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Center for Law and Social Policy

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Hearing on the "Safety Net's" Response to the Recession

To the Subcommittee on Income Security and Family Support

Committee on Ways and Means

U.S. House of Representatives

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Mr. Chairman, Members of the Committee, thank you for the opportunity to testify on the "safety net's" response to the recession and the effects the American Recovery and Reinvestment Act of 2009. CLASP develops and advocates for policies at the federal, state and local levels that improve the lives of low income people. In particular, we focus on policies that strengthen families and create pathways to education and work.

As you know, the recession that began in December 2007 is much deeper than anyone predicted when the Recovery Act was enacted in February. In January, the Congressional Budget Office (CBO) projected an average unemployment rate of 8.3 percent for 2009 and 9.0 percent for 2010.[i] In August, it raised this projection to 9.3 for 2009 and 10.2 percent for 2010.[ii] Private forecasters made similarly low projections, which they have since raised.[iii] Mark Zandi, an economist whose testimony was instrumental in Recovery Act discussions, recently projected that the unemployment rate will peak at 10.5 percent next June.[iv]

The economy has lost at least 7.2 million jobs since December 2007,[v] and more than one-third–a record share–of the unemployed have been out of work for more than 26 weeks.[vi] A quarter of people in nationally representative surveys report that they or someone in their family has lost a job in past 12 months, and 44 percent say that they or a family member have either lost a job or had their hours reduced.[vii] The unemployment rate is especially high for workers with the lowest education levels.[viii] During this recession, adults with a high school education or less have experienced sharper increases in unemployment than adults with higher levels of education. In addition, the unemployment rates for African American and Hispanic workers are considerably higher than those for white workers.

While there are some indicators that the economy is starting to recover, the need for safety net programs will remain even after Recovery Act dollars are exhausted. Federal Reserve Chairman Ben Bernanke has said that the recession is probably officially over and that economic outputs have started to grow, but he also has said that unemployment will be slow to recover.[ix] Even after the high unemployment rate starts to decline, poverty is likely to remain at unacceptably high levels.

Based on CBO and Office of Management and Budget (OMB) unemployment projections, researchers at the Brookings Institution estimate that the poverty rate for children will be 23 percent in 2009 and 24 percent in 2010–higher than any point since 1962. Moreover, they calculate that child poverty will remain above 20 percent for the entire next decade absent additional interventions.[x] For families headed by single mothers, the picture is even more shocking. Researchers at the Economic Policy Institute project that the poverty rate for single mother families will climb to 44.6 percent in 2009 and slightly higher in 2010.[xi]

Poverty has adverse consequences for families and for the nation as a whole. Poor children face worse education, life and economic outcomes than children who don't grow up poor. Adults who grow up in impoverished homes contribute less to the nation's economic engine. Children who fall into poverty during a recession are worse off, even long into adulthood, than their peers who avoided it. Notably, such children earn less, achieve lower levels of education, and are less likely to be gainfully employed over their lifetimes than those who avoided poverty. In addition, these children are more likely to be in poor health as adults. [xii] The productivity potential of the individual, the strength of the family, and the prosperity of our nation increase as we cut poverty.

The Recovery Act has made a difference to millions of American families. The pace of job losses has slowed greatly since its implementation. Congress included in the Recovery Act a number of provisions that directly assisted low-income families, which have been highly effective in both directly alleviating suffering and stimulating the economy. For example, the Supplemental Nutrition Assistance Program (SNAP) benefits increase is now helping nearly 36 million individuals in more than 16 million households.[xiii] The assistance to states has averted layoffs and deep service cuts that would have affected some of the most vulnerable individuals and families.[xiv] But help will still be needed in 2011 and for years to come.

From Unemployment Insurance to Job Creation

Unemployment Insurance

The most striking feature of this recession is the rise in long-term joblessness. As of September 2009, more than one-third of jobless workers have been out of work for six months or more. These workers and their families continue to experience economic hardship as they struggle to find new jobs.

