

BATTERED BY THE STORM

How the Safety Net is Failing Americans and How to Fix it

A Study
by the Institute for Policy Studies, the Center for
Community Change, Jobs with Justice, and Legal Momentum

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December 2009

Special Thanks: This study was made possible by a generous grant from Max Palevsky, whose passion for the arts and social change has supported many endeavors for a better world.

Acknowledgements: The authors would like to thank Dean Baker for his assistance on the unemployment sections, Chuck Collins for his assistance on Chapter 3, Sarah Anderson and Jen Doak for careful editing assistance, Tom Lewandowski for assistance on the boxes, Danilo Pelletiere for his assistance on the housing section, Deborah Weinstein of the Coalition on Human Needs for her analysis of the Recovery Act, as well as Tamar Abrams, Germonique Ulmer, and Erin Smith for their leadership on communications.

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Key Findings

1. The Economic Crisis is Still Spreading for Millions:

- **Unemployment:** October's 10.2 percent official unemployment level is expected to keep rising into 2010, and levels of long-term unemployment, underemployment, and discouraged former workers are reaching historic levels.
- **Poverty and Hunger:** Improved (but still low) poverty measures reveal that in 2008, nearly 50 million Americans were poor, including nearly one in five children, and these numbers are expected to rise further in 2009 and 2010. Likewise, hunger ("people with inadequate access to food") affects more than 50 million Americans, including almost one in four children.
- **Housing:** The burst housing bubble of 2008 has resulted in a current rate of roughly 150,000 home foreclosures a month, a trend which is slated to continue into next year and beyond. This will affect 10 percent of homeowners by 2012.
- **Race and Gender:** Statistics show that what is an economic recession for Whites is an economic depression for African Americans, Latinos, single mothers, and children.

2. The Social Safety Net, Eroded Over the Past 30 Years, has Failed Millions of Poor People:

- **The Recovery Act:** The February 2009 Recovery Act is providing hundreds of billions of dollars to safety net programs and has helped save lives, but tens of millions of Americans are still jobless and precariously housed or homeless.
- **Unemployment Insurance:** Roughly 57 percent of unemployed people are receiving unemployment compensation; for those receiving benefits, amounts are less than half of wages, and many are losing work-related health benefits.
- **Temporary Assistance for Needy Families (TANF):** The percentage of poor children receiving temporary assistance under the main federal "welfare" program has fallen from 62 percent in 1995 to 22 percent in 2008. TANF benefits in 2008 averaged only 29 percent of the money needed to reach the official poverty line.
- **Food Stamps:** The federal food stamp program is the safety net program that has responded most to rising needs, with the number of families receiving benefits

jumping from 13 million households in June 2008 to 16 million households in June 2009. Yet, the average benefit is less than \$300 per month per household.

- **Child Care:** Even while labor force participation of mothers has increased, the supply of affordable child care has lagged far behind, creating a significant barrier to employment for many, especially single mothers.

3. Americans Need an Emergency Relief Package Immediately

- **A \$400 billion emergency relief package could create 1 million new jobs, cover the huge fiscal deficits of states and localities, and cover major shortfalls in safety net programs:**
 - *Jobs:* A public jobs program of \$40 billion can create 1 million jobs.
 - *State and Local Fiscal Deficits:* Up to \$270 billion will be needed in 2010 to cover state and local deficits, which could sustain vital funding for critical safety net programs, and could save the jobs of millions more workers.
 - *Safety Net:* Just over \$100 billion for the expansion of programs that provide income or income equivalents to help people better weather the storm: Temporary Assistance to Needy Families (TANF), Un-

employment Insurance, and Food Stamps; and new policies to address the housing foreclosure crisis.

- Most economists agree that such job creation and safety net spending are vital in a crisis like this, even without new revenues. One of the report's authors details how the \$400 billion package could be funded by tax shifts to close offshore tax havens, curbing speculative stock trades, and raising the top marginal rate to the levels that preceded the most recent Bush tax cuts.

4. Americans Need A Long- Term Strategy to Create an Effective Safety Net and Eliminate Poverty

We need a longer-term strategy to end the scourge of poverty in our nation and to help all people achieve a living income, without regard to race, religion, or gender. Such a strategy would include raising the income of current workers and recipients of public benefits, establishing a robust and effective safety net, investing in the future of our children, and creating safe and healthy communities for all people.

Introduction

The “Great Recession” of 2008-09 has battered the livelihoods, homes, and security of American families. Just as Hurricane Katrina exposed the weakness of our nation’s physical safety infrastructure, this economic storm has exposed the weakness of our nation’s social safety net.

Seventy-five years ago, New Deal programs created in response to the Great Depression laid a broad foundation for economic protection. Programs such as Social Security, unemployment insurance, and Aid to Families with Dependent Children served as a buffer when jobs and income were scarce. In addition, the Works Progress Administration and Civilian Conservation Corps provided jobs to millions. The Great Society programs of the 1960s expanded this infrastructure with Medicare and Medicaid. More recent decades saw the creation of food stamps, the Earned Income Tax Credit, and the Child Tax Credit.

However, over the past 30 years, these programs have been seriously eroded, in part as the result of inflation, but also by neglect and, some would say, even by design. As this report documents, the current recession has only widened the already gaping holes in our social safety infrastructure. While some have declared the recession over, pointing to the bull market and overall economic growth, this report documents how the economic storm is raging on in homes, tent cities, and shelters across the country. It then looks at how the American Recovery and Reinvestment Act (ARRA) of 2009 has performed thus far.

In the last two chapters, we offer immediate policy solutions, followed by an outline of long-term measures based on universal principles of equality and social justice. We believe these practical and affordable remedies are necessary to confront the greatest economic storm in a generation and to build the 21st century safety net needed to weather future storms.

Chapter 1: The Economic Crisis and Expanding Hardship

After the Dow climbed above 10,000 in October, many pundits declared the worst of the economic crisis over. “America is back on its feet,” they crowed.

This may be true for some on Wall Street, but it’s most certainly not true for tens of millions of Americans who have lost their jobs, plunged from the middle class into poverty, or been failed by our rickety social safety infrastructure. The crisis endures. It is deep, it is measurable, and it affects all of us.

In this section, we look at the state of unemployment, poverty, and housing in America, highlighting the effects on already economically vulnerable populations—African-Americans, Latinos and female heads of households.

The Unemployment Crisis

As the stock market has rebounded, the number of people without jobs has continued to grow. And while the unemployment rate typically falls quickly following a recession, this is not likely to be the case with this downturn.

In October 2009, earlier than predicted, the unemployment rate went into double digits, hitting 10.2 percent.¹ The Congressional Budget Office has projected that this rate will average 10.2 percent in 2010 and decline only slightly to 9.1 percent in 2011. By 2012, unemployment is expected to still be as high

as 7.2 percent, almost three full percentage points above pre-recession levels.²

Not only are more people unemployed, they are staying unemployed longer than in past recessions. The high rate of long-term unemployment (those who are unemployed for six months or more) reveals the depths of the crisis. While there has been a 36 percent increase in jobless workers since December 2008, long-term unemployment is up 110 percent over the same time period.³ This means that the number of jobless workers experiencing long-term unemployment has increased at three times the unemployment rate.⁴ Altogether, nearly 5.5 million Americans, or 35.6 percent of all jobless workers, have been out of a job for six months or more.⁵

The crisis has been particularly brutal in the industrial heartland, once a middle class stronghold. The Congressional Budget Office reported in 2004 that manufacturing jobs nationwide, at 14 million, were the lowest in over 50 years.⁶ In the current recession, another two million of these relatively high-paying jobs have been slashed. In one chilling sign of the hollowing out of U.S. industry, two former manufacturing hubs in Michigan have recently joined the ranks of the top 10 poorest communities in the country.⁷

The official unemployment numbers do not accurately represent the impact of today’s recession, since they do not include the millions of Americans that are underemployed or have given up looking for a job.

Underemployment refers to the following two kinds of working conditions: 1) when high-skilled workers are employed in low-wage jobs that do not require their level of expertise, and 2) when people who would like to work full-time are forced to work part-time. As people experience unpaid furloughs and cutbacks in hours, the number of underemployed has risen to 11 million.⁸ This makes the combined total of underemployed and unemployed 27.4 million workers, or 17.5 percent of the workforce.⁹ And job cutbacks and losses are not distributed evenly. As Lawrence Mishel, president of the Economic Policy Institute, points out, blue-collar unemployment is rising three times as fast as white-collar unemployment.¹⁰

Latinos and African Americans are being hit harder than the general population. Since the recession began in December 2007 unemployment among Latinos, who are heavily employed in the housing industry, has jumped the most, by 6.9 percentage points, to 13.1 percent. African-American unemployment has risen nearly as much, by 6.8 percentage points to 15.7 percent. Among whites, the same rate has increased by 5.1 percentage points to 9.5 percent.¹¹ While women overall have a lower official unemployment rate than men, women who are full-time caregivers are not counted as unemployed, even if lack of childcare is the reason they are not looking for work. Together with men who have given up looking for work, there has been a decrease in the proportion of adults in the workforce of 5.8 percent, or 13.8 million fewer people in the workforce.

