Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

TESTIMONY OF SHARON PARROTT
DIRECTOR, WELFARE REFORM AND INCOME SUPPORT DIVISION
CENTER ON BUDGET AND POLICY PRIORITIES
BEFORE THE HOUSE BUDGET COMMITTEE

Hearing Titled: "Building a Foundation for Families: Fighting Hunger, Investing in Children"
February 12, 2008

Thank you for the opportunity to speak with you today about the current recession, its impacts on poverty and families, and the recovery package.

The current recession already has pushed up the unemployment rate from 4.9 percent in December 2007 to 7.6 percent in January 2009. Alternative measures of the labor market paint a bleaker picture. Almost one in seven workers — some 13.9 percent of all workers — are unemployed, involuntarily working part time, or are jobless and available for work but have grown discouraged from looking for work. Private and government payrolls combined have shrunk for 13 straight months, and net job losses since the start of the recession some 14 months ago total 3.6 million. And, those who have lost jobs are having a very difficult time finding a new one: more than one-fifth (22.4 percent) of the 11.6 million unemployed have not been able to find a job despite looking for 27 weeks or more.

Rising joblessness leads to increases in poverty, losses in health insurance, and growing hardship. While Census data on changes in poverty in recent months will not be available for some time, other indicators point to a rise in poverty. The clearest such indicator is a dramatic increase in recent months in caseloads for the Food Stamp Program (recently renamed the Supplemental Nutrition Assistance Program or SNAP): between December 2007 and November 2008 (the latest month available), caseloads rose by 3.5 million or 13 percent. In 28 states, at least one in every five children is receiving food stamps. As Figure 1 shows, food stamp caseloads have historically tracked poverty and unemployment.

In another indication of growing poverty and hardship, data from school districts around the country as well as other state and local data sources show that homelessness is on the rise among families with children:[1]

[1] For more information, see Barbara Sard, "Number of Homeless Families Climbing Due to Recession," Center on Budget and Policy Priorities, January 8, 2009, http://www.cbpp.org/1-8-09hous.htm.

- The number of families entering New York City homeless shelters jumped by 40 percent between July – November 2007 and July – November 2008.[2]

- Massachusetts reports a 32 percent increase between November 2007 and November 2008 in the number of homeless families residing in state-supported emergency shelters.[3]

- Hennepin County, Minnesota (Minneapolis) reports a 20 percent increase in the number of homeless families in emergency shelters between the first ten months of 2008 and the comparable period in 2007.[4]

- Los Angeles County reports a 12 percent increase between September 2007 and September 2008 in the number of families receiving welfare assistance who are known to be homeless.[5]

Two recent national surveys support these data. In a fall 2008 survey by the U.S. Conference of Mayors, 16 of the 22 cities that provided data on the number of homeless families with children reported an increase in 2008, some of them substantial. (Louisville reported a 58 percent increase.)[6] In another national survey, one in five responding school districts reported having more homeless children in the fall of 2008 than over the course of the entire 2007-2008 school year.[7]

The housing market's ongoing troubles heighten the potential for significant increases in homelessness during this recession. Home foreclosures have pushed many owner and renter families into the rental market, driving up rents in some areas by increasing the demand for housing — despite falling incomes and rising unemployment. In addition, a number of state and localities are beginning to cut back homelessness prevention programs due to large state and local budget shortfalls, even as the need for these programs grows.

How Much Will Poverty Rise During This Recession?

Goldman Sachs projects that the unemployment rate will rise to 9 percent by the fourth quarter of 2009 (the firm has increased its forecast twice 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 7.5-10.3 million, the number of poor children will rise by 2.6-3.3 million, and the number of children in deep poverty will climb by 1.5-2.0 million. (This increase will not take place in a single year, but will occur over several years.)[8]

---

[2] Data provided by the New York City Department of Homeless Services.

[3] Data provided by Julia Kehoe, Commissioner, Massachusetts Department of Transitional Assistance.

[4] Memorandum from staff of the Minnesota Housing Finance Agency to the Board of Directors, December 18, 2008.

