

Understanding the Economy 1998 & 1999

What's Wrong with Inflation?

by Ellen Frank

In June, the Federal Reserve Bank's policy-making committee — a group dominated by bankers and other corporate interests — voted to launch a “preemptive strike” against inflation and raise interest rates. Just a tad, only a quarter of a percentage point. But the rate hike, which increases the cost of money to banks, could be the opening salvo in a determined campaign to choke off credit and slow economic growth.

Critics chastised the Fed for slowing growth when prices are not, in fact, rising. Thanks to rapid technological change, critics say, there is a “New Economy” in which U.S. workers are highly productive and U.S. markets ultra-competitive. In this economy, wages can rise without sparking inflation.

Talk of a “New Economy,” however, begs a larger question. It may be that wages can rise and unemployment fall without prices rising, but what if they could not? Is inflation so awful that jobs and incomes must be sacrificed to prevent it?

It has become an article of faith in the mainstream media that inflation is destructive and that any and all tools should be used to combat it. The idea is constantly invoked but never defended. When the Fed, in a statement released after the June meeting, spoke of “inflationary forces that could undermine economic growth,” not one commentator questioned the presumption that inflation causes harm.

Yet neither history nor logic supports this view. Moderate inflation in fact seems beneficial to market economies. When prices rise generally, small businesses gain pricing flexibility and relief from competitive pressures. Employers in inflationary times find it easier to grant pay raises without demanding more work in return. For the heavily-indebted middle-class, moderate inflation is a positive godsend, lifting incomes while whittling away the real value of mortgages, auto loans and credit card balances.

Evidence abounds that countries willing to tolerate moderate inflation are able to sustain higher rates of job growth for longer periods. And, as just mentioned, inflation redistributes wealth from the rich to the indebted middle-class. It is not an accident that the moderate inflation of the 1960s and 1970s coincided with more egalitarian distribution of income and wealth, stronger unions, and greater democratic ferment throughout the United States and Western Europe than in the 1980s and 1990s. When conservative central banks began suppressing inflation in the 1980s, high unemployment followed everywhere. In the U.S., unions were routed by the high unemployment rates of the anti-inflation campaign of the early 1980s. This continuing campaign has since concentrated wealth and income to an extent not seen since the 1930s. In Western Europe, anti-inflation forces substantially weakened social-democratic protections and permanent joblessness now afflicts millions.

The greatest threat to the economic well-being of workers is not inflation but falling prices (deflation). When economies slow, prices fall, as they did during the Depression. Small businesses and workers lose income, yet their debt burdens remain the same. Unable to pay off loans secured when prices were higher, the indebted are driven into bankruptcy. These foreclosures breed unemployment, further defaults and drops in income. Much of Asia is now suffering deflation. With U.S. inflation now close to zero, the Fed's policies slowing growth could spark a deflation in this country, severely damaging the prospects of American workers.

Why then is the Fed obsessed with inflation? While it may not harm working people, inflation does clearly imperil the incomes of the Fed's friends and constituents — the very wealthy, banks, large corporations, and the finance industry. By eroding the purchasing power of wealth and the real value of the interest one earns lending it, inflation is a well-known threat to the rich.

The Fed's preoccupation with the interests in the upper crust was evident in the June testimony of Fed chief Alan Greenspan to Congress. "Should labor markets continue to tighten," he warned, "significant increases in wages will inevitably emerge." If wages rise, corporate profits might be squeezed, creating, Greenspan said, "imbalances that place our economic expansion at risk."

Fed officials, notably, expressed no concern about economic "imbalances" during most of this decade as wages fell. There was no talk of "risks to our economic expansion" when, thanks to falling wages and longer work-weeks, corporate profits and executive pay soared.

Only in the past two years, as the benefits of economic expansion began, finally, to trickle down the pay-scale to low- and middle-income workers, has the Fed expressed alarm. Under Greenspan's watch, the Fed has indicated time and again that it will not abide growth that empowers or enriches working people. At the merest hint that wage gains might breed inflation, the Fed threatens to derail the economy.

