At Risk:
America's Poor During and After the Great Recession

SCHOOL OF PUBLIC AND ENVIRONMENTAL AFFAIRS

INDIANA UNIVERSITY

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EXECUTIVE SUMMARY

The Great Recession officially began in December 2007 and ended in June 2009. A slow recovery is underway, but the severity and extended duration of the downturn have inflicted long-lasting damage to individuals, families, and communities.

This White Paper examines the impact of the Great Recession and its aftermath on poverty in America. Our focus is not only the well-being of the poor but the near poor and the "new poor," the millions of families who are entering poverty because of the Great Recession's terrible toll of long-term unemployment. The Paper examines the recent trends in poverty, nationally and in the 50 states, in the context of the well-established risk factors for poverty: age, race and ethnicity, family structure, educational attainment, and employment.

We also examine the performance of America's "safety net": the major federal and state programs designed to protect the well-being of low-income Americans. Given the poor fiscal condition of the public sector, we also consider what is likely to happen to funding for the safety net between now and 2017, when the economy is forecasted to reach full employment again. Our principal conclusion is that the well-being of low-income Americans, particularly the working poor, the near poor, and the new poor, are at substantial risk, despite the economic recovery.

Findings

1. **The Great Recession has left behind the largest number of long-term unemployed people since records were first kept in 1948.** More than four million Americans report that they have been unemployed for more than 12 months. Although the official rate of unemployment is declining, much of this apparent progress is attributable to the fact that many adults are giving up on the search for a job. The more telling indicator of an economy's job-producing performance, the ratio of the number of employed people to the number of working-age adults (the "job-to-people" ratio), has improved only slightly since the Great Recession ended in June 2009. If the long-term unemployed lose their unemployment insurance benefits before the economy produces enough well-paying jobs to approach full employment, the ranks of the "new poor" will steadily swell between now and 2017.

2. **Large numbers of Americans are already poor**. The official federal measure of poverty and a new "Supplemental Measure," which accounts for several shortcomings in the official measure, both reveal a sobering fact: poverty in America is remarkably widespread. In 2010, about 46.2 million Americans were living in poverty according to the official measure, or about 15.1% of the U.S. population. The rate of poverty is slightly larger (16%) using the supplemental measure. The five states with the highest rates of poverty are somewhat different according to the two measures (2009): Mississippi (23.2%), Arizona (21.3%), New Mexico (19.6%), Arkansas (19.1%), and Georgia (18.5%), according to the official measure; California (22.4%), Arizona (21.6%), Florida (19.5%), Georgia (18.8%), and Hawaii (18.0%), according to the supplemental measure. The supplemental measure accounts for geographical differences in the cost of living and thus gives more emphasis to poverty in urban areas, where day-to-day living costs, especially housing, are higher than they are in rural areas.

3. **The number of people living in poverty is increasing and is expected to increase further, despite the recovery.** The proportion of people living in poverty has increased by 27% between the year before the onset of the Great Recession (2006) and 2010. During the same period (2006-2010), the total population of the United States grew by less than 3.3%. The official national estimates of people in poverty have risen each year since 2006: 36.5 million (2006), 37.3 million (2007), 39.8 million (2008), 43.6 million (2009), and 46.2 million (2010). Poverty is expected to increase again in 2011 due to the slow pace of the economic recovery, the persistently high rate of unemployment, and the long duration of spells of unemployment.

4. **The recent increase in the rate of poverty has not been uniform across subgroups**. The increase in poverty since 2006 has been greater among Hispanics and African Americans than among Whites, greater among children than among the elderly, and greater among female-headed households than other households. More surprising, however, is the growth in poverty among working-age adults, especially younger people between the ages of 18 and 34.

5. **Some states have experienced much larger increases in the rate of poverty than other states.**. The ten states that have experienced the largest percentage point increase in the rate of poverty, since the onset of the Great Recession, are (in rank order) Florida, Nevada, Arizona, Michigan, Indiana, Ohio, California, Connecticut, South Carolina, and Minnesota/North Carolina/Wyoming (tied for 10th). Some large states, such as Texas and New York, have not experienced large increases in the rate of poverty. Other states, such as Mississippi, are not in the top 10 but had consistently high poverty rates before, during and after the Great Recession.

6. **Since the onset of the Great Recession, the performance of the American "safety net" has been uneven**. The entitlement programs, including the Supplemental Nutrition Assistance Program (SNAP – Food Stamps), Medicaid, and Unemployment Insurance have responded robustly to the Great Recession – as unemployment rose and incomes fell, eligibility and participation in the safety net increased. In contrast, other programs, such as Temporary Assistance for Needy Families (TANF) and federal housing assistance, have not responded as effectively to the depressed economic conditions. Although it is more difficult to achieve fiscal control of entitlement programs that operate with mandatory spending, they have been the most responsive aspect of America's safety net since the unexpected hardships of the Great Recession began.

7. **While history is rife with examples of mismanagement and abuse of public funds used for a variety of government purposes, anti-poverty programs may be particularly vulnerable to being placed under the microscope, and perhaps subsequently at risk for budget cuts.** Media coverage about incidents of fraud and mismanagement of programs, coupled with budgetary concerns, may negatively affect the future funding of the safety net. Recent efforts to buttress asset tests in federal food assistance, remove millionaires from unemployment insurance, and add in provisions in the 2011 debt-ceiling agreement to reduce fraud and abuse (e.g., under Medicaid and Medicare) are all examples of efforts designed to stem waste, fraud, and abuse in public programs. While evidence indicates that administrative and other mismanagement problems play a larger role in erroneous spending than fraud by program recipients, if these concerns are not handled carefully, there is additional risk that elected officials will respond hastily with reforms of the safety net that may put low-income Americans at additional risk.

8. **The adverse effects of the Great Recession would have been much worse had recent policy initiatives not been enacted by Congress**. The Obama administration and the Congress have responded with several policy initiatives aimed specifically at protecting the well-being of low-income Americans. Among many actions, they include the 2009 federal stimulus package, which aimed approximately $240 billion of the $787 billion package at low-income populations; a permanent expansion of child health insurance for families with incomes between 133% and 300% of the poverty line; tax cuts designed to assist low-income workers; and a provision prohibiting states from curbing Medicaid access until the new health care reform law supports a large expansion of Medicaid in 2014. As bad as the Great Recession has been for low-income Americans, it would have been much worse without these recent policy actions.

9. **The Federal government's large yearly deficits are creating pressures for spending control that are likely to result in cutbacks of the safety net**. The federal government's deficit in fiscal year 2011 is estimated to be about $1.6 trillion. As a result, the 2011 federal agreement to raise the debt ceiling requires two rounds of cuts in the growth of federal spending. The implementation of this agreement will directly and indirectly put low-income Americans at risk. There are key safeguards in the agreement that exempt federal entitlement programs and cash assistance from cuts. However, other programs in the safety net (e.g., federal housing assistance) are not exempted. If Congress sets aside the 2011 spending agreement on the grounds that national security spending deserves greater priority, then larger cuts in non-defense, discretionary spending may be required. Under that scenario, the safety net for low-income Americans will be placed at even greater risk than it is under current policy.

10. **Due to fiscal pressures, states are already making cuts to the safety net, and more are likely in the next several years**. With the 2009 stimulus package expired and revenues to state governments recovering slowly this year (due to the sluggish recovery), many states (from Washington and California to Michigan and Florida) are making cuts to unemployment insurance, temporary cash assistance, Medicaid benefits, and other services for low-income Americans. The fiscal pressure

on some states may worsen before it eases. The pressure to restrain federal spending may cause Congress to reduce federal fiscal relief for the states, which are already struggling to balance budgets in the face of rising Medicaid costs and depressed revenues. If the federal government places more fiscal pressure on the states, which are required to balance their budgets, then states are likely to consider additional cuts to cash assistance, Medicaid and other safety-net programs. States may also be compelled to reduce funding for tax and educational policies that primarily benefit low-income populations. More state cuts to the safety net should be expected unless the recovery – and the resulting growth rate of state revenues – accelerates.

The dilemmas faced by policy makers in the 2012-2017 period are vexing. The United States cannot afford the current level of government spending, but for a variety of reasons, elected officials are reluctant to pass tax increases. Promoting sustained economic growth, while at the same time protecting the well-being of the poor, the near poor, and the new poor, is the central challenge for the leaders of the United States.

TABLE OF CONTENTS

FIGURES AND TABLES

At Risk: America's Poor During and After the Great Recession

The Great Recession, which officially lasted from December 2007 through July 2009, is so named because its depth and duration make it the worst recession in the United States since the Great Depression of the 1930s. While recessions are defined using data on the rate of change in Gross National Product, the increased rate of unemployment induced by recessions signals the resulting hardships.

During the Great Depression, the rate of unemployment in the United States surpassed 25%. By way of comparison, the rate of unemployment more than doubled due to the Great Recession, from 4.5% in November 2007 to a peak of 10.6% in January 2010. The recession of 1980-1982 also saw the rate of unemployment exceed 10%, but the pace of recovery in jobs has been much slower in the aftermath of the Great Recession than it was after the 1980-1982 recession. No other post-World War II recession comes close to matching the adverse job impacts of the Great Recession.[1]

High rates of long-term unemployment (e.g., beyond six months or a year) are a distinctive feature of the Great Recession. By the end of 2009, 6.3 million Americans were unemployed for six months or longer, the largest count of the long-term unemployed since the figure began to be counted in 1948.[2] By the third quarter of 2011, 4.4 million people (32% of the 14 million people out of work) informed surveyors that they had been without work for more than a year.[3]

Looking over the next four years (2012-2015), many of these long-term unemployed may join the list of the "new poor." Their unemployment insurance eventually expires, but the longer people are unemployed, the more difficult it becomes to obtain work. Not only are the skills of the long-term unemployed depreciating, but they are becoming obsolete (since the jobs they had may be gone for good). Consequently, many of the long-term unemployed will be unable to find jobs in the same occupation they were in prior to the Great Recession.

A sluggish recovery of the U.S. economy, measured by growth in Gross Domestic Product, has been underway since July 2009. The upturn seems to have accelerated somewhat in late 2011, but the pace of the recovery remains slow compared to previous recoveries.

The rate of unemployment declined from its peak of 10.6% in January 2010 to 8.5% in December 2011. Private analysts are forecasting a continued decline in the rate of unemployment in 2012, but at a slow pace.[4] The Federal Reserve Board is forecasting rates of unemployment of 8.5% at the end of 2012, at least 7.8% at the end of 2013, and at least 6.8% at the end of 2014.[5] For long-term budget forecasts, the U.S. Congressional Budget Office is assuming the economy will not be at full employment (around 5%) until 2017.[6] Thus, the next six years will be a period of continued economic hardship for many Americans.

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1 Michael Hout, Asaf Levanon, and Erin Cumberworth, "Job Loss and Unemployment," in *The Great Recession* (David B. Grusky, Bruce Western, and Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 60-61; Rebecca Thiess, "The Great Recession's Long Tail: Third Anniversary Underscores Severity of Labor Market Woes," *Economic Policy Institute*, February 2, 2011, http://www.epi.org/publication/bp294/.

2 Peter S. Goodman, "Despite Signs of Recovery, Chronic Joblessness Rises," *New York Times*, February 20, 2010, http://www.nytimes.com/2010/02/21/business/economy/21unemployed.html?pagewanted.

3 The PEW Charitable Trusts, Addendum: A Year or More: The High Cost of Long-Term Unemployment, PEW Fiscal Analysis Initiative, November 1, 2011, http://www.pewtrusts.org/our_work_report_detail.aspx?id=85899365897. Also see The Pew Charitable Trusts, A Year or More: The High-Cost of Long-Term Unemployment, PEW Fiscal Analysis Initiative, April 2010,

4 See Suzy Khimm, "Economic Outlook for 2012 Even Worse Than We Thought," *Washington Post,* November 14, 2011, http://www.washingtonpost.com/blogs/ezra-klein/post/forecast-for-2012-economy-even-worse-than-we-thought; Kiplinger, Economic Outlook, November 22, 2011, http://www.kiplinger.com/businessresource_outlook/.

5 Binyamin Applebaum, "Fed Lowers Its Forecast for Growth, But Takes No Steps," *New York Times*, November 2, 2011, http://www.nytimes.com/2011/11/03/business/economy/fed-holds-rates-and-strategy-stea.

6 U.S. Congressional Budget Office, CBO's 2011 Long-Term Budget Outlook, Washington, D.C., June 2011, 25.

Even the recent progress against unemployment may not capture the difficulties many continue to face. When unemployed people give up looking for jobs, they are no longer counted in the official unemployment rate. To account for this so-called "discouraged worker" effect, it is useful to consider a different indicator: the ratio of employed people to the total number of working-age people in the U.S. economy. This "jobs-to-people" ratio is considered a valid measure of how well an economy creates jobs.[7]

In healthy economies, this ratio hovers in the range of 0.60 to 0.70. Prior to the Great Recession, this ratio was fairly stable in the United States, around 0.625 from January 2003 to January 2008. It then began to plummet in early 2009 to a trough of 0.582 in December 2009. The jobs-to-people ratio has recovered little in the last two years and was last recorded at 0.585 in November 2011.[8] These data suggest that the reported progress in reducing the rate of unemployment may not be as encouraging as we think since increasing numbers of the unemployed may simply be giving up on the search for a job.[9]

In this White Paper, we examine trends in poverty in the United States, with emphasis on the years during and after the Great Recession. We explore how the Great Recession, and its devastating impacts on employment, has affected the size and composition of America's impoverished population. We also examine how America's "safety net" – government assistance programs and tax policies aimed at mitigating some of the worst consequences of economic upheaval – has performed during and after the Great Recession. We also highlight some of the major policy measures enacted by the Congress since 2009 that were designed to soften the blow of the Great Recession on low-income individuals and families

Looking forward, we conclude that, while an economic recovery is underway and may be accelerating, America's poor, near-poor, and new poor remain at substantial risk. The risk is rooted in the slow pace of economic growth, the persistence of high rates and long bouts of unemployment, the poor fiscal condition of the federal government, the pressing fiscal challenges faced by most state and local governments, and the concerns about "waste, fraud, and abuse" in the safety net (i.e., the view that some people receiving government assistance are not eligible for assistance or do not need or deserve assistance). Our objective is to alert community leaders, opinion leaders, policy makers, and the public to the risks faced by low-income populations during the next several years.

