average education and consequent incomes of the United States, gross state product or state income would be $21 billion more, a 31 percent increase. Currently, Arkansas does not have a workforce development system; it has the elements of a system. A critical first step in the development of such a system is improving the Workforce Investment Act (WIA) program, one of the largest workforce development programs in the state. A recent Good Faith Fund report — "WIA: An Assessment of Performance and a Vision for the Future" — offers many specific ideas for how that can be accomplished. A key theme in the report is better coordination between WIA and the other key programs or institutions in the state's workforce development system -- adult education and the technical institutes and community colleges.

The creation of a true workforce development system is largely dependent upon these institutions working together to help workers of all skill levels access a clear and continuing path of education and training services, which in turn, of course, helps current and future employers get the skilled workers they need. In addition, state funding for workforce development activities needs to be increased, including funding for non-credit courses at the state's technical institutes and community colleges. Also, the state' customized industry training programs need additional funding so they can be expanded to serve more industries and more workers, especially the un- and under-employed.

Assets and Savings

Most state and federal policies supporting the building of assets are geared toward middle- and upper-incomes families. Mortgage interest deductions and favorable tax treatment of pensions and retirements accounts are just two examples. At the same time, low-income families are penalized for accumulating assets. Several programs for low-income families make it difficult for them to qualify if they have more than a negligible amount of assets. For example, the state Transitional Employment Assistance (TEA) program does not allow a family to have more than $3,000 in assets, minus some exclusions, such as a house. The federal government does not set these restrictions; it is up to each state to set the policy. Another issue is the various programs, such as TEA, Medicaid, and Food Stamps, are not consistent in the way they count assets, which makes things confusing for families and sends conflicting messages about the importance of asset accumulation.

During the 2001 legislative session, a law was passed moving such policies in the right direction. The assets test on Medicaid for children was removed. Some recent changes to the Food Stamp program at the federal level have also loosened restrictions on asset accumulation under that program. The state should make the next logical step and remove the asset test from the TEA program.

Another way state policies can support the accumulation of assets by low-income families is through programs such as Individual Development Accounts (IDA) or support for mortgages for low-income families. The Arkansas Development Finance Authority (ADFA) has several programs to support homeownership for low-income families, including mortgages and downpayment assistance. IDAs are matched savings accounts supporting such assets as homeownership, higher education, or small business ownership. The state was a leader in providing support for IDAs. A demonstration launched during the 1999 legislative session provides support for IDAs through TEA funds and through a tax credit for individuals or companies providing funding for IDAs. Several hundred families have achieved their dreams of homeownership, going back to college, or starting their own business since the program began several years ago. However, the program serves only a small fraction of eligible families.