Unemployment Insurance (UI) is the first line of defense in a weak economy. It provides temporary financial assistance to jobless workers, helping to supplement income loss and enabling workers to search for new jobs. In response to the worsening recession, Congress shored up the safety net for unemployed workers with a range of significant provisions in the Recovery Act. The legislation:

- Extends the Emergency Unemployment Compensation program (up to 20 weeks for workers exhausting regular benefits in all states, and an additional 13 weeks in states experiencing high unemployment).
- Provides a federally funded $25 add-on to all weekly regular UI benefit payments;
- Fully funds the federal-state extended benefit program that provides additional weeks of benefits to workers in states with high unemployment.
- Subsidizes COBRA payments to enable workers to maintain health coverage for up to nine months following job loss.

Unlike other elements of the Recovery Act, these unemployment-related provisions are scheduled to expire at the end of 2009.

As the unemployment crisis continues, it is imperative to extend the Emergency Unemployment Compensation program and other key provisions that are due to expire at the end of 2009. Congress also should act immediately to approve additional weeks of federally funded unemployment benefits for the 1.3 million workers who will exhaust federal jobless benefits before the end of 2009.

The Recovery Act also includes $7 billion in incentive payments for states that modernize their state UI programs. Incentives flow to states that count workers' most recent earnings, extend eligibility to part-time workers and those who leave jobs for compelling family reasons, and make other changes to their state programs. These changes, if adopted, ensure that many workers who have been left out of the UI system can apply for and receive benefits at a time of high unemployment.

The Recovery Act's UI provisions have assisted millions of jobless workers and their families. As of October 9, $2.6 billion in incentive payments has been distributed to 32 states that have modernized their UI programs. Since the start of the recession, the percentage of unemployed individuals receiving unemployment benefits nationwide has risen, reaching nearly 50 percent in 2009.

A number of states are using short-time compensation programs to prevent layoffs and maintain employment. Short-time compensation, also called work sharing, is an option within the federal-state UI system that provides some employers with an alternative to layoffs. Employers can reduce work hours instead of laying people off, and workers can collect partial UI benefits to help make up for lost wages. Seventeen states have short-time compensation programs. Some of these states have experienced a dramatic increase in the program's use. In California, for example, program use increased 127 percent during the past year and 300 percent between 2007 and 2009.

The most severe recession in decades underscores the need to make short-time compensation programs more effective for workers and employers and more widely available across the country. In a July 2009 Upjohn Institute publication on labor market policy, two economists called the lack of programs in 33 states "a significant gap in U.S. social insurance policy."[xv] Congress should take steps to provide a solid basis for existing and new state short-time compensation programs by addressing the limitations of the 1992 Unemployment Compensation Amendments. Senator Jack Reed has introduced a bill (S. 1646) to strengthen and expand state programs.

Transitional Jobs

During tough economic times, individuals with little or no work experience or with other barriers to employment face the greatest challenges in gaining or regaining employment. Transitional Jobs programs provide time-limited, wage-paying employment combined with case management and supportive services to help these populations enter the workforce.
Research suggests that Transitional Jobs is a promising strategy for hard-to-employ individuals. Recent findings indicate that:

- A program serving welfare recipients increased the likelihood that participants would find employment and experience reduced need for public assistance.
- A program serving formerly incarcerated individuals greatly reduced the likelihood that individuals would be convicted of a crime or be admitted to prison for a new crime.

Earlier this year, President Obama requested $50 million for a Transitional Jobs demonstration as part of the FY 2010 budget. The House of Representatives acted to support the President's request, and the Senate Appropriations Committee authorized up to $40 million for a demonstration. The final bill should fully fund the President's request to ensure a robust Transitional Jobs demonstration. The funds should serve as many people as possible through the grant program and provide for a sound, independent program evaluation.

Workforce Investment Act

The Workforce Investment Act (WIA) authorizes the nation's federally funded workforce development system, which provides employment services and education and training to adults, youth and dislocated workers. This system has experienced a long-term funding decline. Between 2000 and 2007, WIA program funding declined about 12 percent, according to the Congressional Research Service. This, in part, has resulted in a steady decrease in the share of individuals who are low-income or have barriers to employment and receive training or intensive services, such as case management.