The White Paper is organized as follows. Section 1 reviews how poverty is defined while Section 2 describes the prevalence of poverty, nationally and in the 50 states, and explains why the number of poor people in America is likely to grow further, despite the economic recovery. Section 2 also examines the composition of the poverty population, how it is changing, and how established risk factors such as age, race and ethnicity, family structure, and educational attainment influence the poverty rate. Section 3 considers America's safety net, particularly unemployment insurance, federal food assistance, the Earned Income Tax Credit, federally supported cash assistance to adults with dependent children ,and federal housing assistance. Section 4 examines the 2009 American Reinvestment and Recovery Act (often called the federal stimulus package) and how it kept the rate of unemployment from increasing even further and prevented many families from joining the ranks of the new poor. Sections 5 and 6 highlight the current dilemmas faced by federal and state policy makers, respectively, and explain why the well-being of America's poor, near-poor, and new poor are at risk in the next several years, despite the economic recovery now underway.

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[7] This ratio is commonly used by the OECD, a think tank in Paris, when it compares economies around the world.

[8] Bureau of Labor Statistics, U.S. Department of Labor, 2011, http://bls.gov/timeseries/LNS12300000.

[9] When the rate of unemployment dropped from 9.0% to 8.6% in November 2011, it was estimated that about half of the improvement was an artifact of people no longer being counted as in the labor force. Ben Casselman, Josh Mitchell, "Jobless Rate Nears Three-Year Low," *Wall Street Journal*, December 3, 2011.

1. How Poverty is Measured

In the United States, families whose pre-tax cash income falls below the official poverty thresholds are considered "poor." The Census Bureau updates the poverty thresholds annually based on the average cost of living in the United States, but otherwise the official measurement of poverty has remained the same since the 1960s. In 2010, a family of four (two non-elderly adults and two children) was considered poor if the family's total income fell below $22,113.[10]

The U.S. method of measuring poverty originated in the Johnson Administration's "War on Poverty." A statistician named Mollie Orshansky took the amount of money needed to afford a low-cost diet in 1955, multiplied that number by three (since at that time, the typical family spent approximately one-third of its income on food), and made adjustments based upon the number of related individuals in the household and the ages of those individuals (e.g., the elderly are assumed to need less food than younger adults and children).[11] The resulting figures are called the "poverty thresholds." In 1969, the Bureau of the Budget (now called the Office of Management and Budget – OMB) required all departments and agencies of the executive branch of the federal government to use the Orshansky method, and OMB and Congress have used this method for almost half a century.[12]

The U.S. poverty thresholds have become widely-used. For example, the thresholds and related guidelines are used by agencies such as the Department of Health and Human Services in setting eligibility criteria for a number of federal programs. Some programs use a multiple of the poverty thresholds such as having income at or lower than 125%, 133%, 185%, 200%, or 300% as part of criteria used to establish eligibility. While many federal assistance programs make some use of the poverty thresholds in determining eligibility, others do not.[13]

This type of poverty threshold is an example of an *absolute* measure, as opposed to a relative measure, which many Western European nations employ. An absolute measure sets the poverty line at some fixed point, and families with incomes below that level are considered to be poor. A relative measure defines poverty relative to the standard of living within a particular country (e.g., relative to the median family). In practice, relative measures of poverty typically consider someone to be poor if his/her income is below some fraction of the country's median income (e.g., below 50 percent of median income). Using this method, the poverty threshold changes as the median income in the country changes.[14]

The decision as to whether an absolute or relative measure should be used is controversial. Some experts urge the U.S. to follow European practice, but there is no consensus in the United States that the absolute measure of poverty now in use should be replaced by a relative measure.

Even accepting use of an absolute measure, many academics and policy makers have criticized the current method used in the United States. The data and assumptions underpinning the definition of the threshold are no longer accurate. Consumption patterns have changed dramatically since the late 1950s, but the poverty threshold does not reflect those changes.[15] Moreover, the threshold is the same whether a family resides in a large city or a small rural community, and it is the same across the 48 contiguous states. In other words, the substantial variation in the cost of living between and within regions is not taken into account.

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[10] DeNavas-Walt, Carmen, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, D.C., 2011; http://www.census.gov/prod/2011pubs/p60-239.pdf.

[11] Mollie Orshanksy, "Children of the Poor," *Social Security Bulletin* 26(7), July 1963, 3-13; "Counting the Poor: Another Look at the Poverty Profile," *Social Security Bulletin* 28(1), January 1965, 3-29; "Who's Who Among the Poor: A Demographic View of Poverty," *Social Security Bulletin* 28(7), July 1965, 3-32.

[12] *National Research Council, Measuring Poverty: A New Approach*, National Academy Press, Washington, D.C., 1995, 1, 24-25 (hereafter cited as "NAS, 1995").

[13] Disability programs and tax credits, for example, do not make use of the poverty threshold. http://www.irp.wisc.edu/faqs/faq1.htm.

[14] NAS, 1995, 31.

[15] The food share has declined while the share devoted to housing and transportation has increased. Laura Castner and James Mabli, "Low-Income Household Spending Patterns and Measures of Poverty," Mathematica Policy Research Inc., 6408-600, April 2010, xiii-xiv.

The way that the Census Bureau calculates income is also problematic. In-kind benefits, which enhance a family's ability to consume goods and services, such as Food Stamps (now called the Supplemental Nutrition Assistance Program, or SNAP), are not counted; nor is income from tax refunds, which provide a substantial benefit at tax time for many working families in the lower part of the income distribution. Neither are payments of income and social security taxes subtracted from cash income, even though they reduce a family's disposable income.

A different approach to measuring a family's well-being is to quantify the value of the goods and services that the family consumes, usually by measuring their spending.[16] Some argue that being poor does not necessarily imply severe deprivation as measured by ownership of certain goods, such as air conditioners or refrigerators.[17] Some families who are officially recorded as "poor" (based on income measurement) may consume more goods and services (e.g., food, gasoline, air conditioning, refrigerators, and cars) than some people who are recorded as "nonpoor." Income measures of poverty are imperfect because income is volatile over time, income from self-employment is difficult to measure reliably, assets (e.g., savings) and access to credit are not considered, and voluntary sharing of resources among families is not taken into account.

In 1995, a panel convened by the U.S. National Academy of Sciences (NAS) proposed a series of recommendations to modernize how poverty is measured, including recalibrating the threshold to reflect current spending patterns on food, housing, clothing, and other basic expenses, and making adjustments for geographic variations in the cost of living. Although updated consumption data were used to refine the poverty threshold, the panel did not recommend use of a consumption-based measure of poverty. The panel did recommend an expansion in the sources of income counted when determining a family's money income. The panel also recommended that certain out-of-pocket expenses incurred by the family, in particular child-care expenses, work-related transportation costs, and medical expenses, as well as payroll and income taxes, be subtracted from income before poverty thresholds are applied. However, the NAS proposal does not count in-kind benefits from Medicaid, Medicare, and other health-related government programs because they cannot be used to increase consumption of food, shelter, and other necessities.[18]

In 1999, the Census Bureau began to release a set of "experimental measures" of poverty that reflect the NAS recommendations. Some of these measures are variations on the official poverty line and hence represent absolute measures of poverty; those that employ the NAS poverty line represent a quasi-relative measure of poverty because the thresholds increase as consumption levels rise in non-poor families.[19] In the fall of 2011, the Bureau released a "Supplemental Poverty Measure" (SPM).[20] The supplemental measure sets as the threshold the 33rd percentile of expenditures on food, clothing, shelter, and utilities for households with two children.[21] Adjustments are then made based upon family size and composition, but also for housing costs (i.e., whether the household is a renter, an owner with a mortgage, or an owner without a mortgage). Housing costs are allowed to vary by state of residence and by metropolitan area. This threshold would change over time to reflect changes in expenditures on food, clothing, shelter, and utilities. On the income side of the poverty measure, the SPM goes beyond a count of pre-tax cash income. It counts the cash value of some in-kind benefits (e.g., federal food, housing, and energy assistance), subtracts income and payroll taxes, adds tax refunds, and subtracts necessary expenses for child

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16 Bruce D. Meyer and James Sullivan, "Viewpoint: Further Results on Measuring the Well Being of the Poor Using Income and Consumption," *Canadian Journal of Economics* 44(1), 2011, 52-87; Bruce D. Meyer and James Sullivan, "Measuring the Well Being of the Poor Using Income and Consumption," *Journal of Human Resources* 38:S, 2003, 1180-1220; David M. Cutler and Lawrence F. Katz, "Macroeconomic Performance and the Disadvantaged," *Brookings Papers on Economic Activity* 2, 1991, 1-74.

17 Robert Rector and Rachel Sheffield, Understanding Poverty in the United States: Surprising Facts about America's Poor, Backgrounder #2607, Heritage Foundation, Washington, DC, September 13, 2001; http://www.heritage.org/research/reports/2011/07/what-s-poverty.

18 This treatment of medical care has been sharply criticized. See, for example, John F. Cogan, "Dissent," NAS, 2005, 385-390. See also Gary Burtless and Sarah Siegel, "Medical Spending, Health Insurance, and Measurement of American Poverty," Institute for Research on Poverty, University of Wisconsin, Discussion Paper No. 1238-01, September 2001.

19 The measure proposed by NAS is "quasi-relative in nature." NAS, 1995, 23.

20 Kathleen Short, The Research Supplemental Poverty Measure: 2010, Census Bureau, Washington, D.C., P60-241, November 2011.

21 Technically, the SPM threshold is based on mean expenditures on food, clothing, shelter and utilities for families between the 30th and 36th percentile. Then this mean is multiplied by 1.2 to account for other spending. See p. 18 of http://www.census.gov/hhs/povmeas/methodology/supplemental/research/Short ResearchSPM2010.Pdf.

care, work, and medical expenses (out-of-pocket only). Thus, the supplemental measure adopts the major recommendations of the NAS panel.

The SPM provides additional insight into the magnitude and distribution of poverty in America but it is not yet used by federal and state agencies in policy making or program administration.[22] For those purposes, the official measure of poverty, as designed in the mid-1960s, continues to be used with annual adjustments for inflation.

2. Poverty: Rates, Trends, and Risk Factors

In 2010, according to the official Census Bureau definition, 46.2 million Americans were living in poverty, or 15.1% of the population. The poverty rate using the SPM was slightly higher in 2010, about 16%.

The official poverty rate is now at its highest level since 1993, although, as Figure 1 shows, the 2010 rate is still lower than the rate in 1959 (22.4%), the first year poverty was officially measured by the federal government. The failure of the official poverty rate to decline significantly since 1980 does not necessarily mean that progress has not been made. The well-being of low-income populations, as measured by consumption of goods and services, has increased since 1980.[23]

One recent study found that, over the last 30 years (1980-2009), the well-being of the bottom 10% of the U.S. income distribution has improved considerably in the United States, whether measured by overall household consumption or by consumption of specific goods and services such as dishwashers, clothes dryers, air conditioning, housing (square footage), and automobiles.[24] The gains in consumption appear to be more strongly related to overall growth in GDP per capita, improved educational attainment of the head of the household, and increases in women's employment than to the impacts of specific federal assistance programs. A limitation of this study is that it does not address some key aspects of well-being such as health status, family stability, and leisure or recreational time.

As Figure 1 suggests, the number of people living in poverty has increased each year since 2006, the year prior to the onset of the Great Recession: 36.5 million (2006), 37.3 million (2007), 39.8 million (2008), 43.6 million (2009), and 46.2 million (2010). Between 2006 and 2010, the number of poor people grew by 27% while the total U.S. population grew by only 3.3%. Since some parts of the country began to experience the impact of the recession in early 2007, before the official recession was declared in December 2007, we treat 2006 as the first full year prior to the onset of the Great Recession. In 2006, the real rate of GDP in the United States grew by a respectable 2.9%, and the rate of unemployment had recently fallen to 4.6, the lowest yearly rate since 2000. The shaded blue bars in Figure 1 represent "recessions," as officially recorded by the National Bureau of Economic Research (NBER), and poverty tends to rise with recessions and not fall until a year or more after the recession's official end.[25] In other words, even as the overall economy recovers, the rate of poverty continues to rise for a variable period of time.

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[22] Jason DeParle, Robert Gebeloff, Sabrina Tavernise, "Bleak Portrait of Poverty Is Off the Mark, Experts Say," *New York Times*, November 3, 2011.

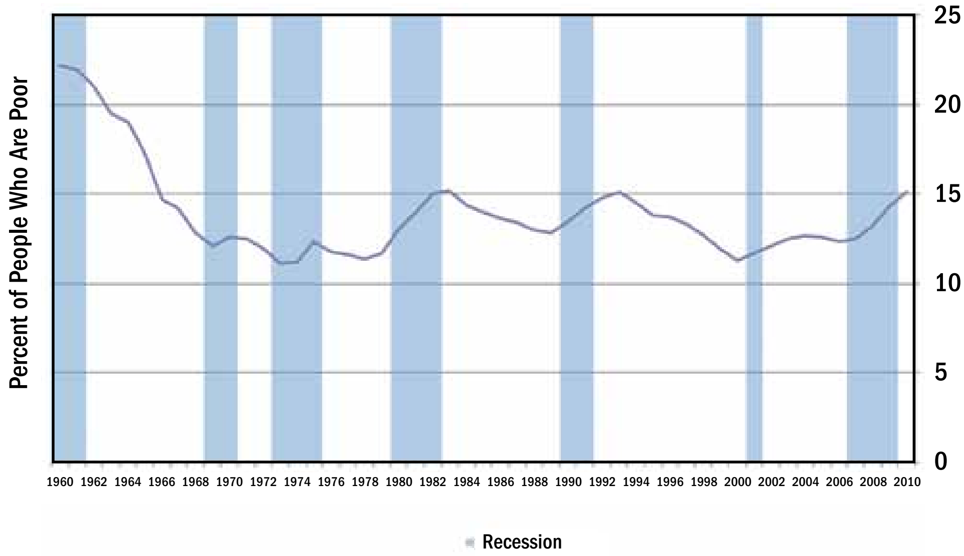
[23] Christopher Jencks, Susan Mayer, Joseph Swingle, "Who Has Benefited from Economic Growth in the United States Since 1969? The Case of Children," John F. Kennedy School of Government, Working Paper RWP04-017, March 2004; Christopher Jencks, Susan E. Mayer, Joseph Swingle, "Can We Fix the Federal Poverty Measure So It Provides Reliable Information About Changes in Children's Living Conditions?' Unpublished Paper, September 7, 2004; Joint Economic Committee, Democrats, "Reductions in Poverty Significantly Greater in the 1990s than Official Estimates Suggest," *Economic Policy Brief*, Washington, D.C., August 2004.

