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KEY COMPONENTS OF HOUSE AND SENATE ECONOMIC RECOVERY PACKAGES WOULD BOOST THE ECONOMY AND PROVIDE NEEDED RELIEF TO STRUGGLING FAMILIES

By Sharon Parrott, Chad Stone, Edwin Park, and Dottie Rosenbaum

Congress is properly focused on designing an appropriate measure to address very serious problems in the financial markets, which many experts persuasively argue is essential to help avert a meltdown in the financial markets and a potentially severe recession. The problems in the financial sector, however, are not the only ones the economy faces. And addressing the problems in the financial sector does not obviate the need for additional stimulus legislation that could inject more demand into the economy and thereby help to lessen the depth of the downturn, while also providing relief to some of the families now facing tough economic times.

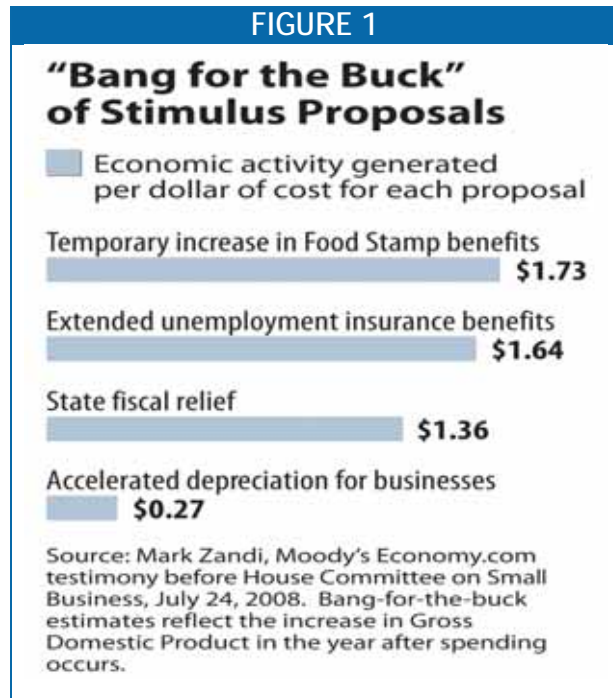
The tax rebates that Congress enacted in February played an important role in supporting the economy for a number of months, but their effects have now largely worn off and the economy has proven weaker than was expected earlier this year. The economic stimulus packages unveiled in the last 24 hours in both the House and Senate contain three provisions that experts rate highly for their “bang for the buck” in stimulating a faltering economy and that also are well targeted on people in need: (1) additional weeks of unemployment benefits, (2) a temporary boost in food stamp benefits, and (3) resources for states that are facing deficits as a result of falling revenues and consequently confront a need to cut programs or raise taxes, actions that would further slow the economy.

Each of these three provisions is projected by Mark Zandi of Moody’s Economy.com to increase economic activity by more than \$1 for each \$1 spent. (See Figure 1.) These are among the most highly “stimulative” policies available to Congress, primarily because they concentrate relief on those most likely to spend the money quickly, pumping dollars into an economy that needs more demand.

- **Additional weeks of unemployment benefits:** The House and Senate proposals would extend the number of additional weeks during which unemployed workers may receive unemployment benefits. Currently, as a result of a measure Congress enacted earlier this year, unemployed workers whose regular unemployment benefits have run out may receive 13 weeks of additional benefits, if they continue to look for a job but are unable to find one. Under the new House and Senate proposals, such workers in all states who have been unable to find a job would be eligible for an additional seven weeks of benefits, with workers in states with unemployment rates of 6 percent or more made eligible for another 13 weeks on top of that, for a total of 20 additional weeks of benefits. Currently, 17 states and the District of Columbia

have three-month average unemployment rates at or above 6 percent. More states will join them if the economy continues to shed jobs.

Such a measure is needed now because large numbers of unemployed workers who are currently receiving the 13 weeks of additional benefits Congress provided earlier this year will start exhausting those benefits on October 5. Labor market conditions in many states have deteriorated in recent months, and many workers who were out of a job in July when the 13 weeks of additional benefits started have not been able to find new employment. The National Employment Law Project estimates that 775,000 workers will exhaust their additional unemployment benefits in October, and a total of 1.1 million unemployed workers will lose benefits between October and December, unless Congress acts.¹ (State-by-state estimates of the number of “exhaustees” are available at <http://www.cbpp.org/9-26-08bud-table-ui.pdf>.)



Recent data underscore the weakness in the labor market. In August, the unemployment rate reached 6.1 percent, with 9.4 million people out of work. One in every five of these unemployed workers had been out of work for at least six months. On September 25, the Labor Department reported that initial claims for unemployment benefits totaled 493,000 for the week ending September 20, the highest level since September 2001.

