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Special Series: **Economic Recovery Watch**

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TESTIMONY OF LADONNA PAVETTI
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BEFORE THE HOUSE SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT

Hearing Titled: "The Safety Net's Response to the Recession"

Thank you for the opportunity to testify today. My testimony will focus on four points:

- With recent Census data showing increases in poverty and declines in incomes even before Americans began experiencing the worst effects of the recession — and with further deterioration expected in both areas — policymakers face a serious challenge in helping low-income populations cope with the downturn.

- The recovery act passed in February has kept this serious recession from being even worse. It has not only moderated the decline in GDP and increase in unemployment, but also prevented millions of Americans from falling into poverty and has helped some states to forgo significant cuts that would have weakened the safety net for very poor families with children.

- The Supplemental Nutrition Assistance Program (SNAP), formerly food stamps, has responded quickly to rising need in all states, but the Temporary Assistance for Needy Families (TANF) cash assistance program has lagged behind and has been moderately or substantially responsive in less than half of the states.

- To help ease hardship and avoid short-circuiting an economic recovery, Congress will need to adopt policy solutions that are responsive to both immediate needs and the long-term consequences of the recession.

Recent Data on Poverty and Incomes Underscore Challenge

Recent Census Bureau data show that the nation lost substantial ground in 2008 on poverty and incomes. The number of people living in poverty jumped by 2.6 million, to 39.8 million people. The poverty rate rose to 13.2 percent, the highest since 1997. Real median household income declined 3.6 percent, the largest single-year decline on record, and reached its lowest point since 1997.

These figures are particularly grim because they come after the disappointing record of the 2001-2007 expansion. Poverty was actually higher — and median income for working-age households lower — at the end of that expansion than during the 2001 recession. Since the nation began collecting these data, such a dismal record during an expansion has never occurred before.

These data include only the early months of the recession. The figures for 2009, a year in which the economy has weakened further and unemployment has climbed substantially, will look considerably worse. The figures will likely worsen again in 2010 if, as many economic forecasters expect, unemployment continues to rise in that year. However, the expected increase in poverty would be substantially greater if not for the American Recovery and Re-Investment Act of 2009.

Recovery Act Keeping Millions of Americans Out of Poverty and Helping Forestall Cuts in Critical Human Services

The recovery act's primary goal was to help the broader economy, and evidence suggests it is having a significant positive impact. The Congressional Budget Office estimated in August that "real GDP will be 1.4 percent to 3.8 percent higher in the fourth quarter of 2009 than it would have been without the stimulus" and "1.1 percent to 3.4 percent higher in the fourth quarter of 2010."[1] The recovery act is also moderating the increase in unemployment caused by the recession. CBO estimated this spring that "The boost to total employment [because of the recovery act] peaks at about 2 ½ million jobs in the second half of 2010."[2] In addition, the recovery act has had the important secondary effect of significantly ameliorating the recession's impact on poverty.

Seven ARRA Provisions Keep 6.2 Million Americans Out of Poverty

The Center on Budget and Policy Priorities recently examined seven provisions of the recovery act that provide direct assistance to individuals — including three tax credits for working families, two improvements in unemployment insurance, expanded nutrition assistance, and one-time payments to senior citizens, veterans, and people with disabilities — and estimated that these provisions will result in 6.2 fewer Americans (including 2.4 million children under 18) being counted among the nation's poor in 2009.[3] Because the government's official measure of poverty considers

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[1] "The Budget and Economic Outlook: An Update," Congressional Budget Office, August 2009, p. 33.

[2] "Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook," Congressional Budget Office, March 2009, p. 29.

[3] The seven provisions included in the analysis are: (1) new Making Work Pay tax credit; (2) expanded Child Tax Credit; (3) expanded Earned Income Tax Credit; (4) additional weeks of emergency unemployment compensation; (5) a $25 per week supplement for unemployed workers receiving unemployment benefits; (6) one-time payment of $250 to elderly and people with disability; and (7) increased Supplemental Nutrition Assistance program benefits. For additional information, see: Arloc Sherman, "Stimulus Keeping 6 Million Americans Out of Poverty in 2009, Estimates Show," Center on Budget and Policy Priorities, September 9, 2009, http://www.cbpp.org/cms/index.cfm?fa=view&id=2910.

only cash income and would therefore miss many of the tax-based and non-cash income supplements in the recovery act, our analysis used a broader poverty measure recommended by the National Academy of Sciences.