Stable prices and high interest rates benefit banks and bond-holders, those who own wealth and live off the interest. For the majority of the population, who survive on paychecks and credit cards, a little inflation would go a long way.

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Living Wage at the University of Virginia

by David Swanson

[Editor's note: This campaign is an example of a number around the state of Virginia which are using public action to leverage better pay for low-income workers. Most focus on governmental or public institutions, since they are to some degree influenced by our democratic process

Living wage campaigns as a national phenomenon are growing rapidly. Over 30 cities, counties and school boards across the nation have passed explicit living wage ordinances raising the minimum wage for anyone employed directly or indirectly by that body. These wage rates vary, but often they are designed to keep a full-time worker's family of four out of poverty.

Many living wage ordinances stipulate that the minimum wage level will be adjusted for inflation and cost of living annually. Other cities have raised their wages as a result of living wage campaigns without adopting such an ordinance, merely paying everyone a certain wage or above. Charlottesville gave its city employees a living wage raise on April 15th of this year.

A major argument for paying workers a Living Wage is that it allows them to feed, clothe and house their family. The official national poverty line is based on a 1950's calculation and is set extremely low. Nobody will ever get rich off a living wage, even in a multiple-earner household. But it is a quintessential family-values policy.

People will also be able to live better lives, work more productively at one job by dropping second and third jobs, and receive more loans and credit from banks. They will depend less on food stamps, earned income tax credits and Medicaid in order to get by.

This living wage movement is happening at a time when the television news tirelessly informs us of our "healthy economy." It is happening because, while the rich have gotten richer over the past decades, the poor have gotten poorer. Unemployment is at a record low, but so is the income of the least-well-off, and the size of the middle class. The federal minimum wage is 26 percent lower now than it was in 1980 (after adjusting for inflation). It is 30 percent lower than in 1968, although the economy is 50 percent more productive. The gaps between the wealthiest and the average, and between the average and the poorest, incomes in the U.S. have grown dramatically. We have recently been throwing people off welfare, and to many it seems a good idea to pay them decent wages for their labor.

As of 1997, 7.3 million families in the U.S. were officially poor. In 66 percent of these families at least one person had at least one job. At \$5.15 per hour (the federal minimum wage) a person working full-time for 50 weeks earns \$10,300, which is below the national poverty line for a family of two and nearly 40 percent below the poverty line for a family of four (\$16,450). In other words, we, the citizens of the world's richest country, are willing to see some of us work full-time and earn only 60 percent of the pay that we have ourselves described as minimally sufficient. Yes, there IS hunger, lack of medicine, and unsanitary living conditions right here in the USA.

One battle in the campaign to help the poor in our state is taking place at the University of Virginia (UVA) in Charlottesville. A group of students, professors and staff at UVA have organized a Labor Action Group and gained the support of many local organizations, including the Public Housing Association of Residents (PHAR) and the Charlottesville NAACP.

The starting salary for UVA housekeeping jobs is \$13,250 per year (\$6.37 per hour). Those hired through the contractor Servicemaster are paid \$12,480 per year (\$6.00 per hour). These workers and many others at UVA live in poverty. They are obliged to take second and third jobs and to rely on food stamps to survive.

In contrast, UVA's president takes home over \$400,000 per year including benefits and pay from outside boards. This is over 30 times the salary of some of his employees. And faculty salaries have increased more than twice as fast as staff's over the past 15 years. UVA's President John Casteen and Chief Financial Officer Leonard Sandridge have each admitted that employees' salaries are insufficient. They have not proposed any steps to remedy the situation.

