

# Reducing Poverty and Economic Distress after ARRA: Next Steps for Short-Term Recovery and Long-Term Economic Security

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As unemployment in this recession holds near 10 percent and a growing number of Americans becomes impoverished, much work remains to reduce and respond to poverty and economic distress. In part, this work can build on the provisions of the American Recovery and Reinvestment Act (ARRA), better known as the stimulus package, which has moderated the effects of the recession but will soon phase out. This brief provides a framework and recommendations for next steps, directly related to the stimulus package and driven by other lessons learned from the recession and its aftermath.

Next steps to reduce poverty and economic distress are crucial for two reasons. First, despite the fact that employer payrolls have begun to grow again, high unemployment and related damage from the worst economic slowdown of a generation will likely continue for three to five more years. Elevated unemployment for this length of time will substantially harm many individuals and families, damage the long-term prospects of the children who grow up in these families, erode state budgetary capacity to provide education and social services, and hamper the longer-term performance of the American economy. Second, persistent poverty and unemployment were problems for many Americans even before the economic slowdown. Therefore, the United States needs to reinvigorate its ongoing strategies for improving the income and labor market prospects of low-wage and less-educated workers in the short term and the long term.

This brief ranges across policy domains often treated separately, including poverty and safety net, child and family, and youth and adult employment and workforce development policies.

However, we did not address two important policy topics that would each require a book in itself: health reform (especially given the recent passage of reform legislation) and K–12 education (where a robust federal effort is already under way).<sup>1</sup>

## The Damage: Unemployment and State Budget Distress

Simply put, the labor market in the United States today is worse than it has been since the 1930s. With an unemployment rate of 9.9 percent in April 2010, the jobless rate has more than doubled since 2006, the largest percentage-point increase in unemployment in over 70 years.<sup>2</sup> The increases have generally been greater among men than women, but they have been severe for less-educated, minority, and young women as well as men.<sup>3</sup>

Other unemployment measures indicate even more severe and long-lasting effects (Vroman 2010). For instance, the fraction of the unemployed that has been out of work for more than six months has risen to about 46 percent in recent months—the highest percentage since 1946. Plus, the fraction of all unemployed workers losing their jobs permanently appears to have increased substantially, even relative to the serious recessions of 1974–75 and 1981–82.

As in all recessions, the poverty rate has risen in this downturn. The poverty rate for 2008—during which the unemployment rate rose to 5.8 percent (from 4.6 percent the previous year)—was 13.2 percent, up from 12.5 percent in 2007. If the same relationship holds between poverty and unemployment in future years, the poverty rate will reach 14–15 percent by 2010—among the highest rates the country has seen since the 1960s.<sup>4</sup>



Perhaps worst of all, recovery from this recession is expected to be very slow, as 3–4 percent annual gross domestic product (GDP) growth is too low to sharply reduce the jobless rate.<sup>5</sup> Indeed, while payroll employment has begun growing again (411,000 net jobs were created in May 2010, with only 41,000 in the private sector), such growth will not rapidly drive down unemployment. Thus, the Obama administration forecasts unemployment rates of 10.0, 9.2, 8.2, 7.3, 6.5, and 5.9 percent for each year from 2010 to 2015 (Council of Economic Advisers 2010). If correct, this implies unemployment levels associated with serious recessions for three more years, and levels associated with milder recessions for another two.<sup>6</sup> Poverty rates will likely remain elevated as well. Given the high unemployment rates experienced by men as well as less-educated and/or minority women, we would expect to see poverty rates rise among both female-headed and two-parent families of all racial groups.

Aside from the serious hardships that this downturn will create over the coming three to five years, it will likely have significant negative consequences for the longer term as well. For instance, lengthy spells of unemployment “scar” young workers and are associated with lost wages for many years afterward, since the lost early work experience is not made up later.<sup>7</sup> Relatively high poverty rates for five or more years will likely scar children growing up in poor families as well, since persistent childhood poverty is associated with lower schooling and employment outcomes, higher rates of crime, and worse health outcomes for adults (Holzer et al. 2007). The long-term damage to children is likely amplified in the current recession by the link to housing foreclosures. Moving is stressful both for school-age children, who may miss school days or change schools, and for young children, who need routines and ties to a familiar environment (Beatty 2010; Roy, Maynard, and Weiss 2008). These outcomes will generate long-term economic costs for the U.S. economy as a whole, not just for the individuals directly affected.