Rising Poverty

An all too common cultural view in the United States is that “the poor” are a small, permanent sector

of the population, made up predominantly of African Americans, Latinos and single mothers who are lazy, promiscuous, or drug-addicted. In reality, poverty is widespread: It affects all races, two-parent and single-parent families, and the employed as well as unemployed. Children are the hardest-hit. According to Washington University Professor Mark Rank, rather than a condition of the “undeserving poor,” poverty in America is a “state into and out of which a majority of the population will move [over their lifetimes].”¹²

The current crisis has opened many eyes to this sad reality. Recent Census Bureau data show that nearly 40 million people, or 13.2 percent of the population, were living in poverty in 2008, the highest level in over a decade (the income threshold for a family of four was \$22,050).¹³ Real median household income declined 3.6 percent between 2007 and 2008 to \$50,303, the largest single-year decline on record and the lowest amount in real dollars since 1997.¹⁴

In percentage terms, people of color and children are suffering the most. The poverty rate was 24.7 percent for African Americans and 23.2 percent for Latinos.¹⁵ As of 2008, 19 percent of all children under 18 lived in poverty. While children only represent a quarter of the U.S. population, they represent 35 percent of those living in poverty. The economic crisis of the past year has made things much worse. The overall national child poverty rate is expected to increase to 25 percent by the end of 2009, and the rate for African-American children is expected to exceed a shocking 50 percent.¹⁶

The picture will only look gloomier as more recent data become available. The Economic Policy Institute has projected that the overall poverty rate will

Box 1: There are No Jobs

Robin Needham, Kendallville, Indiana: My husband lost his job in March and has been laid off since. We've had a hard row we've been hoeing. Jobs are just not out there, and we've got an unemployment system that seems to be broken.

We're surviving basically on unemployment right now. . I'm looking for a job, my husband is looking for a job, and there's just no jobs out there. We've both gone to temporary services and signed up, and we haven't gotten any jobs because we want fulltime work and we want to stay in the general area because gas is so high. So, my husband signed up for unemployment and it took a long to get it rolling, and that's what we are living on right now. But it's hard.

We were both foundry workers. When I had my children, I quit to stay home and raise my kids. My husband worked at Dalton for over 18 years until they closed. . My kids are doing okay. . They are both teenagers. They both couldn't find jobs this summer, which was kind of discouraging for them. They thought they'd be able to walk into some kind of part-time job. They are both good kids, they get straight As. And we tell them, this is just how it is.

They are also active in the Unemployed and Anxiously Employed Workers Initiative, and they campaigned on the campaign trail for all the politicians that came up. So they are learning at our knee to fight for what rights they have and keep it going.

They've stood in line with us in the unemployment offices and they see how the system is really broken, and how long you really have to wait, and if you leave early how you're out of luck.

They saw one lady there with her kids, her little girl had to go to the restroom and there wasn't a restroom she could use there. So, she left to go next door to use the restroom at the bank. . When she came back they said, "we called your number, we're sorry; come back the next day." And this woman, she can't afford child care right now because she is unemployed. And I remember my kids thinking this is really sad, because the lady just dissolved into tears. You wait in long lines, they give you an 800 number. . It never gets answered at the state level and if you email them that doesn't get answered either, so, it's hard.

This interview was conducted by The Unemployed and Anxiously Employed Workers' Initiative in September 2009.

likely increase by 1.5 percentage points in 2009 and by an additional 0.4 percentage points in 2010, for a total increase of 2.6 percentage points from 2007–2010. For children, the poverty rate will likely increase 8.6 percentage points from 2007 to 2010, to 26.6 percent in 2010. For African Americans, the poverty rate will likely increase by 7.3 percentage points from 2007–2010. By 2010, EPI projects that nearly one-third of all African Americans living in the United States will be living in poverty.

However, given that the Census Bureau's methodology for measuring poverty has not been updated for 40 years, even these numbers seriously underestimate the number of people lacking adequate income.¹⁷ The Census Bureau itself acknowledges as much by reporting two numbers, the "official" rate as well as an alternative measure recommended by the National Academy of Sciences (NAS) that uses only slightly higher poverty thresholds. This NAS measure estimates that there are about 51 million Americans in poverty, 11 million more than the official count.¹⁸ If a more realistic, geographically specific measure of the minimum cost of living were used, such as the Self-Sufficiency Standard (created by Diana Pearce and calculated at the Center for Women's Welfare at the University of Washington), then the number of people with inadequate income to meet basic needs, including work-related costs, health care and taxes, would substantially increase to two or more times the official count.¹⁹ There is an urgent need to develop new official federal poverty measures that are based on more realistic and adequate thresholds than the current outdated measure.

The U.S. Department of Agriculture provides another important poverty indicator by monitoring

"food insecurity," meaning that at some time during the year, a household has had difficulty providing enough food for all members due to a lack of resources. The USDA recently reported that in 2008, nearly 50 million people—including almost one in four children—had inadequate access to food.²⁰ The number was the highest since the agency began studying the issue in 1995. Not only is the number of people struggling to get enough food increasing, but according to the group Feeding America, the number of middle-class working families seeking food assistance is also rapidly growing.²¹

Rising Foreclosures, Doubling Up, and Homelessness

This Great Recession is perhaps most associated with the bursting of the housing bubble.

Unfortunately, the crisis is not over. The current rate of almost 150,000 foreclosures a month is virtually certain to continue, driven by the painful mix of falling house prices and high unemployment. The Center for Responsible Lending estimates that 2.4 million homes will fall into foreclosure in 2009 and that by 2012, this number will have increased to 9 million, over 10 percent of the country's owner-occupied homes.²² When the pace of foreclosures eventually tapers off, the main reason will be that many of the currently troubled homeowners will have already lost their homes.

The impact of foreclosure goes far beyond the owners of these homes. Neighboring houses often decrease in value, shrinking what is most Americans' main source of wealth. Renters, and particularly renters who are people of color, are also being caught up in the crisis. Foreclosed rental units are concentrated in

Box 2: To Get Sick in America Without Insurance is Suicidal

Vera “Jan” Sizemore worked as a registered nurse in Cleveland, Ohio until she experienced three severe strokes. She was not able to receive medical care after her insurance company determined that she had a pre-existing condition that didn’t qualify her for care. Due to the actions taken by the insurance company, Jan depended on her former husband who was a truck driver and a union member, through which he had health care for himself and his family. In July 1999, Jan woke up after taking a nap with paralysis on her left side that involved both her arm and leg. Her husband rushed her to the emergency room, where a battery test diagnosed her with a right cerebral stroke. . Two years after this, Jan and her husband divorced. Due to the divorce, Jan was dropped from coverage and told that she’d have to pay \$700 a month to maintain coverage. This wasn’t a feasible option for Jan and she tried to get medical coverage privately. Her efforts were fruitless, as she was either repeatedly turned down due to her “pre-existing stroke condition” or asked to pay enormous premiums. So Jan opted to go to discounted clinics and satellite hospital programs, paying for her hypertension medication with donations from family and friends.

On November 19, 2007, Jan began experiencing difficulty writing, swallowing, standing and talking. She was rushed to the emergency room and remained in intensive care for four days, only to leave with a total discharge bill of \$6,000. She was denied Social Security for eight months and only got it after eight months of threats to the Social Security Administration of a congressional investigation. She was awarded Social Security and could afford to purchase her medicine, but because she didn’t qualify for Medicaid, she spent an average of \$900 a month on medicine. After some time, Jan became violently sick. In the hospital, she was moved from floor to floor and dismissed by doctors and staff. One day, a resident doctor determined Jan needed a CAT scan, which determined that she needed emergency surgery. After the surgery Jan was in a coma for two weeks and could barely see for two and a half months. She left the hospital with a \$30,000 bill and living expenses that skyrocketed to a level she could no longer manage. She is currently in foreclosure, jobless and uninsured. Jan says that “to get sick in America without insurance is financially suicidal.” After 30 years of working to help care for others, it is horrific to see how Jan was treated by the occupation she once worked for.

This story was written by the staff of Jobs with Justice after interviews with Jan.

low-income, minority neighborhoods, where predatory lending, falling home prices, and rising unemployment are also concentrated. The National Low Income Housing Coalition estimates 40 percent of families facing eviction because of foreclosure are renters (with some areas having an even higher percentage of renters).²³ President Obama signed legislation in May 2009 that guarantees 90-day notice before a family can be evicted, and protects leases (with limitations) and Section 8 subsidies. However, many renters face eviction when their housing changes ownership. Adding to the problem is the fact that foreclosed properties often remain empty for long periods of time, creating housing shortages and crowding in the rental market.