The university has in recent years been spending enormous sums of money on (among many other things): expansions to the law school and the business school, a new bookstore and parking garage, new tennis courts, repair of balconies on the Lawn, a remodeling of Newcomb Hall, the construction of an office park near the airport and another near campus, a bail out of the QualChoice health plan, and the expansion of the football stadium (this alone cost \$75 million), with plans to build a new basketball stadium at a cost of over \$75 million more. The Board of Visitors last year raised its fundraising campaign goal from \$750 million to \$1 billion. According to a Richmond Times Dispatch article May 3, 1998, UVA, Virginia Tech and Virginia Commonwealth University have seen their private funds quadruple from their levels a decade ago, with UVA in the lead holding private reserves in excess of \$1.7 billion. This is in addition to the \$1 billion being received in donations.

According to Thomas Gausvik, UVA's Chief Human Resources Officer, Scott Stadium, the QualChoice bailout, the North Fork Research Park and faculty raises have all been covered by "private funds or clinical reserves," not state funds. Gausvik also states that UVA has been given authority from the state to raise faculty salaries (with private funds), but has not been given authority to raise salaries for "classified employees." In other words, if this is true, Richmond is giving UVA little money (14 percent of its budget) but is forbidding UVA from spending its own money on certain things.

Many economists suggest that it is good for business to pay employees enough so that they can purchase more goods and services. And studies of living wage ordinances, such as Baltimore's, have shown that declines in turnover rates and the expense of interviewing, as well as increases in morale, go some distance toward balancing out the expense of paying a decent wage.

The Living Wage ordinance in Los Angeles raised workers' disposable income by 50 percent and cut their dependence on government charity by 40 percent, while costing companies on average 1 percent of their budget (before calculation of resulting gains). The city of Chicago spent the same amount on a Living Wage as it spent on lights and flowers for a Democratic Convention. UVA's budget and turnover rates are both unusually high. So the interests of neither the state's economy nor UVA's bottom line would seem to be motivating this government-imposed poverty.

UVA has (whether due to moral pressure, cynical calculation, or economic enlightenment) professed a desire to pay higher wages using its own ample supply of money. Few Virginians will argue that Richmond shouldn't let UVA do so.

Although President Casteen and others have stated that workers are allowed to assemble and to protest, misconceptions prevail, even among university officials. For example, in the student newspaper, the Cavalier Daily, February 4, 1999, the Board of Visitors Secretary Alexander Gilliam was quoted as saying that the idea of faculty representation on the Board of Visitors "came close to violating Virginia's strict rules about state employees not belonging to a union." There are no such rules, and many state employees currently are members of unions.

In April of 1998, LAG announced its campaign for an \$8 minimum wage. Students can be seen around campus wearing orange and blue "\$8" buttons. Apparently some employees at UVA Hospital have been discouraged from wearing these buttons.

LAG members hope and expect that raising the minimum wage to \$8 will lead to proportionate raises for some of those already earning over that amount.

Ultimately LAG hopes to alter employer-employee relations at UVA so that employees become better able to achieve their goals in the future.

Early responses from university officials to the \$8 campaign claimed that UVA bases its rates of pay on the rates currently paid by other employers. One problem with this is that, as the largest employer around, UVA sets the current market standards.

“The university appears to be an employer of choice in this region,” Gausvik wrote in the Daily Progress August 30, 1998. But the extremely high turnover rates in some departments suggest less than overwhelming satisfaction on the part of the workers who come and go. And those who stay in many cases report that they do so only for lack of something better. In any case, Gausvik has written in a memo that UVA’s pay rates are below those of other employers in the region.

In the same article quoted above, Gausvik argued that UVA’s employees didn’t have it so bad, and also that “Unfortunately, the university does not have the authority to change the pay scale of the classified pay plan without authority from the state.” If this is “unfortunate,” then everything must not be well. This passing of the buck to Richmond has in recent months been the theme sounded by university officials.

Many employees at UVA are hired by private contractors who set their own pay rates, and UVA has the authority to make these contracts. If the university wants its employees to be paid a living wage, it can begin by contracting only with employers who pay one. Currently this is not UVA policy.

By applying public pressure to the university administration and the Board of Visitors, LAG hopes to encourage UVA to take those steps that it indisputably can take: contracting work only to employers who pay a living wage and lobbying Richmond to raise wages or pass a living wage statute.