Further, entire neighborhoods will be adversely affected, especially by the combination of high unemployment and property foreclosures that will characterize many lower- to middle-income neighborhoods. Geographic concentrations of poverty will likely worsen, potentially adding to the negative outcomes experienced by poor children and adults over time.

At the same time, the recession has destabilized state budgets, sharply reducing revenue collected through state sales and income taxes while need for safety net programs has increased with

economic distress. As a result, states have faced budget gaps that are very large historically and relative to state spending—\$110 billion in 2009 and \$193 billion in 2010, the latter more than a quarter of states’ general fund spending. As with unemployment, state forecasters predict a slow recovery, anticipating large budget gaps until 2012 or 2013 (N. Johnson 2010).

These state budget gaps have led to substantial service cuts. For example, 24 states have cut services to the elderly and disabled, 29 have cut K–12 education, and 39 have cut higher education (N. Johnson, Oliff, and Williams 2010). Direct assistance programs including Temporary Assistance for Needy Families (TANF), homeless services, child care subsidies, and tax credits targeted at low-income families have been cut as well. State-enacted budgets for 2011 “are likely to include additional, deeper cutbacks in all these areas” (N. Johnson et al. 2010, 3).

## Role of the Stimulus Package

The recession and its impact on the poor have been at least partially mitigated by federal extensions of unemployment insurance (UI) benefits, which have clearly lowered poverty rates among the long-term unemployed (Vroman 2010), and by other features of ARRA. ARRA has expanded UI eligibility, made food stamps (now called the Supplemental Nutritional Assistance Program, or SNAP) more generous, and made it easier for states to maintain benefits under Medicaid and for individuals to obtain health coverage after they lose their jobs.

ARRA has also moderated the recession’s impact on states by relieving them of some costs of benefits to people in need and by providing general purpose aid to state governments. Nicholas Johnson and colleagues (2010) estimate that the increases in Medicaid reimbursement and the State Fiscal Stabilization Fund in the stimulus package closed “one-third of states’ budget gaps for the current fiscal year.”

But ARRA is due to expire well before the effects of the current recession disappear from the labor market and from state revenue coffers. Though states can apply for federal subsidies to expand UI coverage to underserved populations until the end of 2011, federal emergency extensions of benefit durations expire long before then. Increased federal Medicaid reimbursement is also scheduled to end on December 31, 2010 (in the middle of fiscal year 2011 for most states), and while the stabilization funds are available until September 2011, most states will have used them up much sooner (N. Johnson et al. 2010). As a

result, proposed 2011 state budgets suggest deep cuts across the range of state services. Even if states are able to moderate those cutbacks, their extreme fiscal distress will impede their ability to provide relief on their own, creating even greater need for an ongoing federal response to the crisis.

Finally, ARRA investments in child care and early childhood education, K–12 and higher education, and workforce development go beyond temporary stimulus to represent down payments on policy initiatives that could, if continued, have longer-term beneficial effects for workers and their children. The key question for these initiatives is whether they will be continued and built on.

## Key Goals for Federal Antipoverty Policy

In light of the lingering effects of the recession and the need for an active federal role, we believe that three goals should shape antipoverty policy after ARRA. Specifically, federal policy should seek to

1. provide jobs, income support, and other services for the poor and unemployed to relieve short-term distress during the next three to five years;
2. prepare for programmatic and policy responses that might be needed during the next major economic downturn; and
3. make sensible long-term investments in poverty reduction, both by extending certain provisions of ARRA and going beyond them.

Below we consider policy priorities in each of these three areas, as well as how to deal with the fiscal and political constraints that will make any such policy responses difficult to implement.

## Relieving Short-Term Distress: Jobs, Income Support, and Services

With unemployment rates projected to remain high for so many years, we see three immediate targets for federal policy. First, the federal government should stimulate direct job creation in the private and public sectors and should provide a wider range of labor market supports and services. We consider these efforts different from broad-based stimulus to the economy (under ARRA), in that the new policies would be specifically targeted to job creation and employment services rather than overall economic activity. The second strand

is continued federal funding for income support for those suffering from poverty or unemployment. With states unable to respond on their own, this continued federal role is necessary and can build on the experience gained through ARRA. The third strand is intended to avert or heal the damage done to children and youth by their parents' long-term unemployment.