The recession is pushing many poor families to move in with relatives or friends.²⁴ Though this may be an effective strategy to forestall homelessness, at least temporarily, it also results in the “disappearance” of these poor families, for the now larger (and often overcrowded) doubled-up households often technically rise above the artificially low federal poverty line, and thus are not counted as “poor.” One study found that when looked at separately, about one-third of doubled-up families were poor, but when they doubled up, only one-fifth were poor.²⁵

Finally, the most invisible of the poor, the homeless, are also increasing. Official poverty counts exclude the homeless, ironically, because these numbers are based on household surveys. According to the National Law Center on Homelessness and Poverty, as of 2007 approximately 3.5 million people (1.3 million of them children) were likely to experience homelessness in a given year.²⁶ The number is estimated to be higher today because of the recession. The National Law Cen-

ter on Homelessness and Poverty reports that state and local homeless advocacy groups are seeing a 61 percent rise in homelessness since the foreclosure crisis began in 2007.²⁷

A Recession for Whites is a Depression for African Americans, Latinos, and Single Mothers and Children

As a general rule, the least advantaged get hit hardest in a downturn. This pattern is holding in the current economic crisis. As mentioned above, unemployment rates for Latinos and African Americans are substantially higher and have risen faster than those for whites. Among younger workers the gaps are even greater, with 41.3 percent of African-American teenagers unemployed, compared to 25.3 percent of whites in their age group.²⁸

Co-authors Barbara Ehrenreich and Dedrick Muhammad point out in a recent New York Times article that: “In fact, you could say that for African Americans the recession is over. It occurred from 2000 to 2007, as black employment decreased by 2.4 percent and incomes declined by 2.9 percent. During those seven years, one-third of black children lived in poverty and black unemployment—even among college graduates—consistently ran at about twice the level of white unemployment. That was the black recession. What’s happening now is more like a depression.”²⁹ Ehrenreich and Muhammad point out that the most dramatic aspect of this crisis is the collapse of the African-American middle class.

Box 3: For Whites, a Recession; for African Americans, a Depression

[Y]ou could say that for African Americans the recession is over. It occurred from 2000 to 2007, as black employment decreased by 2.4 percent and incomes declined by 2.9 percent. During those seven years, one-third of black children lived in poverty, and black unemployment—even among college graduates—consistently ran at about twice the level of white unemployment.

That was the black recession. What's happening now is more like a depression. Nauvata and James, a middle-aged African-American couple living in Prince George's County, Md., who asked that their last name not be published, had never recovered from the first recession of the '00s when the second one came along. In 2003, Nauvata was laid off from a \$25-an-hour administrative job at Aetna, and in 2007 she wound up in a \$10.50-an-hour job at a car rental company. James has had a steady union job as a building equipment operator, but the two couldn't earn enough to save themselves from predatory lending schemes.

They were paying off a \$524 dining set bought on credit from the furniture store Levitz when it went out of business, and their debt swelled inexplicably as it was sold from one creditor to another. The couple ultimately spent a total of \$3,800 to both pay it off and hire a lawyer to clear their credit rating. But to do this they had to refinance their home — not once, but with a series of mortgage lenders. Now they face foreclosure.

Nauvata, who is 47, has since seen her blood pressure soar, and James, 56, has developed heart palpitations. "There is no middle class anymore," he told us, "just a top and a bottom."

Excerpted from Barbara Ehrenreich and Dedrick Muhammad, "The Destruction of the Black Middle Class," New York Times,

August 4, 2009.

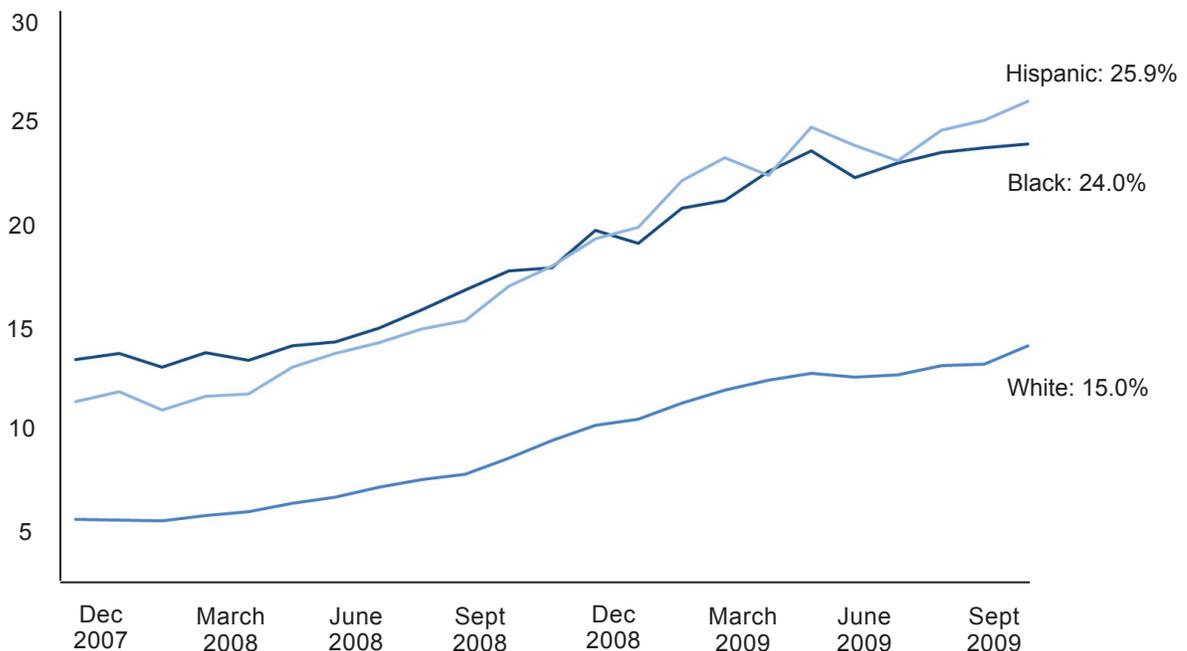
A recent study by the AARP reports that although older Americans (those aged 45 and over) as a whole have suffered economically during this recession, the effects have been even more devastating for older African Americans and Latinos.³⁰ What the study calls “ethnic boomers and elders” have a job loss rate that is 50 percent higher, and more than twice as many are finding it harder to pay for food, heating and other essential human needs in this recession compared to older Whites. The findings also showed that in this demographic of older African Americans and Latinos:

- More than one in four are having trouble paying medical bills;
- More than one-quarter are having trouble paying their rent or mortgage;

- About one in three live in neighborhoods which are facing a major problem with foreclosures; and
- One-third of older African Americans and nearly 40 percent of older Latinos are postponing or forgoing needed medical and dental care;.

With the higher overall level of female labor force participation, women of all types of background (but particularly single mothers) are increasingly vulnerable to economic downturns. Women who are heads of households have an unemployment rate of 12.9 percent, compared to 5.9 percent for married women.³¹ Among families headed by single mothers, 37 percent were poor in 2008, and the Economic Policy Institute estimates

Chart 1: Underemployment by Race



Source: EPI analysis of Current Population Survey, data are seasonally adjusted.

that because of rising unemployment, this figure could climb to 45 percent for 2009.³²

The Joint Economic Committee of the U.S. Congress reports that as of May 2009, the recession had cost nearly one million single mothers their jobs. The report further explained that among single mothers, African Americans and Latinas are most adversely affected. Job loss undercuts single mothers' ability to afford health insurance for themselves and their children. As of last spring, at least 121,000 children had lost health insurance as a result of rising unemployment in woman-maintained households over the previous year.³³

Conclusion

What do these alarming trends mean in real terms for American families? They mean that more and more Americans are forced to choose between food and rent, between medicine and shelter, between staying together and being forced to live separately in shelters or doubled-up living situations. The already-poor, the near-poor and the middle class are now increasingly unable to achieve adequate nutrition, maintain good health, receive a good education, and keep a roof over their heads. For a growing number of us, the idea of being able to care for one's family, raise happy and healthy children, and contribute productively to society is fast becoming an unattainable dream.

Chapter 2: The Social Safety Net in the Economic Crisis

What is the “safety net” that Americans fall back on when they face their own personal or family crisis, and how is it serving those Americans most in need during this economic crisis?

The Safety Net in America Today

An imperfect but relatively broad foundation for a safety net was laid 75 years ago, in the midst of this worst economic crisis of the past century: the Great Depression. A strong labor movement, alongside thousands of citizen organizations that came together to fight for basic rights and standards, pressed the administration of Franklin Delano Roosevelt for a broad new set of government programs. After widespread social upheaval, the Roosevelt administration passed through Congress a set of New Deal programs that included Social Security, Unemployment Insurance, and AFDC (Aid to Families with Dependent Children).³⁴ Three decades later, in the midst of the civil rights movement and movements to combat poverty, subsequent programs such as Medicare,³⁵ Medicaid,³⁶ and food stamps were added, substantially strengthening the net.