Many professors and students say that they are becoming increasingly ashamed to work and study at UVA because of the standard of living endured by hundreds of the employees who keep the place running.

President Casteen has recently said that he hopes the Living Wage campaign succeeds. He can do more than hope. For studies of the effects of living wage laws, see a 1998 book called *The Living Wage* by Pollin and Luce, or contact the Political Economy Research Institute at the University of Massachusetts at Amherst. You can find out more about the UVA Living Wage Campaign at the website, www.people.virginia.edu/~cms5x/lag.

Some Basics of Economic Globalization

When a child looks at a globe for the first time, she doesn't really understand that it represents the place where all of us live. It is only after some explanation that the realization hits; she twirls it around, points to a spot the size of a few states, and says, "That's me. I live here." With that act comes an acknowledgement that we're all on that ball together. Later, some also realize that when one spot on that globe crashes, we all feel the impact. And in reverse, when one part soars, it's either carrying us with it or riding on our backs.

Back when it took months to get information and products from place to place, either overland or by sea, global economic connections already existed. But today, rapid advances in communications technology have allowed traders to keep constant track of the price of their products on the other side of the world. A few hundred years ago, a businessperson waited anxiously at the dock to see whether his ship had foundered in a storm or had brought his fortune in silk or spices. Today, it is actually profitable to produce fabric in one country, send it to another country to be pieced together into clothing, and then send it to another country for final finishing.

But the current economic globalization extends through at least three layers: international trade, foreign investment, and financial speculation. The first, international trade, involves the sort of trade described above, where a company in one country buys and sells from other companies in countries all over the world. Or, increasingly, multinational corporations will have factories and subsidiaries in many countries and integrate the work of each with the others. This type of trade amounts to about \$7 trillion each year according to United Nations estimates. And David Moberg in the "The Neighborhood Works" claims that between one third and one half of international trade are transactions between the various parts of these multinationals.

The second layer of economic globalization, foreign investment, involves investors from wealthy countries like the United States buying shares on the stock exchanges of other countries. Mutual funds that invest in foreign markets have become very popular, at least until the latest Asian crash. In fact, massive and imprudent foreign investments played a major role in the Southeast Asian crash, since returns from those ballooning economies sucked in huge amounts of cash that was spent to overbuild and overproduce. Foreign investments also involve direct investment from companies which build factories in other countries or buy subsidiaries which are located there. The maquiladoras on the U.S.-Mexico border are direct investments where companies have moved factories in order to take advantage of cheap labor and low costs.

The third layer, financial speculation, is when individuals buy something when its price is low and then sell it when its value goes up. Speculators buy money, real estate, stocks, bonds and other financial assets. The problem is, some speculators don't simply allow market forces to bring them profits. They attack the currency of countries with [weak economies] and actually throw them into chaos by [buying huge amounts of currency when ____ and then dumping it back when ____].

There is no doubt that globalization has caused incredible advances in productivity overall and great profit for those who have the money to take advantage of it. But what are the current dangers of this global economy? William Greider, in his op-ed article for the New York Times entitled, "When Optimism Meets Overcapacity," identifies the two factors of overcapacity and deflation as the biggest threats. Overcapacity occurs when industry is producing more goods and services than consumers can afford to purchase. For example, if I own a factory which produces a million luxury yachts each year, it is unlikely that there will be enough people in the marketplace with enough money to buy all those yachts. Since I can't sell all those yachts, I start to cut the price on them until it is low enough for people to afford them. But as a result, my profits may drop so much that I have to cut the cost of producing those yachts to make any money at all. The easiest way to do that is to either fire some of my workers or cut their pay, or perhaps both. When this pattern occurs throughout the economy, as in the Depression of the 1930's, this cycle of declining prices and wages is deflation.

Globalization itself is creating overcapacity and deflation as competition heats up between companies in different parts of the world. Greider says, "The fierce cost-cutting competition leads companies to take measures-cutting labor costs, modernizing production, trading jobs to gain access to hot markets-that both erode the worldwide consumption base and create excess output." What he means is that the wages of workers have not kept pace with the price of the things they want to buy, since corporations in competitive world markets have to keep wages low to survive.