### *Jobs and Labor Market Supports*

We recommend that the federal government engage in two forms of direct job creation over the next few years: tax credits to private-sector companies that hire unemployed workers and grants for public-sector employment that could be used to prevent layoffs of state or local workers or to fund new hires.<sup>8</sup> The private-sector tax credits should be larger than the payroll tax exemption included in the recent jobs bill passed by Congress, since the existing provision is far too small to make much difference to companies and their hiring behavior.<sup>9</sup> At the same time, direct expenditures on public-service employment could better target the poor who would otherwise get no job offers (see C. Johnson, Rynell, and Young 2010). Such public-sector initiatives have not been supported by the Obama administration to date, though some such legislation has been introduced in the House of Representatives.<sup>10</sup>

Given the severity of unemployment, Congress must continue to extend UI in 2010 and beyond, especially in states with the highest unemployment rates. We also strongly support the efforts in ARRA to expand UI eligibility, through incentives to states that enact legislation to provide UI benefits to groups generally not covered.<sup>11</sup> But we are concerned that states might not maintain these new eligibility categories beyond the incentive period, and we would urge that efforts be made to ensure they are permanent.<sup>12</sup> Such improvements in UI coverage are particularly important as the safety net for families has become more work-based and the cash welfare system described below has shrunk. In particular, single mothers' employment rates increased substantially during the late 1990s and 2000s. Yet they received UI much less frequently than other workers when they were not working and also not on welfare (Acs, Holzer, and Nichols 2005; O'Leary and Kline 2008).

But even with these reforms, merely extending UI funding for the unemployed will not meet individuals' longer-term employment needs. Because so many workers are losing jobs permanently, we will need much more robust reemployment

services for UI recipients—not just indefinite cash assistance—to prepare them for new jobs that will hopefully become available as the labor market begins to recover. At a minimum, we should consider implementing Anthony Carnevale’s proposals (2010) for making online information about job vacancies and the labor market rewards for different kinds of training much more accessible than it is today. The National Skills Coalition proposal for on-the-job training tax credits or grants to accompany private-sector job creation efforts should be enacted as well.

During times of high unemployment, public policy should also encourage workers to invest in longer-term education and job training since the “opportunity cost” of lost earnings among trainees is lowest then. That means far more funding for the Obama administration’s American Graduation Initiative (AGI), which offers grants to community colleges to improve postsecondary completion rates for disadvantaged workers and strengthen their links to the labor market.<sup>13</sup> And, as part of the upcoming Workforce Investment Act (WIA) reauthorization, states should be rewarded for offering new career pathways in occupations and sectors where jobs pay well and labor market demand is most likely to recover fully.<sup>14</sup> We provide additional thoughts on using TANF emergency funds for public job creation and on training efforts for disadvantaged youth below.

### *Income Support*

For a limited period, ARRA strengthened the federal role in major safety net programs that provide income support to low-income families, including nutrition assistance (SNAP), welfare assistance and welfare-to-work programs (TANF), child care subsidies (Child Care and Development Fund), and health insurance (Medicaid). These policies should be continued and built upon to provide more effective support to families and individuals until rates of poverty and economic distress come down again. In some cases, they have merit even after the economy strengthens.

The ARRA improvements provide the first increase in federal TANF dollars since the program was enacted as a fixed block grant in 1996. The additional resources are available to states that increase spending on assistance to families (including basic assistance and nonrecurrent short-term benefits, such as a one-time payment of back rent) or on work, such as subsidized jobs.<sup>15</sup>

Before ARRA, TANF caseloads in many states had remained flat or declined after the recession began, in contrast to other safety net programs, such as SNAP and Medicaid, that had responded

quickly. For example, TANF caseloads declined in 19 states from December 2007 to December 2008 (Zedlewski and Golden 2010). Among the reasons for the slow response cited by state and national experts in a recent Urban Institute roundtable were federal signals that caseload decline was TANF’s primary goal, sharp state cuts in staffing so caseworkers had no time to process applications, constrained state budgets in a context of flat federal funding, and state political choices to reduce the availability of assistance.<sup>16</sup>

In this context, the ARRA provisions marked a worthwhile, albeit temporary, shift. Roundtable attendees told us that the dollars mattered and so did the clear federal signal that TANF ought to assist families in times of economic distress, rather than focusing only on moving families out of the program as quickly as possible.