One of the most important provisions included in our estimation is a 13.6 percent increase in SNAP benefit levels. This provision was included in ARRA to provide a very fast and effective economic stimulus that could help to push against the tide of economic hardship that low-income individuals are facing. The increase went into effect in April 2009. By September 25th, according to USDA, it had provided about $4.5 billion in federal support to low-income households across the country.

The added SNAP benefits ripple through the economy. When a family uses its SNAP benefits to shop at a local grocery, this helps the grocer pay his or her employees and purchase more from his or her suppliers. That, in turn, helps the suppliers pay their employees (as well as the truckers who deliver their products), and so on. Based on analysis from USDA's Economic Research Service, the $4.5 billion temporary increase in food stamp benefits has resulted in a total of about $8 billion in total economic stimulus.

The estimates from our analysis represent only a fraction of the overall impact of the recovery act on poverty because the seven provisions we included account for only about 26 percent of the act's total funding. We were unable to model billions of dollars in assistance that would further reduce the number of Americans in poverty. These include Pell grants and education tax credits, funding for state health insurance programs, child care, child support enforcement, and assistance to homeless individuals and to TANF recipients.

TANF Emergency Contingency Fund Helps States to Forestall Social Service Cuts and Provide Cash Assistance and Subsidized Jobs to More Families

Congress included $5 billion in the recovery act for a TANF Emergency Contingency Fund (ECF) to provide states with additional resources to help families meet their basic needs. States can qualify for these funds if they provide cash assistance to more families, spend more to provide one-time non-recurring benefits to help families stave off a crisis, or create subsidized employment opportunities for jobless individuals. States are still in the process of submitting requests for these funds so we don't yet know how much of the $5 billion they will use and what the overall impact on poverty will be. However, we do know that this fund has made it possible for some states to meet the increased demand for assistance, to avoid significant cuts in cash assistance and services for very poor families and to maintain their commitment to providing work opportunities for TANF recipients. Below are examples of how three states —Oregon, Maryland and Florida— are planning to use these funds. These state's TANF caseloads increased by 35, 15 and 13 percent, respectively, between federal fiscal year 2007 and the first three quarters of federal fiscal year 2009.

- Anticipating that it will be able to draw down $74.9 million from the TANF ECF for 2009 and 2010, **Oregon** expects to cover the costs of providing cash assistance to an average of 6,226 more families per month *and* to forestall cuts that would significantly weaken the safety net for poor families. Without this additional funding, Oregon would have eliminated its TANF program for unemployed two-parent families, reduced eligibility for employment-related day care, further reduced transitional payments for newly employed parents, and eliminated enhanced grants for families with a disabled household head applying for Supplemental Security Income or Social Security Disability Insurance.

- **Maryland** expects to qualify for over $30 million in TANF Emergency Funds for 2009 and for additional funds for 2010. This includes $17.7 million in basic assistance based on serving an average of an additional 3,107 families each month, and $12.5 million based on providing non-recurrent short-term benefits such as emergency assistance payments to families who might otherwise lose their current housing or be unable to stay employed. Maryland plans to use some of these funds to cover the additional staff costs associated with processing a greater volume of applications for assistance.

- **Florida** expects to draw down at least $76 million to cover the costs associated with providing cash assistance to an average of an additional 6,406 families each month. The state expects to draw down $5.4 million to provide subsidized temporary employment for unemployed individuals; a county that lost 1,200 jobs due to a plant closing plans to use a portion of the funds to provide subsidized employment to 75 individuals who would otherwise be unemployed.