- **Temporary Increase in Food Stamp Benefits to Counteract Rising Food Prices:** The House and Senate stimulus proposals also provide for a temporary increase in food stamp benefits. The Senate calls for a 10 percent increase, which would boost benefits by about \$5 billion over the next year, while the House would boost benefits by about \$2.6 billion. (State-by-state estimates of the number of people who would benefit and the increased benefits that would go to each state are available at <http://www.cbpp.org/9-26-08bud-table-fa-hous.pdf> and <http://www.cbpp.org/9-26-08bud-table-fa-senate.pdf>.)

A temporary food stamp increase would help buffer low-income families from the continued sharp rise in food prices. Food stamp benefits are adjusted every October for food price inflation, but the adjustment is based on food costs in the previous June. Thus, the data on which benefits are based is already four months out of date by the time the benefits begin to take effect and 15 months out of date by the time the fiscal year ends the following September 30. During periods of rapid food price inflation, benefits can fall well behind what poor families need to obtain a nutritionally adequate diet.

For example, because the monthly food stamp benefit for a family of four in August 2008 was based on food prices back in June 2007, the maximum food stamp benefit in August 2008 was

\$60 below the actual cost in that month of the Agriculture Department's lowest-cost nutritionally adequate diet plan, which food stamp benefits are supposed to enable poor families to purchase. This pattern will repeat itself in the year ahead. Food stamp benefits from October 2008 through September 2009 will be based on the cost of this minimum diet in June 2008; but by August 2008, the cost of that diet already was \$15 above the June level.

A temporary increase in food stamp benefits will help reduce the shortfall caused by sharply rising food prices. The larger increase in the Senate proposal would make it more likely that food stamp benefits would be adequate to purchase a basic diet throughout the coming fiscal year.

- **New Resources for Struggling States:** The House proposal includes \$14.4 billion in fiscal relief for states; the Senate package includes \$19.6 billion. These proposals, which provide for a temporary increase in federal funding for state Medicaid programs, are designed to help states avert budget cuts and tax increases that they otherwise will have to institute to balance their budgets — and that will make the economic downturn more severe, by withdrawing demand from the economy. (State-by-state estimates of the increased funds that states would receive are available at <http://www.cbpp.org/9-26-08bud-table-sfp.pdf>.)

States must balance their operating budgets each year, but state revenues are stagnating or declining at the same time that the need for various services is increasing as people lose their jobs. States are being forced to cut services and raise taxes in order to balance their budgets. Some 29 states and the District of Columbia had to institute measures to close budget gaps for their current state fiscal year, which began July 1. Moreover, half of these states have already seen new budget holes open up just a couple of months into the new state fiscal year, due to further deterioration of the economy.²

A recent Goldman Sachs report notes that analysts there see a significant risk of a longer recession caused by a number of factors, including “a drag from weaker state and local spending.”³

The House and Senate fiscal relief proposals differ in various ways. The Senate provides more total resources for state fiscal relief, but it provides the same percentage increase in federal Medicaid funding to all states, without regard to the condition of a state's economy. The House proposal appropriately targets the bulk of the resources it provides on the states that have been hardest hit economically (and are facing the greatest pressure to cut programs and raise taxes), an approach that makes it more effective as stimulus on a “bang for the buck” basis.

Both the House and Senate proposals also include funding for various other programs and activities, including increased funding for infrastructure projects in areas such as schools, transportation, clean water, and public housing. Infrastructure spending can act as stimulus if the projects can be launched quickly; projects that take a long time to get underway will not be as effective as stimulus. More broadly, a question that should be asked about the stimulative impact of any program funding included in a stimulus package is whether the resources will be used quickly and boost aggregate demand for goods and services in the economy on a timely basis. The three measures discussed here meet that test with flying colors. It is not clear all other elements of the House and Senate packages do.

Stimulus Provisions in the Budget Context

Some may raise concerns about the impact of such legislation on the budget deficit and the economy's long-term growth prospects, particularly in light of new budget concerns stemming from the problems in the financial markets. It would be preferable if Congress paid for the stimulus package in years after the economy has recovered. But as long as the stimulus spending is clearly temporary, as the proposals discussed here are, the impact on the budget deficit and long-term growth should be modest, compared with the benefits of keeping the current economic slump as short and shallow as possible.

The economy faces many challenges — including a significant disruption in the financial markets and weak aggregate demand, both of which are affecting the economy and jobs. Congress should address both problems before heading home.