Building on these provisions, the emphasis on state-federal investment in job creation as part of TANF should be maintained at least while private-sector unemployment remains high, and so should the availability of additional federal resources at a favorable match rate for both assistance and work. Federal standards and performance measures should be revised to reflect balanced attention to work, family economic stability, and the well-being of children in TANF families—all noted in the language of the current TANF statute but not in the all-important details of performance measures and financial incentives to states.<sup>17</sup>

In contrast to TANF, assistance to low-income families under SNAP and Medicaid/CHIP (Children’s Health Insurance Program) responded strongly to the recession (Pavetti and Rosenbaum 2010). In SNAP, where benefits are entirely funded by the federal government, the stimulus provided not only a federally funded benefit increase and expanded eligibility for childless adults (whose eligibility would otherwise have been limited to only three months in many states) but also extra federal dollars for state administration.<sup>18</sup> In Medicaid, the stimulus provided an enhanced federal match and required that states maintain their program eligibility standards during the recession. We recommend continuing these provisions as unemployment remains high and state budgets stay precarious during the early phase of the recovery.

### *Reducing Damage to Children and Youth*

For young children, the pathways that link unemployment, poverty, and mobility to damaged development likely include direct loss of income, harsher or less responsive caregiving as a consequence of parents’ disrupted lives, and

interruption of routines and familiar relationships. Therefore, federal investments to prevent or heal damage to children should stabilize families (using the economic and workplace supports already discussed); support high-quality services in the key settings for children outside the home (child care and early education programs and school); and support continuity and stability in children's connection to these settings. In addition to longer-term investments in early childhood programs (discussed below), we should immediately continue and expand the stimulus's provisions that invest in child care subsidies and quality, Head Start and Early Head Start, and education improvement.

In addition, preventing or addressing damage born of instability requires fixing policy barriers that may intensify cycles of turbulence for families. For example, when a child loses high-quality child care because his parent's job loss makes the family ineligible for a child care subsidy, then policy choices are worsening, not ameliorating, the impact of economic distress on children.

For similar reasons, we should also focus intensive services on youth entering the labor market. Young people in general, and low-income or minority youth in particular, bear the greatest brunt of this downturn, and they are the most likely to be permanently scarred by lower earnings because of lost work experience.<sup>19</sup> The Summer Youth Employment Program under ARRA directly targeted this population, while other Labor Department expenditures on job training and employment creation under ARRA likely benefited them as well. We strongly believe that additional job creation efforts that target low-income youth should be undertaken over the next few years, including both summer and full-year efforts that are linked to education or training wherever possible.<sup>20</sup>

## Preparing for the Next Labor Market Downturn

This severe recession has clearly demonstrated gaps in our federal-state safety net that we need to fix before the next major recession arrives. Specifically, the safety net failed in two ways before the stimulus package was implemented (and, to a lesser extent, afterward): gaps in the benefits provided and limitations in the administrative capacity to deliver benefits to families. Simply put, the local offices that administer programs such as UI and TANF are not staffed sufficiently to handle the upsurge in applicants and needed services. Administrative capacity also limits how quickly local public-service jobs are created as part of the recession response.

## Unemployment Insurance

In order for UI eligibility to be expanded permanently, its long-term funding needs to be more secure. For too long, states have underfunded their UI trust funds during prosperous years, only to see these funds exhausted during serious downturns that then require even more federal assistance (Vroman 2009). Though politically unpalatable, this will likely require some long-overdue increases in the wage base on which federal and state UI taxes are paid by employers and workers, along with indexing to future inflation rates.<sup>21</sup> Plans for expanding administrative capacity during downturns could be built into any such financing improvements.

