



Beyond Stimulus: Shoring Up the Safety Net, Securing the American Dream

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In the past few months, the collapse of financial markets, a credit crunch, and tumbling consumer confidence have pushed what was already a weak economy into a full-out recession. Economists predict that this recession will be longer and more severe than any the United States has faced in recent decades.¹ America needs more than another stimulus package aimed at temporarily boosting consumer demand. We must shore up our tattered safety net and extend a helping hand to those who are most vulnerable in this period of uncertainty and distress. And we must secure the American dream by ensuring that all of us have the opportunity to share in the benefits of recovery.

Shoring Up the Safety Net

- Extend and Modernize Unemployment Insurance
- Encourage States to Provide Cash Assistance to Needy Families
- Expand Food Assistance to Low-Income Individuals and Families
- Provide Child Care Help to Low-Income Families.
- Leverage Income for Single-Parent Families by Restoring Child Support Enforcement
- Protect Vulnerable Children from Abuse and Neglect
- Ensure Adequate Resources to Provide Low-Income Families Health Care

Securing the American Dream

- Ensure Access for Low-Income People to Good New Jobs Created Through Infrastructure Investments
- Fund Summer Jobs in Areas with High Youth Unemployment Rates
- Increase Support for Education and Training During the Downturn
- Expand Transitional Jobs for Individuals with Barriers to Employment

Low-Income Workers and Families are Especially Vulnerable in Recession

Over the past 12 months, the national unemployment rate has climbed by 1.7 percentage points to 6.5 percent, with 10 states plus Washington, D.C., hitting unemployment rates of 7 percent or higher. In October 2008, 2.8 million more Americans were unemployed than a year previously.² Low-income workers and families are especially vulnerable to the challenges of a weak economy. Less-educated workers have higher unemployment rates in general, and employers are quick to cut their hours, or to lay workers off, when faced with a recession.³

Nearly half (44.2 percent) of all households in the lowest income quartile are “asset poor,” meaning that they do not have enough savings to allow them to get by without income for three months, even at the low level of the federal poverty threshold.⁴ Low-income families also have poor access to mainstream financial institutions, such as bank loans and credit cards, and the credit crisis is making these options even less accessible. When they are able to borrow money, it is often through mechanisms such as payday loans and bank overdrafts, with extremely high effective interest rates.⁵

Even in good times, basic needs—food, housing, health care, energy, transportation, and child care—consume most of low-income workers’ budgets.⁶ Low-income workers, including many with incomes well above the official poverty line, often find themselves deciding which bills can and cannot be paid each month, and relying on food banks or other community supports to make up any shortfall. When they experience a decline in income due to job loss or reduced hours, lose child support payments, or face unexpectedly high costs, there is no fat in their budgets that can be sacrificed—they have to cut into the meat. In particular, there is good evidence that when faced with unusually high heating bills, poor families are forced to spend less on food, sometimes with serious nutritional consequences.⁷

The collapse of the housing market is another source of instability for many low-income families, including those who are renters. About one-third of the million-plus homes currently in foreclosure are being rented.⁸ In many cases, renters only discover that the bank is foreclosing on the house they live in when the sheriff shows up at their door to evict them. Many of these houses then sit empty for months, because the banks do not have the capacity to manage them as rental properties.

Job loss or eviction can be the trigger that sets off a cascade of negative consequences for vulnerable children and families. Mayors in many cities are reporting increases in family homelessness and requests for shelter.⁹ Child abuse and neglect are known to increase during times of economic distress.¹⁰ Even for families that do not experience such dramatic effects, consequences can include malnutrition and higher risk of illness, having to change schools and child care settings, sometimes multiple times, increased marital stress and family breakups.¹¹

Job loss can also have long-term economic consequences. Few laid-off workers can now expect to be rehired to the same job when the economy improves. Displaced workers frequently remain unemployed or under-employed for extended periods, and only slightly more than half of those who get full-time jobs earn as much or more than before.¹² An increasing share of the unemployed remain jobless for extended periods—in October 2008, 2.3 million workers, 22 percent of all unemployed workers, had been out of work for more than six months.¹³ Young adults who enter the labor force during periods of recession continue to earn less than their counterparts who began working during years of growth as many as 10 years later.¹⁴

