Center for American Progress

Recession, Poverty, and the Recovery Act

Millions at Risk of Falling Out of the Middle Class

By James Kvaal and Ben Furnas

The American economy is in a recession that is 14 months old, and the downturn appears to be growing deeper and more severe. Approximately 1.8 million Americans lost their jobs in the past three months alone—nearly 20,000 a day. It's increasingly looking like "the worst recession since World War II" may be a best-case scenario.

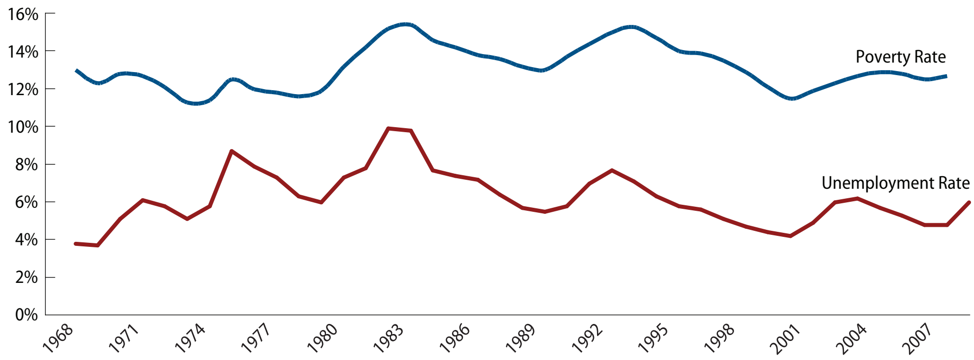
The economic downturn means hard times for millions of Americans. If unemployment rates reach double-digits, as some economists fear, nearly 7 million people will lose their jobs, more than 7 million will lose their health coverage, and more than 12 million will fall into poverty.

The economic recovery legislation before Congress would cushion the blow for the most vulnerable families by cutting taxes and strengthening the safety net, while boosting the economy and creating jobs to make the middle class stronger and larger. Helping struggling families is not only the right thing to do in hard times; it is also one of the most cost-effective ways to fight the recession. Aid for low-income families generates five times more economic activity than aid for high-income families, according to some estimates, because these families are more likely to spend the money immediately on necessities rather than saving it.

Rising unemployment leaves millions of American families struggling

The six years of economic expansion before the recession began in December 2007 never reached millions of Americans. Thirty-seven million people were living in poverty in 2007—4 million more than when the economic expansion began in 2001.[1] Real median household income grew by only 0.26 percent a year throughout the years of economic expansion, which kept income below 2000 levels.[2] And nearly 7 million people lost their health insurance during that period.[3]

Unemployment and poverty rates rise and fall together



Source: BLS, Census Bureau.

Now the economy has turned sour. It has shrunk by 3.6 million jobs since the recession began 13 months ago.[4] There are 11.6 million people out of work—the third-most since 1949.[5] Leading indicators such as announced layoffs, inventories, and demand for temporary workers give no sign that job losses are beginning to slow.[6] And the International Monetary Fund warns that the advanced economies may already be in a "depression."[7]

Signs of hard times are clear across the country. The number of homeless families is growing at double-digit rates in many cities.[8] Demand for free and reduced price lunches in California has surged by 12 percent since last year—12 times the normal rise—and other school districts are seeing similar increases.[9] In Miami, Florida, 1,000 job applicants stood in line for 35 firefighter positions, and in Hartford, Connecticut, 850 people applied for fewer than 50 jobs at a hotel and water park.[10]

The economy could get far worse without quick action. The Congressional Budget Office projects that the unemployment rate could reach 9 percent in 2010.[11] Some private sector forecasters are more pessimistic. Mark Zandi of Moody's Economy.com expects the unemployment rate to exceed 11 percent in 2010 and the economy to lose nearly 7 million jobs.

Rising unemployment rates mean that millions of families will struggle to make ends meet. Increases in poverty are sure to follow. As Figure 1 shows, unemployment and poverty rates have historically risen together.

More than 12 million Americans are at risk. The number of people living in poverty will rise by 12.4 million by 2010—including 3.8 million children—if the unemployment rate reaches 11 percent, according to our analysis based on a methodology developed by the Center for Budget and Policy Priorities.[12] And more than 7 million people will fall into deep poverty, living below half of the poverty line.

Without a recovery plan, by 2010 there will be…

Over 12.4 million more people in poverty
Over 3.8 million more children in poverty
6.8 million fewer jobs
Over 7 million more people without health coverage

Note: Increase over 2007 (most recent) poverty data.

