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RECESSION COULD CAUSE LARGE INCREASES IN POVERTY AND PUSH MILLIONS INTO DEEP POVERTY Stimulus Package Should Include Policies to Ameliorate Harshest Effects of Downturn

by Sharon Parrott

Executive Summary

Like previous recessions, the current downturn is likely to cause significant increases both in the number of Americans who are poor and the number living in “deep poverty,” with incomes below *half* of the poverty line. Because this recession is likely to be deep and the government safety net for very poor families who lack jobs has weakened significantly in recent years, increases in deep poverty in this recession are likely to be severe. There are a series of steps that federal and state policymakers could take to soften the recession’s harshest impacts and limit the extent of the increases in deep poverty, destitution, and homelessness.²

Goldman Sachs projects that the unemployment rate will rise to 9 percent by the fourth quarter of 2009 (the firm has increased its forecast for the unemployment rate a couple of times in the last month). If this holds true and the increase in poverty relative to the increase in unemployment is within the range of the last three recessions, the number of poor Americans will rise above its 2006 level by 8.4-10.9 million, the number of poor children will rise by 2.6-3.9 million, and the number of children in deep poverty will climb by 1.5-2.4 million. (This increase will not take place in a single year, but will occur over several years.)

Already there are signs that the recession is hitting low-income Americans hard. Between September 2006 and October 2008, the unemployment rate for workers age 25 and over who lack a high school diploma — a heavily low-income group — increased from 6.3 percent to 10.3 percent. Yet low-income workers who lose their jobs are less likely to qualify for unemployment benefits than higher-income workers, due to eligibility rules in place in many states that deny benefits to

¹ This paper was originally released November 24, 2008. It was revised August 2009 to correct a mistake in the unemployment rates and the resulting poverty projections. The August 2009 revisions do not reflect events that took place after this paper’s November 2008 release, such as the enactment of the American Recovery and Reinvestment Act.

² As unemployment rises, many workers and their families also will lose their health insurance or find coverage unaffordable. Policymakers can consider initiatives to lessen the magnitude of the increase in the number of uninsured people. A discussion of health-related proposals is, however, beyond the scope of this analysis.

individuals who worked part time or did not earn enough during a “base period” that often excludes workers’ most recent employment.

As another sign that poverty is now climbing rapidly, food stamp caseloads have increased dramatically in recent months, rising by 2.6 million people or 9.6 percent between August 2007 and August 2008, the latest month for which data are available. In 25 states, at least one in every five children is receiving food stamps. Because monthly food stamp caseload data are available long before the official Census poverty data for the prior calendar year, rising food stamp caseloads are the best early warning sign of growing poverty.

Furthermore, the nation’s basic cash assistance safety net for very poor people who are jobless is much weaker and less well equipped to meet the challenges that a serious economic downturn poses than it was in previous major recessions. The biggest changes in that safety net have resulted from changes in public assistance policies at both federal and state levels. As a result of changes in such policies, basic cash assistance reaches many fewer poor families with children than in the recessions of the 1970s, 1980s, and 1990s. Today, only about 40 percent of families eligible for cash assistance under the Temporary Assistance for Needy Families program actually receive it. That is about half the percentage of families eligible for TANF’s predecessor (the Aid to Families with Dependent Children program) that received its benefits during the recessions of earlier decades.

In addition, those poor unemployed individuals not raising minor children who don’t qualify for unemployment insurance no longer are eligible for *any* type of cash assistance. State general assistance programs — formerly the safety net of last resort for this group of people — were largely eliminated across the country in the late 1980s and early 1990s (except for programs for people with disabilities). Many of these individuals cannot even qualify for food stamps; in most parts of the country, jobless people aged 18-50 not raising minor children are restricted to three months of food stamps out of every three-year period. As a result, there is a substantial population of individuals for whom there is little or no safety net at all. That population will grow much larger in the next year or two.

Options are available to policymakers to help stave off large increases in severe poverty and hardship in this recession. Among the options that policymakers can consider are the following, virtually all of which also would rate high as effective stimulus measures in terms of “bang for the buck” — i.e., the amount of new spending they would infuse into the economy for each dollar that the federal government spends.

- **A temporary increase in food stamp benefits.** This would offset the impact of rising food prices and help millions of households make ends meet when they lose their jobs.
- **Additional rental assistance through the housing voucher program.** This would provide assistance to more households with very low incomes; 40 percent of families receiving housing vouchers had incomes below about half the poverty line even before the recession started. (It also would help some of the families most affected by the mounting number of foreclosures — *renters* who are evicted from foreclosed properties due to the owner’s non-payment of the mortgage.) Many cities and school districts already are reporting an increase in the number of homeless families as the worsening economy exacerbates the turmoil in housing markets, and this situation likely will worsen in 2009 as the recession deepens and many more homes enter

foreclosure. Additional vouchers would help families struggling with high rental costs and low incomes to find stable housing during the recession.

