

THREE 'T'S AND THE ECONOMY

Stimulus Seen in Food Stamps, Jobless Insurance, State Relief

Our economy, by many observations around the country, is in need of a boost. Congress and the President are haggling out a so-called “stimulus package” to give the economy a spark. The package being advanced in the Senate has more elements that meet “stimulus” needs, while both the Senate and House proposals are laden with several extras that can have no immediate impact, such as business tax changes. One demonstrated “stimulus” tool — a temporary expansion of Food Stamp benefits — is missing from both packages under consideration.

THE 'THREE T' FORMULA: TEMPORARY, TIMELY, TARGETED

The idea behind a “stimulus” package is to address a short-term need to boost the economy in a downturn. Permanent changes are not necessary, so the package must be temporary; actions must be timely to prompt immediate spending responses and must reach people who will use the resources quickly. Thus, it must be targeted to low-income families.

Featured in both houses’ packages are tax rebates, which are temporary, if not timely (they will take several months to reach recipients) and not well-targeted, as both will reach recipients who don’t need to spend the money. The Senate plan, however, does reach lower-income households better.

As suggested succinctly by Federal Reserve Chair Ben Bernanke, “If you’re somebody who has lots of financial assets and you receive an extra dollar, you may not change your spending much... If you’re somebody who lives paycheck to paycheck, you’re more likely to spend that extra dollar.”

For a detailed analysis of the rebate proposals, see the analysis from the Center on Budget and Policy Priorities: <http://www.cbpp.org/1-30-08tax2.pdf>.

WHAT WORKS? FOOD STAMPS

The Economic Research Service of the U.S. Department of Agriculture has estimated a \$5 billion increase in Food Stamp spending would mean a \$9.2 billion increase in economic activity and some 82,000 more jobs. See: < <http://www.ers.usda.gov/publications/fanrr26/fanrr26-6/fanrr26-6.pdf>>.

IOWA: THE LAY OF THE LAND

Economic trends in Iowa are not strong. Coming off an anemic recovery from the 2001 recession, it took Iowa four years to reach the nonfarm job level it held (1,473,000) at the start of the recession. Since then, the growth has paled in comparison to the high-growth years of the mid- to late 1990s. Consider:

- As of December 2007, 81 months after the start of the 2001 recession, Iowa showed a net gain of 54,800 jobs — compared with 168,100 over the comparable period from the onset of the 1990 recession.
- Iowa jobs grew by 1.3 percent from 2006 to 2007 (about 1,600 jobs per month) — slower than seven of the 10 years from 1991-2000 and below the period average of 1.9 percent.
- Poverty is up.
- Food insecurity is up.
- Health insurance is a challenge, with over 9 percent of Iowans uninsured, and coverage through jobs on the decline.
- A recent report from the IPP, The Cost of Living in Iowa, found that more than half of Iowa jobs pay less than the \$13.92/hour needed to support a single parent with a child. See: <<http://www.iowapolicyproject.org/2008docs/080118-COL-release.pdf>>

IN IOWA, Food Stamps reach about a quarter of a million people every month. A short-term Food Stamp increase — aside from important and needed longer-term changes to shore up eroding benefits — would have more than 240,000 people putting money into local grocery stores, and/or offsetting other scarce dollars in their households to meet other essential family needs in a tough economy.

Neither the House stimulus plan nor the proposal from the Senate Finance Committee includes a Food Stamp component.

WHAT WORKS? JOBLESS INSURANCE

Extending unemployment insurance benefits may be the biggest “bang for the buck” available among many options for a stimulus package. During a similar stimulus debate in 2002-03, economist Mark Zandi of Economy.com examined the first-year economic effects of several stimulus options, finding a short-term unemployment benefit extension created the greatest demand, \$1.73, per \$1 of cost.¹

In the Senate Finance Committee chair’s proposal, 13 additional weeks of jobless benefits would be available through the end of the year — 26 weeks in high-unemployment states (6 percent or higher).

DON’T FORGET: STATE FISCAL RELIEF

Iowa is one of 19 or more states that face a budget shortfall for the upcoming fiscal year. Iowa legislators are dealing with this budget challenge — a \$350 million projected shortfall — right now.

During a downturn in the economy, more families are strapped and turn to public services for temporary help. This presents a double-edged problem for states:

- Revenues can be expected to decline during an economic slowdown, reducing state resources to meet increased service demand.
- States must balance their budgets, the drop in revenue may encourage legislators to raise taxes or cut spending during a recession — neither of which is advisable. As IPP executive director David Osterberg has noted, “The last thing you want is for the state to decrease its purchases and its payrolls just as a recession starts. The federal government needs to bolster state coffers, by increasing Medicaid and SCHIP payments, or existing block grants.” See: <http://www.iowapolicyproject.org/2008docs/080123-stim-release.pdf>

This two-pronged problem leaves it to Congress and the President to make sure states can meet the needs of their residents and keep their financial houses in order as well.

HOW? In 2003, Congress provided fiscal relief to states in both general aid and a temporary increase in the federal matching rate for Medicaid, which minimized cuts in health coverage. If done in 2008, a temporary increase in the matching rate could help states avoid Medicaid cuts. As health-care access is an increasing challenge in the United States even without a downturn in the economy, Congress could use this approach to help millions retain health-care access while helping state budgets at the same time.

¹ Source: Mark M. Zandi, “Assessing President Bush’s Fiscal Policies,” Economy.com, July 2004.; “The Economic Impact of the Bush and Congressional Democratic Economic Stimulus Plans,” Economy.com, February 2003.