Source: Center for American Progress analysis based upon a methodology developed by the Center on Budget and Policy Priorities and data from the Census Bureau, Bureau of Labor Statistics, and Moody's Economy.

Dramatic increases in poverty are consistent with past recessions. The number of people living in poverty grew by 9 million between 1979 to 1983, and it grew by 8 million between 1989 and 1993.[13]

The weak job market will also raise the number of people without health insurance. A percentage-point increase in unemployment could raise the number of uninsured by 1.1 million.[14] If unemployment rates rise according to Moody's projections—increasing from 4.6 percent in 2007 to 11.1 percent in 2010—more than 7 million people will likely lose their health insurance.[15]

The recovery package would help vulnerable and middle-class families

The American Recovery and Reinvestment Act would provide immediate assistance to help vulnerable families and prevent millions of middle-class Americans from falling into poverty. It would also stimulate the economy and create jobs, helping many additional families avoid poverty.

Tax cuts

The bill would cut taxes for low-income working families. It would expand the earned income tax credit—America's largest anti-poverty program.[16] The credit matches wages earned by low-income families, encouraging them to work and offsetting payroll taxes. Expanding the credit for families with three or more children would make nearly 1 million families eligible for the credit and give tax relief to a total of nearly 7 million.[17]

It would also expand the child tax credit for the poorest working families, many of whom are ineligible for the credit today because their incomes are too low.[18] By eliminating the income threshold, the House legislation would benefit 17 million children.[19] The less generous Senate bill, which only lowers the eligibility threshold from $8,500 to $8,100, would provide significantly less help to fewer children.

Together, these two tax cuts could make a large difference in the lives of the poorest families. The Recovery and Reinvestment Act would lift 2.5 million Americans out of poverty, according to the Center on Budget and Policy Priorities' analysis of the House version of the bill.[20] No analysis is available for the Senate bill.

Another important tax credit is the Making Work Pay credit, which is a $500-per-worker tax cut for nearly all taxpayers. The credit would make a meaningful difference for both middle-class and low-income families.

Unemployment insurance and help for households

The recovery legislation would also help struggling Americans by expanding unemployment insurance so that the long-term unemployed can continue to receive benefits through the end of 2009. It also offers states financial incentives to modernize their unemployment eligibility rules, which disproportionately disqualify jobless low-wage and part-time workers. These changes would benefit 18 million unemployed workers, including 3 million who would otherwise be denied any claims at all.[21]

Both the House and Senate bills also include help for other households. Both bills increase food stamp payments. The Senate bill includes one-time payments to Social Security recipients, poor people on Supplemental Security Income, and veterans receiving disability and pensions. And the House bill includes similar payments to poor elderly and disabled people.

Other important provisions for low-income families include child care assistance for working parents, Head Start programs to prepare low-income children for school, and Pell grants and tax breaks to make college more affordable. Assistance to state governments would prevent tax increases and cuts to crucial services. And new resources would help low-income families insulate their homes and pay their heating bills.[22]

House vs. Senate legislation

The resolution of the differences between the House and Senate proposals will affect the final bill's overall effectiveness. The two packages are similar in size, but the Senate version spends more on tax cuts that will do less for both working families and the economy as a whole.

The House legislation does more to expand the child tax credit for poor working families. Current law denies this credit to millions of children who need it most. The Senate legislation wipes out the majority of these gains, providing less help to fewer children.

The Senate bill also provides $40 billion less for states facing massive budget deficits, half the amount provided by the House bill. States are facing $350 billion in deficits over the next two and a half years.[23] The resulting huge spending cuts and tax increase will impose hardships on working families and undermine the economic recovery.

The Senate bill is less generous in other areas as well. It does less to stabilize neighborhoods devastated by foreclosures, retrofit public housing, cover unemployed workers with health insurance, and enroll young children in Head Start. It meanwhile gives larger tax breaks to money-losing companies, which the Congressional Budget Office believes will have little or no impact on the economy.[24]

The recovery package would boost the economy

Helping working families will not only keep millions of families out of poverty; it is also one of the most cost-effective ways to boost the economy and create jobs. As a result, it would strengthen and expand the middle class.