## Public-Service Employment

Cliff Johnson and colleagues (2010) argue that a long-term commitment to public-service employment would make administrative capacity to ramp up program scale more readily available during economic downturns. In Johnson's view, limited funding for transitional jobs (TJ) for the very hard to employ would be available at all times. Indeed, recent evaluation evidence shows TJ improves employment and earnings for ex-offenders and reduces recidivism in the short term (Redcross et al. 2009).<sup>22</sup> If an ongoing public program supported projects like these at all times, federal oversight and local administrative infrastructures would be maintained continuously, along with lists of local projects that could quickly be implemented if and when the need for public job creation arises.

## The Safety Net for Families

Of the major safety net programs for low-income families, only SNAP has full federal funding for benefits; Medicaid, TANF, and child care subsidies, among others, require state as well as federal spending on both benefits and administration. As a result, during and after a deep recession, as long as need remains high and state revenues low, states are likely to react in ways that exacerbate the economic cycle: cutting benefits and laying off workers who provide benefits. And, since the safety net has become more work dependent (with TANF participation and child support payments both somewhat conditional on employment), recessions generate negative feedback loops between a deteriorating job market and deteriorating safety nets that leave not only families but also public programs unprepared for the influx of need.

To be better prepared, it would make sense to design legislation that would detail in advance how federal-state safety nets such as SNAP, TANF, child care subsidies, Medicaid/CHIP,<sup>23</sup> and child support should operate as unemployment rises. The recession-tailored policies could be effective automatically when state unemployment reaches a certain level (as the extended benefits program does under UI) or could be initiated by states at their option once a national or state-specific trigger is met (as in the TANF contingency and emergency funds). These legislative contingency plans should include additional federal resources for benefits and administrative costs, and they should include clear goals for how the programs should operate during an economic downturn.

Making a contingency plan in advance would also allow Congress to deliberate more effectively on targeting to particular states, because it would be making decisions about formulas for state fiscal relief when no state knows how it will fare in the next downturn. That allows more precise targeting of scarce fiscal resources to state need than the alternative, seen under ARRA, where each state knows exactly what it would get under a particular formula and the political consequence is to split assistance proportionally.

### **Policies for the Long Term: Investments in Poverty Reduction**

One key element in longer-term poverty reduction efforts must be to invest in building skills among low-income children, youth, and adults. Since the labor market will continue over time to generate well-paying jobs in the middle- as well as high-skill categories (Holzer and Lerman 2007), policies that increase general educational achievement, and especially the attainment of postsecondary credentials plus access to good-paying jobs for low-income youth and adults, will have strong payoffs. Since improvements in our K–12 education system get much attention elsewhere, we focus here on the need for greater investments in a few specific cases: young children’s development before school age, youth and young adults, and two-generational approaches that target children’s development and support adults as they combine work and parenting.

#### ***Early Childhood Programs***

By now, the payoffs of high-quality early childhood education are well known.<sup>24</sup> However, several obstacles have blocked expansion to anywhere close to the needed scale. High-quality programs

are very expensive, particularly for babies and toddlers, making it hard to expand evidence-based programs such as Early Head Start to more than a tiny fraction of eligible children. And as more parents work, old conceptions of high-quality programs need to be revised: for example, parents who work full time in low-wage jobs may not be able to benefit from part-day early childhood programs. Making programs full day in turn adds cost, although it could also enhance benefits (for example, by contributing to parents’ stability at work).

There is no simple solution to these challenges, but given the strength of the evidence for high-quality early childhood strategies, we believe it is critical to build toward meeting them. We concur with Aber and Chaudry’s call for a federal commitment, even if it necessarily starts small, that will eventually lead to high-quality services for all needy children below school age. ARRA provides initial building blocks through its investments in Head Start, Early Head Start, child care subsidies, and education funding streams that can be used for preschool as well as school-age children. Thus, a first step is to ensure that ARRA’s expanded investment in young children expands rather than erodes over the coming years. Another early step, proposed by Golden (2009) and by Aber and Chaudry (2010), is to explore geographic targeting as we expand programs such as Early Head Start, concentrating at least some share of expanded services in very disadvantaged neighborhoods.