Thailand is a perfect example. Huge foreign investments kept flowing into the country, much of which was spent on things like expensive real estate which created quick and large profits. They built far more office buildings than could ever be occupied, and they neglected to build the skills of their workforce or even the country's infrastructure. When the balloon burst and the investors could not be paid back, foreign investors abandoned Thailand and the whole country came crashing down. This occurred all over Southeast Asia, an area previously used as proof that free market economics can work for everyone.

Thirty years ago, globalization in the American South occurred as domestic and international corporations moved in to take advantage of corporate welfare, cheap labor, and cheap land. But often they didn't stay, because there is always a better deal to be found somewhere else. Since corporations can communicate internally with lightning speed and move the products quickly to wherever they want them to be, they don't really care any longer where they are located, as long as their costs are kept low. So many of the factories which the South gained from other areas have now moved on to other countries.

So what should be done? In an article for "The Nation" called "Saving the Global Economy", Greider tells us, "Like it or not, we are all in this together now, rich nations and poor alike, all riding on the same runaway train. Globalization of markets means there's no place to hide. Americans are not going to get out of this-the continuing loss of good jobs, the long-term depression of wages-until they learn to think globally, and to devise remedies that do not depend on throwing poor people over the side."

VOP focuses on a few areas of economic change which we think will help the global situation and also help low- and moderate-income people here in Virginia.

1) Living wages. A key handle in the fight against overcapacity and deflation is worker pay. If we can force corporations to increase real wages and create stable employment for working people, transferring some of the profits from upper management to the baseline worker, then perhaps we can decrease the problem of overcapacity. Coalition of labor unions, citizens groups, non-profit agencies and religious institutions can come together to demand labor rights, including decent wages and the right to organize.

2) Tax reform. First, we must end the corporate welfare that subsidizes the rapid moves of multinational factories from place to place and country to country. Our governments should stop passing out money to reinforce this behavior and start taxing it instead. Corporations only do it because it is profitable; if we tax it, they'll stop doing it. Second, we should put more money in the pockets of the working poor through things like a state Earned Income Tax Credit and the elimination of regressive taxes like the sales tax on food. This accomplishes the same thing as raising a poor family's take-home pay, allowing them to save more and purchase the things they need, reducing overcapacity. Third, we should raise taxes on the richest parts of our society, which would prevent the excesses of wealth which fuel this ridiculous race.

3) Work with the Federal Reserve Bank to show them that the economy isn't working for everyone. We are trying to convince the Fed to use its influence with banks to invest in community development projects around the region. We also want them to include the interests of low- and moderate-income Virginians in the decisions they make about interest rates. Cuts in rates allow wages to go up, and the accompanying danger of inflation seems slim at the moment, since overcapacity creates the exact opposite, deflation. This will mean lower returns on investments, but stock prices on Wall Street could probably use a healthy dose of realism anyway.

A final danger of economic globalization is that a frenzied demand for profits is destroying the environment in which we live. Eventually, we are going to have to come to terms with the fact that endless economic growth cannot be sustained forever, since we are rapidly using up the physical world that allows us to build things. Perhaps as time goes by economic globalization will have a positive effect: it will convince us that we are all connected in a web that we cannot de

Corporate Welfare: Who Benefits?

The heart of the right wing attack on poor people in recent years has been the myth created around the welfare system. Claims that it creates an underclass of people who feel no personal responsibility for their lives accompany racist depictions of single mothers as "welfare queens". Legislation reforming that system gained support from both Democrats and Republicans, and the restructuring it produced is still underway in most states. What was never discussed were the billions of dollars also given away to those on the opposite end of the power spectrum in our society: corporations. Somehow, the government dollars doled out to them escaped the reform efforts focused with such effect on poor families.