At least ten states are planning to use TANF ECF funds to create or expand subsidized employment programs. These programs will provide jobs for low-income individuals who would otherwise be unemployed. Rigorous evaluations of similar programs have shown they are successful at providing employment opportunities when parents are unable to find unsubsidized jobs on their own.[4]

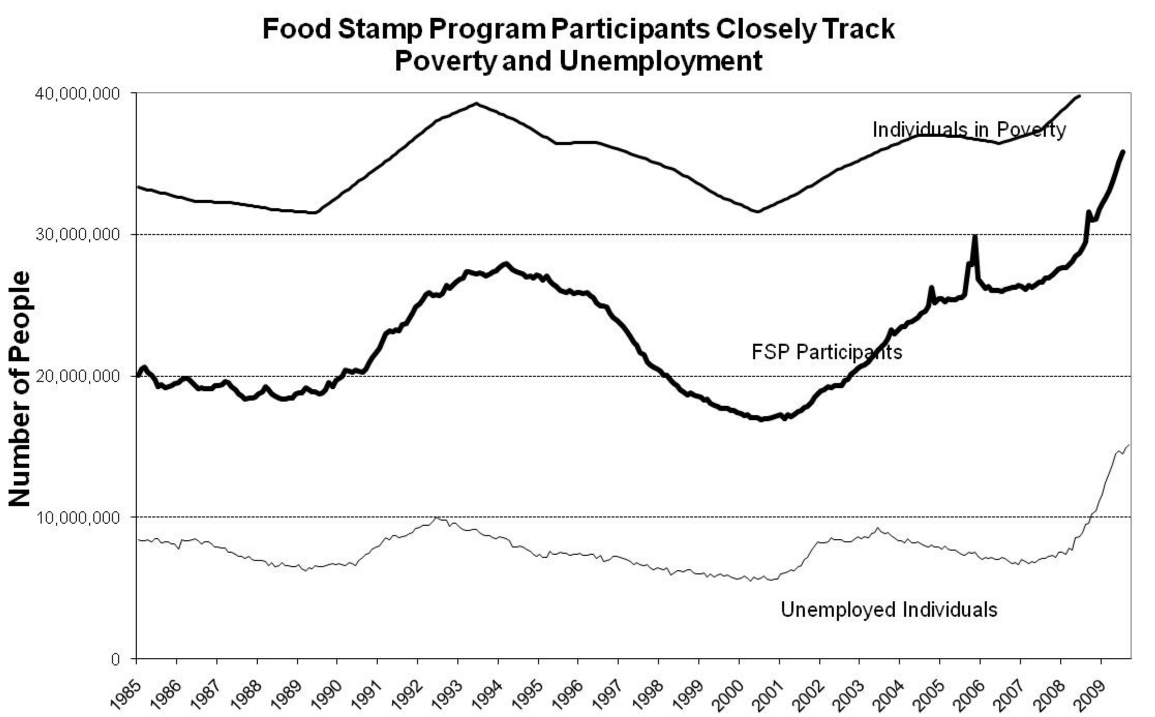
- **California** is planning to draw down $300 million from the TANF ECF to create subsidized employment programs throughout the state. San Francisco is planning to use its share of funds to expand its JOBS NOW! program to provide subsidized employment to an additional 1,000 unemployed and underemployed parents by September 2010. Participants will undergo a vocational assessment to determine their skills and interests, after which they will be assigned to an appropriate job based on their employment readiness and the level of personal support needed. Los Angeles is implementing the state's largest program with plans to provide subsidized employment to 10,000 unemployed individuals.

- **New York** provides another example. The state is currently implementing a $39 million effort to provide three different types of subsidized employment opportunities to unemployed individuals. The state will spend $25 million to create a new Transitional Jobs Initiative to provide paid, subsidized work experience — combined with educational opportunities related to work— to TANF-eligible individuals including disconnected youth and the formerly incarcerated. The state will spend $7 million to create a Health Care Job Subsidy Program that will hire health care outreach workers to help low-income individuals maintain eligibility for public health care programs and to connect them to other preventative health care services. Finally, the state will create a new Green Corp Jobs Subsidy program that links TANF-eligible individuals to job skills training, basic education, and career advancement opportunities in entry-level, high-growth energy efficiency and environmental conservation industries.

SNAP Responding Quickly and Systematically to Rising Need

[4] Cindy Redcross, MDRC, "Using NDNH Data to Evaluate Transitional Jobs," presentation at the National Association for Welfare Research and Statistics annual conference, July 13, 2009.