The Recovery Act may reverse these trends. Congress appropriated about $3.95 billion for WIA programs, nearly doubling the resources available for workforce services. Most of this additional funding is available to states until June 2011. The Recovery Act includes a special emphasis on serving low-income and less-skilled adults as well as displaced workers. In addition, the legislation allows local areas to contract directly with institutions of higher education and other training providers. This provision increases the flexibility of local areas to provide training through Individual Training Accounts or contracts to meet the needs of less-skilled adults.

Recovery Act implementation is showing early signs of progress. Following Recovery Act passage, the U.S. Department of Labor quickly allocated formula funding to states, which, in turn, distributed funds to local areas. The Labor Department issued Solicitations for Grant Applications for six competitive grant programs during the summer. Although implementation is still underway, evidence shows that states are responding by emphasizing the need for training and other strategies aimed at low-income, less skilled adults. Many states have issued guidelines to ensure that the bulk of new funding goes for training and related services. Some states have used their own discretionary funds to support educational and career pathways for less-skilled adults and displaced workers. For example, Illinois is encouraging community colleges, community-based organizations and other providers to develop bridge programs that combine basic skills instruction with preparation for occupations in four sectors: manufacturing, health care, transportation/distribution/logistics and alternative energy. Wisconsin has released Skills Jump grants to help individuals without a high school diploma improve their basic skills and complete occupational training in the manufacturing and health care sectors.

The WIA provisions contained in the Recovery Act suggest the types of longer-term workforce policy changes that should be sustained through WIA reauthorization. These changes focus the system on increasing services to low-income, less- skilled adults and displaced workers and emphasize use of training with related services to help people participate in and succeed in training.

The recession that began in December 2007 has created the worst labor market conditions in decades. Low-income individuals, those with low levels of education and literacy, and those with barriers to employment face the greatest challenges. The Recovery Act provided a timely boost of workforce funding that is likely to increase the level of employment, education and training services for vulnerable individuals. At a time of high unemployment and continued economic hardship, it is critical to continue to invest in education, training and employment services for low-income, less-skilled adults and displaced workers, so they can build their skills and prepare for jobs that will grow as the economy recovers.

Jobs and Supports for Youth

Young people, especially those in economically distressed communities, have been dramatically affected by the economic downturn and lack of access to employment opportunities. Even before the recession, youth employment was at its lowest level in 60 years. The recession has worsened the situation for youth ages 16 to 24. The Center for Labor Market Studies (CLMS) at Northeastern University estimates that the employment rate for teens is 32.8 percent for all, and 22.7 percent for black teens[xvi]. CLMS also estimates that there are about 6.2 million youth in this age group who are high school dropouts.[xvii] Even as the economy recovers from the recession, job growth will lag, and gaining access to jobs for many youth, especially those lacking education and occupational skills, will remain challenging well into the middle of the next decade.

Mechanisms exist within WIA to allow funding to flow to local communities to provide jobs, education, and training opportunities for youth. The Recovery Act provided $1.2 billion to the WIA system, which was used predominantly to implement a summer jobs program and provide summer jobs to 226,000 youth this year. It is critical that this funding be retained.

The youth unemployment challenge however, requires more than a summer intervention. Congress should consider appropriating additional funds into the WIA Title I youth formula to allow the extension of jobs and supports beyond summer for out of school youth ages 16 to 24. Congress should also consider an additional appropriation of $250 million in the WIA Title I youth funding stream to reactivate Youth Opportunity (YO) Grants that are already authorized in the WIA legislation. These grants direct funding to areas of concentrated poverty to implement education, training and employment activities directed at getting disconnected youth connected to pathways to employment. Youth Opportunity Grants were implemented in 2000 in 36 communities as the country entered into an economic recession. An evaluation released by the Department of Labor indicated that YO had a positive impact on school retention, labor market participation, youth employment rates, and postsecondary attendance. [xviii]