- **Expand and improve the TANF contingency fund.** The TANF program includes a "contingency fund" that was created to provide additional resources to states when recessions increased the number of poor families that need assistance. There are several problems with the fund that need to be addressed, so it can serve its intended purpose. First, the fund is likely to run out of money in fiscal year 2009 and will need to be replenished. The additional funding should be targeted to states where the recession is pushing up the number of families qualifying for and receiving assistance. Second, the contingency fund requires state matching funds that many states will be hard pressed to find, given deteriorating state fiscal conditions.
- **Expand and extend unemployment benefits.** Fewer than 40 percent of unemployed workers now receive unemployment benefits, in large part because many states still use policies designed several decades ago — for the workforce of that era — that cause many low-wage and part-time workers (especially women) to be ineligible for unemployment insurance when they are laid off. Bipartisan legislation that the House approved in the fall of 2007 would provide states with incentives to modernize these rules so that low-wage and part-time workers who are laid off have better access to unemployment benefits. This legislation, which implements several recommendations that a blue-ribbon congressionally chartered commission on unemployment insurance made in the mid 1990s, is pending in the Senate. Consideration should be given to a temporary, federally-funded increase in unemployment benefit levels. (In welcome news, last week legislation was approved to extend the number of weeks of unemployment insurance.)
- **Provide significant fiscal relief to states.** The weak economy is causing great fiscal distress among the states. Because states cannot run deficits, even in recessions, they must close their shortfalls by cutting spending or raising taxes — actions that take money out of the economy and thereby make the downturn deeper and more protracted. Sharp budget cuts also hamper states' ability to respond to the rising need for health care and other services that occurs when workers lose their jobs, and their incomes plummet.

Based on the rate at which states' revenues are declining and the history of prior recessions, total state budget gaps for state fiscal years 2010 and 2011 are likely to be about \$100 billion each year. Without significant fiscal relief from the federal government, states will be forced to institute extensive budget cuts that would both weaken the economy further and likely affect large numbers of Americans facing hard times. Such cuts are likely to affect basic services that states provide in areas ranging from emergency assistance to forestall evictions and provide emergency food aid through food pantries to in-home care for the elderly. Providing fiscal relief to states would both reduce the scope and depth of painful cuts and bolster the economy.

Poverty — and Deep Poverty — Rise Significantly During Recessions

During each of the last three recessions, the number of people living in poverty — as well as the number living below *half* of the poverty line — has risen markedly. Not surprisingly, the increases in

Table 1 Impact of Past Recessions on Poverty										
	Recession of Early 1980s			Recession of Early 1990s			2001 Recession			
	1979	1983	Change	1989	1993	Change	2000	2004	Change	
Unemployment Rate*	5.6%	10.8%	5.2	5.0%	7.8%	2.8	4.0%	6.2%	2.2	
	May '79	Nov '82		Mar '89	Jun '92		Jul '00	Jul '03		
Total Population										
Overall Poverty Rate	11.7%	15.2%	3.5	13.1%	15.1%	2.1	11.3%	12.7%	1.4	
Number of People in Poverty (in millions)	26.1	35.3	9.2	32.4	39.3	6.9	31.6	37.0	5.5	
Percent of Total Population in Deep Poverty	3.8%	5.9%	2.0	4.9%	6.2%	1.3	4.5%	5.4%	.9	
Number of People in Deep Poverty (in millions)	8.6	13.6	5.0	12.0	16.0	4.0	12.6	15.7	3.1	
Children										
Child Poverty Rate	16.4%	22.3%	5.9	20.1%	22.7%	2.6	16.2%	17.8%	1.7	
Number of Children in Poverty (in millions)	10.4	13.9	3.5	13.2	15.7	2.6	11.6	13.0	1.5	
Percent of All Children** in Deep Poverty	5.4%	9.1%	3.7	8.0%	9.6%	1.6	6.3%	7.2%	1.0	
Number of Children** in Deep Poverty (in millions)	3.4	5.6	2.2	5.1	6.5	1.5	4.4	5.2	.8	
Notes:										
*Unemployment figures shown here are for the month in which the unemployment rate reached its lowest point and the month at which it reached its highest point. Dates below each rate show the month to which the data refer.										
**Figures on children in deep poverty are for children in families and do not include children who live with unrelated individuals.										
Source: U.S. Census Bureau and the Bureau of Labor Statistics.										

poverty in the recessions of the early 1980s and 1990s were larger than those in the 2001 recession, which was a mild downturn in which unemployment peaked at 6.2 percent.

- In the recession of the early 1980s, the number of people below the poverty line rose by 9.2 million, and the number living below *half* the poverty line climbed by 5.0 million. Among children, the number living in poverty rose by 3.5 million, and the number in “deep poverty” climbed by 2.2 million.

- The recession of the early 1990s was not as severe as the recession of the early 1980s in terms of the length of the downturn or the level the unemployment rate reached. Even so, the number of people in poverty rose by 6.9 million. The number of people and the number of children living below *half* the poverty line increased by 4.0 million and 1.5 million, respectively.
- Even the relatively mild 2001 recession resulted in large increases in poverty, with the number of poor people climbing by 5.5 million.

Table 1 shows increases in poverty and unemployment in these recessions. (Note: The table shows changes in poverty from the year before the recession started to the year following the end of the recession when poverty reached its highest point. Unemployment and poverty typically continue to rise for a considerable period of time after the economy stops shrinking and begins to grow again.)

Increase in Poverty Could be Especially Large in the Current Recession

All recessions are not the same. Nevertheless, by examining the relationship between increases in the unemployment rate and increases in the poverty rate in the last three recessions, we can estimate the extent to which the current recession is likely to produce increases in poverty.