#### ***Teens and Young Adults***

Disadvantaged teenagers and youth also merit special attention and federal investment. Even in the best of times, millions of young people become “disconnected” from school and work, and those numbers almost certainly will rise during this economic downturn. We therefore support programs for in-school youth designed to prevent disconnection from occurring, along with those for out-of-school youth that try to reconnect them to school and/or work. We believe that programs that combine paid work experience with appropriate schooling are the most promising avenues for preventing such disconnection—since paid work motivates young people to remain engaged, and since high-quality career and technical education (CTE) has repeatedly proven to reduce dropout rates and improve the long-term earnings prospects of disadvantaged youth. But, given the uncertainty that remains about exactly what interventions are cost effective, programmatic expansions should be accompanied by rigorous evaluation wherever possible.<sup>25</sup>

### Work and Two-Generational Strategies

Finally, as the economy recovers, parents who work in low-wage jobs need help supporting their families financially while also improving their skills and providing their children with the support they need to succeed. The last thing we would want is for parents who have suffered from the lack of work during the downturn to be unable to benefit from newly available jobs during the recovery. Yet, we also do not want them forced to choose between today's paycheck and a child's health, education, or well-being. Two-generational strategies that can enable low-earning parents to work, get training and education when appropriate, and help their children thrive include these three:

- Improvements to the child support system that build on past successes and ensure that noncustodial parents financially support and care for their children. As Cancian and her colleagues note in their paper (2010), various reforms in the child support system could encourage absent fathers to work and contribute more financially. And expansions of the earned income tax credit (EITC), which has been enormously effective in improving earnings and encouraging more work among low-income single mothers with children, should be applied to the earnings of childless adults and especially noncustodial fathers as well (Edelman, Greenberg, and Holzer 2009).
- Paid family leave, so low-income parents can afford to take time off after a birth—a critical time for children's development and a moment when families are at particularly high risk of poverty (Ratcliffe and McKernan 2010).
- Two-generational approaches that combine training, education, and/or employment for a teenage or young adult parent with high-quality early childhood programs for a baby or young child. The most vulnerable children often have parents under age 25, so programs for the young adult age group should explicitly consider the needs of both youth who are parents and their often vulnerable young children.

**Other Long-Term Strategies.** A full long-term antipoverty strategy would include other measures, particularly those designed to ensure an adequate standard of living for individuals and families unable to work or in low-wage jobs; we mention several important measures briefly here. First, the value of the minimum wage relative to median private-sector wages should at least be maintained over time (perhaps through indexation) at a level that does not seriously reduce

employer willingness to hire low-skill workers. Second, given the continuing surfeit of low-wage jobs, ongoing attention to the general adequacy of the EITC and the child tax credit, and on how the two intersect, is warranted. Third, the disturbing increase over time in extreme poverty—17.1 million people had incomes below half the poverty level in 2008—suggests a need to focus on an improved structure of public benefits for the poorest of the poor. And, fourth, given the very limited supply of affordable housing, efforts to extend the reach of housing vouchers (and the supply of low-income housing) are still a priority, along with transportation and employment services that enable residents of poor neighborhoods to reach jobs anywhere in their metropolitan areas.

### What Will It Take to Secure America's Future?

We are in the midst of a severe economic contraction that will likely persist for many years, in which rising poverty will create short-term hardships and long-term costs for millions of Americans, and in which states will be very strapped for resources to help. Under these circumstances, the federal government must continue to relieve economic hardship in the short term, invest in poverty reduction for the longer term, and prepare for future downturns.

#### Caution: Fiscal Realities

Of course, we understand that this agenda for poverty reduction faces a very substantial hurdle: the fiscal reality of serious long-term budget deficits facing the United States. There is no doubt that the United States faces dire economic consequences if we cannot reduce projected deficits, and the accumulation of public debt, over the next several decades. We strongly support efforts to reduce the health care cost inflation that leads to enormous increases in projected expenditures for Medicare and Medicaid over time, while we would also consider proposed reforms in Social Security and other retirement programs.<sup>26</sup> We also believe that, since defense and homeland security expenditures now constitute nearly two-thirds of discretionary spending, they should not be completely exempt from cost-containment pressures. In addition, long-term deficit reduction will clearly require additional federal revenues, not just reduced expenditures.