¹ “States Hard Hit by Rising Unemployment and End of Federal Jobless Benefits: Nearly 800,000 Workers Left Without Assistance Soon After Congress Recesses,” National Employment Law Project, Updated September 19, 2008, <http://www.nelp.org/docUploads/EUC-Revised.pdf>.

² See, “State Budget Troubles Worsen,” Center on Budget and Policy Priorities, September 26, 2009, <http://www.cbpp.org/9-8-08sfp.htm>.

³ Goldman Sachs US Economic Research, “Financial Conditions: Tighter than They Appear,” *US Economics Analyst*, August 29, 2008.

**Estimated Federal Fiscal Assistance to States
Through Increased Medicaid Matching Funds to States**
(all figures in thousands of dollars)

STATE	House Proposal		Senate Proposal
	"Tier" of Relief based on Economic Indicators*	October 1, 2008 - November 30, 2009	October 1, 2008 - December 31, 2009
TOTAL U.S.		\$14,410,000	\$19,600,000
Alabama	B	97,370	211,126
Alaska	B	52,025	85,463
Arizona	A	450,813	485,888
Arkansas	C	54,435	218,036
California	A	1,950,013	2,114,088
Colorado	C	39,464	171,138
Connecticut	A	226,464	245,519
Delaware	A	59,579	64,592
Dist. Of Col.	B	38,768	84,060
Florida	A	990,940	1,060,622
Georgia	A	329,719	357,462
Hawaii	A	75,379	81,394
Idaho	B	32,541	69,019
Illinois	A	605,627	656,585
Indiana	B	146,428	317,496
Iowa	B	70,363	152,567
Kansas	C	29,983	124,552
Kentucky	B	121,005	262,373
Louisiana	C	169,973	425,790
Maine	A	106,472	115,431
Maryland	A	293,692	318,404
Massachusetts	A	592,647	642,513
Michigan	A	435,030	471,633
Minnesota	A	362,601	393,111
Mississippi	B	113,970	224,519
Missouri	A	375,717	407,330
Montana	C	13,065	43,874
Nebraska	C	20,972	90,944
Nevada	A	100,727	106,462
New Hampshire	A	58,082	62,969
New Jersey	A	393,008	426,076
New Mexico	C	51,533	192,640
New York	A	2,440,194	2,645,513
North Carolina	C	130,704	566,805

North Dakota	C	11,093	35,636
Ohio	A	659,058	714,512
Oklahoma	C	98,019	255,646
Oregon	A	173,318	187,901
Pennsylvania	B	425,672	922,977
Rhode Island	A	89,933	97,500
South Carolina	C	46,986	203,759
South Dakota	C	7,726	33,503
Tennessee	A	379,241	411,151
Texas	C	569,653	1,515,338
Utah	C	33,253	95,643
Vermont	A	54,841	59,455
Virginia	A	278,812	302,271
Washington	B	180,209	349,416
West Virginia	B	73,256	143,263
Wisconsin	A	264,384	286,629
Wyoming	C	5,993	25,989
Puerto Rico	B	27,412	59,437
American Samoa	B	441	956
Guam	B	624	1,352
N. Mariana Islands	B	234	507
Virgin Islands	B	538	1,167

Source: Center on Budget and Policy Priorities' estimates based on states' projections of FFY2009 Medicaid expenditures, adjusted to reflect CBO cost estimates of House and Senate proposals.

* States in Tier "A" under House proposal receive the largest increase in their Medicaid match rate.

Estimated Number of Workers Exhausting the 13-Week Emergency Unemployment Compensation (EUC) Program if Congress Does Not Approve Additional Weeks of Benefits

How to Read This Table:

If Congress does not pass additional weeks of emergency unemployment benefits, an estimated 8,142 unemployed workers in Alabama will lose benefits in October and a total of 11,120 will lose benefits between October and December.

	Number Exhausting October 2008	Number Exhausting November - December 2008	Total Exhausting October - December 2008
TOTAL U.S.	774,721	362,652	1,137,373
Alabama	8,142	2,978	11,120
Alaska	4,015	1,737	5,752
Arizona	10,646	4,977	15,623
Arkansas	8,246	2,646	10,892
California	130,709	70,221	200,929
Colorado	8,045	4,159	12,204
Connecticut	11,091	4,725	15,816
District of Columbia	2,630	1,039	3,669
Delaware	2,259	990	3,249
Florida	45,883	20,829	66,712
Georgia	23,067	9,273	32,340
Hawaii	1,638	767	2,405
Idaho	3,878	2,010	5,888
Illinois	35,988	16,968	52,955
Indiana	21,262	11,146	32,408
Iowa	6,123	2,636	8,759
Kansas	5,029	2,699	7,728
Kentucky	7,050	2,697	9,748
Louisiana	5,936	2,809	8,745
Maine	2,834	1,477	4,311
Maryland	9,917	4,485	14,401
Massachusetts	21,432	11,041	32,474
Michigan	42,628	15,366	57,994
Minnesota	13,759	6,002	19,761
Mississippi	4,926	1,925	6,851
Missouri	12,105	6,203	18,309
Montana	1,986	959	2,944
Nebraska	3,652	1,845	5,497
Nevada	9,356	4,597	13,954
New	1,350	669	2,019