Goldman Sachs currently projects that the unemployment rate will rise to 9.0 percent in the fourth quarter of 2009. If this holds true and the increase in poverty relative to the increase in unemployment is within the range of the last three recessions, the following will result³:

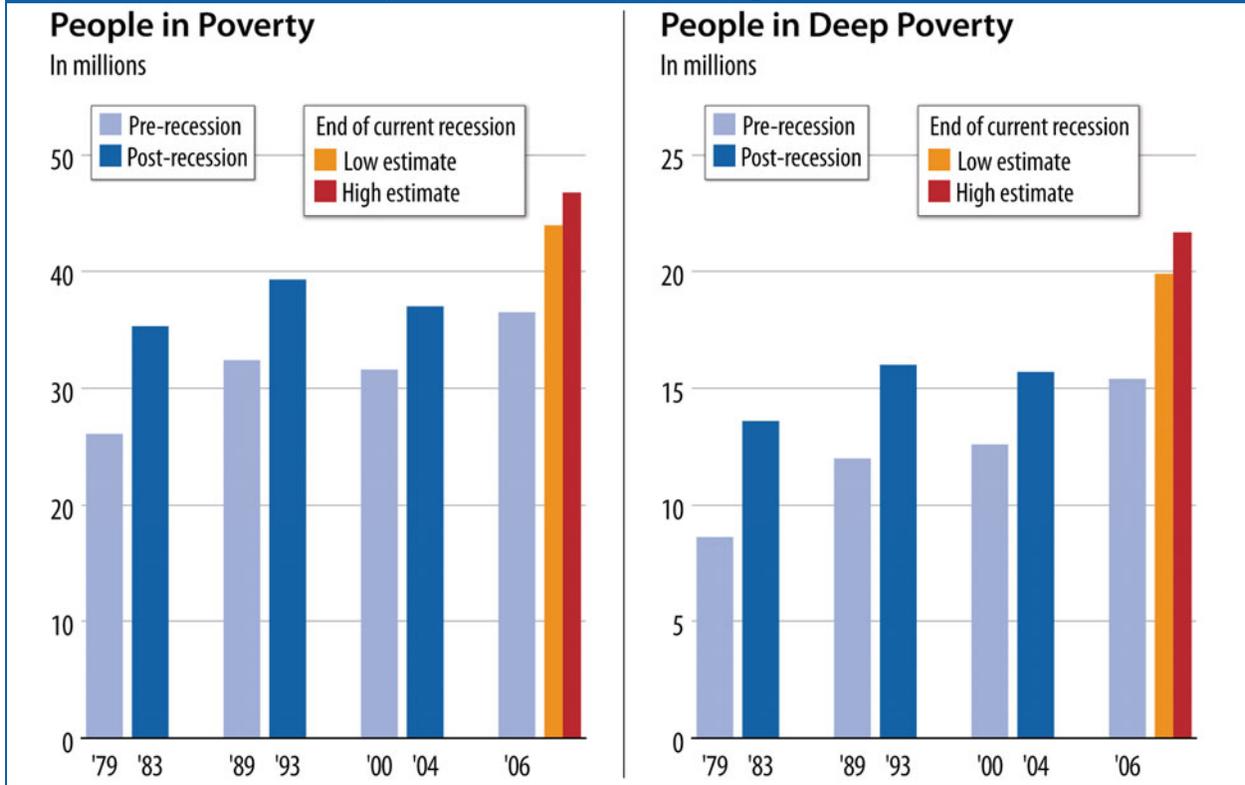
- The **number of people in poverty** will rise by between 8.4 million and 10.9 million.
- The **number of poor children** will increase by between 2.6 and 3.9 million.
- The **number of people in deep poverty** will rise by between 5.3 and 6.3 million.
- The **number of children in deep poverty** will rise by between 1.5 and 2.4 million.

Even if the recession turns out to be less harsh than Goldman Sachs is currently forecasting, the impact on poverty still will be large. Table 2 shows our estimates of the increase in poverty under three different unemployment rates — 8.0 percent, 8.5 percent, and 9.0 percent — assuming that the relationship between rising poverty and unemployment falls in the range of the last three recessions.

³ To compute these figures, we measured the ratio of the increase in the poverty rate to the increase in the unemployment rate over the past three recessions for three age groups — children, non-elderly adults, and seniors. We then computed how much the poverty rate for each of these subgroups would increase if the unemployment rate in this recession reached 9 percent and if the poverty rate was equally responsive to rising unemployment as it was in each of the last three recessions. This provided us with a range of estimates for how much poverty would rise for each of the three age groups and overall.

FIGURE 1:

Poverty Increases During Recessions



Recent Economic Indicators Point to Growing Unemployment, Poverty, and Hardship

It will be quite some time before official Census Bureau data are available to show us precisely how much poverty has increased. Nevertheless, available data on unemployment and food stamp receipt suggest that need is already increasing sharply.