Beyond Stimulus: Recommendations for an Inclusive Recovery

To date, the response to the economic downturn has been primarily focused on stimulating aggregate demand, as in the “rebate” checks issued earlier this year. Many of the recommendations here will indeed stimulate the economy, by putting money in the hands of low-income individuals and families who are likely to spend it immediately to meet their urgent needs. Similarly, our recommendations for fiscal relief to the states will also prevent states from having to cut spending, layoff workers, and reduce services. But the need for a recovery package goes beyond stimulating the broad economy. We must commit to an inclusive recovery that protects the vulnerable and provides opportunity for all.

The federal government must play a central role in any recovery effort. First, only the federal government has the ability to make significant counter-cyclical investments. Almost all states are required to balance their budgets each year. When the economy is bad, tax revenues fall; without additional federal investments, states are forced to cut services exactly when they are needed the most. Second, states vary widely in their capacity and commitment to serving low-income families and workers.¹⁵ Federal policy can act as a balancing force, reducing the inequities faced by residents in different parts of the country.

Shoring Up the Safety Net

The United States is entering this recession with large holes in our core safety net programs, which were created in response to the Great Depression. Unemployment Insurance only reaches one in three workers who lose their jobs—with low-wage and part-time workers only half as likely to receive benefits. In the wake of welfare reform, Temporary Assistance for Needy Families only provides cash assistance to 40 percent of those eligible under state rules—down by half since 1996. Federal funding cuts to the child support program are expected to result in a loss of \$1 billion per year in support payments collected for families, Medicaid, child welfare, child care; and other programs that serve low-income families are under severe pressure due to budget deficits in the states.

Extend and Modernize Unemployment Insurance

Despite its weaknesses, Unemployment Insurance (UI) is the first-line response to a declining economy. It is a crucial source of temporary financial assistance for jobless workers and their families. The need for temporary assistance is growing with 2.8 million more American workers unemployed in October than at this time last year.¹⁶

Recommendation: As part of the stimulus package, Congress should approve an extension of federally funded extended benefits to workers who exhaust their UI benefits. The extension would include seven additional weeks of emergency unemployment compensation for workers in all states and another 13 weeks for workers in high-unemployment states. This extension is necessary since 800,000 workers have already exhausted their benefits under the first extension.¹⁷ However, an extension of benefits for current recipients is just the first step because it will still leave out large numbers of low-wage, part-time, and other workers in some states.

Recommendation: To ensure that low-wage, part-time, and other vulnerable workers have access to UI, Congress should immediately pass the Unemployment Insurance Modernization Act. This legislation provides incentive funding to states that count the most recent earnings of workers and extend benefits to part-time workers and others who leave jobs for compelling family reasons. Enacting the UIMA now will allow state legislatures to take action to draw down the funds when they reconvene.¹⁸

Encourage States to Provide Cash Assistance to Needy Families

Historically, many low-income single mothers who did not qualify for Unemployment Insurance benefits were able to receive financial support through Aid to Families with

Dependent Children (AFDC). However Temporary Assistance for Needy Families (TANF), which replaced AFDC in 1996, provides a much more limited safety net, leaving millions of children in low-income families without the income assistance and employment services that TANF can provide. One recent study found that only half of former TANF recipients who experienced spells of unemployment lasting least three months received benefits from either unemployment insurance or TANF.

During the 2001 recession, TANF caseloads continued to decline even as poverty levels rose significantly. The changes made by the Deficit Reduction Act (DRA) of 2005 further discourage states from allowing jobless workers to receive assistance that can help families meet their most basic needs. The funding and participation rate structure both create strong incentives for states to keep their caseloads low even when poverty and need are rising.