Despite several decades of legislative rollbacks and neglect, a variety of federal and state administered social safety net programs are still available to millions of needy families in the United States. Some safety net programs such as Medicare, Social Security, and Unemployment Insurance are “social insurance” programs

rather than anti-poverty programs per se. These are also “entitlement” programs; all who apply and are eligible are entitled to receive these benefits. The anti-hunger “food stamp” program now known as Supplemental Nutrition Assistance Program (SNAP) is also an entitlement program, but because it is means-tested, it is limited to those whose income (and assets) fall below program eligibility income limits. Other programs are means-tested, but not entitlements, being subject to budget allocations at the federal and/or state level, such as Temporary Assistance to Needy Families (TANF) and housing vouchers. In these programs, even if people qualify, the number receiving benefits is limited by general budget allocations. This is especially an issue when government budgets, particularly state budgets, are strained by falling revenues. Finally, there are tax credits which, if refundable, go to people at all income levels, but are generally targeted to low income earners and their families, such as the Earned Income Tax Credit.

Even before this recession, our safety net programs provided uneven protections against poverty. A recent study by the Center on Budget and Policy Priorities found that in 2005 (the latest year for which this data is available), the aggregate of safety net programs cut the number of Americans living in poverty by 44 percent from what it would have been had the programs not existed.³⁷ However, the same report also found that these programs’ effectiveness had eroded over the previous decade, so that a smaller percentage of children (76 percent in 2005 as compared to 88 percent in 1995) and jobless workers (60 percent as compared to 70 percent

in 1995) were protected from falling into “deep poverty,” defined as half or less of the household poverty line.³⁸

In the current crisis, some programs have been more responsive than others, and eligibility, benefits, and anti-poverty effects vary enormously from state to state, and even within states. One step in the right direction for meeting some of the challenges came in February 2009, when the U.S. Congress passed the American Recovery and Reinvestment Act. Roughly a third of this \$787 billion bill went into tax cuts and roughly a third is going toward job creation. The remaining third is going toward safety net programs.³⁹

In the paragraphs that follow, we examine five major safety net programs: Unemployment Insurance (UI), Temporary Assistance to Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP) (formerly known as Food Stamps), housing and child care. In each case, we look at both the state and federal programs, as these two are inevitably intertwined. And in each case, we find variations on three main themes:

1. The ability of these programs to respond to rapidly expanding need has been inadequate, some much more so than others, reflecting a combination of built-in structural flaws at the federal level and local variation in policies and implementation.
2. The states came into this recession with widely varying flexibility, fiscally and programmatically, to meet the crisis, but overall it was inadequate and uneven even before the economic downturn began.

3. State budget crises have led to plummeting revenues and rising costs in most states, straining the already weak safety net, particularly in states hardest hit by the recession.

Chapter Three of this study proposes federal reforms that can be enacted quickly and cost-efficiently to provide immediate-term fixes for some of the problems we raise here. Some challenges are longer-term and are addressed in Chapter Four, which spells out our principles for a real safety net and for significantly reversing the negative trends we examine here in Chapter Two.

Unemployment Insurance

The unemployment insurance (UI) program was established in 1935 to serve two primary objectives: to temporarily replace a portion of earnings for workers who become unemployed through no fault of their own, and to help stabilize the economy during recessions by providing an infusion of consumer dollars into the economy. States design their own programs, within the guidelines of federal law, and determine who is eligible to receive state UI benefits and how much they receive. UI benefits typically can be received for a maximum of 26 weeks. On average, UI benefits for those who do qualify replace about 47 percent of wages.⁴⁰

In order to tackle the current economic crisis, the Recovery Act included financial incentives for states to broaden eligibility to include more of the unemployed. Forty billion dollars was allocated for the next two years from the federal government to increase benefits provided by unemployment insurance programs.

The additional funding increased the unemployment benefits (regular and extended) by \$25 per week.⁴¹

Also, the Recovery Act extended the deadline for eligibility for the federal Temporary Emergency Unemployment Compensation to December 31, 2009.⁴² It provides incentive payments to states that include more people to their unemployment insurance programs,

such as those seeking part-time work and those who leave work for compelling family reasons.⁴³ As of June 2009, 25 states had enacted unemployment insurance reforms that qualify for incentive funding, while a dozen states are still actively debating measures to enact the required reforms to qualify for Recovery Act funding.⁴⁴ Four states (Virginia, Texas, Alabama, and Florida) have declined to take advantage of these resources because

Box 4: Catch 22

Kristen and Joe Parente [are] Delaware residents who had always imagined that people turned to the government for help only if “they didn’t want to work.” Their troubles began well before the recession, when Joe, a fourth-generation pipe-fitter, sustained a back injury that left him unfit for even light lifting. He fell into depression for several months, then rallied to ace a state-sponsored retraining course in computer repairs —only to find those skills no longer in demand. The obvious fallback was disability benefits, but it became a Catch-22 when Joe applied, because he was told he could not qualify without presenting a recent MRI scan. This would cost \$800–\$900, which the Parentes do not have, nor has Joe, unlike the rest of the family, been able to qualify for Medicaid.

When Joe and Kristen married as teenagers, the plan had been for Kristen to stay home with the children. But with Joe out of action and three children to support by the middle of this decade, Kristen went to work as a waitress, ending up, in 2008, in a “pretty fancy place on the water.” Then the recession struck and in January she was laid off.

Like most laid-off people, she failed to meet the fiendishly complex and sometimes arbitrary eligibility requirements for unemployment benefits. Their car started falling apart.

So in early February, the Parentes turned to the desperate citizen’s last resort—Temporary Assistance for Needy Families. Still often called “welfare,” the program does not offer cash support to stay-at-home parents, unlike its predecessor, Aid to Families with Dependent Children. Rather, it provides supplemental income for working parents, based on the sunny assumption that there would always be plenty of jobs for those enterprising enough to get them.

of the required policy expansions tied to the federal dollars.⁴⁵

In November 2009, Congress approved a further extension of up to 14 additional weeks to Americans in every state, with an extra six weeks of jobless benefits for those workers in states with average, three-month

unemployment rates above 8.5 percent. However, due apparently to a glitch in the law, Congress still must renew the existing federally paid extensions before they run out on December 31, 2009 or the new extensions cannot go into effect.⁴⁶ The National Employment Law Project warns that unless this action is taken, almost half a million people will not receive extensions in Janu-

After Kristen applied, nothing happened for six weeks—no money, no phone calls returned. Not until March did the Parentes begin to receive food stamps and some cash assistance. Meanwhile they were finding out why some recipients have taken to calling the assistance program “Torture and Abuse of Needy Families.” From the start, the experience has been “humiliating,” Kristen said. The caseworkers “treat you like a bum. [T]hey act like every dollar you get is coming out of their own paychecks.”

[The] Parentes discovered that they were each expected to apply for 40 jobs a week, even though no money was offered for gas, tolls, or babysitting. In addition, Kristen had to drive 35 miles a day to attend “job readiness” classes, which she said were “a joke.”

With no jobs to be found, Kristen was required to work as a volunteer at a community agency. In exchange for \$475 a month plus food stamps, the family submits to various forms of “monitoring” to keep them on the straight and narrow. One result is that Kristen lives in constant terror of doing something that would cause the program to report her to Child Protective Services. She worries that the state will remove her children “automatically” if program workers discover that her 5-year-old son shares a bedroom with his sisters. No one, of course, is offering to subsidize a larger apartment in the name of child “protection.”

[The] Parentes’ landlord has just informed them that they’ll have to go, because he’s decided to sell the building, and they don’t have money for a security deposit on a new apartment. “I thought we were good for six months here,” Kristen told me, “but every time I let down my guard I just get slammed again.”

Excerpted from Barbara Ehrenreich, “A Homespun Safety Net,” New York Times, July 11, 2009.

ary 2010. An additional 581,000 workers will see their federal jobless benefits end in that same month.⁴⁷

With most states being severely hit by the crisis, the money allocated in the Recovery Act is not enough. Seven states have borrowed more than \$2 billion from the U.S. Treasury Department to cover their UI systems, and experts project that up to 20 states might need federal loans by the end of 2009 to cover trust-fund losses.⁴⁸ However, even with the additional funds, there are fundamental problems with UI that have inhibited it from serving those in need.

Before the crisis, only 37 percent of unemployed persons were receiving UI benefits in 2007, down from the peak of 75 percent in 1975.⁴⁹ During periods of high unemployment, the maximum period of receipt has often been extended for an additional 13 or more weeks. During the current recession, the federal government has passed legislation extending eligibility between 20 and 53 weeks, depending on state circumstances. However, even with the extensions, more than a half million unemployed have exhausted their eligibility period without finding work. Still, as of October 2009, roughly 57 percent of unemployed people are receiving unemployment compensation.⁵⁰

Temporary Assistance to Needy Families (TANF)

The national social assistance program for families with children, Temporary Assistance to Needy Families (TANF) was created in 1996 to replace Aid to Families with Dependent Children (AFDC) and to end “welfare as we know it.” Federal and state governments jointly fund the program. Subject only to very broad

federal guidelines, each state sets its own TANF eligibility and benefit amount rules.

TANF is supposed to be the nation's last line of defense against family poverty. Yet the program falls far short of achieving any such antipoverty goal because it provides inadequate levels of assistance and reaches only a minority of eligible families. These problems have significantly worsened since TANF replaced AFDC.