[24] Bruce D. Meyer and James X. Sullivan, "The Material Well Being of the Poor and the Middle Class Since 1980," AEI Working Paper #2011-04, October 25, 2011; Gary Burtless, "Comments on the Material Well Being of the Poor and Middle Class Since 1980," Brookings Institution, October 25, 2011, http://www.brookings.edu/speeches/2011/1025_material_wellbeing_burtless.aspx

[25] Timothy M. Smeeding, Jeffrey P. Thompson, Asaf Levanon, Esra Burak, "Poverty and Income Inequality in the Early Stages of the Great Recession," in *The Great Recession* (David B. Grusky, Bruce Western, Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 91.

Due to the severity and length of the Great Recession and the slow pace of the recovery, it is projected that the rate of poverty in the United States will continue to increase through at least 2011.[26] (The official poverty data for 2011 are not scheduled for release until the fall of 2012.) According to one forecast, there will be almost 50 million Americans living in poverty by 2014, although this estimate was made before the significant decline in the rate of unemployment reported at the end of 2011.[27]

Figure 1. Overall U.S. Poverty Rates, 1960-2010



Source: Authors' tabulations of U.S. Census data

The rate of poverty varies widely among subpopulations. Figure 2 shows the differences in poverty rates along racial and ethnic lines. Using the official measure, African Americans had the highest rate in 2010 (27.4%), followed by Hispanics (26.6%), Asian Americans (12.1%), and Whites (9.9%).[28] The Supplemental Measure reports roughly similar patterns by race and ethnicity.[29] Since the onset of the Great Recession, the official poverty rate has grown faster among African Americans and Hispanics than among Asian Americans and Whites (see Figure 2).

The poverty rate also varies by age. Children are counted as poor if their families are poor. In 2010, children under 18 had the highest official poverty rate (22%), followed by persons 18 to 64 years old (13.7%), and persons 65 years and older (9.0%) (Figure 3). Between 2007 and 2010, the poverty rate increased most dramatically among children under 18 (+4.6 percentage points), followed by persons 18 to 64 years old (+2.9 percentage points). Poverty decreased among persons 65 years and older during this time period (-0.4 of a percentage point).[30]

The Supplemental Measure finds somewhat different poverty rates for the various age groups. In particular, there is somewhat less poverty among children and more among the elderly than the official measure reports. This difference is due primarily to the fact that the Supplemental Measure counts receipt of in-kind benefits such as Food Stamps as well as tax benefits that working poor families receive. Those adjustments lower the rate of childhood poverty. Moreover, the SPM subtracts out-of-pocket medical expenses from income, and this leads to a large increase in poverty among the elderly. The SPM poverty rate for children is 18.2 percent while poverty rates among working-age adults and the elderly are 15.2 and 15.9 percent, respectively.[31]

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[26] See, for example, Emily Monea and Isabel Sawhill, "An Update to 'Simulating the Effect of the "Great Recession" on Poverty,'" Brookings Institution, Washington, DC, 2010; Julia B. Isaacs, "Predicting Child Poverty Rates During the Great Recession," *First Focus Report*, Brookings Institution, Washington, DC, December 2010; Timothy Smeeding, Jeffrey P. Thompson, Esra Burak, "Poverty and Income Inequality in the Early Stages of the Great Recession," in *The Great Recession* (David B. Grusky, Bruce Western, Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 83, 99-100.

[27] Emily Monea, Isabel V. Sawhill, "An Update to "Simulating the Effect of the 'Great Recession' on Poverty," Brookings Institution, Washington, D.C., September 13, 2011, http://www.brookings.edu/reports/2011/0913_recession_poverty_monea_sawhill.aspx.

[28] Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, D.C., 2011.

[29] Kathleen Short, The Research Supplemental Poverty Measure: 2010, Census Bureau, Washington, D.C., P60-241, November 2011.

[30] Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, DC,2011.

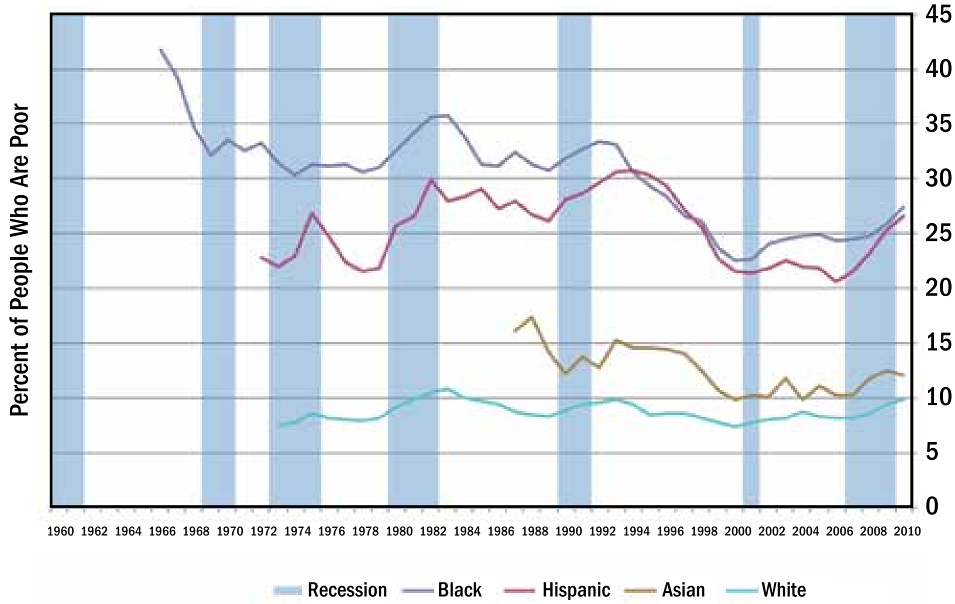
[31] Kathleen Short, The Research Supplemental Poverty Measure: 2010, Census Bureau, Washington, D.C., P60-241, November 2011.

The share of poor children that is Hispanic is growing rapidly, in part due to the rapidly growing Hispanic population in the United States. From 2006 to 2010, the raw number of Hispanic children in official poverty rose from 4.1 million to 6.1 million. The Hispanic share of poor children in 2010 was 37.3%, larger than the White share (30.5%) and the African American share (26.6%).[32]

National poverty trends mask large geographic variations in poverty. As shown in Figure 4, in 2010, the official poverty rate was highest in the South (16.9%), followed by the West (15.3%), the Midwest (13.9%), and the Northeast (12.8%).[33] The five states with the highest official poverty rates were Mississippi (22.7%), Louisiana (21.6%), Georgia (18.7%), New Mexico (18.6%), and Arizona (18.6%).[34] The map, produced by the U.S. Census Bureau, shows approximate poverty rates by state in 2010.

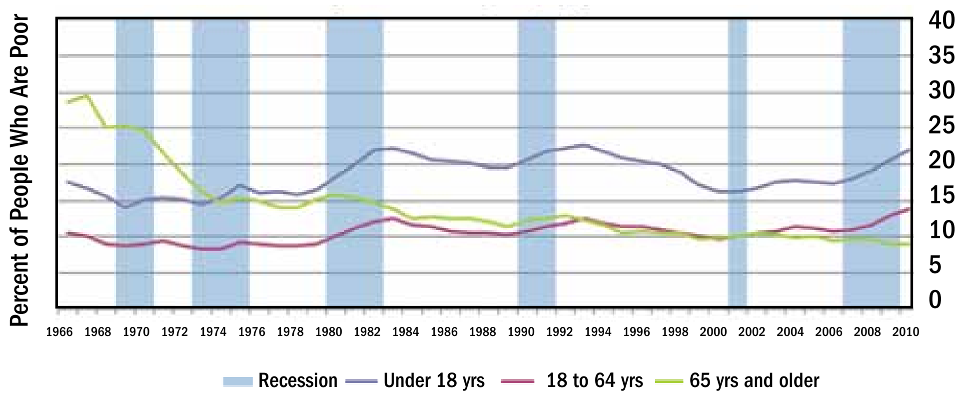
The ten states with the highest poverty rates (2009) are somewhat different using the official measure and the SPM. (State-level SPM data for 2010 are not yet available). Under the official measure, eight of the ten states are in the South, and the other two are Arizona and New Mexico. The top ten under the Supplemental Measure include only five Southern states (including Florida, which is not in the top ten under the official measure), as the higher cost of living states of California, Hawaii, and New York enter the top ten. Five states appear in the top ten under both poverty measures: Mississippi, Arizona, Georgia, Texas, and Alabama. See Appendix A for a complete ranking of the 50 states under each of the two poverty measures.[35]

Figure 2. U.S. Poverty Rates, By Race: 1960-2010



Source: Authors' tabulations of U.S. Census data

Figure 3. Poverty Status of People, By Age: 1966-2010



Source: Authors' tabulations of U.S. Census data

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32 Miriam Jordan, "For First Time, Largest Group of Poor Children in U.S. Are Latino, Report Finds," *Wall Street Journal,* September 29, 2011.

33 Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, U.S. Census Bureau, *Current Population Reports*, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*, U.S. Government Printing Office, Washington, D.C., 2011.

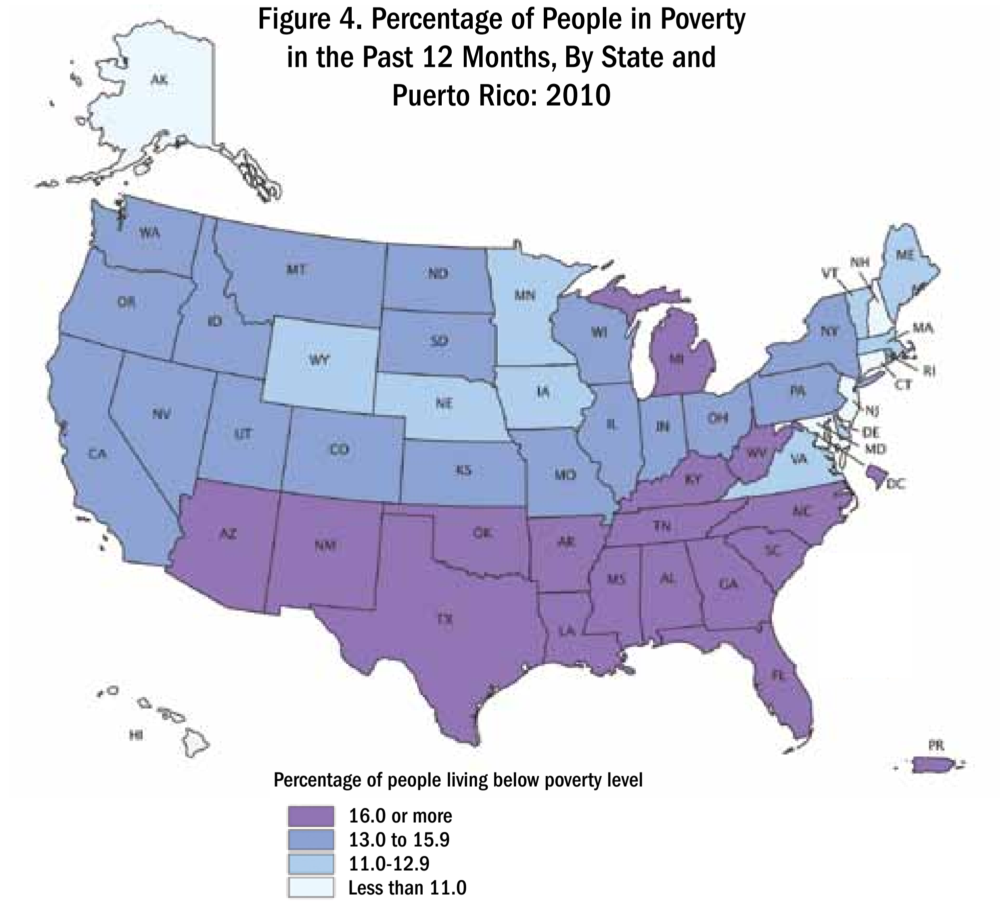
34 Authors' tabulations of U.S. Census data.

35 U.S. Census Bureau: http://www.census.gov/hhes/povmeas/methodology/supplemental/research/Renwick2009RevisedTables.pdf.

Next, we explore changes in poverty by state, since the onset of the Great Recession. State-level data for the Supplemental Measure are not reported by the Census Bureau prior to 2009. Following the Census Bureau's recommendation (which is designed to reduce sampling error), we compare three-year averages of American Community Survey data for each of the 50 states: 2005-2007 versus 2008-2010. For each state, we compute the differences in the percentage of people who are poor during the two time periods.

Using the official measure, the ten states with the largest percentage-point increase in poverty since 2006 are Nevada (+6.9 points), Georgia (+6.1 points), South Carolina (+5.8 points), Indiana (+5.7 points), Louisiana (+4.6 points), Florida (+4.5 points), Idaho (+4.5 points), Arizona (+4.2 points), California (+4.1 points) and North Carolina (+3.6 points).