Shoring up the Safety Net

Temporary Assistance for Needy Families (TANF)

In 1996, the Temporary Assistance for Needy Families (TANF) block grant replaced Aid to Families with Dependent Children (AFDC), which had provided cash assistance to very low-income families. The block grant provides cash assistance but also can be used for a wide range of benefits and services that are aimed at one of the four purposes of TANF. Cash assistance caseloads declined sharply following welfare reform, and states in 2007 used on average only 30 percent of TANF and state maintenance of effort funds on cash benefits, down from more than 70 percent in 1997.[xix] The decline in caseloads was in part caused by the increase in work and corresponding decrease in poverty among single parents in the late 1990s, but there was also a significant decrease in the share of eligible families who received assistance, from 80 percent in 1995 to just 40 percent in 2005.[xx]

At the time that TANF was created, the economy was growing strongly and unemployment was at historic lows; therefore, most states designed their programs around the assumption that jobs would be plentiful. Many states imposed up-front requirements on applicants for benefits, including mandating that they attend orientation sessions and participate in job search activities before they could be approved for assistance. Most recipients who are counted toward the work participation rate requirement have been in unsubsidized employment, with job search/job readiness programs the next most common activity.[xxi]

The American Recovery and Reinvestment Act of 2009 included several provisions designed to strengthen TANF's role as a safety net. Most significantly, it created a new $5 billion Emergency Fund that is available to reimburse states for 80 percent of their increased expenditures in any of three countable areas: basic assistance, short-term non-recurrent benefits, and subsidized employment. Each state can receive up to 50 percent of its block grant over the two years of the Emergency Fund. In addition, the ARRA provided a "hold-harmless" clause for states that experienced caseload increases, stating that they could still receive the caseload reduction credit toward the work participation rate requirement that they had received in 2007 or 2008. These provisions were designed to remove the disincentive, under current law, for states to allow additional needy families to receive cash assistance.

Thus far, it appears that the Emergency Fund is having modestly positive impacts in many states, and significant impacts in others. Based on the caseload data reported to HHS and posted on state websites, most states are now experiencing at least some increases in their TANF caseloads, and a few states are experiencing double digit increases. The availability of the Emergency Fund has averted significant cuts to assistance programs in some states. It has led at least 10 states to create or expand of subsidized employment programs. The opportunity to leverage additional federal funds also has drawn philanthropic interest.

Since the enactment of the Recovery Act, CLASP has engaged in extensive outreach and technical assistance to states to encourage them to take advantage of the Emergency Fund to serve low-income families. We believe that the two most important reasons the Emergency Fund has not motivated more dramatic expansions of service are:

- *The 20 percent state contribution.* States are facing such severe financial crises that new funding for services has been nearly impossible to find, no matter how worthy the goal or significant the federal contribution.
- *Timing.* States are very reluctant to make permanent changes to their programs based on temporary availability of funding. Moreover, many state legislatures had recessed by the time guidance was available on the use of the Emergency Funds; in some cases, they are not back in session until January 2010, leaving little time for the implementation of any programs.

TANF is due for reauthorization during 2010. It is urgent that Congress proceed with this in a timely manner, as we know from the last round that states are unlikely to make significant program changes while reauthorization is pending. One of the priorities during reauthorization should be to incorporate permanently the Emergency Fund into the law:

- In addition to the three current spending categories, spending on work activities, including education and training, for recipients should be available for reimbursement.
- States should receive access to the Emergency Fund based on their unemployment rates, with states that have higher unemployment rates receiving higher levels of reimbursement.
- Once states trigger on, they should remain eligible for reimbursement for extended periods (such as two years) so that they can plan around the ongoing availability of funds.

In addition, the caseload reduction credit should be permanently eliminated or replaced and new performance standards should be adopted that measure state achievement in protecting vulnerable children and families from economic hardship, as well as in promoting employment and pathways to economic success.