SNAP — formerly known as the Food Stamp Program — has responded quickly and effectively to support low-income families and communities during the economic crisis (see Figure 1). National enrollment in SNAP is at an all-time high. In July 2009, 35.9 million people, or 1 in 9 Americans, were enrolled in SNAP, including an estimated 17.4 million children, or 1 in 4 children in the United States. Nationally, caseloads have increased by 6.8 million people, or 23 percent since last July, and by more than 8 million people (or 30 percent) since the beginning of the economic downturn. Caseloads have increased in every state, with 39 states experiencing all-time caseload highs in the last 12 months. SNAP benefits also help protect the economy as a whole by helping maintain overall demand for food during slow economic periods. In fact, SNAP benefits are one of the fastest, most effective forms of economic stimulus because they get money into the economy quickly.



*Poverty data are annual estimates and not yet available after 2008.
Spikes in food stamp participation resulted from USDA and states operating disaster food stamp programs following recent years' hurricanes.
Sources: Food and Nutrition Service (Food Stamp Program participants); Census Bureau (individuals in poverty); Bureau of Labor Statistics (unemployed individuals).

Limited Responsiveness of TANF Cash Assistance Caseloads

Across the country, state TANF cash assistance programs have lagged far behind SNAP in their responsiveness to the economic crisis and to rising poverty. In the 45 states for which we have been able to obtain recent and complete data, the total number of families with children receiving cash assistance remained essentially flat between March 2008 and March 2009; the SNAP caseload increased by 19 percent during this same period, reflecting large increases in poverty. However, there is substantial variation across states, with responses ranging from a decline of 11 percent to an increase of more than 30 percent.

TANF caseloads either have not been responsive at all to the economic downturn or have been only minimally responsive in 27 of the 45 states; caseloads declined in 11 of these states, remained essentially flat in seven and increased by one to five percentage points in the remaining nine. Caseloads responded moderately, in 13 of the 45 states, increasing by between 6 and 15 percentage points. Caseloads increased by more than 15 percentage points in only five of the 45 states: New Hampshire, New Mexico, Oregon, South Carolina, and Washington.

The lack of responsiveness of the TANF caseload is likely attributable to several factors. Many states have policies and procedures that make it difficult both for eligible applicants to get benefits and for recipients to continue receiving benefits even if they continue to be eligible. Some states require applicants to participate in work activities for a period of time before they can qualify for aid, but some families may be in crisis and have difficulty in meeting these requirements until they begin to receive help in meeting basic needs. Many states have eased their enrollment processes for SNAP and Medicaid but have not extended these improvements to TANF; others actively discourage TANF applicants. And in some cases, families in need may not pursue TANF because of stigma, erroneous information about eligibility or time limits or other reasons.

For the last 13 years, states have been focused on reducing their TANF caseloads for a variety of reasons —fiscal, ideological, and as a measure of effective performance— and even during the current economic crisis, states have been slow to shift away from this emphasis. It is important to note that even prior to the economic downturn, TANF was not accessible to many families who needed it. In 2005, the TANF cash assistance program served only about 40 percent of eligible families compared to 80 percent of eligible families in 1995.

Increasing the Responsiveness of the Safety Net and Responding to the Long-Term Consequences of the Recession

Although the recovery act has provided significant help to many low-income families, more needs to be done. In addition, serious challenges will remain for the next several years, and they demand a continuing response. Congress should consider the following steps:

- *Provide an additional temporary increase in federal funding for state SNAP administrative costs. With* SNAP caseloads at an all-time high, additional funding for program administrative costs would not only help states, but also reduce long waiting lines for interviews and application processing, enabling people who lose their jobs to get benefits more promptly. The large increases in the SNAP caseloads are occurring at a time when states are unable to add the employees or the overtime hours necessary to meet the rising demand. ARRA provided $290.5 million in administrative funds to states to help them manage rising caseloads through 2010. An additional $300 to $500 million over the next two years would help states continue to provide SNAP benefits to the growing numbers of families affected by the economic downturn. We also recommend a maintenance-of-effort provision, perhaps at 97 percent of state spending on basic state SNAP administrative costs in fiscal year 2008, to prevent states from substituting the new funds for existing state SNAP administrative funding.