Figure 4. Percentage of People in Poverty in the Past 12 Months, By State and Puerto Rico: 2010



Source: U.S. Census Bureau, 2010 American Community Survey, 2010 Puerto Rico Community Survey

Using the averaged ACS data, the ten states with the largest percentage-point increase in poverty are Florida (+2.4 points), Nevada (+2.2 points), Arizona (+2.1 points), Michigan (+2.0 points), Indiana (+1.7 points), Ohio (+1.6 points), California (+1.5 points), Connecticut (+1.5 points), South Carolina (+1.5 points) and Minnesota/North Carolina/Wyoming (tied at 1.4 points). Note that the multi-year averaging tends to compress the magnitude of the changes compared to the single-year comparison of 2010 versus 2006. Appendix B presents a rank ordering of all 50 states using both procedures.[36]

A robust finding is that five states have experienced large increases in poverty since 2006: Nevada, South Carolina, Florida, Arizona, and North Carolina. They are in the "top ten" using both comparisons. Of course, some states may not make the "top ten" list because they have had consistently high poverty rates during this period. For example, using the official measure, the percentage point increase in poverty in Mississippi was 2.1 points. However, in both time periods, the poverty rate was more than 20%, well above the national average.

There are many important differences that distinguish low-income families from other families. The most striking one revolves around family structure. Female-headed households have much higher poverty rates than do families headed by single males or by married couples (see Figure 5). This difference has persisted since comprehensive records began in 1959. The proportion of children growing up in mother-only households increased dramatically in the 1970s and 1980s, thereby putting more children at risk of poverty.[37] This family structure is particularly prevalent in African-American families.[38]

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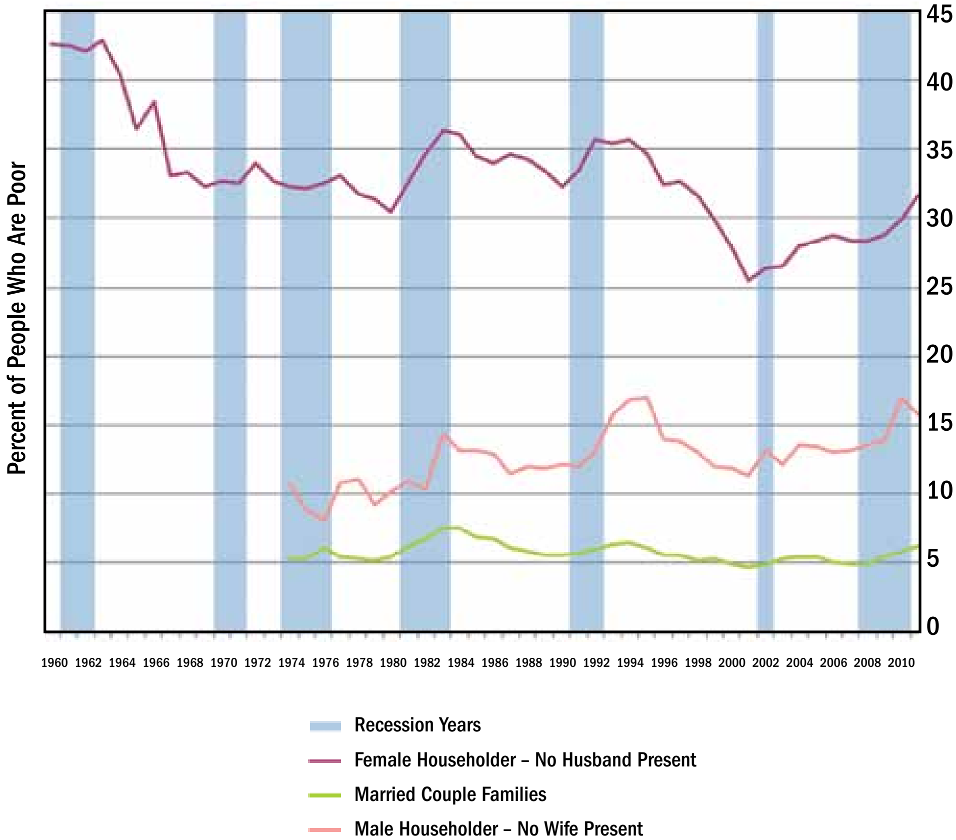
[36] Authors' tabulation of U.S. Census data

[37] Sara McLanahan, "Diverging Destinies: How Children Fare Under the Second Demographic Transition," *Demography*. 41(4): 607-627.

[38] Authors' tabulation of Current Population Survey data

Figure 5. U.S. Poverty Rates, By Family Structure: 1960-2010



Source: Authors' tabulations from historical Current Population Survey data

Poverty is strongly correlated with low educational attainment. Among individuals with no high school diploma, 26.3% of them were poor, whereas only 4.7% of people with college or higher degrees were poor. Although social scientists have speculated that the positive correlation between a college education and earnings might be spurious, the weight of the recent evidence points toward a causal relationship. In other words, acquiring a college education is a promising long-run strategy to reduce an individual's risk of living in poverty. And there are broader social benefits of an educated society that indirectly enhance the well-being of all citizens, including those at the bottom of the income distribution.[39]

Many poor people work. Of the 8.8 million families who were recorded as poor in 2010, about 60% had at least one person working.[40] Almost three out of five poor people are considered of "working age" (18-64 years old), and this population is projected to grow even larger, with many "new poor," unless the rate of long-term unemployment declines rapidly. Lower-skilled adults ages 18 to 34 have experienced surprisingly large increases in poverty rates, as employers have tended to favor more experienced workers, and thus many of these long-term unemployed have returned home to live with their parents, have re-enrolled in school, or have begun living with friends.[41] A distinct subgroup of the poor, i.e., those who have become poor during the Great Recession, the "new poor" of working age, should be the subject of careful study in the years ahead.

3. America's Partial Safety Net

Over the last 75 years, America has built a safety net to offer protection for low-income individuals and families. Comprised of governmental assistance programs and tax provisions, the net is a complex combination of state and federal policies. The safety net is considered "partial" because it does not eradicate poverty in this country, and parts of it are less responsive than others to economic downturns.

Among the government assistance programs, there are two basic types: entitlement programs mandate spending for eligible people according to criteria established in law, discretionary programs assist low-income people to the extent that yearly appropriations

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[39] Michael Hout, "Social and Economic Returns to College Education in the United States," *Annual Review of Sociology*, 37, 2011, 2-45.

[40] Hope Yen, Associated Press, "Working-Age Adults Make Up Record Share of U.S. Poor," September 7, 2011, http://dailycaller.com/2011/09/06/working-age-adults.

[41] Ibid.

permit. A discretionary program is sometimes implemented as a "block grant" from the federal government to the states, which means that states have wide discretion in how the funds are expended. The programs vary in who picks up the tab: the federal government, the state government, or a combination of the two.

Although the literature on the safety net is large and complex, two findings seem fairly secure. First, the net has been far more effective in reducing poverty among the elderly than it has been in reducing poverty among working-age adults and children. Second, the net does create some perverse incentives (e.g., discouraging levels of work), but the perverse behavioral effects are generally small (particularly with changes made to welfare and related policies) compared to the direct poverty-reducing impact of government assistance.[42]

Here we examine how several key programs in the safety net responded to the Great Recession and its aftermath. The focus is programs that provide food, medical, housing, and cash assistance to low-income and unemployed Americans. The phrase "low-income" refers generally to people who are poor or near-poor, usually with incomes less than some multiple of the official poverty line (e.g., 185% or 300%). In addition to direct assistance programs, we also consider a key provision of federal tax policy, the Earned-Income Tax Credit (EITC), which is now considered part of the safety net.

Our coverage of the safety net is not comprehensive. For example, we do not examine Supplemental Security Income (SSI), which provides cash to meet the basic needs of the aged, blind, and disabled who have little or no income or resources. Nor do we cover the federal block grant to the states for child-care assistance, which is designed to help with child-care payments for children with special needs and children in families with very low income. Other excluded programs include: Head Start, Women, Infants, and Children (WIC), Child Support Enforcement, and federal low-income energy assistance. We do not examine these programs in any depth, we expect that SSI has responded to the Great Recession like the other mandatory spending programs while the others, which are in the discretionary portion of the federal budget, have probably not responded as effectively. At the end of the White Paper (see sections 5 and 6), we find that these additional programs in the safety net (except for SSI), are at least as vulnerable to future spending cutbacks as the several key programs that we examine. Our overall focus is on how well the safety net has responded to the prolonged unemployment and poverty caused by the Great Recession, on recent actions by Congress that may affect the programs, and on whether the safety net is at risk of cutbacks in the years ahead.[43]

Unemployment Insurance (UI)

Perhaps the most obvious form of assistance one would expect to be used during an economic downturn is Unemployment Insurance (UI). Created as part of Franklin Roosevelt's New Deal, UI replaces a fraction of the wages of those who lose their jobs, typically for up to 26 weeks. Responsibility for the program is shared between the federal government and states; the federal government pays for administrative costs, while states are responsible for the actual payments to individuals. State UI programs must abide by a small number of federal guidelines, but, other than that, states have latitude in setting eligibility criteria and benefit levels. Funding for much of UI comes from a payroll tax on employers that is based upon the history of former employees collecting benefits; generally the more that employees use UI, the more in taxes the employer will pay.

The size of the weekly UI benefit varies widely by state. The benefit is determined as a proportion of the ex-worker's weekly earnings. The most generous states, Hawaii and Rhode Island, cover 54.3% and 45.9% of lost weekly earnings, respectively, which amounts to an average weekly benefit of $416 and $380, respectively. The least generous states, Mississippi and Florida, cover 29.7% and 29.5% of lost weekly earnings, respectively, or an average weekly benefit of $190 and $230.[44] Since the cost of living varies significantly across states, these comparisons need to be considered carefully.

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42 Yonatan Ben-Shalom, Robert Moffitt, John Karl Scholz, "An Assessment of the Effectiveness of Anti-Poverty Programs in the United States," Institute for Research on Poverty, University of Wisconsin, Discussion Paper No. 1392-11, Revised, June 2011.

43 For the White House account of how the Obama administration has protected low-income Americans, see *The White House, Creating Pathways to Opportunity*, October 2011.

44 Douglas McIntyre, "The 10 Best States for Unemployment Benefits – and the 10 Worst," FOXbusiness.com, May 12, 2011, http://www.foxbusiness.com/personal-finance/2011/05/12/10-best-states.

Once a person has exhausted 26 weeks of state UI, the federal government provides a basic package of "extended" UI for up to 11 weeks, assuming the state's unemployment problem is severe. Due to the impacts of the Great Recession, a federal emergency fund was created by Congress to provide longer UI extensions than the basic package. The duration of the emergency federal extension also depends on the severity of a state's unemployment problem. The states with the highest rates of unemployment are now receiving 73 additional weeks of UI, for a total of 99 weeks; all states are receiving at least 34 weeks of extended UI from the federal government, or a total of 60 weeks.

Prior to the downturn, the national unemployment rate hovered around 4.5 percent. During the Great Recession and its aftermath, unemployment rates rose to more than 10 percent and then fell slowly to 8.5% by December 2011. As of October 2011, ten states were still experiencing rates of unemployment above 10%: Nevada (13.4%), California (11.7%), Michigan (10.6%), Mississippi (10.6%), South Carolina (10.5%), Rhode Island (10.4%), North Carolina (10.4%), Florida (10.3%), Georgia (10.2%), and Illinois (10.1%).[45]

Given these high rates of joblessness, the number of individuals collecting UI benefits has increased tremendously. At the beginning of 2007, roughly 2.5 million Americans were receiving UI payments. That number rose to 6.6 million in mid-2009. By the end of 2010, just over 4 million of the unemployed were receiving UI, and about 6 million are projected to receive UI in 2012.[46]

Not all unemployed workers receive UI payments. During the downturn, only between 30% and 40% of unemployed workers received UI. There are a number of reasons for ineligibility and nonparticipation. Although specific rules vary by state, individuals may not receive UI if they have been fired for cause or quit a job. Although some states have modified this requirement, eligibility is also based upon having accrued a certain amount of earnings within a "base period," traditionally counted as the first four of the most recently completed five calendar quarters. Low wage and voluntary part-time workers may not have earned enough money to qualify, particularly if they have had volatility in their employment.[47] More generally, there is a growing literature on what explains the lack of 100% take-up in safety-net programs among those who are eligible. Key factors include stigma, lack of information, and the transactions costs of enrolling.[48]

Overall, for people in the bottom 20% of the income distribution, UI was a powerful source of income protection during the Great Recession.[49] Between 2008 and 2009 alone, the number of people receiving UI rose 67% while the average amount of benefits to those receiving UI grew by 77%.[50] However, millions of unemployed workers have already exhausted their UI benefits, and the emergency federal extension is set to expire at the end of February 2012.[51]

The costs of UI for states and the federal government are substantial. Federal and state spending on UI rose from $33 billion in fiscal year 2007 to a peak of $159 billion in fiscal year 2010. It was estimated to decline to $120 billion in fiscal year 2011, in part due to fewer UI claims in the recovery but also due to state decisions to reduce the duration of the benefit.

Looking to the future, if federal and state governments do not continue the extensions of UI that originated in the 2009 stimulus, the rate of poverty may increase even more rapidly than is now projected. The pace of job growth is not projected to be rapid enough

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45 U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C., November 22, 2011, http://www.bls.gov/news.release/laws.nrO.htm.

46 Figures presented in this paragraph come from authors' tabulations of data from the Bureau of Labor Statistics: http://www.doleta.gov/unemploy/chartbook.cfm. Also see Janet Hook and Kristina Peterson, "Congress Wrestles with 2012 Unemployment Benefits Extension," *Wall Street Journal*, November 30, 2011, http://blogs.wsj.com/economics/2011/11/30/congress-wrestles.

47 Center for Budget and Policy Priorities: http://www.cbpp.org/cms/index.cfm?fa=view&id=517

48 See Janet Currie, "The Take Up of Social Benefits," National Bureau of Economic Research, Working Paper 10488, May 2004; also published in *Public Policy and the Distribution of Income* (Alan Auerbach, David Card, John Quigley, Eds.), Russell Sage, New York, NY, 2006, 80-148.

49 The White House, *Creating Pathways to Opportunity,* October 2011, 6.

50 Bruce D. Meyer and James X. Sullivan, "The Material Well Being of the Poor and Middle Class Since 1980," AEI Working Paper #2011-04, October 25, 2011, 29.