What is this corporate welfare system all about? Basically, government at all levels practices it when they give tax breaks, advertising money, and new buildings (plus the roads leading to them) to corporations. Corporations also get to write off some of the perks received by their high-paid executives, sell goods to other countries who are paying for them with US aid dollars, and receive government grants in order to do research which will improve their products and thus their profits. Our national government gives out \$125 billion per year in corporate welfare, and that doesn't even include the states and cities falling over themselves to attract new business through similar programs. In comparison, only about \$85 billion dollars a year is spent on Temporary Assistance to Needy Families, food stamps, and Medicaid. That makes corporations like General Motors, Intel, and Sunkist the real queens of welfare.

Who pays for all this? You, the individual taxpayer. It certainly isn't the corporations themselves. In fact, back in 1989 Citizens for Tax Justice did a study of 44 big American corporations and found that none of them were paying any federal taxes whatsoever, even though all together their profits totaled \$53.6 billion. Back in the 1960's, corporate taxes accounted for 25% of all federal income. But after the re-write of the U.S. tax code in the 1980's, corporate taxes fell to 7%. Guess who made up the difference? Individual citizens, including you, me, and probably most everyone you know. In fact, every working person in America shells out the equivalent of a two week paycheck straight into the pockets of big corporations receiving corporate welfare.

Why do our government officials give these breaks to companies? They assume that whatever is good for the corporations will also be good for the communities in which they are located. They make a bet that these corporations will create new jobs and improve the local economy. All too often, they lose that bet. Many of the corporations who have been the biggest recipients of corporate welfare are also the ones which have been downsizing like mad for the last ten years, cutting jobs, factories, and businesses in an effort to become more streamlined and efficient. It is pathetic to see the lengths to which cities and states will go to get a company to relocate to their area. According to Time magazine, Philadelphia gave \$307 million to a Norwegian company to get part of the city's shipyard up and running again. They created 950 jobs, which means that the city paid \$323,000 per job. They could have created 7 times as many jobs, each paying \$40,000, if the city had simply decided to hire those folks themselves. And some localities have learned one of the harshest lessons of corporate welfare: corporations are perfectly willing to take the cash to build a new factory in a particular city, but they are also perfectly willing to shut that factory down and move it somewhere with cheaper labor, lower operating costs, or higher tax breaks. Durant, Mississippi started the whole thing back in 1936 when it lured in Real Silk Hosiery to provide jobs in one of the most depressed areas of the country. Twenty years later, before the first city bond was due to be paid, the factory had closed. Durant became another example of the games which corporations play every day with the dollars which our politicians are willing to give them.

Virginia, too, has been fooled by the mirage of corporate welfare. In 1996, a joint Volvo-GM plant closed in Oreville, Ohio to move to our own Pulaski County, where it found lower-paid workers and millions of dollars in economic incentives. After the current debate over deregulation of the energy industry, Virginia Power may be allowed to write off "stranded costs", or losses incurred from running obsolete power plants which actually cost more to run than they earn. Most of these plants also pollute the surrounding environment. Over time, these stranded costs could amount to a massive cost for taxpayers. And recently, construction of the Motorola factory in Goochland County west of Richmond has been put on hold for a

second time. This factory will provide a lot of jobs paying \$9-10 hr _ not exactly high paying, high tech positions. Motorola will get \$12 million each year for five years from the state if they provide 2500 jobs by the year 2002. The County alone has spent over \$60 million in water and sewer infrastructure, and the state paid for a major road project giving access to the plant. And considering how computer industry plants all over the country have cut back due to the Asian financial crisis, there is no guarantee that the plant will get built or that the jobs it creates will be permanent. The decision to delay the West Creek site comes at a time when Motorola is restructuring its semiconductor business, including dismantling its consumer chip unit. Motorola's Semiconductor Products Sector is expected to eliminate 25 percent to 30 percent of its work force as part of a corporate restructuring.