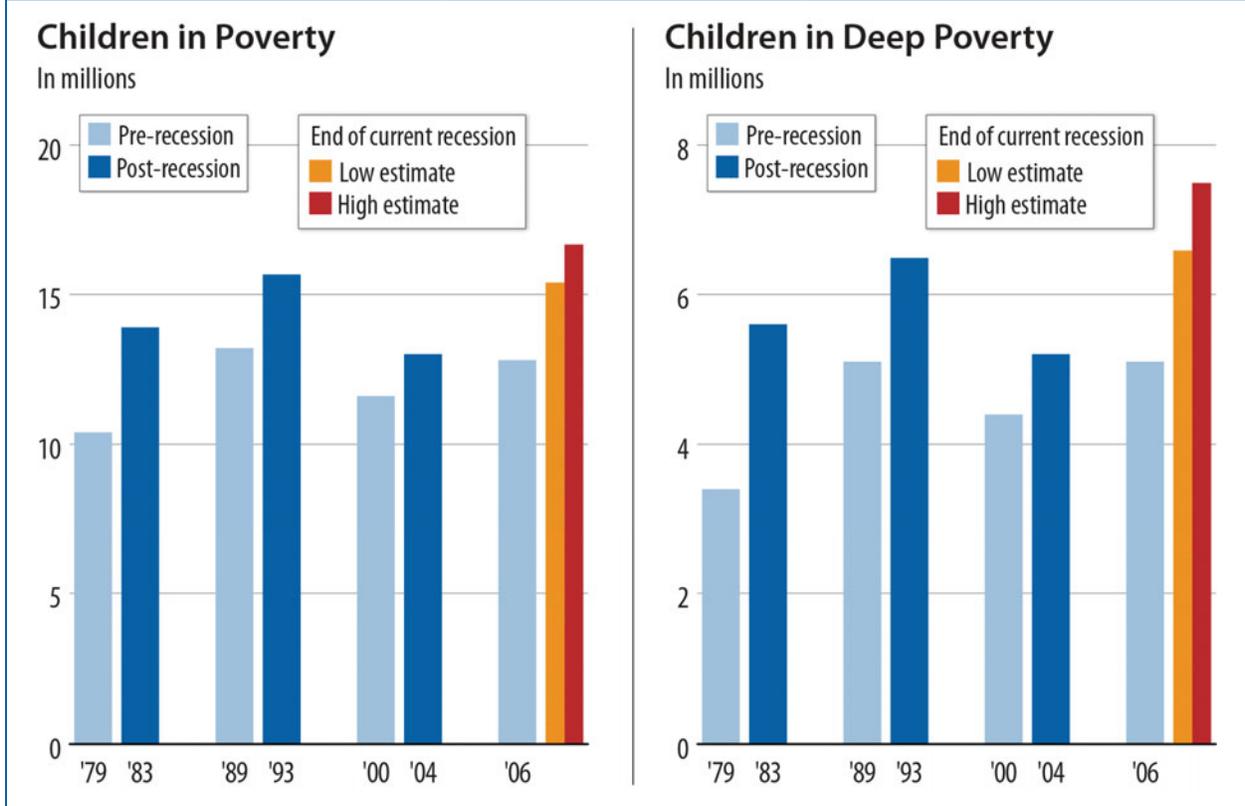
Unemployment

The Labor Department reported on November 7 that the overall unemployment rate climbed to 6.5 percent in October. Unemployment has climbed to higher levels among various groups of workers who generally earn low wages and live paycheck to paycheck. For example, the unemployment rate for workers aged 25 and over who lack a high school diploma increased from 6.3 percent in September 2006 to 10.3 percent in October 2008. This translates into an additional 467,000 workers without a high school diploma who now are jobless.⁴ This is of particular concern because these workers are less likely to qualify for unemployment benefits when they are laid off.

⁴ In this comparison, we use data from September 2006 instead of October 2006 because the data for October 2006 show a significantly lower unemployment rate than in either September or November of that year, suggesting that the data for that month may have had significant mis-measurement. The data for both September 2006 and October 2008 are seasonally adjusted, so this comparison is appropriate.

FIGURE 2:

Child Poverty Increases During Recessions



In addition, the Labor Department's most comprehensive alternative unemployment rate measure, which includes people who want to work but are discouraged from looking and people who are working part time because they can't find full-time jobs, stood at 11.8 percent in October. This represents a 3.6 percentage point increase from October 2006, and is the highest level for this measure since January 1994.

Also of note, of the 10.1 million workers who were unemployed in October 2008, more than one in five had been looking for work for 27 weeks or more. The longer that people remain jobless, the more likely they are to fall into poverty, the more depleted their savings become, and the more likely they are to experience significant difficulty making ends meet.

Sharply Rising Food Stamp Caseloads

The number of people receiving food assistance through the Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program, has increased sharply in recent months, rising from 26.9 million in August 2007 to 29.5 million in August 2008, nearly a 10 percent increase. One in five children — and one in ten people overall — are now receiving food stamps; these levels of food stamp participation are similar to those reached in the recessions of the early 1980s and 1990s.

Table 2			
Increase in Poverty and Deep Poverty Under Different Unemployment Assumptions			
	Unemployment Rate Reaches 8%	Unemployment Rate Reaches 8.5%	Unemployment Rate Reaches 9% (<i>current Goldman-Sachs forecast</i>)
ALL PEOPLE			
Increase in the Total Number of People in Poverty	6.6-8.5 million	7.5-9.7 million	8.4-10.9 million
Increase in the Total Number of People with Income below <i>Half</i> the Poverty Line)	4.2-4.9 million	4.7-5.6 million	5.3-6.3 million
CHILDREN			
Increase in the Number of <i>Children</i> in Poverty	2.0-3.0 million	2.3-3.5 million	2.6-3.9 million
Increase in the Total Number of <i>Children</i> with Income below <i>Half</i> the Poverty Line)	1.1-1.9 million	1.3-2.1 million	1.5-2.4 million
Source: CBPP calculations.			

The Supplemental Nutrition Assistance Program is the broadest safety net program in the United States; it serves low-income households with children, those without children, the low-income elderly, and low-income people with disabilities. There is a close relationship between the number of people who receive food stamps and the number who live in poverty. (See Figure 3.) Because food stamp caseload data are available long before the annual Census poverty data are released, rising food stamp caseloads serve as an early warning sign that poverty and hardship are climbing.