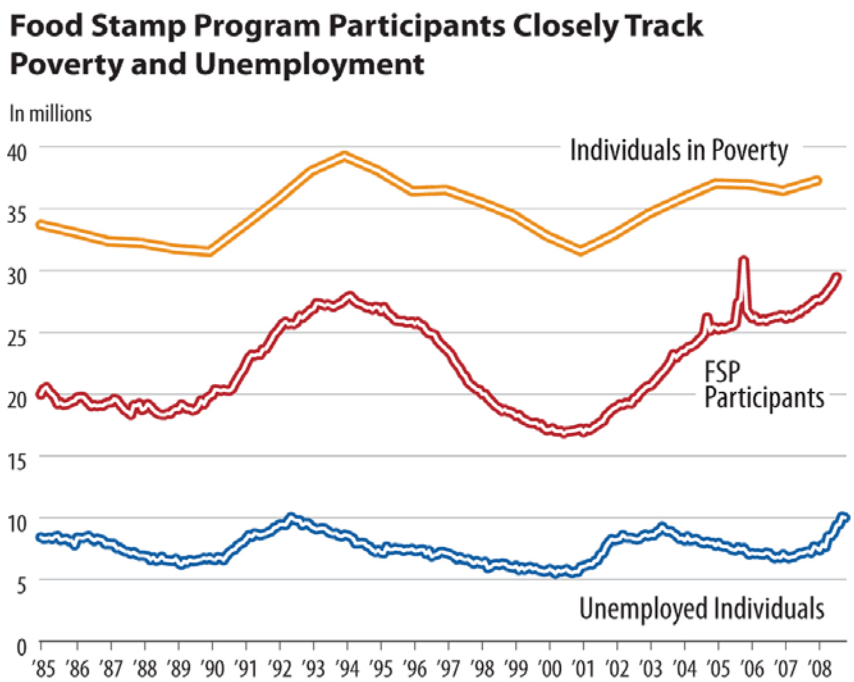
[5] Data from CalWORKS Program Division, Los Angeles County.

[6] Abt Associates, "U.S. Conference of Mayors 2008 Status Report on Hunger and Homelessness," December 2008, http://www.usmayors.org/pressreleases/documents/hungerhomelessnessreport_121208.pdf.

[7] Barbara Duffield and Phillip Lovell, "The Economic Crisis Hits Home: The Unfolding Increase in Child and Youth Homelessness," National Association for the Education of Homeless Children and Youth and First Focus, December 2008, http://www.naehcy.org/dl/TheEconomicCrisisHitsHome.pdf. The voluntary survey was conducted October 24 – December 10, 2008.

[8] For more information, see Sharon Parrott, "Recession Could Cause Large Increases in Poverty and Drive Millions into Deep Poverty," Center on Budget and Policy Priorities, November 24, 2008, http://www.cbpp.org/11-24-08pov.htm.

Figure 1



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

A strong recovery package would reduce these increases in poverty, in three ways. First, by boosting overall demand, it would reduce projected job losses, which means fewer families would be pushed into poverty. Second, the package now before Congress includes a number of provisions to assist struggling families that would keep some families out of poverty and keep others from falling into deep poverty. (These include a temporary increase in SNAP benefits, a temporary expansion of the EITC and Child Tax Credit, an extension and increase in unemployment benefits, resources for states with rising TANF caseloads, health coverage to unemployed workers, and emergency shelter grants to prevent homelessness.) Third, as discussed below, fiscal relief to help states avert deeper budget cuts would help support critical public services, including supports for vulnerable families.

We examined the likely impact on poverty of three tax provisions in the bills: the Making Work Pay credit, the EITC expansions, and the expansion of the refundable portion of the Child Tax Credit. Under the House Child Tax Credit expansion, these three tax provisions would protect some 2.7 million people from poverty, including 1.1 million children.[9] Other provisions, such as the temporary increase in SNAP benefits and the unemployment insurance provisions, also would help protect some families from poverty and reduce the depth of poverty for many others.

---

[9] These figures are not based on the same measure of poverty as the previously cited projections of recession-related increases in poverty and cannot be directly compared with them. Those earlier projections are based on the government's official measure of poverty, which considers only a family's pre-tax cash income and thus cannot register the effect of the tax credits examined here. To measure their effects, we used a poverty measure that follows recommendations of the National Academy of Sciences; this measure considers income *after* taxes and counts as income the value of certain government non-cash benefits such as food stamps and subtracts the value of out-of-pocket medical expenditures and work expenses. The measure also uses a slightly modified poverty line.

States Are Cutting Services to Help Close Budget Gaps, Further Slowing the Economy

The downturn has wreaked havoc on state budgets. States are facing mammoth deficits: we estimate the cumulative deficit for the rest of 2009, 2010, and 2011 at $350 billion. This figure does not include the large budget gaps many *local* governments now face.

The claim that the deterioration in states' fiscal conditions reflects shoddy planning on the part of states is false. Not only do states balance their operating budgets each year, but states entered this recession with the largest budget reserves in their history. But because of the recession, which has sharply reduced projected state revenues while increasing state costs in areas such as health care, these reserves are mostly gone and states now face large shortfalls. The fact that the states with the sharpest increases in unemployment are also the states with largest shortfalls is further evidence that the economy, not fiscal mismanagement, is to blame.

As state budget holes have opened up, states have already made a series of painful budget cuts.[10] For example:

- At least 28 states have proposed or implemented cuts that will reduce low-income children's or families' eligibility for health insurance or reduce their access to health care services.
- At least 26 states have proposed or implemented cuts to K-12 and early education.
- At least 32 states have proposed or implemented cuts to public colleges and universities.
- At least 38 states and the District of Columbia have proposed or implemented cuts affecting state workers.

Cuts like these ripple through the economy, worsening the downturn. For example, when states and localities reduce funding for schools, scale back day programs for seniors, or cut back on child care programs, this shrinks overall demand for the products and services that public and private entities provide. This results in the loss of jobs in both the public and private sectors.