But two important points must be emphasized here. First, sensible fiscal analysis requires us to distinguish between the *short-term* and *longer-term*

fiscal outlooks. Our debt problem is a serious long-term issue, but short-term expenditures that can stimulate employment and economic growth as well as relieve severe economic pain among the disadvantaged should not be sacrificed because of it. As any student of macroeconomics knows, it is often necessary to run deficits during recessions to stimulate aggregate demand and the recovery of output. Carefully targeted expenditures to relieve distress and create jobs in the next three to five years will add relatively little to projected debt/GDP ratios while doing enormous economic good.<sup>27</sup>

Second, we should not sacrifice sensible cost-effective investments in poverty reduction over the longer term that will contribute to GDP growth and ultimately to fiscal balance as well. As we noted earlier (Holzer et al. 2007), failure to make these investments leads to reduced earnings capacity, higher crime rates, and poor health among the poor, which in turn generate enormous economic costs on the United States. It would be penny wise and pound foolish not to invest in effective poverty-reduction strategies because of our fiscal problems, where less socially beneficial categories of public expenditures could instead be targeted for reduction.<sup>28</sup>

Given the severe distress that low-income workers and families will continue to experience for years, it is imperative that we begin planning now to enact the supports that we will clearly need in January 2011 and beyond. While the fiscal costs of doing so will not be insignificant, the social and economic costs of not doing so would be far worse, and the potential payoffs to our strategy are very positive. Under the circumstances, it is time to move ahead with such a strategy.

## Notes

1. In developing our ideas, we benefited greatly from the lively discussion among authors and discussants at “Reducing Poverty and Economic Distress after ARRA,” a January 2010 conference cosponsored by the Urban Institute and the Georgetown Center on Poverty and Inequality. For a link to the conference papers and podcast, go to <http://www.urban.org/url.cfm?ID=901339>.
2. The annual unemployment rate in 1982 (9.7 percent) was as high as it is today, and in some months it was higher. But it started from a higher base level (5.8 percent in 1979), so the increase over time was smaller than recent changes.
3. For instance, annual unemployment rates for men and women in 2009 were 10.3 and 8.1 percent, respectively. But, among high school dropouts, rates were 14.9 and 14.1 percent, respectively. Among black dropouts, the unemployment rate was over 21 percent—despite the large shares of this demographic group that were not in the labor force at all and therefore not counted in this measure. Unemployment rates for white and Hispanic dropouts were roughly 14 percent each in 2009.
4. Since 1965, the official U.S. poverty rate has topped 15 percent only in 1983, when it reached 15.2 percent. For poverty rates projections in the current recession, see Monea and Sawhill (2009). Poverty rates are not yet available for 2009, and what we observe thus far does not represent the trough of the downturn.
5. With over 8 million jobs lost, and over 1 million workers joining the labor force each year, net job creation would have to be over 11 million right now to get us back to pre-recession unemployment levels. By 2015, we will need roughly 16 million more jobs to reach those unemployment levels. In fact, payroll growth of over 100,000 a month is needed just to absorb workers entering the labor force over the longer term, and even more is needed now to also absorb those who have dropped out of the labor force in the past few years and might return.
6. For instance, the unemployment rate in the early 1990s peaked at under 8 percent in 1992; in the early 2000s, it peaked at about 6.0 percent annually (and a bit higher monthly) in 2003.
7. Lisa Kahn, “The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy,” mimeo, Yale University, 2009. While Kahn’s results focus mostly on college graduates, evidence from Oreopoulos et al. (2008) suggests negative effects of lost employment on the wages of young workers more broadly.
8. Alan Blinder, “Getting the Biggest Bang for Job-Creation Bucks,” *Washington Post*, February 18, 2010.
9. The avoidance of payroll taxes on newly hired unemployed workers generates wage savings of only about 6 percent, which is unlikely to change hiring incentives in most cases. The tax reductions will therefore mostly generate windfalls among firms that would have hired these workers anyway. A more sensible strategy would be the one outlined by Bartik (2010).
10. Rep. George Miller of California has recently proposed spending \$100 billion over the next two years to protect public jobs and generate new ones in his Local Jobs for America Act (Eisenbrey 2010).
11. These workers include part-time jobseekers, those who have quit jobs to care for family members, and those whose recent earnings are high enough to qualify only when they are computed under “alternative base periods” that fully count their most recent quarters of work.
12. Under ARRA, any states that apply for federal subsidies for coverage expansion through the end of 2011 must keep these expansions in place for at least five years. We have some concerns, given the difficult fiscal environments in which many states will find themselves, about what will happen after that time.