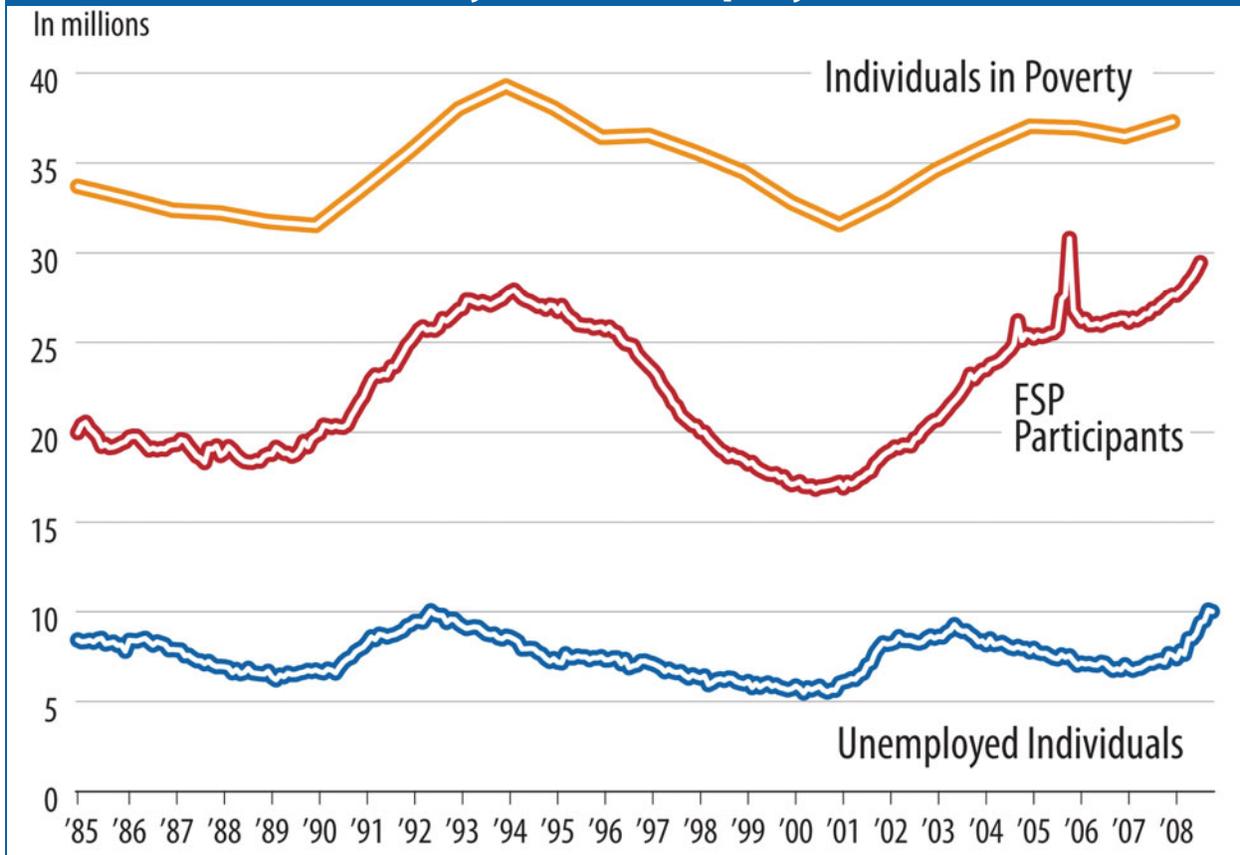
Weaker Safety Net for Poorest Families Could Swell the Ranks of the Very Poor

Another relevant factor is that the basic cash assistance safety net for poor people who lack jobs is considerably weaker today than it was in the recessions of the mid-1970s, early 1980s, or early 1990s. For example, in the early 1990s, about 80 percent of poor families with children that met the eligibility criteria for the Aid to Families with Dependent Children program — the basic cash aid program for poor families with children at that time — received cash aid through it. Today, for a number of reasons (including restrictive federal policies that provide incentives for states to cut caseloads), only about 40 percent of the poor families with children eligible for cash assistance through the Temporary Assistance for Needy Families (TANF) program, the successor to AFDC, receive it. The AFDC program had serious deficiencies. It did, however, provide a safeguard against deep poverty for millions of children whose parents were jobless.

In most states, families must have incomes well below the poverty line to qualify for assistance through TANF. As a result, families that qualify but that do not receive cash assistance are often left in severe poverty. They also miss out the welfare-to-work services that should accompany cash aid.

FIGURE 3:

Food Stamp Program Participants Closely Track Poverty and Unemployment



Note: Recent spikes in food stamp participation resulted from USDA and states operating disaster food stamp programs following recent years' hurricanes.

Some families with children that do not qualify for cash assistance may get help from food stamps, and some may qualify for the Earned Income Tax Credit next spring if they had earnings during 2008. Still, without basic cash assistance, some individuals and families that have lost their jobs and do not qualify for unemployment benefits (or whose unemployment benefits run out) may be left in a precarious financial situation, where even basic necessities such as rent fall out of reach.

Even before the economy began to sour, a large and growing number of single mothers were trying to make ends meet with neither earnings nor cash assistance. In an average month in 2005 — the last year for which comprehensive data are available — 690,000 single mothers and 1.3 million children lived in families that received neither earnings nor government cash income support (from TANF, SSI, unemployment insurance, or Social Security) and consequently had monthly income below half of the poverty line. This represented a sharp increase from 1996, when 303,000 single mothers fell into this category.⁵ The large rise in unemployment now underway will push large

⁵ We categorize a single mother as being in this situation in a given month if: a) she has no earnings in that month; b) she receives no government cash assistance, including TANF, SSI, Social Security, unemployment insurance, veterans

numbers of additional families with children into this “no work, no cash assistance” category. It thus is likely to lead to a substantial rise in deep poverty, hardship, and possibly homelessness.