51 Catherine Rampell, "Jobless Rate Dips to Lowest Level in More than Two Years," *New York Times*, 12/3/11.

to eliminate, in the near future, the sustained joblessness induced by the Great Recession.[52] On the other hand, another one-year extension of UI, for 2012, is estimated to cost the federal government $45 billion in direct expenditures. In late 2011, Congress barely found the will to pass a two-month extension, despite the fact that four million people are scheduled to lose their benefits from March to December 2012.[53] And even if a full-year extension is eventually passed for 2012, the votes in Congress for an additional extension in 2013 may not be there.

Supplemental Nutrition Assistance Program (SNAP)

Formerly called "Food Stamps," SNAP is a federal program that enables low-income persons to buy food through use of Electronic Benefits Transfer (EBT) cards. It is the largest federal food and nutrition program. The cards function like a debit card, but holders may only purchase basic foods (i.e., items such as personal products, alcohol/tobacco, pre-prepared hot food, and cleaning supplies are excluded).

SNAP is overseen by the U.S. Department of Agriculture (USDA), and it is administered by offices in each of the 50 states under USDA rules and oversight. USDA pays for 100% of the benefits but shares the administrative costs on a 50-50 basis with the states.

SNAP is an entitlement program. That means anyone who meets the eligibility requirements and applies for assistance receives a benefit, regardless of the near-term fiscal condition of federal and state governments. The program is therefore quite responsive to economic conditions, and SNAP caseloads tend to rise in recessions and fall during periods of economic prosperity.

For the first time in history, the monthly number of people using SNAP benefits recently exceeded the 40 million mark (see Figure 6).[54] Today, roughly one in every eight Americans benefits from SNAP. The average monthly SNAP benefit in fiscal year 2012 is projected to be $133.84 per person and $283.96 per household.[55] In fiscal year 2012 alone, approximately $73.5 billion will be spent on SNAP by the U.S. Department of Agriculture.[56]

Federal spending on SNAP is determined by three factors: the number of eligible individuals, the share of the eligibles who enroll (the "take-up rate" or "participation rate"), and the benefit level that is received. As we explain below, each of the three variables is influenced by economic conditions.

Eligibility for SNAP assistance is determined primarily by income, but assets and resources also play a role. From 2006 to 2009 (the latest year for which eligibility estimates are available), the number of individuals eligible for SNAP assistance increased by 22 percent, from 36.5 million to 44.5 million.[57] Although much of this growth appears to be linked to economic conditions, there were also some changes in eligibility requirements that contributed to the boost in the number of eligibles.

During this same period (2006 to 2009), SNAP caseloads increased at an even faster clip than the number of eligibles, suggesting that the SNAP take-up rate is on the rise. Take-up rates are believed to be increasing for several reasons: eligible families are experiencing greater financial hardship due to the Great Recession and lingering unemployment problems, USDA and state offices are engaging in more effective outreach, and the stigma associated with program participation may be less when more people are participating.[58]

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[52] On the case for extension, see Heidi Shierholz and Lawrence Mishel, "Labor Market Will Lose Over Half a Million Jobs If UI Extensions Expire in 2012," *Economic Policy Institute, Issue Brief* #318, November 4, 2011.

[53] http://www.ibtimes.com/articles/268909/20111217/unemployment-extension-2012-senate.

[54] *The White House, Creating Pathways to Opportunity*, October 2011, 6.

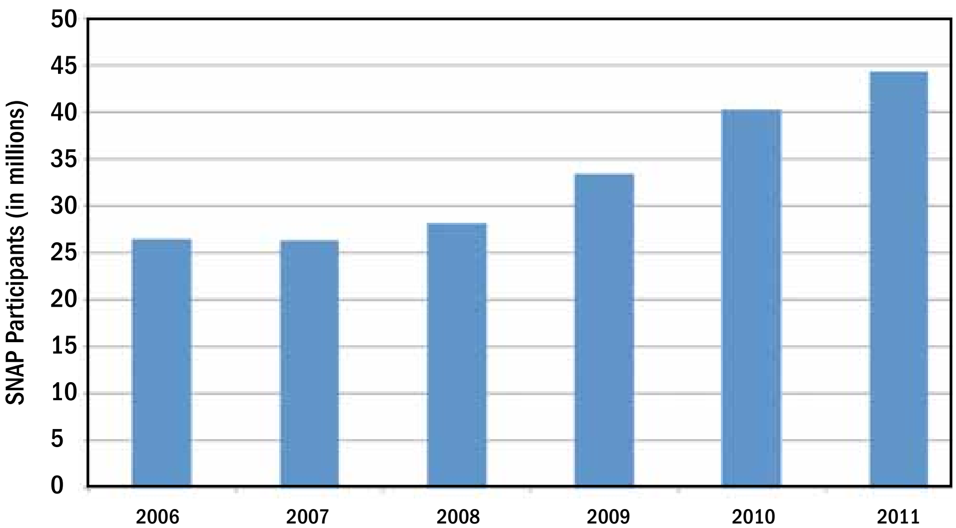
[55] Average household size is 2.2 persons. USDA Food and Nutrition Service, 2011, http://www.fns.usda.gov/pd/snapmain.htm.

[56] OMB, Budget of the U.S. Government, FY 2012, Historical Tables, 11.3 (estimate).

[57] Note that participation data are reported by USDA through 2011 while eligibility data are reported only through 2009. http://www.fns.usda.gov/ora/MENU/Published/snap/FILES/Participation/Trends2002-09.pdf

[58] Leftin, Joshua. Esa Eslami, and Mark Strayer (2011). *Trends in Supplemental Nutrition Assistance Program Participation Rates: Fiscal Year 2002 to Fiscal Year 2009. USDA Food and Nutrition Service*. http://www.fns.usda.gov/ora/MENU/Published/snap/FILES/Participation/Trends2002-09.pdf.

Figure 6. National Average Annual SNAP Caseloads: 2006-2011



Source: USDA[59]

States differ significantly in their estimated SNAP participation rates, from an estimated high of 94% in Maine in 2008 to a low of 46% in Wyoming.[60] The Midwest has a significantly higher participation rate, at 74%, while the Southwest and West have significantly lower participation rates, at 61% and 58%, respectively. The reasons behind these state and regional differences are not fully understood.

The average monthly benefit under SNAP has also increased. From 2007 to 2010, the average monthly benefit increased by almost 40%, from $96 to $134.

In response to the Great Recession, SNAP spending was increased in the 2009 federal stimulus package. The large, temporary boost in SNAP spending (roughly $20 billion over 18 months) was triggered by several changes in program design and administration: The average SNAP benefit was boosted 15%; the three-month time limit on benefits for able-bodied adults without children was eliminated; income eligibility requirements were eased somewhat; and the liquid asset limits in most states were changed from $2,000-$3,000 to a suggested national uniform figure of $10,000.[61] With regard to administration, states were given more discretion to skip a face-to-face interview when determining initial eligibility and when recertifying eligibility. States were also encouraged to automatically make TANF recipients eligible for SNAP assistance.[62]

Although a more generous SNAP program seems appropriate in the aftermath of the Great Recession, the higher rate of SNAP spending may exacerbate fiscal concerns in some corners and could trigger opposition among some taxpayers. Looking to the future, there are two indications that SNAP, even though it is arguably one of the most effective of America's safety-net programs,[63] could be at risk.

First, since spending on entitlement programs is more difficult for politicians to control than spending on block grants, some politicians have suggested converting SNAP into a block grant to the states.[64] The idea is to make SNAP more like Temporary Assistance for Needy Families (TANF- described further below), thereby giving more flexibility to the states to adjust eligibility, outreach, and benefit levels. However, TANF, a federal cash assistance program, has worked less effectively than SNAP during

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59 U.S. Department of Agriculture: http://www.fns.usda.gov/pd/SNAPsummary.htm. Note: 2011 data are calculated through June.

60 U.S. Department of Agriculture: http://www.fns.usda.gov/ora/MENU/Published/snap/SNAPPartState.htm.

61 Approximately 40 states have no non-liquid asset tests for SNAP assistance. Jennifer Steinhauer, "Millionaires on Food Stamps and Jobless Pay?" GOP Is On It," *New York Times*, December 13, 2011, A17.

62 http://theccpp.org/issues-food-stamp-reform.html, posted 11/30/2011.

63 For a summary of a series of papers on the effectiveness of Food Stamps, see Diane Whitmore Schanzenbach, "Food Stamps Seen as Efficient, Can Improve Health," *IPR Research Notes*, 33(1), Fall 2011, 5; Janet Currie, "U.S. Food and Nutrition Programs," in *Means-Tested Transfer Programs in the United States*, (Robert Moffitt, Ed.), University of Chicago Press, Chicago, IL, 2003, 199-290; Mary Kay Fox, William Hamilton, Bing-Hwan Lin, "Effects of Food Assistance and Nutrition Programs on Nutrition and Health," Volume 3, *Literature Review*, USDA, 2004.

64 Soon after taking office in January 1981, President Reagan suggested that the Food Stamp program be replaced with a block grant to the states. Carleson Center for Public Policy, Issue: Food Stamp Reform retrieved November 30, 2011, http://theccpp.org/issues-food-stamp-reform.html. More recently, a prominent Republican congressman, Paul Ryan, proposed a similar idea. See Linda Feldman, "Paul Ryan Sends Shockwaves through D.C. with New GOP Budget," *Christian Science Monitor*, April 5, 2011.

economic downturns.[65] Although Congress is unlikely to convert SNAP into a block grant in the near-term, the idea may gain greater appeal in Congress if the federal budget is not placed on a sustainable fiscal path.

Second, media reports have brought to light that a few wealthy individuals are receiving SNAP.[66] Despite the isolated nature of these reported incidents, if public confidence in SNAP deteriorates further, more stringent reforms of SNAP may be appealing to politicians.[67]

Medicaid and Child Health Insurance Program (CHIP)

In 2010, Congress passed a comprehensive health-care reform bill (the “Affordable Care Act”), but many of the Act’s key provisions do not take effect until 2014 or later. For low-income populations, Medicaid and CHIP were the key medical features of the safety net during the Great Recession, and they are playing a critical role during the recovery.

Medicaid is a health insurance program for eligible low-income individuals. The program is administered jointly by the U.S. Department of Health and Human Services (HHS) and the 50 states. Funding for Medicaid comes from a complex formula that entails matching of dollars provided by federal and state governments. States with lower per capita incomes are eligible for a larger Medicaid match from HHS.

The Medicaid program provides coverage for a basic set of services (“mandatory benefits”) such as physician visits and hospital stays. States also have the option of providing additional coverage for services such as dental visits and physical therapy. The more generous the state program, the higher the costs are to both the state and the federal government.

Eligibility for Medicaid varies by state, but family income, resources, and assets are important criteria, and certain groups of people (e.g., the blind and disabled) are automatically eligible. All states must cover all pregnant women and young children in families with incomes less than 133% of the poverty line. Children ages 6 to 19 must be covered if they are in families with incomes below the poverty line. Eligibility criteria for adults are left primarily to the states.

Unlike SNAP, Medicaid does not provide purchasing power directly to the eligible beneficiary. Instead, the program is designed to send payments to health-care providers who agree to care for Medicaid-eligible individuals. Many states also require the Medicaid beneficiary to pay small amounts of cost sharing (e.g., a co-payment for certain services).

CHIP, enacted in 1997, is a joint program of the federal government and the states that provides health insurance coverage for children under the age of 19 whose parents or guardians are not eligible for Medicaid. It is also administered as a block grant. Federal funds may be used for children (and in some cases adults) from targeted households with incomes above the poverty line. States can implement CHIP as an expansion of Medicaid coverage and/or they can establish a separate program for CHIP-eligible children.[68]

Like SNAP, Medicaid is an entitlement program. All eligible individuals who enroll receive coverage, regardless of the near-term fiscal condition of the federal government or the states. CHIP is capped by the funds available to a state each year. Thus, Medicaid enrollments – more so than CHIP enrollments – tend to rise during recessions and decline when the economy is prosperous.

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[65] Center on Budget and Policy Priorities, http://www.cbpp.org/cms/index.cfm?fa=view&id=3534.

[66] Food Stamps are claimed to have been used by a person in Michigan who won a $2 million lottery. Another Michigan resident reportedly purchased six lobsters, two porterhouse steaks, and five 24-packs of Mountain Dew using a Food Stamp debit card. Carleson Center for Public Policy, Issue: Food Stamp Reform, retrieved November 30, 2011, http://theccpp.org/issues-food-stamp-reform.html.

[67] Although a majority of Americans believe that a safety net should be provided for the poor, about two-thirds of Americans believe that people become too dependent on the government. See Ron Haskins and Isabel V. Sawhill, *Creating An Opportunity Society*, Brookings Institution Press, Washington, D.C., 2009 (especially Chapter 7, “Middle Class Complaints”).

[68] http://www.ncsl.org/Default.aspxTabId=1405.

Medicaid enrollment has grown by 7.6 million, or by 17.8%, since the Great Recession began in December 2007. In June 2010, a record enrollment of 50.3 million was reached as many Americans lost their jobs and, with those jobs, their employer-provided health insurance.[69]

When the Affordable Care Act was enacted in March 2010, Congress anticipated that states might be tempted to reduce their Medicaid spending by curtailing eligibility or reducing enrollment through changes in enrollment procedures. Under the federal reform law, states are prohibited from curbing eligibility and enrollments through 2014. At that time, Congress mandated a substantial expansion of Medicaid to cover everyone – including adults – with incomes under 133% of the official federal poverty line. States are provided new federal funding to help cover most of this program expansion. As a result, nearly all states "held steady" or made targeted expansions in their eligibility and enrollment rules in 2010, with a total of 13 states expanding eligibility and 14 states accelerating enrollment and renewal procedures.

In order to help states adjust to the rapid growth of Medicaid enrollments, the 2009 stimulus package provided $103 billion in federal fiscal relief to the states. The relief was designed as a temporary boost in the federal matching rates for the costs incurred by state Medicaid programs. The relief took effect on October 1, 2008 and expired on June 30, 2011.