Recommendation: Congress should provide additional funding to those states that, in the face of rising need, provide more families with basic assistance. States that are making good faith efforts to help needy families should receive relief from fiscal penalties that will create further holes in their stressed budgets. Congress should also make other temporary revisions to TANF to reduce the incentives created by the work rules and caseload reduction credit to keep caseloads low even when need rises, and to allow states to make greater use of education and training when the labor market is weak.

Expand Food Assistance to Low-Income Individuals and Families

Over the past year, the cost of food has been rising far faster than inflation. Just from June to September, the cost of buying the foods in the Thrifty Food Plan has increased by 3 percent.¹⁹ This means that the value of Supplemental Nutritional Assistance Program (SNAP; formerly Food Stamp) benefits has fallen behind even before the start of the new fiscal year. In addition, many food pantries are themselves experiencing shortages.

Recommendation: A temporary increase in SNAP benefits to current recipients will help low-income families afford more food. This is critical, because food is a part of the budget that gets squeezed when other living expenses increase or income declines. An increase in SNAP benefits is also one of the fastest and most effective ways to put additional spending power in the hands of low-income individuals and families, and thus to stimulate the economy.

Provide Child Care Help to Low-Income Families

Families need safe and stable child care in order to find and retain employment, yet for many low-income families the cost of child care is a barrier to work. These families need help paying for the child care that best meets their needs, yet funding for the Child Care and Development Block Grant (CCDBG), which provides child care assistance to low-income working families, has been nearly flat since 2002—as the cost of child care has been increasing consistently. In just the period from 2006 to 2007, the price of full-time center care for young children increased at nearly twice the rate of inflation. In every state, monthly child care fees for two children at any age exceed the median rent cost and are nearly as high or even higher than the average monthly mortgage payment.²⁰ Seventeen states have waiting lists for child care assistance, as high as 204,063 children in California and 47,603 children in Florida.²¹ Getting families back to work is a key component in reviving the economy, and child care is a key piece of this recovery.

Recommendation: CCDBG should be increased by \$956 million. This will allow states to provide funding for child care for more than 164,000 children in low-income working families who are suffering from the economic crisis. Congress should signal that these funds ought to be available to low-income families who are working and to those who are involved in education, job training and skill building and reemployment activities.

Leverage Income for Single-Parent Families by Restoring Child Support Enforcement

One in four children in this country participate in the child support program. Along with EITC and Food Stamp benefits, child support is one of the main sources of income support for low-income working families. Next to earnings, child support is the second largest income source for poor, single-mother families that receive it—30 percent of the family’s budget. Support payments play a stabilizing role during economic downturns, helping families get from paycheck to paycheck and weather job losses. Families spend the money very quickly. State data suggest that 97 percent of child-support funds dispensed to family debit cards are spent down by the end of the month. In addition, the child support program is one of the few programs that help connect unemployed fathers to jobs. The child support program is cost-efficient, collecting \$4.73 for every public dollar spent.

A number of states and counties are in the process of laying off child support enforcement staff and cutting back on services, as a result of the 20 percent federal child support enforcement funding cut included in the Deficit Reduction Act of 2005 (DRA) and state budget cuts. Other states expect to do so in coming months. According to the

Congressional Budget Office, \$1 billion in support payments to families will go uncollected every year, even if states replace half of the federal funding cut by the DRA. In addition, critical initiatives to help low-income fathers obtain jobs will be eliminated or cut back.

Recommendation: Congress should permanently reverse the 20 percent federal child support enforcement funding cut included in the Deficit Reduction Act of 2005 (DRA). In the short run, Congress should include a two-year moratorium on implementing the cuts in an economic recovery package at a cost of \$1.1 billion per year.