Jobless individuals *without* children who do not qualify for unemployment benefits generally are in even more difficult shape, as they no longer are eligible for *any* cash assistance in most states.⁶ This is because state general assistance programs — formerly the safety net of last resort for such people — were largely eliminated across the country in the late 1980s and early 1990s (except for programs for individuals with disabilities).

In most parts of the country, such individuals also cannot qualify for food stamps. Due to federal legislation enacted in 1996, jobless individuals without children who are between the ages of 18 and 50 are eligible for only *three months* of food stamps in any *36-month* period, unless their state has applied for a waiver to this rule based on labor-market conditions in the state or its localities.

Unemployment insurance benefits also are less available, due in part to deep cuts in the unemployment insurance program enacted as part of President Reagan’s large 1981 budget-cut legislation.

The current recession thus will be the first major recession in a number of decades with *both* a weakened unemployment insurance system *and* a dramatically smaller cash assistance safety net for poor jobless families with children and for jobless individuals. The result may be considerably greater levels of hardship than the United States has witnessed in some time.

Census Data Show Safety Net Does Less Now to Protect Against Deep Poverty than in the Past

Census data (and data from the Urban Institute that adjust the Census data to reflect the underreporting of certain benefits) confirm that low-income programs have become less effective at protecting poor families and individuals from severe poverty.

One way to measure the effectiveness of the safety net at protecting people against deep poverty is to measure how many individuals have incomes below half of the poverty line when their earnings and any income they receive from *non*-means-tested programs is counted — and then to compare that to the number of people below half the poverty line *after* means-tested benefits (including TANF, SSI, food stamps, housing assistance, and the Earned Income Tax Credit) also are taken into account. This comparison enables one to determine how many people are lifted out of deep poverty by low-income (i.e., means-tested) programs.

This comparison yields the following results:

- In 1995, low-income programs lifted 74 percent of people who otherwise would have been below half of the poverty line above that threshold (i.e., out of deep poverty). In 2005, the low-income programs lifted only about 58 percent of such people out of deep poverty.

benefits, general assistance, or workers compensation; c) she does not live with anyone who has earnings or receives any of these forms of cash assistance; d) her monthly household cash income from all other sources, such as child support or interest, is less than 50 percent of the official poverty line; and (e) she is not in school full time.

⁶ A few states have general assistance programs for able-bodied adults, most notably New York and California.

- The trends for children are similar. Low-income programs lifted 88 percent of children out of deep poverty in 1995, compared to 76 percent of such children in 2005.

In fact, while the number of children falling below half of the poverty line *before* means-tested benefits are counted was considerably lower in 2005 than in 1995 — 8.5 million versus 10.6 million — the number falling below this threshold *after* means-tested benefits are taken into account actually was 1 million *higher* in 2005 than in 1995, because the safety net for these families had grown much weaker over this period.⁷

Policymakers Can Take Important Steps to Stave Off Large Increases In Poverty and Hardship

Federal and state policymakers can take various steps to ameliorate some of the harshest impacts of the weak economy and to avert especially large increases in deep poverty. Measures they can consider include⁸:

- **A temporary increase in food stamp benefits.** A temporary food stamp increase would help low-income families make ends meet, while providing highly effective economic stimulus. Food stamp benefits are adjusted every October for food price inflation, but the adjustment is based on food costs for the previous June. The data on which food stamp benefits are based thus already are four months out of data when the fiscal year starts and 15 months out of date by the time the fiscal year ends the following September 30.

As a result, the maximum monthly food stamp benefit for a family of four in September 2008 was nearly \$64 below the actual cost that month of the Agriculture Department’s lowest-cost nutritionally adequate diet plan (the “Thrifty Food Plan”), which food stamps are supposed to enable poor families to purchase. Another gap (although not nearly as large a one) is expected in the current fiscal year. Food stamp benefits from October 2008 through September 2009 will be based on the cost of the Agriculture Department’s minimum diet in June 2008; by September 2008, the cost of that diet for a family of four already was \$18 above the June level.

⁷ In this analysis, we use the 1995 and 2005 March Current Population Survey (CPS), as well as data from the Urban Institute’s TRIM model. The Urban Institute, under contract with the U.S. Department of Health and Human Services, augments the March CPS to correct for under-reporting of certain means-tested benefits, such as AFDC/TANF and food stamps, that occurs in the Census survey. The TRIM data are widely regarded as the best data to use to measure the safety net’s effectiveness because of these corrections.

This analysis uses a methodology for measuring income and poverty that is consistent with the recommendations of the expert panel on poverty measurement convened by the National Academy of Sciences (NAS) in the 1990s. That methodology counts non-cash and tax-based benefits as income and subtracts certain expenses — out-of-pocket medical expenses and work expenses including child care — from income. It also makes some adjustments to the poverty threshold itself, basing the poverty line on the cost of basic necessities and varying the poverty line by geographic areas to reflect differences in housing costs. For further details of this analysis, see Arloc Shermon, “Safety Net Effective At Fighting Poverty But Has Weakened For The Very Poorest,” Center on Budget and Policy Priorities, July 2009, <http://www.cbpp.org/7-6-09pov.pdf>.