Congress took special pains to ensure that more low-income children were covered for basic health care. In January 2009, Congress enacted a substantial expansion of the CHIP program that is projected to increase the number of enrolled children from 7 to 11 million. A key change in eligibility allows federal funds to be used for families with incomes up to 300% of the poverty line, a limit that was boosted up from 200%. The expansion was financed by higher taxes on cigarettes and other tobacco products.[70]

While Medicaid did respond robustly to the Great Recession, in part due to Congressional action, the future of the Medicaid program is somewhat uncertain. In the near term, as we explain further below, many states are responding to the expiration of federal stimulus funds by reducing payment rates to doctors and hospitals, eliminating optional benefits, and increasing the co-payments that beneficiaries must pay. Another popular cost-cutting strategy is to shift Medicaid patients from fee-for-service coverage to more cost-conscious managed-care plans.[71] Studies are needed to determine whether the shift to managed care causes adverse or better health outcomes for Medicaid patients.

Several provisions of the health-care reform law, especially the requirement that everyone be covered, are now the target of litigation. The U.S. Supreme Court is expected to make a definitive ruling in the summer of 2012.

Meanwhile, the politics of health care are heating up. When Congress passed the health-care reform law in 2010, it did so without a single Republican vote. As a result, the increasing number of Republicans in Congress after the November 2010 elections has led to calls for repeal of the health-care reform law, even before it is implemented and evaluated. In January 2011, for instance, the House of Representatives voted 245-189 to repeal the law but the Senate rejected the repeal effort a few weeks later on a 51-47 vote.[72] Given this impasse, it is expected that health care will be a major issue in the 2012 presidential and congressional elections.

Regardless of whether the 2010 health-care reform law is retained, repealed, or modified, the next several years will see the federal government and fiscally strapped states looking for ways to reduce the rapid rate of growth in Medicaid spending. As we shall see below, those efforts are already underway and they pose a significant risk to low-income populations.

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[69] http://www.kff.org/medicaid/enrollmentreports.cfm.

[70] *The White House, Creating Pathways to Opportunity,* October 2011, 9.

[71] N.C. Aizenman, "State Spending on Medicaid Up Sharply," *Washington Post*, October 27, 2011.

[72] Amy Goldstein, N.C. Aizenmen, "House Votes to Repeal Health-Care Law," *Washington Post*, January 20, 2011; Jennifer Rubin, "Losing a Repeal Vote, But Winning the War Against Obama Care," *Washington Post*, February 3, 2011.

Earned Income Tax Credit (EITC)

A variety of recent tax-policy changes have helped low-income Americans. The 2009 federal stimulus package expanded the 1997 child tax credit so that a larger number of low-income households receive benefit from the credit.[73] In 2009 and 2010, the new Making Work Pay (MWP) tax credit also provided $400 to individuals and $800 to joint filers. And the recent payroll tax relief enacted by Congress has been a benefit to the working poor and near poor. On the other hand, the popular relief from the Alternative Minimum Tax has had little impact on the poor and near poor. Perhaps the key tax reform for working poor families with children is the Earned Income Tax Credit (EITC), which was enacted by Congress in 1975 and expanded four times (1986, 1990, 1993 and 2001).

An EITC is a refundable credit aimed at the lower portion of the income distribution. It is typically received as a lump-sum tax rebate, after an income tax form is filed. Many states offer an EITC that is patterned after the federal credit.

The federal EITC is designed to reward and supplement earnings while reducing the tax burden of eligible households. For workers with two children at the very low end of the earnings distribution, it gives a credit equal to $0.40 for every dollar earned.[74] In order to receive any EITC, an individual or household must have some earnings during the calendar year and must file a federal tax return. In other words, the EITC provides no benefit to those who do not work, including those suffering long-term unemployment due to the Great Recession.

The value of the EITC rises as earnings rise and then flattens out until earnings reach a point where the maximum credit is achieved. The credit then decreases after this point until it phases out completely. The level of earnings at which these changes occur varies by household size and composition. For example, in 2010, the maximum EITC payment for a mother and three or more children was $5,666 after the household earned $12,590. The value of the household's credit begins to decline when earnings reach $16,450, and the credit is zero when earnings exceed $43,352.[75] The income limits are somewhat higher for households headed by a married couple.

While the EITC is a central tool in federal anti-poverty policy, it responds to recessionary periods in different ways for different families. As a recession occurs, some families are more likely to begin receiving this benefit, while others lose it. For example, the probability of receiving EITC increases for two-income households if one earner loses his or her job. In other words, the loss of one income could decrease total household income enough to make a formerly ineligible household eligible for the EITC. On the other hand, if a single-income head of household becomes unemployed and generates little or no earnings, that family may be less likely to receive an EITC payment, or that payment might be lower than what would be received for working during the full year.

EITC claims have risen by almost three million since 2006, from 23 million households to nearly 26 million. While this increase is pronounced, claims had been rising steadily since the mid-1990s. EITC has always enjoyed relatively high participation rates compared to programs that are more administratively burdensome and socially stigmatized. The somewhat sharper increase in EITC claims after the recession began in 2007 was aided by provisions in the 2009 stimulus package that increased the income limit for married couples and for families with three or more children.[76] Total outlays for the EITC (see Figure 7) increased at a somewhat higher rate than total returns, due to increases in the amount of the credit for qualifying families.

The EITC is probably one of the most politically secure aspects of America's safety net. The credit applies only to those who work, and it benefits many non-poor as well as poor households. Consequently, the EITC has historically had substantial bipartisan support in the Congress. If, however, fiscal concerns cause a complete rewrite of the tax code, even the EITC could be at some risk. As we

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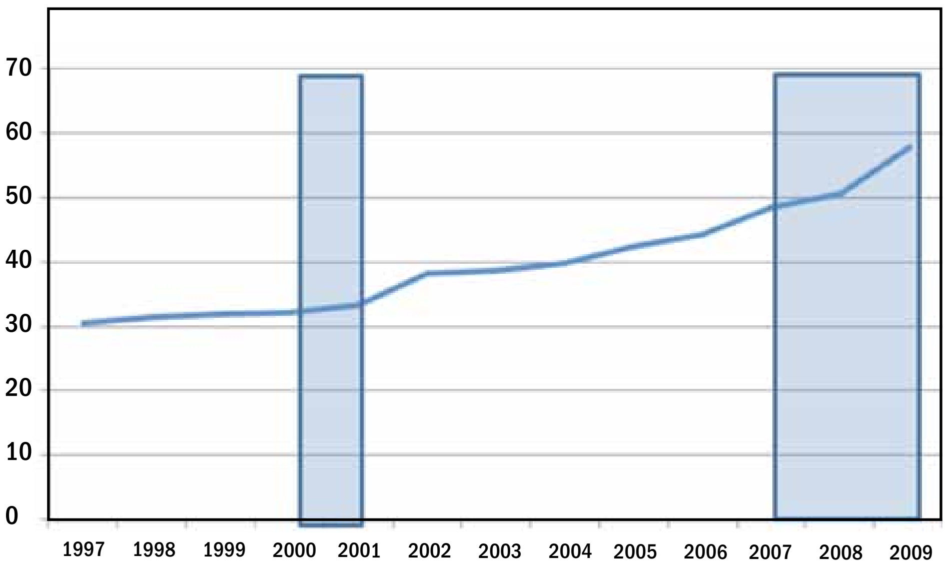
[73] Gary Burtless and Tracy Gordon, "The Federal Stimulus Programs and Their Effects," in *The Great Recession* (David B. Grusky, Bruce Western, Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 270.

[74] Gary Burtless and Tracy Gordon, "The Federal Stimulus Programs and Their Effects," in *The Great Recession* (David B. Grusky, Bruce Western, Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 269.

[75] Internal Revenue Service: http://www.irs.gov/individuals/article/0,,id=150513,00.html. Also see the Tax Policy Center, http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=36&Topic2id=40&Topic3id=42.

[76] http://www.taxpolicycenter.org/taxtopics/conference_EITC.cfm.

Figure 7. Federal EITC Outlays (in billions)



Source: IRS[77]

shall see below, some states have pared back their own EITCs to help pay for other tax cuts or to help balance the budget.

Temporary Assistance to Needy Families (TANF)

Enacted as part of the 1996 welfare-reform act, TANF replaced the federal entitlement program called Aid to Families with Dependent Children (AFDC). TANF provides cash and other forms of assistance to needy families with dependent children. The program is administered by the U.S. Department of Health and Human Services (HHS) as a block grant to the states.

TANF funds may be expended for any one of four general purposes: (1) to help families care for children in their own homes or in the homes of relatives, (2) to reduce dependence on government through job training, work, and marriage, (3) to reduce out-of-wedlock pregnancies, and (4) to encourage the formation of two-parent families. The types of assistance generally provided are cash benefits, child care, transportation, education, and job training.

TANF's predecessor, AFDC, was an entitlement program that provided cash assistance to very poor families with minor children. Due to concerns that AFDC provided a disincentive to work, Congress overhauled the program, placing a lifetime limit of 60 months on federal TANF assistance. Some states have adopted even shorter time limits. TANF also requires that recipients be working or participating in work preparation activities. For example, at least half of a state's TANF caseload must work at least 30 hours a week (or a lesser amount if they are single parents with young children). Whether due to these reforms, a strong economy in the late 1990s when TANF was implemented, or other policy changes such as the EITC expansions, cash assistance caseloads plummeted by more than half. Six years after its enactment, TANF served less than half of all eligible families, as opposed to AFDC, which typically served between 80% and 85% of all eligibles.[78]

The federal TANF funding provided to the states is not cost-free. States must also spend some of their own dollars to comply with the "maintenance of effort" (MOE) requirement. Those state funds supplement the $16.6 billion yearly federal block grant, which has been unchanged since 1997. In fiscal year 2009, for example, expenditures under TANF and the MOE requirement totaled approximately $33.5 billion.[79]

There is substantial variation in the generosity of TANF cash benefit levels across the 50 states (see Figure 8). The maximum monthly TANF benefit is generally low in the Southern states, while Alaska, California, Hawaii, New Hampshire, and Wisconsin are the most generous states. In 14 states, monthly benefit levels are less than $300 per month for a family of three, which, annualized, is less than 20% of the poverty threshold. Benefits fall below 30% of the poverty line in the majority of states. However, many TANF families are also eligible for SNAP, Medicaid, and some other state and federal programs.

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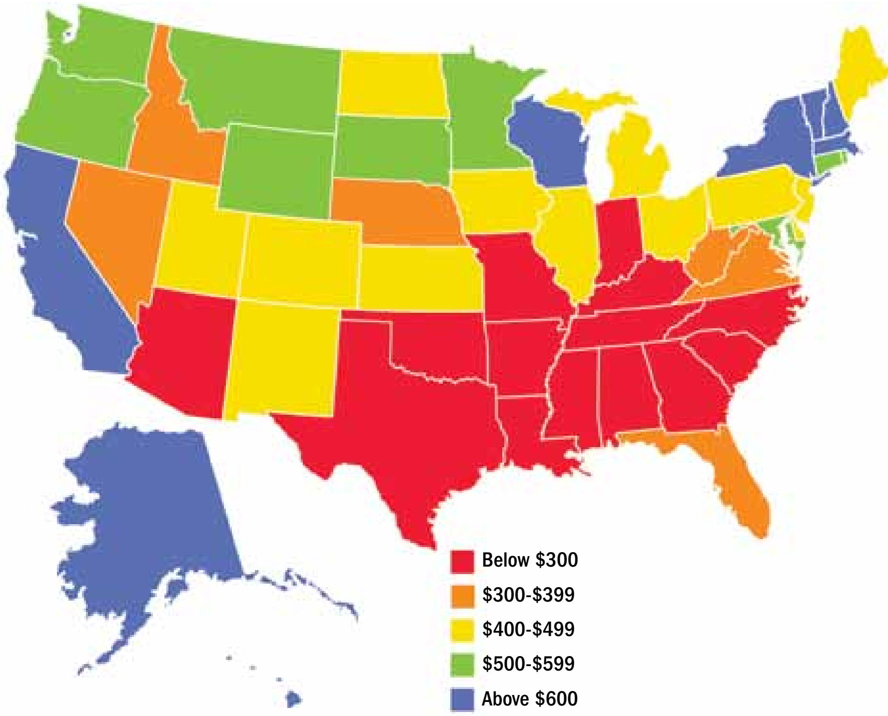
[77] Internal Revenue Service: http://www.irs.gov/individuals/article/0,,id=177571,00.html

[78] Center on Budget and Policy Priorities: http://www.cbpp.org/cms/index.cfm?fa=view&id=600

[79] Center on Budget and Policy Priorities: http://www.cbpp.org/cms/index.cfm?fa=view&id=936.