The practice of corporate welfare has many downsides, but the most basic is that it is unfair. It is only the corporations with political connections that get the breaks, and that means that small- and medium-sized businesses lose out to big ones. This doesn't even make sense to conservative economists, who argue that the market must be left alone if it is to work properly and truly benefit good companies. As it is, the playing field is constantly skewed in favor of those who most aggressively seek out a free ride from the government. And most of the companies that receive the handouts aren't even the ones who need it, but ones which are making record profits already.

What does this mean for an organization working for social change? As Randolph Holhut says in "The Real Welfare Cheats: Corporate America", "[The real welfare cheats are] the people who can pay for the lobbyists to influence legislation and are able to deduct it off their taxes; who have benefited from policies that have eliminated millions of American jobs; who have put the pursuit of ever-higher profits ahead of the public interest." We know how to tackle this problem. It means doing research on who is getting what in our cities and counties, our state, and our nation. It means building relationships to create a base of people large enough to overcome the spell which big business has cast over our governments. And it means educating our legislative representatives so that they understand who benefits from corporate welfare and who is paying a high price to fatten the same old cats.

Individuals and organizations interested in confronting issues of corporate welfare should contact the VOP office at (434) 984-4655. VOP will be offering workshops on "Understanding the Economy" beginning June, 1999.

Earned Income Credit Can Mean Extra Dollars for Millions of Working Families

by John Wancheck

Benefits as high as \$3,756 per family — the Earned Income Credit (EIC) is a federal tax benefit for people who work. To be eligible, parents must work at some time in 1998 and have a child living with them for more than half the year. Single or married parents raising one child, with income less than \$26,473 in 1998, can receive an EIC of up to \$2,271. Parents raising two or more children with income less than \$30,095 in 1998 can receive up to \$3,756.

Also, singles or couples not raising children are eligible for a modest credit of up to \$341. To qualify, workers must have been between 25 and 64 years old by the end of 1998, with income of less than \$10,030.

The EIC offsets payroll taxes for lower-income families, and can supplement the income of workers whose wages still leave them below the federal poverty line. For example, a couple with two children earning \$15,000 in 1998 is over \$1,000 below the poverty line, and will also pay about \$1,150 in payroll taxes. But their EIC will be worth nearly \$3,200.

The average family with children that claims the EIC will receive about \$1,800. In 1997, over 434,000 Virginia families and individuals claimed the EIC, for more than \$627 million.

What's more, families do not need to worry that receiving the EIC will affect their eligibility for cash assistance ("welfare"), food stamps, SSI, Medicaid or federal housing assistance. The EIC is not counted as income to determine eligibility for these programs, and isn't immediately counted as a resource.

Getting the credit isn't hard but does require filing a federal tax return, even for workers earning too little to owe income tax. Those raising children must file either form 1040 or 1040A (they can't use the 1040EZ to claim the EIC) and one additional form, called Schedule EIC. Workers without children can file any tax form, including the 1040EZ, and do not need to file Schedule EIC.

Despite its value, several million eligible families don't claim their EIC. Many don't know about it. Others don't know how to file for it, and don't know that free tax assistance is available.

It is easy to promote the EIC to your clients, employees, customers, parishioners, colleagues or constituents. Request a free EIC information kit from the Center on Budget and Policy Priorities. The kit contains posters and flyers in English and Spanish, fact sheets and a guide on how to run an EIC promotional campaign. For your free copy of the EIC kit, write or call the EIC Campaign, Center on Budget and Policy Priorities, 820 First Street, NE, Suite 510, Washington, DC 20002, 202-408-1080, Fax 202-408-1056. Be sure to include your name, organization, address and telephone number.

The Virginia General Assembly came closer than ever last session to passing a state Earned Income Credit, which would help relieve the burden of the state income tax on low-income families and reduce poverty among working families. A state EIC is an important part of welfare reform efforts, since it boosts the income of workers who move from welfare to entry-level, low-wage jobs. The Virginia Coalition for the Homeless has led the battle for this legislation, which also was a priority of Campaign for Virginians in Need in 1998.

Contact Sue Capers at (703) 739-9365 or e-mail sbcapers@ix.netcom.com for more background on the state Earned Income Credit legislation.