Hampshire			
New Jersey	39,263	16,834	56,097
New Mexico	3,648	1,621	5,269
New York	45,908	24,517	70,426
North Carolina	29,841	12,931	42,772
North Dakota	1,110	464	1,574
Ohio	22,478	11,911	34,389
Oklahoma	4,211	1,900	6,111
Oregon	12,191	6,017	18,208
Pennsylvania	38,986	17,478	56,465
Rhode Island	4,749	2,432	7,181
South Carolina	12,814	5,334	18,147
South Dakota	224	107	331
Tennessee	14,897	5,731	20,628
Texas	31,411	12,887	44,298
Utah	2,616	1,055	3,672
Vermont	1,213	542	1,756
Virginia	10,905	5,018	15,923
Washington	9,970	5,015	14,985
West Virginia	2,718	1,359	4,077
Wisconsin	19,171	9,229	28,400
Wyoming	813	395	1,208

Source: "States Hard Hit by Rising Unemployment and End of Federal Jobless Benefits: Nearly 800,000 Workers Left Without Assistance Soon After Congress Recesses," National Employment Law Project, Updated September 19, 2008, <http://www.nelp.org/docUploads/EUC-Revised.pdf>.

Estimated Impact of Temporary Increase in Food Stamp Benefits HOUSE Economic Recovery Package

(about \$8 per person per month from November 2008 through September 2009)

How to Read This Table:

As soon as November 1st, Michigan would be able to put about \$8 a month in the hands of more than 1.2 million people. By the end of the year the state would see \$108 million in additional food stamps and approximately \$200 million in increased economic activity as a result of the temporary food stamp increase."

	Total Additional Food Stamp Benefits <small>(in millions of dollars)</small>	Estimated Total Economic Stimulus Impact* <small>(in millions of dollars)</small>	Number of People Receiving Increased Benefits <small>(in 000s)</small>
Total U.S.	2.6 billion	5 billion	28,616
Alabama	\$52	\$100	579
Alaska	\$5	\$10	61
Arizona	\$51	\$90	646
Arkansas	\$36	\$70	382
California	\$197	\$360	2,271
Colorado	\$24	\$40	257
Connecticut	\$21	\$40	227
Delaware	\$6	\$10	76
District of Columbia	\$9	\$20	90
Florida	\$119	\$220	1,506
Georgia	\$90	\$170	1,044
Hawaii	\$9	\$20	98
Idaho	\$9	\$20	104
Illinois	\$120	\$220	1,306
Indiana	\$55	\$100	639
Iowa	\$22	\$40	257
Kansas	\$17	\$30	190
Kentucky	\$58	\$110	639
Louisiana	\$62	\$110	653
Maine	\$15	\$30	179
Maryland	\$30	\$50	367
Massachusetts	\$43	\$80	514
Michigan	\$108	\$200	1,283
Minnesota	\$24	\$40	300
Mississippi	\$40	\$70	451
Missouri	\$76	\$140	899
Montana	\$8	\$10	81
Nebraska	\$11	\$20	121

Nevada	\$11	\$20	151
New Hampshire	\$5	\$10	65
New Jersey	\$40	\$70	443
New Mexico	\$23	\$40	243
New York	\$175	\$320	2,005
North Carolina	\$83	\$150	957
North Dakota	\$4	\$10	49
Ohio	\$102	\$190	1,169
Oklahoma	\$41	\$80	417
Oregon	\$42	\$80	483
Pennsylvania	\$105	\$190	1,199
Rhode Island	\$7	\$10	87
South Carolina	\$52	\$100	599
South Dakota	\$6	\$10	64
Tennessee	\$82	\$150	922
Texas	\$245	\$450	2,442
Utah	\$13	\$20	137
Vermont	\$5	\$10	57
Virginia	\$48	\$90	550
Washington	\$53	\$100	566
West Virginia	\$25	\$50	279
Wisconsin	\$33	\$60	447
Wyoming	\$2	\$4	23
Guam	\$2	\$4	29
Virgin Islands	\$1	\$2	13
Puerto Rico	\$88	\$160	NA

Source: USDA, Economic Research Service, "Effects of Changes in Food Stamp Expenditures Across the U.S. Economy" by Kenneth Hanson and Elise Golan, August 2002. USDA research finds a \$1 in food stamps generates \$1.84 in economic activity. Mark Zandi of Moody's Economy.com estimates a similar multiplier (\$1.73) (Mark Zandi, testimony before the House Committee on Small Business, "Economic Stimulus For Small Business: A Look Back and Assessing Need for Additional Relief (July 24, 2008).