Figure 8. Maximum Monthly TANF Benefits, July 2010



Source: The Welfare Rules Database, the Urban Institute[80]

Unlike SNAP and Medicaid, which are safety net programs that have responded robustly to the Great Recession, TANF assistance has not been highly responsive to recent financial hardships. Average monthly TANF caseloads declined slightly from 2006 to 2008 and then rose significantly from 2009 to 2011. However, that increase does not account for the many more families that are likely eligible for TANF and are not using it. From December 2007 to December 2009, the heart of the Great Recession, SNAP caseloads increased by almost 50% while TANF caseloads grew by just 13%. Although there may have been some SNAP eligibility and outreach activities that confound this comparison to some extent, it is generally accepted that SNAP, as an entitlement program, responds in a more countercyclical fashion than TANF and other block grant programs that rely on yearly budget decisions by elected officials or otherwise have fixed budgets.[81]

Furthermore, as Figure 9 shows, when maximum benefit levels are adjusted for inflation, a majority of states have actually reduced their TANF benefit levels from 2006 to 2010.[82]

Housing Assistance

The federal government provides housing assistance to low-income Americans through three primary programs: traditional public housing projects, a demand-side housing voucher program that allows eligible families to choose a unit in the private market and pay less than the market rent, and a supply-side subsidy program that encourages owners and developers to offer housing at below-market rates so that low-income families can afford them. In 2010, nearly five million low-income families received federal housing support, 1.2 million through public housing, 2.1 million through tenant-oriented assistance and 1.1 million through subsidies to developers.[83] All three programs are administered through 2,600 state, regional, and local housing agencies under the oversight of the U.S. Department of Housing and Urban Development (HUD).[84]

Like TANF, the HUD housing assistance programs are not entitlement programs. Eligibility determinations for public housing and housing vouchers are based on income and family size, and HUD expects that state and local agencies will expend at least 75% of

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[80] http://www.urban.org/publications/412381.html

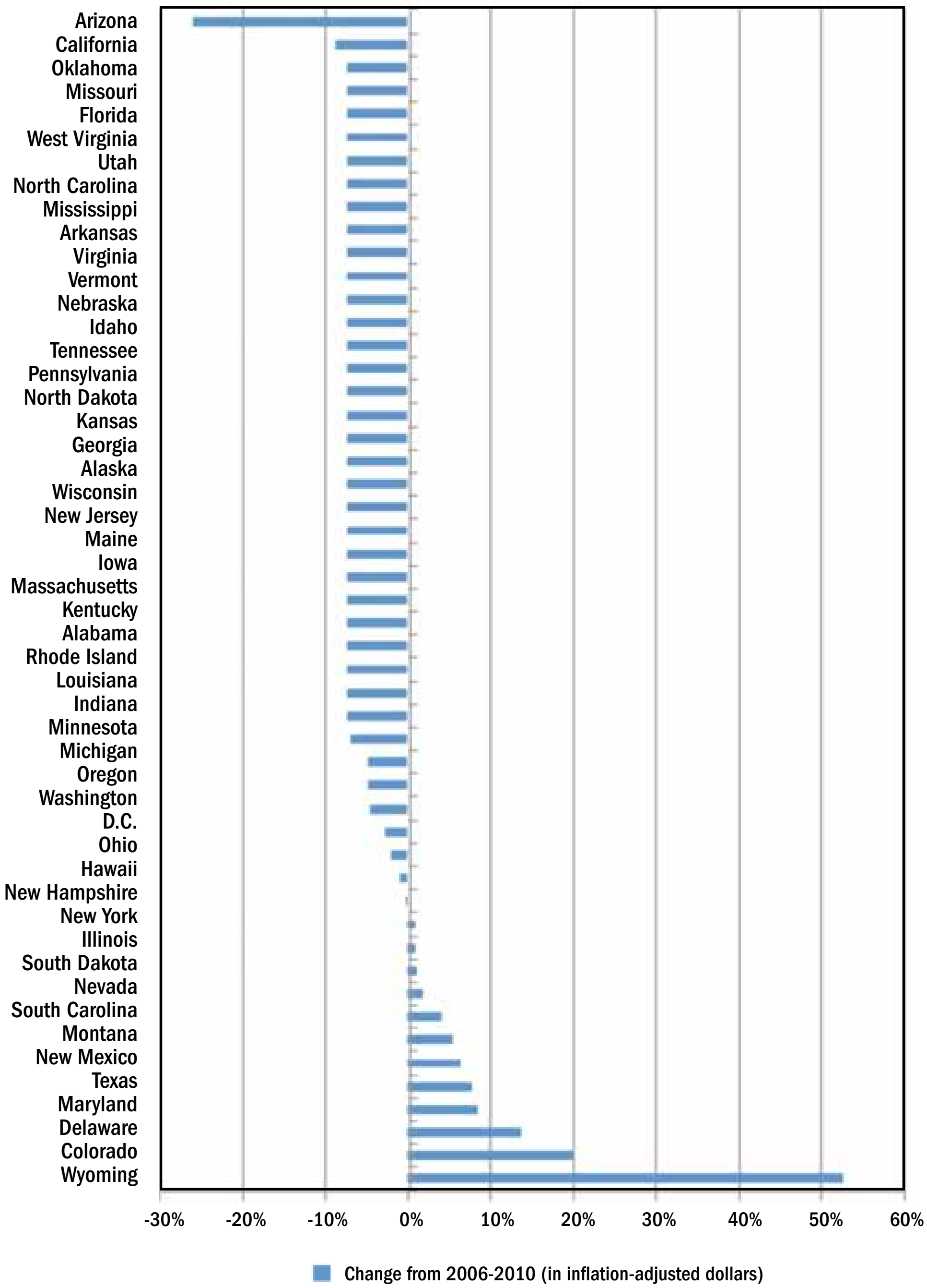
[81] Center on Budget and Policy Priorities: http://www.cbpp.org/cms/index.cfm?fa=view&id=3534.

[82] Even under AFDC, states rarely adjusted benefits to reflect inflation (see R. Kent Weaver, *Ending Welfare as We Know It*).

[83] Center on Budget and Policy Priorities: http://www.cbpp.org/files/4-13-11hous-US.pdf The other federal programs that serve the remaining 600,000 households include: Supportive Housing for Elderly and People with Disabilities; RAP/Rent Supplement Program, Section 8, Moderate Rehabilitation, and USDA Section 521 Rental Assistance.

[84] U.S. Department of Housing and Urban Development: http://portal.hud.gov/hudportal/HUD?src=/topics/rental_assistance/phprog.

Figure 9. Changes in TANF Benefits from 2006-2010 (in inflation-adjusted dollars)



Source: The Welfare Rules Database, the Urban Institute[85]

the funds on families whose incomes do not exceed 30% of median income in the area. Family incomes of beneficiaries may not exceed 50% of median income. Since HUD's budgetary outlays are small relative to the size of the eligible population, it is common for eligible families to wait many months or even years before they are selected from an agency's waiting list. Those selections are often made by lottery, but in some states other selection procedures are also used.

The maximum subsidy for public housing that HUD pays is typically equal to a specified "fair market rent" minus 30% of gross family income. Specifically, the rent paid by a public housing tenant is the highest of the following: (1) 30% of the monthly adjusted income less deductions allowed by the regulations; (2) 10% of monthly income; (3) welfare rent, if applicable; or (4) a $25 minimum rent or higher amount (up to $50) set by a housing authority.[86] The average income of a family receiving federal housing assistance is approximately $12,000.

Under the Section 8 tenant program (called the "Housing Voucher Program"), the housing subsidy is paid directly to the landlord on behalf of the participating family and then the family pays the difference between the amount of rent charged and the amount of the public voucher. In the program called Section 8 "Project-Based Rental Assistance," funds are provided to owners of housing projects who then agree to lease units to low-income families at below-market rates. While these programs are administered at the regional, state, and local levels, HUD pays for the subsidies as well as the cost of program administration.[87]

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85 http://www.urban.org/publications/412381.html.

86 U.S. Department of Housing and Urban Development: http://portal.hud.gov/hudportal/HUD?src=/topics/rental_assistance/phprog.

87 U.S. Department of Housing and Urban Development: http://portal.hud.gov/hudportal/HUD?src=/topics/housing_choice_voucher_program_section_8.

From 2005 to 2010, HUD spending on Section 8 low-income housing assistance programs (both tenant-based and project-based) rose by 18.4%, or by 4.3 billion.[88] Increases in the average subsidy per beneficiary account for most of the additional expenditures. The remainder is accounted for by slight growth in the number of subsidized families (110,000). The budget to public housing has also increased moderately in recent years, reversing the sharp downward trend between 2000 and 2005.[89] However, the permanent removal of public housing units under the HOPE IV program has led to growing unmet housing needs among low-income groups.[90] At the same time, investment in the construction of low-income housing spurred by the Low-Income Housing Tax Credit has dried up since the incentives are a stimulus to developers only when developers are earning profits on which they owe tax. During the Great Recession and the years after, many developers were not earning large enough profits to make tax incentives a significant factor.

Overall, the need for low-income housing assistance continues to outpace the ability of federal, state, and local governments to supply it. In 2005, more than 6.5 million households received housing assistance. This number dropped to 4.9 million in 2009, a 26% decline within five years.

4. The 2009 Stimulus Package and Low-Income Americans

When Congress passed the temporary, $787 billion American Reinvestment and Recovery Act in early 2009, the main purpose was to soften the impact of the downturn, accelerate the economic recovery, and create jobs for Americans. Although economists will debate for many years the precise impact of the 2009 stimulus package on the rates of GDP growth and unemployment, it does appear that the 2009 stimulus package "worked in the sense that the recession would have been substantially worse without the stimulus."[91] But even with the stimulus, the economy was left "badly injured."[92]

In the design of the stimulus package, Congress made a special effort to channel substantial amounts of funds to low-income families and depressed communities.[93] Although a case can be made that all of the $787 billion helped boost the recovery and thereby mitigate some of the hardships incurred by the poor and near-poor, roughly $240 billion of the stimulus package was aimed directly at helping low-income people.

Table 1 provides an itemized accounting of the portions of the stimulus package directed specifically at low-income people. The largest single chunk ($87.1 billion) went to the states to cushion the rising costs of Medicaid. Other stimulus funds helped bolster other programs in the safety net (e.g., SNAP, TANF and HUD housing assistance, the Earned Income Tax Credit, unemployment insurance, assistance in payment of energy bills, child care, and support for public schools in low-income communities).

For America's low-income population, the stimulus package could not have occurred at a time of greater need. The extended UI program alone is estimated to have prevented about 2.5 million people from entering poverty.[94] One estimate suggests that the overall

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88 Authors' calculation from OMB Public Budget Database: http://www.gpoaccess.gov/usbudget/browse.html. See also the report on Section 8 rental assistance programs by the Center on Budget and Policy Priorities: http://www.cbpp.org/files/7-20-11hous.pdf.

89 http://www.cbpp.org/files/10-12-11hous.pdf.

90 HOPE VI is a plan by HUD to revitalize the worst public housing projects, by converting them into mixed-income developments. Studies have found that the number of newly built units in mixed-income areas is far less than the number of units torn down, thus causing a permanent reduction in the housing stock for low-income people. The Urban Institute, A Decade of Hope IV: Research Findings and Policy Challenges, May 2004, http://www.urban.org/uploadedpdf/411002.pdf; also see http://www.cbpp.org/files/10-12-11hous.pdf.

91 Robert E. Hall, "Fiscal Stimulus," *Daedalus*, Fall 2010, 93; also see The Committee for a Responsible Federal Budget, February 17, 2011, http://crfb.org/blogs/happy-second-birthday-arra! (review of professional estimates of the impact of the Recovery Act on GDP and employment).

92 Ibid.

93 For the White House view of how the 2009 stimulus package and other recent initiatives have helped the poor, see *The White House, Creating Pathways to Opportunity*, October 2011.

94 Timothy M. Smeeding, Jeffrey P. Thompson, Asaf Levanon, Esra Burak, "Poverty and Income Inequality in the Early Stages of the Great Recession," in *The Great Recession* David B. Grusky, Bruce Western, Christopher Wimer, Eds.) Sage Foundation, New York, NY, 2011, 98.

Table 1. Portions of the $787 Billion Temporary Stimulus Program Aimed Specifically at Low-Income Populations

Program	*Estimated Costs (billions)*
Medicaid Assistance to the States	87.1
Expanded Unemployment Compensation	35.8
Subsidized Health Insurance Premiums for the Jobless	25.1
Expanded Food Assistance	20.9
Expanded Child Tax Credit for Filers with Incomes Between $3k and $12K	14.8
Grants to Public Schools in Low-Income Areas	13.0
Redevelopment of Distressed Areas	6.5
Insulation for Low-Income Families	5.0
Exempt Unemployment Insurance benefits from Federal Tax	4.7
Increase the Earned Income Tax Credit	4.7
Modernize the Unemployment Insurance System	4.2
Upgrade Public Housing Units	4.0
TANF Assistance for States	2.7
Remove Lead-Based Paint from Housing	2.4
Head Start and Early Head Start	2.1
Section 8 Housing Subsidies	2.0
Child Care for Low-Income Families	2.0
Renovations at Community Health Centers	2.0
Housing Assistance for the Homeless	1.5
Temporary Coverage for Medicaid Ineligibles	1.3
Subsidize Medicare Premiums for Low-Income Individuals	0.6
Meals/Transport for Low-Income Children	0.1

stimulus package prevented almost seven million Americans from being added to the official poverty count.[95] But the stimulus package cut was temporary, and virtually all of the funds have now been expended.

5. Spending Cutbacks at the Federal Level

The federal budget deficit was $1.3 trillion in fiscal year 2010 and is projected to be $1.6 trillion in fiscal year 2011 and $1.1 trillion in fiscal year 2012.[96] The $1.6 trillion figure, expressed as a share of Gross Domestic Product, is 10.9%, the largest share since World War II.[97] Concern about the huge size of these deficits, and their long-term impact on the economy and younger Americans, have politicians of both parties looking at new ways to restrain federal spending.

As part of the July 2011 Congressional agreement to raise the federal debt ceiling, a bipartisan agreement was reached to enact two rounds of savings in federal spending. Together, the two rounds are intended to trim $2.1 trillion from federal budget deficits from fiscal year 2012 to fiscal year 2021.[98]

In round 1, $900 billion of projected spending growth will be trimmed from the federal budget during the next decade. These savings are accomplished in the form of caps on growth in discretionary programs that otherwise would have occurred due to inflation. Separate caps are applied to discretionary defense ("security") and nondefense spending. In other words, the real (inflation-adjusted) expenditures on these discretionary programs will decline steadily for ten years.

A 50-50 split between defense and non-defense savings is required only for the first two years. There are concerns that, over time, a larger share of the savings will be squeezed from non-defense programs.[99] For example, if elected officials find it more politically expedient after the first two years to make cuts to nondefense accounts than defense accounts, then programs for low-income populations may experience even deeper cuts.

95 Arloc Sherman, "Poverty and Financial Distress Would Have Been Substantially Worse in 2010 Without Government Action, New Census Data Show," http://www.cbpp.org/cms/index.cfm?fa=view&id=3610.

96 OMB, Budget of the U.S. Government, Fiscal Year 2012, Historical Tables, 1.1.

97 Damian Paletta, "White House Expects Deficit to Spike to $1.65 Trillion," *Wall Street Journal*, February 14, 2011.

98 U.S. Congressional Budget Office, Letter from CBO Director Douglas W. Elmendorf to Honorable John Boehner and Honorable Harry Reid, August 1, 2011 (hereafter cited as "CBO Letter, August 1, 2011").

99 National Women's Law Center, http://www.nwlc.org/resource/unbalanced-debt-ceiling-deal-cuts-vital-programs, August 1, 2011.