By 2008, the number of children receiving TANF had fallen to only 22 percent of the number of poor children, down from 62 percent under AFDC in 1995.⁵¹ Eligibility criteria in some states is set at sub-poverty levels, making many poor children ineligible, and barriers to access have blocked many poor children who are eligible from actually getting assistance.⁵² The percentage of eligible families receiving benefits has declined precipitously under TANF, falling from 84 percent in AFDC's last full year in 1995 to 40 percent in 2005, the most recent year for which the federal government has provided estimates of the number of families eligible for but not receiving TANF.⁵³

TANF benefit levels are grossly inadequate for the families the program does reach, and have been eroded by inflation or only minimally increased in most states since 1996. In July 2008, TANF benefit amounts were far below the official poverty guideline in every state. The median was 29 percent of the official poverty rate, while the lowest was 12 percent and the highest was 50 percent.⁵⁴

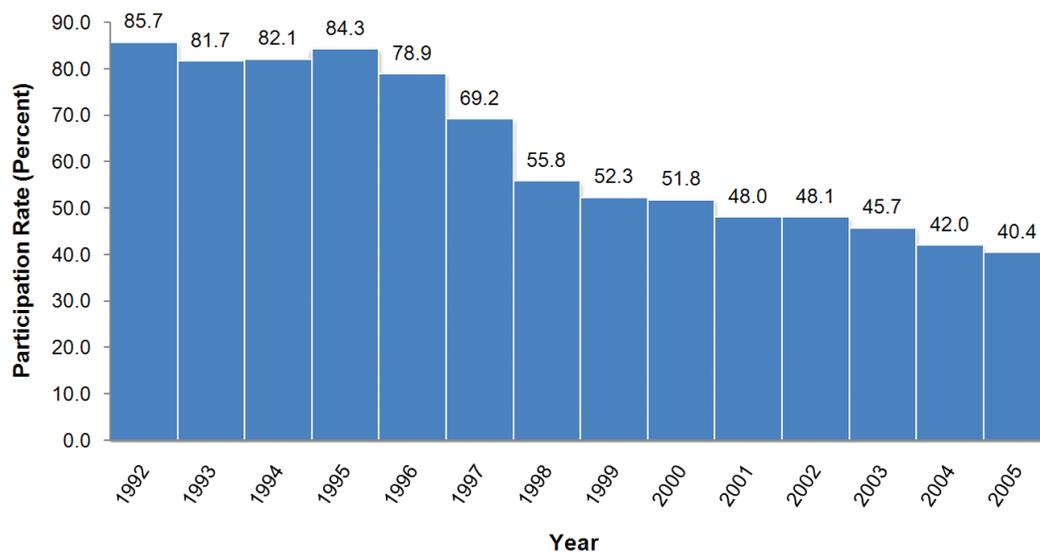
Further, TANF, as part of the sweeping welfare reform bill called the Personal Responsibility and Work Opportunity Act of 1996, increased the demonization

and criminalization of low-income people. It made benefits temporary, created difficult work requirements, and promoted marriage as a solution to poverty. Unlike its predecessor AFDC, TANF denied benefits to legal immigrants until they had been living in the U.S. for at least five years (except refugees and certain other very small categories).⁵⁵ Welfare reform also ended the federal entitlement to welfare benefits and allowed the states to design their own programs. Some states adopted draconian approaches, imposing even shorter time limits than the federal guidelines or restricting access by imposing other barriers, such as barring aid to those with drug-related convictions.⁵⁶ Some went even further by requiring drug-testing and fingerprinting, sanctioning recipients for failure to comply with strict work requirements, and refusing to provide aid to children born into families already receiving welfare benefits.⁵⁷

As poverty experts Frances Fox Piven and Barbara Ehrenreich explain, “in their zeal to save the poor from their supposed sins of laziness, irresponsibility, and promiscuity, the reformers entirely overlooked the role of welfare as a safety net for working mothers... TANF...has just one aim: to push the poor into the job market to become ‘self-sufficient.’ Whatever sense this made in the boom years when welfare reform was devised, it makes none now.”⁵⁸

Even given these serious flaws, TANF could be an important piece of the safety net for female-headed households, since single mothers experience an exceptionally high poverty rate of over 35 percent.⁵⁹ About 90 percent of parents receiving TANF are single mothers.⁶⁰ However, eligibility and benefits vary widely from state to state, regardless of need. So women and children are

Chart 2: Percentage of Eligible Families Participating in AFDC/TANF



Source: U.S. Department of Health and Human Services, *Indicators of Welfare Dependence, 2008*; and, Center on Budget and Policy Priorities, “Welfare Reform/TANF: By the Numbers.” See: <http://www.cbpp.org/research/index.cfm?fa=topic&cid=42>

helped more or less simply because of where they live rather than because of level of need. For instance, in 2008, monthly benefits are as low as \$170 in Mississippi and as high as \$723 in California.⁶¹

TANF participation has continued to decline during the recession relative to the number of poor and potentially eligible families. Overall, in 2008 the number of poor children was more than four times the number of children receiving TANF, and the number of extremely poor children (family income less than half the poverty line) was almost twice the number of children receiving TANF. Though food stamp participation increased 16 percent from December 2007 to December 2008,⁶² TANF participation increased only 3.8 percent, rising from 4,014,265 recipients in December 2007 to 4,168,746 in December 2008.⁶³

Under the Recovery Act, the federal government allocated \$5 billion over the next two years for a new fund (the Emergency Contingency Fund) to help states meet the rising need for TANF benefits.⁶⁴ According to the Center on Budget and Policy Priorities, these funds have permitted some states to expand their caseloads by over a third, while others have done much less. And in a few states, caseloads are still decreasing.⁶⁵

With the fundamental problems in the TANF program, there are millions of families with children living in extreme poverty in the United States. Many are experiencing hunger, eviction, utility disconnection, homelessness and other deprivations. TANF's punitive rules tying benefits to strict work and other requirements during this period of high unemployment contribute to its shockingly inadequate response to the recession.

Box 5: Lillian

"Lillian" is the single mother of a nine-year-old boy and had been employed as a domestic worker in New York City. When her employer laid her off in December 2008, Lillian tried in vain to access Unemployment Insurance, discovering the devastating reality that domestic workers here on B1 and B2 visas aren't eligible either for labor protections or social safety net programs. Lillian consequently lost her apartment and had to live in a difficult situation with relatives who could not house her young son. Their collective economic situation is such that Lillian has gone days without food and she has little access to transportation. Her young son's father, though a less-than-desirable custodian, has temporarily taken in the child. Her son calls her every day in tears begging for her to find a home so that the two of them can be together again.

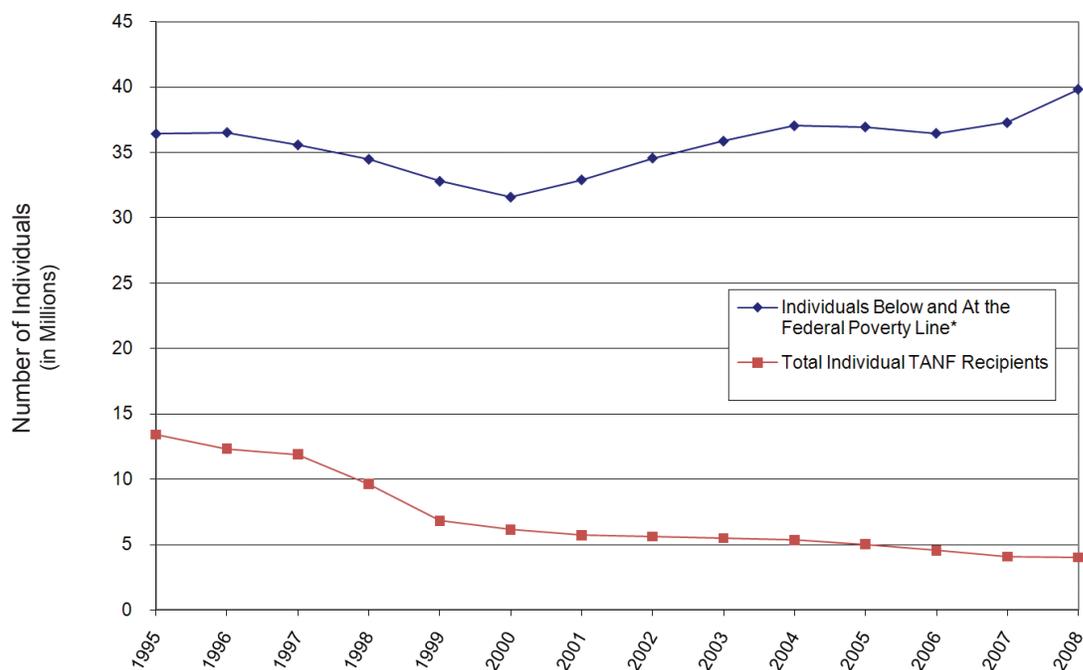
This story was collected by Domestic Workers United in New York. . See: www.domesticworkersunited.org.