Child Care

Every day millions of families rely on child care to help them go to work and school and to help their children learn and develop the skills they need to thrive. Quality child care is expensive and low-income earners need help meeting the high costs. In February, Congress recognized the vital importance of child care assistance in helping low-income families obtain jobs and remain in the workforce by including $2 billion for the Child Care and Development Block Grant (CCDBG) in the American Recovery and Reinvestment Act (ARRA). CCDBG is the largest federal source of funding to states for child care assistance and serves children birth through age 13.[xxii] ARRA child care funds are one-time funds to help states recover from the economic crisis by creating new jobs and serving more families.[xxiii]

Child Care and Development Block Grant (CCDBG) ARRA funds are available until September 30, 2010. The U.S. Department of Health Human Services issues weekly reports tracking state outlays of ARRA funds. As of October 21, states, territories, and tribes have drawn down a total of $244.8 million in child care funds, or 12.3 percent of the $2 billion allocation.[xxiv] States are beginning to accelerate their draw down rate now that they have an understanding of federal reporting requirements, and have approved state plans. States report to the Child Care Bureau that they are spending the money in a variety of ways to benefit families during the economic crisis, including:

- At least 11 states avoided or will avoid cuts in service or reduce their waiting list.
- At least 11 states or territories have increased or plan to increase their payment rates.
- At least 10 states territories have increased or plan to increase the period of time that parents can look for jobs.
- At least four states lowered or are planning to lower their copayments.
- At least 41 states and territories have plans for the quality portion that include QRIS, professional development and infant/toddler care.[xxv]

Based on expenditure data, CLASP estimates that 2.2 million children received child care through all sources in 2007, or 250,000 fewer children than at the start of the decade.[xxvi] In 2000, only one in seven—or 14 percent—of federally eligible children received assistance.[xxvii] Yet, between 2000 and 2007, the number of children from birth to age 13 living in low-income households (those earning less than 200 percent of the federal poverty level) grew by nearly 1.2 million, or 5 percent.[xxviii] In other words, the number of children receiving help has *fallen* while the number of children living in low-income families potentially eligible for assistance has *grown*. The result may be a larger share of unserved children today compared to 2000.[xxix]

When low-income families receive help meeting child care costs they are more likely to enter and remain in the workforce, and may work more hours. Researcher David Blau of The Ohio State University notes that a child care subsidy generates more additional hours worked per dollar of government spending than a comparable wage subsidy.[xxx] Further, a study analyzing longitudinal Census Bureau data to examine women's employment experience during the 1990s found that "[r]eceiving a subsidy for child care promotes longer employment durations among women, regardless of marital status or educational attainment." The study found that single mothers of young children who received child care assistance were 40 percent more likely to still be employed after two years and former welfare recipients were 60 percent more likely to still be employed after two years than those who did not receive any help paying for child care.[xxxi]

The economic stimulus funds for child care have made a tremendous difference for thousands of children and families. As the recession continues to affect low-income families, it will be critical to continue to invest in child care assistance to help parents work and to provide high quality child care for their children.

Medicaid

The ARRA also provided significant fiscal relief to states in the form of a temporary increase in the Medicaid matching rate. Medicaid comprises a significant portion of state budgets, and absent this provision, states likely would have had to cut Medicaid benefits or coverage substantially just when more people were seeking help. The fiscal relief also averted the layoffs of state employees and health care providers. These provisions are scheduled to expire on December 31, 2010. The Rockefeller Institute, based on previous recessions, projects that states will continue to experience major budget deficits for three to five years.[xxxii] While the broader question of the long-term balance in state and federal responsibility for health care financing should be addressed as part of the overall health insurance reform legislation, there is no doubt that health care will hit a severe and painful cliff if the enhanced match is not extended and phased out more gradually.

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[xxix] The precise number of children eligible for child care assistance under federal law is unknown. Under CCDBG, states may provide child care assistance to families with incomes under 85 percent of State Median Income (SMI). While the value of SMI varies across the states, we use the number of low-income families with children under age 14 as a proxy to estimate the possible pool of families eligible for assistance. HHS estimates that a total of 2.5 million children will receive assistance through all sources, including ARRA funds, in 2010.

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