Protect Vulnerable Children from Abuse and Neglect

During times of economic distress, child abuse and neglect rates often rise. Poverty is the single best predictor of child maltreatment. Children living in families with incomes below \$15,000 annually are 22 times more likely to experience abuse or neglect than children living in families with incomes of \$30,000 or more.²² However, the vast majority of poor parents do not maltreat their children—consider that there were 13 million poor children in 2006 but less than 1 million victims of child abuse or neglect that year.²³ While the connection between poverty and maltreatment is complex, the research suggests a link between job loss—changed economic circumstances—and increased rates of abuse and neglect.²⁴ Families may be forced to choose between paying for heat or food or they may lose their homes. If they don't have a safety net to fall back on, the children may experience neglect and end up in foster care. The stress that flows from job loss and economic hardship may also push parents over the edge so their behavior becomes harsh, even abusive. Thus, during times of crisis families need additional supports and services to prevent maltreatment from occurring. Unfortunately, such times are precisely when states cut such services to balance their budgets.

Recommendation: Congress should help the most distressed states provide additional prevention and early intervention services, as well as child protection services, by increasing the Social Services Block Grant (SSBG). Specifically, states which are struggling with significant job loss and unemployment should receive additional SSBG funds to provide such services. In addition, Congress should increase the funds that go to community-based child abuse prevention programs through the Child Abuse Prevention and Treatment Act (CAPTA). These community-based organizations play a critical role in delivering prevention services, but their budgets—often based on charitable donations—are likely to suffer during difficult economic times.

Ensure Adequate Resources to Provide Low-Income Families Health Care

Health insurance is critical to the well-being of children and families. It is only because public health insurance has expanded coverage over the past decade that the overall number of uninsured children has fallen, as employers have continued to reduce family coverage, and many low-income workers can not afford to buy family coverage even when available. But Medicaid is highly vulnerable to cuts during a recession, because its costs naturally rise when individuals lose their jobs and health insurance for themselves and their families. Already, 17 states have planned cuts that will affect health insurance eligibility or reduce access to health care services for low-income children and families. In the 2001 recession, 1 million people lost health insurance because of cutbacks in Medicaid and SCHIP in 34 states before Congress provided fiscal relief.²⁵

Recommendation: The federal medical assistance percentage (FMAP) for Medicaid should be raised temporarily to ensure that states have sufficient revenues to continue to provide low-income families and individuals access to critical health-care services.

Securing the American Dream

American workers and families want a hand-up, not a hand-out. One way to invest in the future of our country is to build the physical infrastructure—roads and bridges, high-speed internet connections and public transportation—that will support economic development in the years to come. Another way is to develop the human capital infrastructure by investing in education and training, transitional jobs and work-study.

In good times, a major barrier that prevents workers from upgrading their skills is what economists call “opportunity cost” —the fact that there are only so many hours in a day, and time spent studying is time not spent working or caring for their families. When unemployment rises and jobs are scarce, the opportunity cost of education falls. It makes sense to increase funding for workforce and education programs so that unemployed and under-employed workers can improve their skills.

Ensure Access for Low-Income People to Good New Jobs Created Through Infrastructure Investments

Congress is considering investing significant funds in our nation's infrastructure in order to stimulate the economy and create badly needed new jobs in the face of growing unemployment.

Recommendation: Congress should structure this investment to help create job opportunities for traditionally underserved populations and to build our workforce by dedicating funds to increase access to job training and education. Congress should require that at least 15 percent of work hours on infrastructure projects receiving federal funding be performed by veterans, low-income individuals, out-of-school youth, homeless individuals, or ex-offenders. To ensure that low-income individuals and those with barriers to employment can gain the skills necessary to access the new jobs created by federal investments in infrastructure, states should be required to dedicate at least 1 percent of available funds for skills development. States should have flexibility to identify and fund creative and effective workforce development programs and partnerships, including those run by nonprofit organizations, labor organizations, employers, local workforce investment boards, community colleges, and other state and local entities.

Fund Summer Jobs in Areas with High Youth Unemployment

This summer, even before the latest economic decline, the youth employment rate was only 32.7 percent, the lowest in over sixty years.²⁶ There are 3.8 million 18- to 24-year-olds out of school and out of work. Dollars spent on summer jobs flow immediately into the local economy. Just as important, these jobs will be the first exposure to the work environment for many youth, and will help them develop appropriate work skills and behaviors, and provide important community service.