Tax cuts and transfer payments to families only generate economic activity if they are spent rather than saved. Low-income families are most likely to spend the additional income, and policies aimed at low-income households therefore tend to do more for the economy. One dollar for low-income people—including unemployment insurance, nutrition assistance, and refundable tax credits—adds between $0.80 and $2.20 to the economy, according to the Congressional Budget Office. A dollar of tax cuts for high-income households adds only between $0.10 and $0.50 cents.[25]

The recovery legislation makes investments that will create jobs now and promote economic opportunity in the years to come. Both the House and Senate bills include a historic investment in renewable energy and energy efficiency that will immediately begin to create "green jobs" and continue promoting sustainable, affordable energy for decades. Both include nearly $50 billion for roads, public transit, and public housing. And both would allow a new wave of investment in our schools and colleges that will strengthen education and promote future growth.

Conclusion

Our economy is in a perilous state. Millions of middle-class families are likely to fall into poverty if Congress does not take swift action. The American Recovery and Reinvestment Act will make the middle class larger and more secure by strengthening the safety net and sparking economic activity to create jobs and raise wages. As a result, it will soften the blow on poor Americans while also preventing millions of people from falling into poverty.

Appendix: State-by-state tables

Additional people And children in poverty by 2010 without recovery plan

	Additional people In poverty	Additional children In poverty	Additional people in deep poverty	Additional children in deep poverty
U.S.	**12,443,000**	**3,787,000**	**7,267,000**	**2,100,000**
Alabama	211,600	64,400	123,600	35,700
Alaska	19,500	5,900	11,400	3,300
Arizona	299,300	91,100	174,800	50,500
Arkansas	146,200	44,500	85,400	24,700
California	1,617,100	492,200	944,400	272,900
Colorado	159,700	48,600	93,300	27,000
Connecticut	99,500	30,300	58,100	16,800
Delaware	30,600	9,300	17,900	5,200
District of Columbia	26,600	8,100	15,500	4,500
Florida	782,000	238,000	456,700	132,000
Georgia	423,000	128,700	247,000	71,400
Hawaii	35,900	10,900	21,000	6,100
Idaho	61,500	18,700	35,900	10,400
Illinois	491,800	149,700	287,200	83,000
Indiana	245,200	74,600	143,200	41,400
Iowa	98,100	29,900	57,300	16,600
Kansas	113,700	34,600	66,400	19,200
Kentucky	219,300	66,700	128,100	37,000
Louisiana	205,200	62,500	119,800	34,600
Maine	49,500	15,100	28,900	8,400
Maryland	154,400	47,000	90,200	26,100
Massachusetts	213,500	65,000	124,700	36,000
Michigan	382,800	116,500	223,600	64,600
Minnesota	169,800	51,700	99,200	28,700
Mississippi	170,400	51,800	99,500	28,800
Missouri	241,000	73,300	140,700	40,700
Montana	42,400	12,900	24,800	7,200
Nebraska	62,300	19,000	36,400	10,500
Nevada	94,700	28,800	55,300	16,000
New Hampshire	30,500	9,300	17,800	5,100
New Jersey	266,500	81,100	155,600	45,000
New Mexico	90,700	27,600	53,000	15,300
New York	829,400	252,400	484,400	140,000
North Carolina	434,000	132,100	253,500	73,200
North Dakota	24,200	7,400	14,100	4,100
Ohio	445,000	135,400	259,900	75,100
Oklahoma	176,100	53,600	102,800	29,700
Oregon	157,000	47,800	91,700	26,500
Pennsylvania	465,700	141,700	272,000	78,600
Rhode Island	37,700	11,500	22,000	6,400
South Carolina	198,500	60,400	115,900	33,500
South Dakota	29,100	8,900	17,000	4,900
Tennessee	304,800	92,800	178,000	51,400
Texas	1,175,300	357,700	686,400	198,400
Utah	103,100	31,400	60,200	17,400
Vermont	24,000	7,300	14,000	4,100
Virginia	258,500	78,700	151,000	43,600
Washington	224,300	68,300	131,000	37,900
West Virginia	85,700	26,100	50,100	14,500
Wisconsin	195,400	59,500	114,100	33,000
Wyoming	21,000	6,400	12,300	3,500

Note: "Deep Poverty" connotes people living at less than 50 percent of the poverty line.