⁸ This is not intended to be an exhaustive list. Other measures also can be considered, such as measures to bolster job training (and related education improvements) for low-skilled workers and youth and measures to raise funding for child care and Head Start (which have fallen in real terms in recent years) so low-income parents have stable care when they are working, looking for work, or upgrading their job skills.

But the case for temporarily increasing food stamp benefits goes far beyond offsetting losses stemming from food inflation. Most low-income households spend more on food than they receive in food stamps (and more than the cost of the Agriculture Department's thrifty food plan, widely acknowledged to be a "bare-bones" plan). Temporarily providing larger food assistance benefits also will free up household resources for expenditure on other necessities such as rent, clothing, school supplies, and needed health care.

Moreover, increasing the purchasing power of those facing the toughest times in this recession by temporarily boosting food stamp benefits constitutes highly effective economic stimulus. Many liberal, centrist, and conservative economists alike, including Martin Feldstein and Alice Rivlin among others, have called for a temporary increase in food stamp benefits as a key component of a stimulus package. Mark Zandi, chief economist for Moody's Economy.com, has estimated that a temporary increase in food stamp benefits is the single most effective stimulus measure available in terms of its "bang for the buck," and the Congressional Budget Office rates it as one of the two most effective such measures, along with increases in unemployment benefits. Zandi estimates that a temporary food stamp benefit increase would generate \$1.73 in increased economic activity for each \$1.00 in cost. The U.S. Department of Agriculture estimates that a \$1 food stamp increase would generate \$1.84 in economic activity.

Adding to the effectiveness such measure would have as economic stimulus is the fact that it can be done quickly. States could provide that increased food stamp assistance to low-income households within 30 to 60 days of enactment.

- **Provide additional rental assistance through the housing voucher program.** The current turmoil in the housing sector is exacerbating risks of housing instability and homelessness. Former homeowners and low-income renters both are being displaced by foreclosures. (Data indicate that at least 20 percent of foreclosed properties nationally in late 2007 were rental properties, and in some parts of the country — including New England, New York City, and Minneapolis — at least half of households living in properties that faced foreclosure were renters.) When foreclosure occurs, renters usually are forced to vacate even when they have not missed rent payments. Banks that foreclose on properties typically are reluctant to act as landlords, and thus, evict tenants and attempt to sell the property.

As a result of the troubles in the housing market, more families — including many who previously were owners — now are seeking to rent. Although home prices are falling, rents have continued to rise in a number of areas due to the increased demand for rentals. In the greater Boston area, for example, the median home price has dropped by 11 percent since 2005 but rents have risen 12 percent, the result of a decrease in vacancy rates as foreclosed homeowners move into rental housing and fewer renters move into homeownership.⁹

These developments come at an inopportune time. The number of poor renter families who have severe housing affordability problems (i.e., who pay at least half of their income for housing) was rising markedly even before the current economic downturn; it increased 29

⁹ Barry Bluestone, Chase Billingham, and Tim Davis. "The Great Boston Housing Report Card 2008: From Paradigm to Paradox: Understanding Great Boston's New Housing Market," Prepared for The Boston Foundation, October 2008.

percent from 2001 to 2007. It now is climbing to still higher levels and will rise farther as the economy continues to contract.

In this context, it makes sense to include additional housing vouchers in a package of temporary measures to stimulate the economy and ameliorate the recession's most serious impacts. Housing vouchers enable families to afford decent housing and have proven effective at reducing housing instability and preventing homelessness. Moreover, because the amount of the rental subsidy that a voucher provides adjusts with changes in family income, the voucher program works well in an economic downturn. Finally, the large majority of newly issued vouchers go to poor families. Among families with children that receive vouchers, about 40 percent have incomes below about half of the poverty line even during good economic times.

Providing housing assistance also would put a substantial infusion of funds into local economies. Families now spending most of their income on rent could spend more on food, clothing, health care, and other necessities.

If Congress provided new vouchers in a stimulus package under an expedited allocation process, most of the new vouchers could be "leased up" within six months of enactment. High-performing agencies with a track record of utilizing all their funds could rapidly issue 200,000 vouchers to new families. If legislation is approved by February, families could be stabilized before the start of the new school year in the fall of 2009. (Families with children would receive a majority of the new vouchers.) Given the likely duration of the recession and the fact that poverty tends to continue rising even after the economy begins to expand again, a recovery package could include 200,000 new vouchers for 2009 and an additional 200,000 vouchers (for a total of 400,000) in 2010.

The voucher program is a "discretionary" program, which means that Congress sets its funding each year in the annual appropriations process. This means the additional vouchers contained in a stimulus package would not be on "automatic pilot" for continuation after the economy recovered. Congress would have to make an affirmative decision to continue those additional housing vouchers and make room within the budget for appropriated programs to do so. (There is significant unmet need for housing assistance — 4.8 million poor renter households pay more than half of their income on housing — and, thus, a strong case for continuing these new vouchers could be made; but like other worthy initiatives included in a stimulus package, Congress would have to make a decision — and room in the budget — if it wanted to continue these vouchers.)