Food Stamps/Supplemental Nutrition Assistance Program (SNAP)

Participation rates of individuals and families in the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Federal Food Stamp Program, are a sensitive and direct measure of increasing economic stress. In this recession, there has been a sharp increase in SNAP participation rates, a trend that will likely continue as the jobless rate goes up and income levels go down.⁶⁶

SNAP is a federal program administered by the states that covers almost all people who satisfy its financial eligibility requirements. Unlike TANF and UI, eligibility rules and benefit levels are generally uniform across the nation. Financial eligibility is generally limited to households whose net income is less than the official poverty line, currently at \$1,526 monthly for a family of three. For a family of four, the gross monthly income must be \$2,389 or less, and their food stamp allotment can be as much as \$668 per month.⁶⁷ The current average SNAP benefit per household is about \$294 per month.

Chart 3: TANF Recipients Fall as Poverty Rises



* The 2008 poverty guideline for a family of four is \$21,200. For more info on the Federal Poverty Line available at: <http://aspe.hhs.gov/poverty/figures-fed-reg.shtml>

Source: Housing and Household Economic Statistics Division, U.S. Census Bureau, "Table 2. Poverty Status of People by Family Relationship, Race, and Hispanic Origin: 1959 to 2008." See <http://www.census.gov/hhes/www/poverty/histpov/perindex.html>; Administration for Children and Families, US. Department of Health and Human Services, "Data and Reports: TANF Caseload Data." See: <http://www.acf.hhs.gov/programs/ofa/data-reports/index.htm>

Food stamps participation has generally responded well to the increased need arising from increased unemployment.

In August 2009, 36.5 million Americans (16.5 million households) received SNAP benefits, a one-third increase in participation since the recession began in December 2007.⁶⁸ One in eight Americans is now receiving food stamps, an all-time high.

Compare SNAP's performance with TANF's non-responsiveness to the recession. SNAP, like TANF,

is a needs-based safety-net program in which participation should rise when unemployment and poverty rise.

In fact, SNAP participation has increased substantially since the recession began, rising 16 percent from 12,313,466 recipients in December 2007 to 14,284,017 in December 2008.⁶⁹ The 16 percent SNAP participation increase was more than four times the 3.8 percent TANF participation increase, with the number of TANF recipients (both children and adults) increasing from 4,014,265 in December 2007 to only 4,168,746 in December 2008.⁷⁰

Box 6: Unemployment Insurance for the Few

My name is Susan Aarup. I am 40 years old, have a disability, and reside in Chicago, Illinois. I have been unemployed for seven months and I'm currently looking for work. Prior to becoming unemployed I worked at the Mayor's Office for People with Disabilities. I have three masters' degrees and was working for the city of Chicago for 11 years. I was laid off by the city in March of 2009 because the position I held lost federal dollars at the time of the federal bailout. My coworker was able to keep her position because she had six more months of seniority and did not have a disability. My income was cut in half as result of city layoffs.

I am constantly looking for work while I am receiving unemployment benefits. I check in with the unemployment office on a weekly basis in order to keep receiving checks. The unemployment office that I deal with had never dealt with anyone who had a disability. Consequently, I had to educate them about why it is important for people with disabilities to work and why they want to work. The first week I applied, a staff person at the unemployment office told me I should collect my social security check and go home. This person did not mean to demean me; she said this due to ignorance and misperceptions about disability and my ability to work. I believe this is the dominant myth about employment for people with disabilities. I believe employment is a human right and everyone should have a right to sustainable, gainful employment regardless of disability or any other reason.

Susan's story was collected by staff of the South Austin Coalition and Chicago Jobs with Justice.

SNAP has responded quickly in all states to the rising need. TANF has been responsive or somewhat responsive in less than half of the states.⁷¹

Congress allocated \$54 billion for the program in 2009, \$15 billion more than in 2008, because of the growing number of people meeting the eligibility requirements for the program. The recent increase in SNAP participation is a direct indication of the rising poverty during this recession. The official poverty rate is calculated only once a year, and by itself is a lagging indication of economic distress. But the increase in SNAP participation means that more families are meeting the eligibility standard of falling below 130 percent of the poverty line.⁷²

The Recovery Act temporarily increased the maximum food stamp benefit, referred to as the "allotment," by about 13 percent. However, even with this increase, the food stamp allotment, currently \$526 a month for a family of three, is less than what most Americans spend to achieve a nutritious diet. And because the maximum benefit is reduced by 30 cents for each dollar of income net of deductions, generally only households who are very poor or who have very high shelter expenses receive the full allotment.

Under the Recovery Act, \$20 billion is allocated for the next four years to increase SNAP benefits by 13.6 percent.⁷³ An additional \$295 million in administration funds is also provided to states to handle rising caseloads, and \$5 million in administrative funding for the Food Distribution Program on Indian Reservations.⁷⁴

Housing Programs, Renters and the Foreclosure Crisis

Unlike SNAP, housing assistance programs are not entitlements. The benefits are dependent on available funding, and only one in four eligible households receive any kind of housing assistance.⁷⁵ For almost three decades, there has been an erosion of housing assistance programs, even as housing costs have risen much faster than income. Compounding this problem is the increased risk to renters from rising rents and homelessness risk due to foreclosures.

At the beginning of 2009, The Center on Budget and Policy Priorities reported that more families with children were homeless due to the recession. They further reported that the housing market crisis was adding to the risk of increased homelessness. Foreclosures have created more renting families and have driven up rents in many areas, making housing less affordable.⁷⁶

At least 32 percent of American households were renting in 2008, and these numbers are rising. The National Low Income Housing Coalition estimates that 40 percent of the families that face eviction due to foreclosure are renters.⁷⁷ Nationally, the number of renters is expected to increase, as will demand for lower home-rental rates.⁷⁸ Meeting the needs of renters and protecting their housing is critical to a well-functioning safety net.

In order to curb the blow caused by the current economic crisis, President Obama has allocated \$1.5 billion in ARRA to the Homelessness Prevention and Rapid Re-Housing Program (HPRP) within the Housing and Urban Development agency (HUD).⁷⁹

This program is designed to provide financial assistance and services to prevent individuals and families from becoming homeless. However, this is a short-term program, and there are major concerns about what will happen to the housing safety net when funding runs out in three years.

Also, in May 2009, Congress passed the Helping Families Save Their Homes Act, which provides renters whose landlords have lost their properties to foreclosure the right to stay in the home for 90 days after the foreclosure or through the term of their lease unless the property is sold to someone who will occupy the home. Similar protections are provided to housing

voucher holders. However, these protections expire in 2012.⁸⁰

Child Care Programs

As demand has increased, fueled by TANF roll declines, increased workforce participation by mothers of young children, and falling real wages, the child care assistance system has fallen further and further behind in meeting the need.

With welfare reform mandating recipients enter the workforce, child care funding was expanded two ways, through an increase in the Child Care Develop-

Box 7: Additional Safety Net Programs

Other safety net components are not fully examined in this report. For instance, Social Security, a New Deal program established in 1935, has proven effective at lifting millions of people out of poverty, primarily the elderly. Health insurance programs such as Medicare, Medicaid and the State Children's Health Program (SCHIP) have also been invaluable for poor Americans. Since the benefits of Social Security have been widely noted, it will not be discussed in this study. Likewise, health care reform is in the midst of a major congressional overhaul at the time of publication of this report, and will not be examined here.

Two more programs worth mentioning are the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The EITC helps low-wage workers by reducing the taxes they must pay on their earnings. Data shows that in 2005, the EITC lifted five million people out of poverty, 2.6 million of them children.⁸⁴

The CTC offers low-income working families a partially refundable federal income tax credit of up to \$1,000 per child under the age of 17. The Recovery Act expanded this program temporarily to cover 2.9 million more children (for a total of about 13 million) in 2009 and 2010.⁸⁵ The Recovery Act also added the Working Families Tax Credit, which is a refundable credit of \$400 for single and \$800 for married couple families.

ment Block Grant (CCDBG), and through allowing TANF monies to be spent on child care, either directly or through transfer to CCDBG. Nevertheless, only about one in seven eligible families received childcare assistance in 2000, and less today.⁸¹

At the same time, even as need is rising, federal dollars have been decreasing. CCDBG funding peaked in 2002 at \$5.8 billion (in 2009 dollars), falling to just over \$5 billion in FY 2009. By 2009, only nine states had reimbursement rates for childcare providers at the federally recommended level, less than half the number in 2001.⁸² In short, as TANF rolls have continued to fall, and more families have their one parent or both parents in the workforce, the childcare assistance for low-wage families has eroded rather than increased to meet the need.

With the passage of the Recovery Act in February 2009, based on early reports through August 2009, the Recovery Act's childcare monies are being used mainly to maintain the current system (e.g., avoid cuts, reduce waiting lists), as well as make improvements in the quality of care. At the same time, falling state revenues have led states to reduce income eligibility limits (e.g., in Ohio, from 200 percent to 150 percent of FPL), increase copayment requirements, reduce reimbursement rates to providers, and/or institute/expand waiting lists.⁸³ In addition, in states that have reversed the trend and begun expanding TANF rolls to meet rising need levels, childcare subsidies funded by TANF are being reduced, reflecting the inflexibility of frozen TANF grant amounts.