Source: Based On CAPAF Analysis of Moody's Economy, CBPP, Census and BLS Data

Effect of select anti-poverty measures in the American Recovery and Reinvestment Act

	Kids helped by expansion of Child Tax Credit*	Extension of unemployment benefits		Expansion of Earned Income Tax Credit	
		People who would see increased benefits	People newly eligible	Families who would see increased benefits	Families newly eligible
U.S.	16,700,000	17,900,000	3,200,000	6,800,000	920,000
Alabama	273,000	247,000	37,000	128,000	18,000
Alaska	35,000	76,000	15,000	15,000	2,000
Arizona	416,000	204,000	42,000	163,000	21,000
Arkansas	208,000	185,000	31,000	87,000	11,000
California	2,310,000	2,395,000	506,000	946,000	117,000
Colorado	236,000	173,000	36,000	97,000	12,000
Connecticut	128,000	278,000	45,000	46,000	8,000
Delaware	38,000	54,000	9,000	16,000	3,000
District of Columbia	36,000	36,000	9,000	7,000	1,000
Florida	905,000	761,000	170,000	380,000	54,000
Georgia	559,000	505,000	101,000	240,000	29,000
Hawaii	54,000	55,000	8,000	26,000	4,000
Idaho	96,000	111,000	19,000	47,000	8,000
Illinois	674,000	823,000	145,000	285,000	37,000
Indiana	331,000	456,000	89,000	140,000	19,000
Iowa	169,000	212,000	28,000	53,000	10,000
Kansas	158,000	135,000	20,000	61,000	9,000
Kentucky	272,000	246,000	27,000	100,000	14,000
Louisiana	318,000	137,000	25,000	117,000	13,000
Maine	54,000	71,000	12,000	28,000	5,000
Maryland	198,000	242,000	40,000	72,000	14,000
Massachusetts	201,000	503,000	84,000	78,000	12,000
Michigan	518,000	1,040,000	162,000	211,000	28,000
Minnesota	189,000	331,000	52,000	87,000	16,000
Mississippi	228,000	133,000	19,000	90,000	10,000
Missouri	340,000	326,000	48,000	137,000	18,000
Montana	55,000	53,000	10,000	21,000	3,000
Nebraska	84,000	74,000	15,000	45,000	5,000
Nevada	128,000	195,000	40,000	59,000	8,000
New Hampshire	37,000	57,000	6,000	18,000	3,000
New Jersey	312,000	731,000	148,000	127,000	19,000
New Mexico	154,000	70,000	14,000	57,000	5,000
New York	995,000	1,104,000	176,000	375,000	49,000
North Carolina	518,000	604,000	128,000	219,000	32,000
North Dakota	30,000	29,000	5,000	12,000	1,000
Ohio	645,000	666,000	92,000	231,000	34,000
Oklahoma	209,000	96,000	16,000	114,000	15,000
Oregon	203,000	329,000	53,000	81,000	13,000
Pennsylvania	598,000	1,056,000	156,000	235,000	36,000
Rhode Island	50,000	86,000	17,000	19,000	2,000
South Carolina	281,000	294,000	51,000	96,000	16,000
South Dakota	39,000	17,000	1,000	17,000	3,000
Tennessee	375,000	335,000	62,000	154,000	21,000
Texas	1,871,000	677,000	125,000	779,000	80,000
Utah	162,000	74,000	14,000	74,000	14,000
Vermont	22,000	48,000	5,000	11,000	1,000
Virginia	288,000	247,000	46,000	123,000	20,000
Washington	289,000	404,000	44,000	121,000	17,000
West Virginia	99,000	89,000	11,000	42,000	8,000
Wisconsin	296,000	553,000	74,000	100,000	16,000
Wyoming	25,000	20,000	4,000	9,000	1,000

*For tax year 2009; House version only

Note: Analysis of unemployment benefits and the EITC reflects both the Senate and the House versions of the plan; figures may not add due to rounding.

Sources: EITC analysis from Brookings Metropolitan Program, CTC analysis from CBPP, UI analysis from NELP

Endnotes

1 Census Bureau, "Historical Poverty Tables," available at http://www.census.gov/hhes/www/poverty/poverty.html (last accessed February 6, 2009).

2 Michael Ettlinger, "New Census Data Sobering," Center for American Progress, August 26, 2008, available at http://www.americanprogress.org/issues/2008/08/census_data.html.

3 Census Bureau, "Historical Health Insurance Tables," available at http://www.census.gov/hhes/www/hlthins/historic/index.html (last accessed February 6, 2009).

4 Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics Survey," available at http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=CES0000000001&output_view=net_1mth (last accessed February 6, 2009).

5 Ibid.

6 Heather Boushey, "Job Losses Continue at Accelerated Pace ," Center for American Progress, February 6, 2009, available at http://www.americanprogress.org/issues/2009/02/job_losses_continue.html.

7 Bloomberg, "IMF Says Advanced Economies Already in Depression," February 7, 2009, available at http://www.bloomberg.com/apps/news?pid=20601080&sid=a6aaWZ8ab8yU&refer=asia.