Recovery Bill Would Help Flagging Economy and Struggling Families

For the most part, both the House and Senate recovery packages are well-designed to produce significant stimulus as quickly as possible. They includes fast-spending, high "bang for the buck" items such as expansions in food stamps and unemployment insurance — provisions that a broad range of economists and CBO have rated as the most highly stimulative types of spending. They also include state fiscal relief, which is essential to moderate the depth of the budget cuts and tax increases that states will have to impose. In addition, they include funding for infrastructure projects, which are highly stimulative once underway. And, they include tax cuts, some of which are targeted on low- and moderate-income households who are likely to spend the bulk of the money, thereby boosting the economy. Finally, both packages increase funding for a range of programs —

---

[10] For more information, see Nicholas Johnson, Phil Oliff, and Jeremy Koulish, "Facing Deficits, At Least 40 States Are Imposing or Planning Cuts That Hurt Vulnerable Residents," Center on Budget and Policy Priorities, revised February 10, http://www.cbpp.org/3-13-08sfp.htm.

such as education and job training — that can spend the money quickly and serve a useful public purpose to further stimulate demand in the economy.

According to the Congressional Budget Office (CBO) and the Joint Committee on Taxation, 85 percent of the spending and tax cuts in the House bill, and 94 percent of the spending and tax cuts in the Senate bill, would occur during fiscal years 2009 – 2011, a period during which CBO predicts the economy will be operating at far below its potential and fiscal stimulus thus would be beneficial.

Criticisms of Recovery Packages Miss the Mark

While the House and Senate packages are by no means perfect, many of the criticisms that have been leveled against the bills reflect a failure to grasp key points about economic stimulus in general and the bills in particular:[11]

- **Spending in safety net programs is effective stimulus — not simply a nice thing to do.** Some critics argue that spending on safety net programs like food stamps and unemployment insurance may be justified on humanitarian grounds but does not provide stimulus or create jobs in the way that reductions in, say, taxes for businesses would. In fact, this argument is completely backward in a recession.

  When businesses cannot sell everything they can make, the way to help them retain workers and encourage them to expand is to give their customers more money to spend. When you increase benefits for unemployed workers or food stamp recipients, they spend the money quickly and the benefits spread through the economy. Whatever the merits of business tax cuts as a long-term strategy to promote economic growth, they are ineffective at putting more customers in stores.

- **Fiscal relief for states bolsters demand and saves jobs.** In an economic downturn, states see their revenues fall off and their caseloads for safety net programs like Medicaid increase. As deficits begin to emerge, states must cut existing programs or raise new revenues. Those actions translate into layoffs of state workers, cancellation of contracts with vendors, and less help for needy families facing hardship — all of which reverberate through the economy, adding to the job losses and further suppressing economic activity. Fiscal relief allows states to cut programs or raise taxes by a smaller amount than they otherwise would have to; this helps prop up the economy and preserve jobs.

- **Spending increases and tax cuts in the package are temporary.** Very little of the spending authority in the bill extends beyond 2011, and the evidence from past fiscal stimulus legislation is that Congress does allow temporary measures such as unemployment insurance and state fiscal relief to expire once the economy recovers.

  To be sure, some policymakers may want to make permanent such provisions as the Making Work Pay Tax Credit and the expansion in the Child Tax Credit. But they will have to do so in the context of the normal budget process, where budget enforcement procedures will be in place. .

---

[11] For more information, see Chad Stone, "Attacks on Congressional Recovery Package Don't Withstand Scrutiny," Center on Budget and Policy Priorities, February 5, 2009, http://www.cbpp.org/2-5-09bud.htm.

With respect to infrastructure, the recovery package provides a large one-time boost to spending authority; the actual expenditures from that authority occur over a number of years, but the amount diminishes rapidly after 2011. Maintaining levels of infrastructure spending *above* those amounts would require annual appropriations through the normal budget process.

Similarly, while some areas need increased long-term investment, such as early education and child care, the place to sort out these long-term priorities is the normal budget process, with pay-as-you-go rules in place and reasonable limits on discretionary funding levels. Neither the House nor the Senate package appears to presuppose the outcome of those long-term decisions.

- **Well-designed spending provides more stimulus per dollar than tax cuts.** Goldman Sachs recently rated a number of proposals in the House package according to their "bang for the buck" — that is, how much economic demand they generate for each $1 in cost. It found that spending on infrastructure, benefit programs for low-income people and people who have lost their jobs, and fiscal relief to states outperformed tax cuts for individuals or businesses.

This is not to suggest that money in the packages could not be redirected in ways that could improve the stimulus impact. For example, some of the tax cuts in both packages have low "bang for the buck" as stimulus, as explained below. In addition, there are undoubtedly spending items that are not well designed. But the funding associated with these programs is likely to be small, since the bulk of the spending in both bills falls into categories that are highly stimulative — aid to struggling families and unemployed workers, fiscal relief for states, K-12 and higher education, and infrastructure.