Notes: Estimates are based on a 5 percent increase in the maximum food stamp benefit, through 9/30/09 and on CBO cost estimates, 2006 food stamp quality control data, and Food Stamp administrative data. Participants from June 2008 data. If food stamp participation continues to rise, the number of people helped also will grow. We assume that the provision will help households that receive the minimum benefit or participate in Combined Application Projects (CAPs).

Estimated Impact of Temporary Increase in Food Stamp Benefits SENATE Economic Recovery Package

(about \$16 per person per month from November 2008 through September 2009)

How to Read This Table:

As soon as November 1st, Michigan would be able to put about \$16 a month in the hands of more than 1.2 million people. By the end of the year the state would see \$214 million in additional food stamps and approximately \$390 million in increased economic activity as a result of the temporary food stamp increase."

	Total Additional Food Stamp Benefits (in millions of dollars)	Estimated Total Economic Stimulus Impact* (in millions of dollars)	Number of People Receiving Increased Benefits (in 000s)
TOTAL U.S.	5.2 billion	10 billion	28,616
Alabama	\$104	\$190	579
Alaska	\$10	\$20	61
Arizona	\$102	\$190	646
Arkansas	\$72	\$130	382
California	\$391	\$720	2,271
Colorado	\$48	\$90	257
Connecticut	\$41	\$80	227
Delaware	\$12	\$20	76
District of Columbia	\$17	\$30	90
Florida	\$236	\$430	1,506
Georgia	\$178	\$330	1,044
Hawaii	\$18	\$30	98
Idaho	\$17	\$30	104
Illinois	\$238	\$440	1,306
Indiana	\$109	\$200	639
Iowa	\$43	\$80	257
Kansas	\$34	\$60	190
Kentucky	\$114	\$210	639
Louisiana	\$123	\$230	653
Maine	\$31	\$60	179
Maryland	\$59	\$110	367
Massachusetts	\$85	\$160	514
Michigan	\$214	\$390	1,283
Minnesota	\$47	\$90	300
Mississippi	\$79	\$150	451
Missouri	\$150	\$280	899
Montana	\$15	\$30	81
Nebraska	\$22	\$40	121
Nevada	\$23	\$40	151
New Hampshire	\$10	\$20	65
New Jersey	\$80	\$150	443
New Mexico	\$46	\$80	243

New York	\$346	\$640	2,005
North Carolina	\$165	\$300	957
North Dakota	\$8	\$10	49
Ohio	\$203	\$370	1,169
Oklahoma	\$81	\$150	417
Oregon	\$83	\$150	483
Pennsylvania	\$209	\$380	1,199
Rhode Island	\$14	\$30	87
South Carolina	\$103	\$190	599
South Dakota	\$11	\$20	64
Tennessee	\$163	\$300	922
Texas	\$485	\$890	2,442
Utah	\$25	\$50	137
Vermont	\$9	\$20	57
Virginia	\$95	\$170	550
Washington	\$105	\$190	566
West Virginia	\$50	\$90	279
Wisconsin	\$66	\$120	447
Wyoming	\$5	\$9	23
Guam	\$5	\$9	29
Virgin Islands	\$3	\$5	13
Puerto Rico	\$177	\$330	NA

Source: USDA, Economic Research Service, "Effects of Changes in Food Stamp Expenditures Across the U.S. Economy" by Kenneth Hanson and Elise Golan, August 2002. USDA research finds a \$1 in food stamps generates \$1.84 in economic activity. Mark Zandi of Moody's Economy.com estimates a similar multiplier (\$1.73) (Mark Zandi, testimony before the House Committee on Small Business, "Economic Stimulus For Small Business: A Look Back and Assessing Need for Additional Relief (July 24, 2008).

Notes: Estimates are based on a 10 percent increase in the maximum food stamp benefit, through 9/30/09 and on CBO cost estimates, 2006 food stamp quality control data, and Food Stamp administrative data. Participants from June 2008 data. If food stamp participation continues to rise, the number of people helped also will grow. We assume that the provision will help households that receive the minimum benefit or participate in Combined Application Projects (CAPs).