8 Barbara Sard, "Number of Homeless Families Climbing Due To Recession," Center on Budget and Policy Priorities, January 2008, available at http://www.cbpp.org/1-8-09hous.htm.

9 Kimberly S. Wetzel, "State Leaders Call for Extra Cash to Boost School Lunch Program," *San Jose Mercury News,* January 23, 2009, available at http://www.mercurynews.com/breakingnews/ci_11537809;, Craig Trudell, "Schools Report Increase in Lunch-Aid Need," *Jackson News*, October 22, 2008, available at http://www.mlive.com/news/jackson/index.ssf/2008/10/schools_report_increase_in_lun.html; "More County Students Signing Up for Free and Reduced-Price Lunches," *OakRidger*, February 2, 2009, available at http://www.oakridger.com/localnews/x511411312/More-county-students-signing-up-for-free-and-reduced-price-lunches.

10 Jose Pagilery and Diana Moskovitz, "Hundreds of Hopefuls Line up for 35 Miami Firefighter Jobs," *Miami Herald,* February 3, 2009, available at http://www.miamiherald.com/134/story/885039.html; Eric Gershon, "Availability of 40 to 50 Jobs Draws More Than 850 Applicants," *Hartford Courant,* February 6, 2009, available at http://www.courant.com/business/hc-jobfair0206.artfeb06,0,4149516.story?track=rss.

11 Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 20009 to 2019," January 2009, available at http://www.cbo.gov/doc.cfm?index=9957.

12 Sharon Parrott, "Recession Could Cause Large Increases In Poverty and Push Millions Into Deep Poverty: Stimulus Package Should Include Policies to Ameliorate Harshest Effects of Downturn," Center on Budget and Policy Priorities, November 24, 2008, available at http://www.cbpp.org/11-24-08pov.htm; Mark Zandi, "The Economic Impact of the American Recovery and Reinvestment Act," January 21, 2009, available at http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf.

13 Census Bureau, "Historical Poverty Tables."

14 Jeanne Lambrew, "Testimony Before the House Ways and Means Committee," Center for American Progress Action Fund, October 29, 2008, available at http://www.americanprogressaction.org/issues/2008/lambrew_wm_testimony.html.

15 Zandi, "The Economic Impact of the American Recovery and Reinvestment Act."

16 The Brookings Institution, "The Earned Income Tax Credit at Age 30: What We Know," February 2006.

17 Metropolitan Policy Program at Brookings, "Economic Recovery and the EITC: Expanding the Earned Income Tax Credit to Benefit Families and Places" (January 2009), available at http://www.brookings.edu/papers/2009/~/media/Files/rc/papers/2009/0129_eitc_kneebone/20090126_eitc_kneebone.pdf

18 Mark Greenberg, "How to Help 12 Million Low-Income Children," Center for American Progress, January 26, 2009, available at http://www.americanprogress.org/issues/2009/01/ctc_house_senate.html.

19 Center on Budget and Policy Priorities, "Economic Recovery Packages: State-by-State Estimates of Key Provisions Affecting Low- and Moderate-Income Individuals" (February 2009), available at http://www.cbpp.org/1-22-09bud.pdf.

20 Center on Budget and Policy Priorities, "Tax Credit Provisions in House and Senate Would Lessen Growth In Poverty," January 26, 2009, available at http://www.cbpp.org/1-26-09pov.htm#_ftnref2.

21 National Employment Law Project, "American Recovery and Reinvestment Act of 2009: Estimates of Jobless Workers Benefiting from Selected Unemployment Insurance Provisions," January 29, 2009, available at http://www.nelp.org/page/-/UI/RecoveryPlanEstimates.pdf.

22 For more information on the provisions of the recovery act important to low-income families, please see Alexandra Cawthorne, "Meeting the Needs of Low-Income Families in the Economic Recovery," February 3, 2009, available at http://www.americanprogress.org/issues/2009/02/poverty_stimulus.html.

23 Iris J. Lav and Nicholas Johnson, "Funding for States in Senate Economic Recovery Package Would Close Less than Half of Projected State Deficits," Center for Budget and Policy Priorities, January 29, 2009, available at http://www.cbpp.org/1-29-09sfp.htm.

24 Congressional Budget Office, Letter to the Honorable Judd Gregg, February 4, 2009, available at http://www.cbo.gov/ftpdocs/96xx/doc9619/Gregg.pdf.

25 Congressional Budget Office, "Estimated Macroeconomic Effects of the Inouye-Baucus Amendment in the Nature of a Substitute to H.R. 1," February 4, 2009, available at http://www.cbo.gov/doc.cfm?index=9619&type=1.