Conclusion

The holes in the safety net are numerous and wide. The Recovery Act is helping some, but it is inadequate and temporary. At a time of skyrocketing joblessness, millions of unemployed workers are not receiving Unemployment Insurance because of overly strict eligibility criteria and inadequate coverage periods. At best, these workers may be able turn to food stamps and TANF for assistance. However, food stamps are limited to those who meet artificially low poverty thresholds and helps recipients pay for food, not for rent, utilities, clothing or other basic needs. While TANF in theory provides aid for all basic needs, it covers only unemployed parents—but only if they are extremely poor, and only for a minority of the extremely poor families who are theoretically eligible. Housing assistance reaches a fraction of those in need, and lack of access to affordable child care is another obstacle to employment.

Chapter 3: An Emergency Relief Package Rebuilding the American Economy from the Bottom Up

This chapter looks at both the urgency of the crisis and the failings of the safety net that we have laid out in the first two chapters, and it offers an emergency relief package to offer short-term remedies to the tens of millions of Americans who are suffering. It recommends a job creation package and other specific proposals to shore up the various parts of the safety net, which would cost just over \$400 billion in 2010. It then lays out a plan to pay for these expenditures.

The breakdown of the Emergency Relief Package that we propose is seen in Chart 4:

Public jobs program	\$40 billion
State fiscal relief	\$170 billion
Local government fiscal relief	\$100 billion
Unemployment Insurance	\$60 billion
COBRA	\$20 billion
TANF	\$16.5 billion
Food Stamps	\$0.5 billion
Total	\$407 billion

An emergency relief package must address the trend that for decades, middle-class and poor Americans have seen their share of income decrease while the rich have gotten richer. Since the 1970s, the link between wages and productivity has also been severed, with American workers no longer receiving their fair

share of the benefits of economic expansion. In addition to stagnating or declining wages, we now face high levels of unemployment for years to come, along with a significant decline in Americans' number one source of wealth—homeownership. Both the long-term growth of inequality and the devastation resulting from the “Great Recession” demand action.

In the short run, extended periods of unemployment exact a heavy price that goes far beyond the loss of income. The price involves psychological harm, health impacts, family disruption, and much longer-term impacts on job prospects, particularly for younger workers. Ultimately, job growth in the private sector is needed for most jobless workers. But absent current demand, the public sector must pick up the slack in three ways:

1. Direct public investment in job creation that preserves and expands the range of goods and services that are appropriately the function of public agencies at all levels.
2. Fiscal relief for state and local governments to combat public sector job losses and preserve vital public services.
3. Income support, not only to help people better weather the storm, but also to increase demand and help fuel needed job growth in the private sector.

Federal Investments to Spur Job Creation and Ensure Needed Services Are Available

PUBLIC JOBS PROGRAM

Price tag: \$40 billion

We need a new program to create at least one million jobs at the municipal and neighborhood level, and put both recently- and long-term unemployed workers back to work in jobs that pay living wages, provide benefits, and create stronger, more vibrant communities across the United States. A jobs program would provide resources to local governments to quickly create jobs with the government, nonprofits, and potentially small businesses that provide public services, and should be authorized for several years. If one million workers were paid \$35,000 per year, this program would cost \$35 billion; two million jobs could be created for \$70 billion.

Public works projects would create immediate employment opportunities for employment for community residents, the unemployed, and the underemployed. These jobs would offer prevailing wages consistent with what workers regularly receive for the same work, benefits, and support services. Rapidly reducing unemployment will help stabilize families and communities immediately. However, the program would also be designed to have a lasting impact on both the community and the individual. Jobs would be designed to develop participants' skills and open pathways to future employment. Jobs must also be inclusive of people with varying skill levels and work histories, opening up op-

portunities in the labor market to workers who have been denied past opportunities for good jobs.

Projects would address the deterioration in public services and infrastructure that resulted from long-term neglect in neighborhoods across the country, and change the trajectory of the economy—visibly and tangibly, locally and nationally. For example, jobs would be created to: improve the environment, promote public health services, upgrade roads and other construction projects, provide education and child care, and engage out-of-school youth. All jobs should be subject to strict rules and aggressive enforcement to guard against the displacement of currently employed workers.

STATE AND LOCAL FISCAL RELIEF

**Price tag: for states—\$170 billion
for local governments—at least \$100 billion**

We need additional fiscal relief for state and local government. At the state level alone, budget deficits on the order of \$170 billion are projected for 2010. No precise estimates are yet available for the projected level of local government budget deficits, but the total is expected to be at least \$100 billion in 2010. Further relief is needed immediately, and will be needed for several years. Fiscal relief will help to stabilize and restore current job losses and furloughs, while at the same time maintaining vital public services and programs, such as child care, many of which are needed now more than ever.

The Recovery Act principally relied upon two strategies to accomplish this goal: increased federal sup-

port for the Medicaid program and the State Fiscal Stabilization Fund (which provides support for state and local government spending on education) and a small portion of more flexible funds for states. Both of these should be extended beyond their current expiration in 2010 and 2011.

But in addition to these extensions, we need a new state-based revenue-sharing program that emphasizes local governments. It should be enacted and implemented immediately and authorized for fiscal year 2011 at a minimum. These funds should be flexible and designed to allow state and local officials to stabilize their budgets, their services, and their workforces.

Expansion of programs that provide income or income equivalents to help people better weather the storm

UNEMPLOYMENT INSURANCE AND COBRA BENEFITS

Price tag: Unemployment Insurance—\$60 billion

COBRA—\$20 billion

As the number of chronically unemployed workers grows, federal support for UI benefits for these long-term unemployed workers is critically important. In early 2009, as part of the Recovery Act, Congress modified the Emergency Unemployment Compensation program to provide federal funding for the entire cost of 33 weeks of additional benefits (beyond the standard 26 weeks available in every state) for unemployed workers. In addition, the Recovery Act provided fed-

eral funding for an additional \$25 per week for every worker receiving unemployment benefits. Both of these initiatives will expire at the end of 2009. It is critically important that both of these initiatives be extended for at least another one or two years.

COBRA health insurance is a program that allows workers who have been laid off to continue to receive, at their own expense, health insurance coverage they had while employed. The COBRA premiums are 102 percent of the group health rate that is charged to the employer. COBRA insurance is available for 18 months (and longer for disabled individuals). In recognition of the fact that COBRA premiums are not affordable for many workers, Congress included in the Recovery Act a provision which provides a subsidy of 65 percent of COBRA premium costs for up to nine months. This COBRA subsidy provision expires at the end of 2009. Congress should extend this subsidy program until at least another 1-2 years.

TANF AND FOOD STAMPS (SNAP)

Price tag: \$17 billion

For TANF: \$16.5 billion (this would double the current basic bloc grant.)

For food stamps: \$0.5 billion (Resources are needed to help with outreach and administration costs so that millions of eligible but unenrolled people can be enrolled in SNAP.)

Millions of unemployed workers do not qualify for unemployment insurance and, for these workers, the need for income support is critical. The two main programs that provide help to those with little or no income are TANF, which provides cash assistance, and the

Supplemental Nutrition Assistance Program (SNAP), which provides food stamps.

The Recovery Act made several key improvements in SNAP. First, and most importantly, benefits were increased by 13.6 percent for all eligible households. In addition, the Act suspended the three-month time limit on benefits faced by many unemployed workers without children. It also provided additional funding for Indian reservation food assistance and for increased administrative costs associated with these programs.

As the projected period of high unemployment has grown, and the limits of other income support programs have become more obvious, additional increases in benefits should be made available immediately. Additional administrative funds also should be made available so that eligible families can access the program more easily.

TANF funds can be used for a range of purposes, including cash assistance and subsidized employment. The Recovery Act made an additional \$5 billion available for states to receive up to 80 percent federal funding for cash assistance, subsidized employment opportunities, or payments to families to help them meet one-time emergency needs. However, even with the availability of these added resources, too few families are being helped by their state's TANF program.

The TANF program is scheduled for reauthorization in 2010, and one of the lessons of the recession is that the program is not structured to meet the needs of families who lose all or a substantial part of their income due to unemployment. Time limits, unduly restrictive

work requirements, disincentives that exist for states to provide cash assistance, and the limited availability of additional federal funding during periods of high unemployment are all issues that need to be addressed to make the program more effective in helping families, particularly during periods of high unemployment.

However, it's uncertain whether Congress will actually act in 2010 (it is possible that reauthorization may not occur until 2011 or later). But since so many families are desperately in need, Congress should act immediately to allocate substantial additional funds available for state TANF programs. These funds would not require further state spending, provided they are used for the limited purposes of cash assistance, creating subsidized jobs, sustaining current TANF-funded child care, or emergency payments. In addition, Congress should act immediately to temporarily suspend federal work requirements that unduly restrict state discretion and time limits. To the extent that states have resources for education and training activities and for child care so that parents receiving benefits can improve their skills, those services should be made available. But overly restrictive mandates in this area, and time limits on the receipt of cash assistance, simply do not make sense given the high levels of unemployment, and the need for funds to be focused on cash assistance to help families weather the current crisis.