- **Expand and improve the TANF contingency fund.** The TANF program includes a "contingency fund" that was created to provide additional resources to states when recessions temporarily increase the number of families needing assistance. There are several problems with the fund that need to be addressed, however, if it is to perform this function as intended. First, the fund is likely to run out of money in fiscal year 2009, so it will be need to be replenished. The additional funding should be targeted to states where the recession is pushing up the number of families qualifying for and receiving assistance. If such additional funding is not available to states that face increases in the number of families that need assistance, these states will face a dilemma — if they provide assistance to additional families as deep poverty among children mounts, they may have to cut other TANF-funded services including work programs, child care so mothers can work, and services for abused and neglected children. If

states do *not* want to cut these other services, they may lack the resources needed to fund the additional cash assistance, and deep poverty among children may rise more precipitously. A second problem is that the contingency fund requires state matching funds that many states will be hard pressed to find given deteriorating state fiscal conditions.

Providing additional resources for states to provide cash assistance to very poor families also is highly stimulative, as these families will spend the additional resources quickly, increasing overall demand.

- **Strengthen unemployment benefits.** Fewer than 40 percent of unemployed workers receive unemployment benefits. Some workers not receiving benefits would qualify if their states modernized their unemployment insurance programs to reflect changes in the U.S. workforce over the past half century. In many states, the eligibility criteria continue to reflect the labor market of 50 years ago, before women entered the labor force in large numbers, in many cases as part-time workers. Steady part-time workers in these states who have been laid off and are looking for new part-time work are *ineligible* for unemployment benefits. In addition, because the unemployment insurance rules in many states were set in the pre-computer era, they exclude laid-off workers' most recent quarter of employment. (This reflects that fact that in prior decades, data on recent employment were not available to states on a timely basis.) The computer age has long since made it unnecessary to exclude the most recent quarter of employment when determining whether an individual has worked and earned enough to qualify for unemployment insurance. However, only 20 states have abandoned this outmoded practice, with the result that many low-wage workers with recent attachment to the labor force are ineligible for unemployment benefits (or are eligible for smaller benefits) when they lose their jobs because their most recent employment and earnings do not count.

In the fall of 2007, the House of Representatives passed legislation to provide states financial incentives to adopt several modernization proposals, so that a larger share of the workers who have recently lost their jobs and are actively seeking work can qualify for unemployment benefits. That legislation is pending in the Senate. Enacting this legislation would give states added incentives to make some of these changes, leading to greater availability of unemployment benefits to deserving workers who lose their jobs during the recession.¹⁰

Finally, while last week Congress approved legislation to provide additional weeks of unemployment benefits to workers whose regular benefits have run out, it could also consider providing a federally-funded benefit increase for unemployed workers. Average benefits in October 2008 were a little under \$300 per week, but many workers received much lower weekly benefits. Providing a higher benefit could provide important help, especially to low-wage workers, who generally qualify for very low unemployment benefits.

Economists consistently rate expansions of unemployment benefits as highly stimulative, because such action puts money into the hands of families that recently have lost significant

¹⁰ For more information about the importance of modernizing the UI system, see "What is UI Modernization and Why is it Important," Andrew Stettner, National Employment Law Project, May 2008, http://nelp.3cdn.net/9a398fa5e086804cea_obm6yhxp.pdf. Also, "Addressing Long-Standing Gaps in Unemployment Insurance Coverage," by Chad Stone, Robert Greenstein, and Martha Coven, Center on Budget and Policy Priorities, August 2007, <http://www.cbpp.org/7-20-07ui.htm>.

income and are likely to spend the additional resources quickly. The Congressional Budget Office has rated temporary increases in unemployment insurance — along with a temporary increase in food stamp benefits — as the two most effective stimulus measures available to policymakers in terms of their “bang for the buck.”

- **Provide substantial fiscal relief to states.** States are facing fiscal crisis. Unlike the federal government, nearly all states cannot run deficits in their operating budgets when the economy turns down; they must cut expenditures, raise taxes, or draw down reserve funds to balance their budgets. At least 41 states have faced, or are facing, shortfalls in their budgets for this year and/or next year.

Over half of the states already have instituted budget cuts, raised taxes, or used reserves to balance their budgets for the current fiscal year, which started July 1 in most states. And budgets for the current fiscal year have now fallen back out of balance in at least 31 states and the District of Columbia, as state revenues plummet to lower-than-expected levels due to the shrinking economy. As a result, states face new, mid-year budget gaps totaling \$24 billion which they will have to close, on top of the shortfalls they closed when they adopted their current budgets last spring and summer. Moreover, these problems will only grow worse next year.¹¹ Judging from the rate at which state revenues are deteriorating — and the projections that this recession will be deeper and longer than the last one — state budget gaps for fiscal years 2010 and 2011 are likely to be in the \$100 billion range each year.

These cuts are affecting families struggling in the weak economy. At least 17 states have already implemented cuts that will affect low-income children’s or families’ eligibility for health insurance or reduce their access to health care services. At least 15 states either have cut medical, rehabilitative, home care, or other health services used by low-income people who are elderly or have disabilities or have increased significantly the amounts that low-income beneficiaries are charged for these services.

When states cut expenditures or raise taxes, they deepen the economic downturn. Their actions reduce overall demand in the economy, as vendors sell less to states and localities, state government workers are laid off, or state taxpayers face higher tax bills.

The federal government — which, unlike states, can run deficits in recessions — can provide assistance to states and localities to avert these “pro-cyclical” actions. By providing substantial fiscal relief, the federal government can both lessen the depth of the state budget cuts, including cuts in services and assistance to the most vulnerable families and individuals, and avert tax increases that states may otherwise be compelled to make.

¹¹ For more information on the holes in state budgets, see, “State Budget Troubles Worsen,” Liz McNichol and Iris Lav, Center on Budget and Policy Priorities, October 2008, <http://www.cbpp.org/9-8-08sfp.htm>.