The Workforce Investment Act of 1998 substantially curtailed the use of federal funding for summer jobs. Nonetheless, each year, communities across the country mount summer jobs efforts, although at a substantially reduced level from past years, with long waiting lists and thousands of young people turned away. Stimulus money directed to those communities with the summer jobs programs in place could eliminate waiting lists and ensure that these dollars circulate in the local economies throughout the summer.

Recommendation: Summer jobs for youth should be funded at \$1 billion for the summer of 2009, with the provision that 30 percent of funds can be spent beyond summer months for transitional jobs for out-of-school youth.²⁷ Providing the money now will allow for better planned and managed summer jobs programs.

Increase Support for Education and Training During the Downturn

Unemployed workers or suddenly under-employed workers could benefit from skill development while they are out of work or working reduced hours. Nearly half the U.S. workforce has only a high school education or less. Some 25 million workers aged 18 to

64 lack a high school diploma or GED,²⁸ while another 52 million adults have no postsecondary education, which is increasingly the doorway to family sustaining employment.²⁹ Investing in the skills of our workforce is also critical to preparing our workforce for the jobs of the future, and to rebuilding our economy.

Recommendation: Congress should provide an additional \$1.25 billion in funding for programs authorized under the Workforce Investment Act to enhance the nation's capacity to help unemployed and under-employed people gain access to career counseling the skills to compete for family-sustaining jobs. Congress should also provide an additional \$250 million for re-employment services targeted to those most likely to exhaust their unemployment benefits.

Recommendation: An additional \$500 million should be provided for adult education. Funding should be directed at programs that integrate basic skills, English language and occupational training and focus on transition to postsecondary education and job training in order to ensure that lower-skilled people are not left behind in this labor market.

Recommendation: Congress also should provide \$250 million to expand the Federal Work-Study program to help financially disadvantaged college students earn the funds they need to pay for college and attain a postsecondary credential with value in the labor market. This program provides funding for jobs on campus, in the community, and in the private sector thereby providing a financial stimulus and helping students develop strong work habits and gain exposure to potential employment opportunities.

Expand Transitional Jobs for Individuals with Barriers to Employment

During tough economic times, individuals with barriers to employment are particularly hard hit. Transitional Jobs are a successful program model aimed at helping individuals with barriers to employment enter and succeed in the workforce. Transitional Jobs help individuals overcome employment obstacles by using time-limited, wage-paying jobs that combine real work, skill development, and supportive services, to transition participants successfully into the labor market. Studies have shown that transitional jobs programs increase short- and long-term employment opportunities for people facing the most significant barriers to employment. More than 30 states and numerous localities across the country have implemented transitional jobs programs for populations with barriers to employment, including TANF recipients, homeless individuals, at-risk youth, people being released from prison, refugees and immigrants, and disabled individuals. The number of Americans that currently face or will face these and other barriers to employment is alarming and rising.

Recommendation: As part of the recovery package, Congress should provide \$400 million dollars for the development and expansion of Transitional Jobs programs. A portion of these funds should be reserved for technical assistance for new and existing programs.

Conclusion

In his victory speech this week, President-elect Barack Obama called upon Americans to recognize our connections to each other, and our interdependence. He knows that we cannot prosper as a nation; we cannot recover from our economic troubles, unless all of us share in that prosperity and in that recovery. As he said, “let us summon a new spirit of patriotism, of responsibility, where each of us resolves to pitch in and work harder and look after not only ourselves but each other.”

CLASP: Policy Solutions That Work for Low-Income People

CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low income people. We focus on policies that strengthen families and create pathways to education and work. Through careful research and analysis and effective advocacy, we develop and promote new ideas, mobilize others, and directly assist governments and advocates to put in place successful strategies that deliver results that matter to people across America.

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<http://waysandmeans.house.gov/hearings.asp?formmode=view&id=7463>

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