FORECLOSURE RELIEF

Price tag: No new money

A new loan program could use TARP funds already allocated for foreclosure prevention. (The Philadelphia Unemployment Project suggests designating

\$10 billion for loans to unemployed homeowners to allow them to pay mortgages, from the TARP funds already allocated for foreclosure prevention.)

This report has also offered analysis of the housing crisis for both homeowners and renters. A serious emergency reform package should include action to address the housing crisis. This is a large field, and we offer only two ideas, one on foreclosure relief and one on renters' relief.

A series of programs put forward over the past two years, designed to foster loan modifications, have made little impact on the foreclosure problem. When mortgage servicers handle the somewhat complicated job of redoing mortgages, homeowners and housing counselors often face horrendous delays, exasperating phone systems, lost paperwork, and frustration, while resolving far fewer mortgage defaults than originally anticipated. Large-scale loan modifications was not the job servicers signed on for, and they are not doing it very well. While they are getting up to speed, tens of thousands will lose their homes. Moreover, modifying mortgages for the unemployed can be ineffective if their income is insufficient to pay even reduced modified loans. Many servicers won't offer loan modifications to the jobless.

The Philadelphia Unemployment Project and the Save Our Homes Coalition have developed a proposal for a new loan program that would use TARP funds already allocated for foreclosure prevention to directly cure mortgage defaults for the unemployed. As the economy recovers, most jobless workers will get back to work and will be able to resume their mortgage payments. The loans would cure arrears and provide

continuing assistance until the homeowners gets back to work, or for 24–36 months.

Such a program could be run much more efficiently than the time-consuming loan modification program. If a homeowner indicated that he or she were unemployed, they would provide verification of their unemployment compensation to the servicer and automatically be approved for a loan that would pay any mortgage above 31 percent of their family income (the target amount in Making Home Affordable modifications). Loans would be repayable with interest but interest would not accrue, nor would repayments begin until the homeowner's income was sufficient to allow payment based on a formula to be developed. Such a loan plan would cut through much of the disarray of the current loan modification program, thus streamlining approvals and slowing the numbers of foreclosed properties on the market.⁸⁶

RIGHT TO RENT

Price tag: No new money. Congress would merely need to approve a temporary change of rules governing the foreclosure process.

Dean Baker, a prominent economist from the Center for Economic Policy and Research, has been arguing for another solution to the foreclosure crisis that involves the giving homeowners the right to rent their home rather than to lose it to foreclosures. In recognition of the emergency situation created by the housing bubble and its collapse, Congress could approve a temporary change of the rules governing the foreclosure process. This change would give homeowners facing foreclosure the right to stay in their home paying the market rent for a substantial period of time.

This change would have two effects. First, it would immediately give housing security to the millions of families facing foreclosure. If they like the house, neighborhood, and schools, they would have the option to remain there for a substantial period of time. Also by keeping homes occupied, this rule change can help to prevent the blight of foreclosures that has depressed property values in many areas. Vacant homes are often not maintained and can become havens for drug use and crime.

The other effect of a “right to rent” rule would be that it would give lenders substantially more incentive to modify a mortgage. Under the rule, the lender could still carry through with the foreclosure process and take possession of the house. The lender would also be free to resell the property, but the former homeowner would still have the option to remain as a tenant paying the market rent for the period specified in the law.

Since a house that comes with a renter attached is much less valuable to the bank, foreclosure would be a much less attractive option. Therefore lenders would have more incentive to try to work out a modification plan that allowed the homeowner to remain in their house as an owner.⁸⁷

*How to Pay for the Emergency Relief Measures*⁸⁸

A considerable number of economists argue that the Recovery Act has been vital to prevent deeper crisis, and has saved or created a large number of jobs. Many of these economists believe that further government spending is vital, even if no new revenues are raised to pay for the expenditures. Other economists

argue for “fiscal responsibility,” namely that any new spending should come with designated revenues to cover the costs.

The price tag on the Emergency Relief Package for 2010 proposed in this report is roughly \$400 billion, about half the amount authorized under the February 2009 Recovery Act. The Institute for Policy Studies has identified a package of practical and politically viable policies that could raise the revenues we need. These policies, taken together, would:

- Collect over \$400 billion in revenue from those with the greatest capacity to pay;
- Discourage financial speculation;
- Strengthen the overall economy; and,
- Introduce greater transparency, fairness, and simplicity to the tax code.

These proposals are offered to stimulate the debate over sources of revenues for the vital government programs that will be needed in the months and years to come.

IMMEDIATELY REVERSE TAX BREAKS FOR HOUSEHOLDS WITH ANNUAL INCOMES OVER \$250,000: \$43 BILLION PER YEAR.

President Obama, in his campaign, called for reversing the 2001 and 2003 Bush tax cuts for households with incomes over \$250,000.⁸⁹ This would raise the top income tax rate from 35 percent to 39.6 percent, and increase the tax rate on capital gains and dividends

from 15 percent to 20 percent. Many high-income households, polling shows, voted for Obama because they believed his policies will help restore our economic stability. These households see higher taxes on high incomes as the fiscal medicine our nation needs to take.⁹⁰

**TAX FINANCIAL TRANSACTIONS:
\$100-150 BILLION PER YEAR.**

A modest tax on every transaction that involves the buying and selling of stock and other financial products—for instance, a penny on every \$4 traded—would both generate substantial revenue and dampen rapid turnover of stocks and speculation. The United Kingdom already imposes a tax on stock transactions.⁹¹

**ELIMINATE TAX PREFERENCE
FOR CAPITAL GAINS AND DIVI-
DENDS: \$80 BILLION PER YEAR.**

Current law subjects most dividend and capital gains income—the income that flows overwhelmingly to wealthier Americans—to a 15 percent tax rate. The tax on wage and salary income, by contrast, can run up to 35 percent. With carefully structured rate reform, we can end this preferential treatment and at the same time encourage average families to engage in long-term investing.⁹²

**CREATE AN ADDITIONAL TOP
TAX BRACKET FOR HIGHER IN-
COMES: \$60-70 BILLION PER
YEAR.**

High-income Americans currently face a top tax rate that runs less than half the top rate, in effect,

imposed in the half-century before 1981. We propose a 50 percent rate on incomes over \$2 million—which would generate an additional \$60 billion a year.

**END OVERSEAS TAX HAVENS:
\$100 BILLION PER YEAR.**

Individual American taxpayers are now annually evading between \$40 and \$70 billion in U.S. taxes through offshore tax dodges.⁹³ U.S. corporations use similar offshore schemes to evade another \$30 billion per year. The Stop Tax Haven Abuse Act (S. 681) would curtail these activities and generate \$100 billion from wealthy individuals and corporations that have been failing to pay their fair share of the nation's tax bill.⁹⁴

Chapter 4: Principles for a More Effective Approach to End Poverty

There is a pressing need for a longer-term strategy to end the scourge of poverty in our nation and help all of our people achieve a living income. While it is beyond the scope of this report to delve into the full details, such a strategy would include raising the income of current workers and recipients of public benefits, investing in the future of our children, and creating safe and healthy communities for people wherever they live. It would also include full attention to ending all discrimination that leads to disparities in income based on people's race, national origin or ethnicity, gender, disability, sexual orientation, or any other status or characteristic.

Here are the principles that should guide public and private action beginning now and continuing beyond the current economic crisis.

- Fiscal and monetary policies aimed at achieving full employment, both domestically and globally;
- Minimum wage indexed to half the level of the average wage and removal of all legal barriers to union organizing;
- Affordable quality health coverage for all;
- Child care assistance to all who need it;
- Increased access to affordable housing and the ability of people to rent or purchase decent housing;
- Postsecondary education assistance for all who can benefit from it;
- A social safety net that offers a decent measure of assistance to all who need help, including income supplementation for low-wage workers, robust food and nutrition programs, support for families with children, further reform of the unemployment insurance system, and appropriate income and services for disabled people;
- Sufficient investment in the education and development of all children, beginning with prenatal to pre-kindergarten care, reforming elementary and secondary education to change it from a K-12 system to a P-14 system, and offering multiple pathways necessary to get all young people successfully to adulthood with the maximum education and training they can achieve;
- Attention to the place-based aspects of poverty, both urban and rural, with particular emphasis on the continuing segregation of the inner city and the growing confluence of poverty and racial and ethnic segregation in inner-ring suburbs;
- Child welfare, juvenile justice, and criminal justice systems designed to minimize the number of children and youth incarcerated or institutionalized, and end the racial and

other disparities that are characteristic of those processes;

- Immigration reform that provides a path to citizenship to everyone in the United States and ends the current hypocrisy that looks the other way while employers hire undocumented workers and then exploit and mistreat them with little worry of being called to account for their illegal actions;
- Guaranteed provision to all lower-income people of the full range of services they need, including mental health, drug and alcohol treatment, domestic violence, and legal aid; and
- Full enforcement of all anti-discrimination laws at all levels of government.

This report has focused not only on immediate actions to respond to the current national emergency, but also on essential public policy especially at the national level. Ending poverty and achieving a living income for all are not just public policy issues, but also require community and individual responsibility, with public and private hands extended to help people help themselves in a multiplicity of ways.

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