- *Eliminate the incentive for states to serve fewer poor families in their TANF programs even when poverty is increasing.* TANF cash assistance programs aim to serve two different functions: (1) to provide a safety net during times of family crises and when jobs are not available, and (2) to help low-income parents find and maintain employment. Under the program's current incentive and performance structure, these two functions often are at odds with each other, particularly when unemployment is rising and jobs are hard to find. In addition, the current performance standards discourage states from providing assistance to families most in need. When TANF is reauthorized next year, Congress should identify improved performance measures that encourage states both to provide a safety net for very poor families when they need it and help them improve their long-term employment outcomes.

- *Renew the Emergency Unemployment Compensation program.* Last year, Congress created the Emergency Unemployment Compensation program, which provides up to 33 additional weeks of federally funded unemployment benefits to unemployed individuals who have exhausted their regular state benefits. (Congress has created a similar program in every recent recession.) The recovery act extended this program through December 2009. This and other unemployment insurance provisions in the recovery act have helped millions of unemployed workers weather the recession better than they otherwise would have. The additional weeks of benefits are also one reason why the recovery act has kept the decline in economic activity from being even worse in this recession. With unemployment expected to continue rising through at least part of 2010, Congress should extend the EUC program and the other UI provisions created by the recovery act for another year. The need for an EUC extension is especially great given the record level of long-term unemployment, since these are the workers the program assists.

- *Extend unemployment benefits in hard hit states.* The House is to be commended for its recent action to provide additional weeks of unemployment insurance benefits to individuals in states with the highest unemployment rates. This House-approved bill would provide 13 additional weeks of benefits to individuals in states where the unemployment rate is 8.5 percent or higher. In addition to helping workers, this bill would help the economy by cushioning the income losses of jobless workers and enabling them to maintain a higher level of spending than they could without UI benefits.

- *Renew COBRA continuation coverage.* Recognizing that some unemployed workers would not have sufficient financial resources to extend their health insurance coverage through COBRA, Congress included a provision in the recovery act that provides for premium reductions and additional election opportunities for health benefits under COBRA. This provision allows individuals to pay 35 percent of their COBRA premiums, with the remaining 65 percent being reimbursed through a tax credit. This provision is set to end on December 31, 2009. Given that unemployment remains high, this provision should be extended for another year.

- *Phase down state fiscal relief more gradually.* The recovery act included about $140 billion in state fiscal relief to enable states to balance their budgets with smaller budget cuts and tax increases than they would otherwise need to impose. So far, it is working as intended, as the funds are reducing state budget shortfalls in the current year by an estimated 30 percent to 40 percent. Despite improvements in the economy as a whole, however, state fiscal conditions for state fiscal years 2011 and 2012 look at least as bad as those for 2009 and 2010. We estimate that state deficits in state fiscal year 2011 will be about $180 billion, some $40 billion of which states will be able to close with recovery act funds. For state fiscal year 2012, we project state budget deficits of $120 billion, with essentially no recovery act funding available to reduce the deficits.

  One strategy to address these shortfalls is to provide a reduced level of federal stimulus to states for a period of time beyond December 31, 2010, when the current recovery act funding ends. Congress could, for example, provide additional funding targeted on states in serious economic and fiscal distress to close a portion of projected state shortfalls in 2010-2011 and 2011-2012. States would still need to close the majority of the shortfalls, themselves. In this way, federal assistance would phase out gradually rather than ending abruptly after December 31, with adverse consequences for both vulnerable families and the U.S. economy.

It would be helpful to send a signal soon about whether additional funding will be available, since some of the actions that states will take to balance their 2011 budgets could happen next summer or even earlier. (State's budget changes usually begin in July and the budget planning process begins long before that). Unless states know that additional federal aid is coming, they will likely begin to cut spending or raise taxes next summer in order to close the shortfalls projected for their fiscal 2011 budgets. These state actions could reduce demand by as much as $260 billion, threatening to place a serious drag on the economy and weaken the recovery. These cuts would heighten the risk of a double-dip recession.