13. The Obama administration initially proposed \$12 billion in funding for this initiative over the next 10 years as part of a larger overhaul of federal financing for higher education. But, when this overhaul was included in the recent health reform legislation, funding for AGI was reduced to just \$2 billion over the next four years, with grants going only to community colleges and not to states for more systemic reforms.
14. The administration's proposed innovation funds in WIA will reward states that generate effective new efforts to target education and training to growing sectors, as Pennsylvania and other states have done through their sectoral efforts. See Maguire and colleagues (2009) for rigorous evaluation evidence on high-quality sectoral training programs. But we would encourage expenditures on these efforts above the \$150 million for adults and \$100 million for youth that the administration has proposed.
15. ARRA's emergency contingency fund makes \$5 billion in federal match money available to states at an 80-20 match rate if they have increases in spending for one of three purposes: basic assistance, nonrecurrent short-term benefits, or subsidized employment. As of April 29, 2010, HHS had approved \$2.3 billion for 44 states and the District of Columbia (<http://www.acf.hhs.gov/programs/ofa/tanf/apprTANFemerfund.html>, accessed May 4, 2010).
16. The roundtable proceedings are summarized in Zedlewski and Golden (2010).
17. For example, Deficit Reduction Act requirements that limited the types of activities that states could count as work and increased the amount of verification states had to provide distracted states from other goals, such as qualifying eligible families and serving families with more barriers (Zedlewski and Golden 2010).
18. In addition to the \$295 million in federal administrative funds made available through ARRA, the fiscal year 2010 Department of Defense Appropriation (Section 1001 of P.L.111-118) provided \$400 million in new federal money for state food stamp administrative costs.
19. Unemployment rates in 2009 averaged 24.3 and 14.7 percent, respectively, for those age 16-19 and 20-24. Among young blacks, comparable figures were 39.5 percent and 24.9 percent (Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," <http://data.bls.gov:8080/PDG/outside.jsp?survey=ln>).
20. For a qualitative review of summer youth employment programs under ARRA, and especially their potential for skill enhancement, see Bellotti et al. (2010).
21. The wage base for the Federal Unemployment Tax Act (FUTA) has been fixed at \$7,000 for many years, and thus has dramatically declined in real value and relative to average labor market earnings over time. Increasing this tax base and indexing it to future inflation would also increase many state tax bases that are tied to the federal level. And FUTA taxes are used, among other things, to finance local UI administration. See Vroman (2009).
22. If the reductions in recidivism persist over time, the program would have benefits greater than its costs.
23. See Dorn (2008) for a summary of Medicaid trends during economic downturns and a recommendation for a longer-term fix. Also, at one point during the recent national debate over health care reform, the Senate Finance Committee suggested an automatic, counter-cyclical adjustment to Medicaid that would increase the percentage of health costs covered by the federal government in response to higher unemployment rates (Senate Finance Committee 2009).
24. Of course, not all such programs achieve strong results when taken to scale (Wong et al. 2008) and especially in the longer term (Carolyn Hill, "The Longer-Term Effects of a Universal Pre-Kindergarten Program," mimeo, Georgetown University, 2007). See also the review in historical context by Zigler and Styfco (2010), which juxtaposes the strong evidence for results with a historical pattern of unrealistic—and therefore often disappointed—expectations.
25. The success of high-quality CTE, and especially the Career Academies, for in-school youth is emphasized by Lerman (2007). See Bloom, Thompson, and Ivry (2010) and Heinrich and Holzer (2010) for evidence on promising or proven programs serving out-of-school youth at different risk levels.
26. For quite sensible proposals for Social Security reform, see Diamond and Orszag (2004).
27. For instance, it would take additional federal expenditures of roughly \$150 billion in these areas, not offset by higher tax revenues, to add a single percentage point to the debt/GDP ratio, which is now already projected to rise to about .90 over the coming decade. But any such expenditures would be at least partially offset by their stimulative effects on real GDP and therefore on tax revenues.
28. Carasso, Reynolds, and Steuerle (2008) argue that enormous federal sums are currently spent regressively, through tax deductions for housing and retirement, that could more effectively be channeled to encourage greater upward mobility of the poor and disadvantaged.

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