The low-income population is somewhat shielded from the first round of savings because entitlement programs (such as SNAP, SSI, and Medicaid) are not subject to the caps, and some other low-income programs (e.g., TANF) are also exempt from the caps.[100] There are, however, a variety of discretionary programs for low-income populations that are expected to be affected in the first round (e.g., federal housing assistance; Head Start; some child care assistance programs; a nutrition program for Women, Infants and Children (WIC); family planning services; and energy-bill assistance for low-income families).[101]

Perhaps more importantly, roughly a third of the non-defense spending that is subject to the caps is funding provided to the states for education, infrastructure, and other important programs and services. Once states realize these federal funds will not be received, state politicians will be looking to cut back other programs, and some programs for low-income populations are likely to be targeted.[102]

A revealing feature of the 2011 agreement is safeguards applied to “program integrity” expenditures in both income security and health-care programs. Integrity measures aim generally to weed out fraud and abuse in the safety net. Even though the spending on (and savings from) these initiatives are projected to be small relative to the trillion-dollar size of the agreement, Congress was determined to protect efforts to prevent or correct “overpayment” in these programs.[103]

In round 2, an additional $1.2 trillion in savings will occur automatically because a bipartisan committee was unable to achieve consensus on its own fiscal plan. The automatic reductions are to be spread evenly over the fiscal years from 2013 to 2021. Half of the savings are slated to come from defense and half from nondefense spending.[104]

Like the first round of savings, key low-income assistance programs (SNAP, Medicaid and TANF) are exempt from cuts. But the same discretionary programs that are vulnerable in round 1 are subject to cuts in round 2. And the agreement specifies that the automatic reductions will be accomplished by a applying a uniform percentage cut to all unprotected programs except for Medicare, which cannot be cut more than 2%.[105]

The automatic cuts in round 2 may also complicate implementation of the new health-care reform law, particularly programs that begin in 2014. There are discretionary federal funds that are necessary to administer and implement the new law, yet these funds will be subject to automatic cuts in round 2.[106]

Whether the automatic cuts will actually occur remains an open question. Key members of Congress (e.g., Senator John McCain of Arizona) and the Obama administration (Secretary of Defense Leon Panetta) have already signaled that the automatic cuts aimed at defense are not tolerable.[107] Congress has until January 2013 to make adjustments before the automatic cuts begin to take effect. If Congress shifts more of the cuts from the defense sector to the non-defense sector of the budget, programs aimed at low-income populations may be placed at even greater risk than they are under the current agreement.

Perhaps most at risk will be discretionary spending programs that boost the fiscal positions of state and local governments. About one-third of non-security discretionary spending by the federal government is distributed to state and local governments. Any federal actions that squeeze the states may result, indirectly, in state cutbacks in the safety net.[108] As we shall see below, this indirect harm to the safety net is already occurring due to general fiscal pressures on state and local governments.

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100 http://rules.house.gov/Media/file/PDF_112_1/Floor_Text/DEBT_016_xml.pdf.
101 National Women’s Law Center, http://www.nwlc.org/resource/unbalanced-debt-ceiling-deal-cuts-vital-programs, August 1, 2011.
102 http://www.dailykos.com/story/2011/08/08/1004494/-Five-Things-You-Need-to-Know.
103 CBO Letter, August 1, 2011, 1, 3-4.
104 CBO Letter, August 1, 2011, 6.
105 CBO Letter, August 1, 2011, 7.
106 National Women’s Law Center, http://nwlc.org/resource/unbalanced-debt-ceiling-deal-cuts-vital-programs, August 1, 2011.
107 Donna Cassata, “Defense Hawks Insist on Halting Military Cuts,” *USA Today,* November 22, 2011.
108 Julie Vogtman, National Women’s Law Center, “Five Things You Need to Know About the Debt Ceiling Deal,” August 8, 2011.

In addition to the budget cutting described above, safety net programs may also be at risk due to concerns about waste, fraud, and abuse. While history is rife with examples of mismanagement and abuse of public funds used for a variety of government purposes (including defense spending, the letting of government contracts), anti-poverty programs may be particularly vulnerable to being placed under the microscope and perhaps subsequently at risk for budget cuts.

For nearly all of the programs discussed above, mismanagement of programs and administrative errors, as opposed to fraud by program recipients, is the main cause of erroneous spending. For example, the U.S. Department of Labor (DOL) estimates that the annual overpayment rate in UI is about 11.6%, which means that about $1 out of $9 is improperly expended.[109] The principal reason for overpayments is that some beneficiaries continue to receive assistance for a period of time after they have found employment. However, DOL estimates that most of this improper payment is because of errors made by agency employees and not by UI recipients who are deliberately defrauding the government.

Medicaid has been deemed a "high-risk program" from a fiscal perspective because of the known frequency of improper payments and a history of inadequate fiscal oversight.[110] Medicare and Medicaid together are estimated to make about $70 billion per year in improper payments. Fraud in these programs has been the subject of recent Congressional hearings in both the House and Senate, although most of the fraud is perpetrated by providers and not by beneficiaries. Conservative groups are pressing for more serious measures to reduce waste, fraud, and abuse.[111] The Obama administration is trying to preempt this issue by taking stronger administrative actions to reduce waste, fraud, and abuse in Medicaid.[112]

Isolated occurrences of fraud, though, have received media attention, including reports of high-asset individuals receiving SNAP and UI. Recent efforts to buttress asset tests in federal food assistance, remove millionaires from unemployment insurance, and add in provisions to the 2011 debt-ceiling agreement to reduce fraud and abuse (e.g., under Medicaid and Medicare) are all examples of efforts designed to stem waste, fraud, and abuse of public programs. While evidence indicates that administrative and other mismanagement problems play a larger role in erroneous spending than fraud, if these concerns are not handled carefully, there is additional risk that elected officials will respond hastily with reforms of the safety net that may put low-income Americans at additional risk.

6. Spending Cutbacks at the State Level

The U.S. economy has been in a slow recovery since the Great Recession ended in June 2009. Tax revenues to state governments have climbed for six consecutive quarters. Unfortunately, the rate of growth has been slow, and therefore state revenues remain 6% below their level three years ago (2008), or 11% lower after inflation is taken into account.[113] States are also under intense pressure to help local governments, governments that face persistent fiscal problems due to the decline in housing values, the loss of property tax revenue, and the multi-year lag between when declines in housing values and declines in property tax revenues.

On the spending side of the ledger, states have tried to restrain nonessential expenditures in a variety of areas while making significant cuts in spending on education (K-12 and higher education) and criminal justice. Layoffs of state and local employees blunted some of the impact of the federal stimulus spending while partially offsetting some encouraging signs of employment growth in the private

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[109] Paul Davidson, "Regulators Combat Unemployment Insurance Waste and Fraud," *USA Today*, July 5, 2011, http://abcnews.go.com/Business/regulators-combat-unemployment-insurance-waste-fraud.

[110] U.S. General Accountability Office, Medicare and Medicaid Fraud, Waste and Abuse: Effective Implementation of Recent Laws and Agency Actions Could Help Reduce Improper Payments, GAO-11-409T, March 9, 2011, http:www.gao.gov/products/GAO-11-409T.

[111] Kathryn Nix, "Waste, Fraud, and Abuse in Medicare and Medicaid Still Await Solutions," Heritage Foundation, March 10, 2011, http://blog.heritage.org/2011/03/10/waste-fraud-and-abuse-in-medicare-and medicaid-still.

[112] The White House, "We Can't Wait: Agencies Cut Nearly $18 Billion in Improper Payments, Announce New Steps for Stopping Government Waste," November 15, 2011.

[113] Kaiser Commission on Medicaid and the Uninsured, "Update: State Budgets in Recession and Recovery," *Policy Brief,* October 2011, 1.

sector. About 611,000 jobs have been lost in the state and local government sector since that sector's peak employment was recorded in September 2008, and more layoffs are predicted.[114]

The explosive growth of Medicaid spending creates a persistent, worrisome gap between projected spending and projected revenues in many states.[115] The 2009 stimulus package provided states two years of relief from Medicaid costs ($90 billion in enhanced Medicaid payments plus $55 billion in general fiscal support), but those monies are now expended.

Since household incomes remain depressed from the Great Recession, elected officials in most states are reluctant to consider general tax increases. Consequently, states are looking aggressively for additional spending reductions, and programs that serve the poor and near-poor are at risk of significant cuts.

One of the most common approaches is to cut Medicaid expenditures without curbing eligibility or changing enrollment procedures. For example, the State of Arizona is one of 39 states cutting the rates that health-care providers are allowed to charge under the state Medicaid program.[116] While reducing payments to providers can result in significant savings in the short run, some providers are already refusing to treat Medicaid patients, and lower reimbursement rates will only exacerbate this problem. For fiscal year 2012, 46 states have reported that they plan to lower provider rates. But this strategy is a stop-gap measure. Starting in 2014, Medicaid programs will be required to pay the same rates for services as the Medicare program.

A different approach, followed already by 18 states, is to eliminate or reduce optional services such as dental care while implementing new procedures that can control expenditures on costly items such as prescription drugs and medical devices.[117] A related approach is greater use of disease and care management, as well as patient-centered medical homes, to help achieve more cost-effectiveness with high-cost and high-need patients. The growth of managed care in the Medicaid population is also seen as a cost-saving move, although the long-term cost and quality ramifications are not yet clear.

Since states spend a greater amount on cash welfare than the federal government does, fiscally strapped states are beginning to cut cash-assistance programs. California's TANF program is slated for $3.5 billion in cuts as a result of state budget shortfalls. Those savings will be accomplished by reducing the average cash payment by $3,100 per year, reducing the maximum number of months a beneficiary may be in the program (from 60 to 48 months), and lowering the income threshold for eligibility (from $1,651 to $1,369 per month).[118] Some states (Arizona, Michigan, Oregon, and Rhode Island) are making the income eligibility tests for TANF more stringent while other states (Delaware, New Mexico, South Carolina, Washington, and Wisconsin) are cutting benefit levels.[119]

Unemployment compensation is also a target in some states. For example, Florida, Michigan and Missouri have recently decided to reduce the duration of state unemployment benefits that are made available to laid-off workers.[120]

Even in their tax-policy changes, which one might think would focus on businesses and high-income individuals, some states are making reforms that will adversely impact low-income populations. For example, both Michigan and Wisconsin have recently scaled back the state-level Earned Income Tax Credit provisions in their tax codes, reforms that increase state revenue at the expense of the

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114 Tami Luhby, "State, Local Layoffs Hit Record Levels," CNN.com, June 6, 2011; Tami Luhby, "Government Workers Catch Break," CNN.com, August 5, 2011, http://money.cnn/2011/08/05/news/economy/government_jobs/index.htm.

115 N.C. Aizenman, "State Spending on Medicaid Up Sharply," W*ashington Post,* October 27, 2011.

116 Peter Suderman, "States Still Struggling to Pay for Medicaid," http://reason.com/blog/2011/11/28/states-still-struggling-to-pay-for-medicine.

117 Kaiser Commission on Medicaid and the Uninsured, "Impact of the Medicaid Fiscal Relief Provisions in the American Recovery and Reinvestment Act (ARRA)," *Policy Brief*, October 2011, 6-8.

118 Christina Jewett, "State Revisits Budget as Prior Cuts Hit Poor, Disabled," California Watch, May 18, 2011, http://californiawatch.org/dailyreport/state-revisits-budget-prior-cuts-hit-poor-disabled.

119 http://www.cbpp.org/cms/index.cfm?fa=view&id=3534.

120 Monica Davey, "Families Feel Sharp Edge of State Budget Cuts," *New York Times*, September 6, 2011.

working poor.[121] Reducing state earned income credits may be more appealing to elected state officials than imposing broader tax increases on more affluent voters or businesses.

Looking forward to the 2012-2017 period when the economy will climb back toward full employment, it is important to realize that many states have already coped with three bad years (2009-2011), partly by spending down what were once healthy levels of cash reserves. Those accumulated reserves are now often quite low or zero, and states must – according to their constitutions – achieve balanced budgets.[122] The 2009 federal stimulus dollars have also been expended. Since the economy is recovering very slowly and since general tax increases are not a likely response of politicians, it is probable that low-income populations are facing more unfavorable changes to state spending and tax policies in the next four years.

[121] Center on Budget and Policy Priorities: http:www.cbpp.org/cms/index.cfm?fa=view&id=3550.

[122] Gary Burtless and Tracy Gordon, "The Federal Stimulus Programs and Their Effects," in *The Great Recession* (David B. Grusky, Bruce Western, and Christopher Wimer, Eds.), Russell Sage Foundation, New York, 2011, 280.

Appendix A.
Rankings of States by Percent in Poverty in 2009
Official versus Supplemental Measure

Rank	*State*	*Percent in Poverty, Official Measure*	*Rank*	*State*	*Percent in Poverty, Supplemental Measure*
1	MS	23.2	1	CA	22.4
2	AZ	21.3	2	AZ	21.6
3	NM	19.6	3	FL	19.5
4	AR	19.1	4	GA	18.8
5	GA	18.5	5	HI	18
6	TX	17.4	6	NY	17.6
7	KY	17.1	7	NV	17.2
8	NC	17	8	MS	17
9	AL	16.8	9	TX	16.5
10	TN	16.7	10	AL	15.9
11	IN	16.4	11	AR	15.9
12	WV	16	12	NM	15.8
13	NY	15.9	13	CO	14.8
14	MO	15.6	14	IN	14.8
15	CA	15.5	15	NC	14.3
16	FL	14.6	16	TN	14.3
17	SD	14.3	17	MD	14
18	LA	14.3	18	DE	13.9
19	MI	14.2	19	IL	13.8
20	KS	13.9	20	SC	13.8
21	ID	13.9	21	MA	13.6
22	SC	13.8	22	OR	13.3
23	OR	13.7	23	KY	13.2
24	OH	13.5	24	LA	12.8
25	MT	13.5	25	MO	12.8
26	IL	13.3	26	MI	12.4
27	RI	13.2	27	NJ	12.2
28	NV	13.1	28	RI	12.2
29	OK	13	29	VT	11.7
30	HI	12.6	30	SD	11.6
31	CO	12.4	31	ID	11.6
32	DE	12.4	32	OH	11.5
33	AK	12.1	33	WV	11.3
34	WA	11.9	34	WA	11.2
35	ME	11.6	35	CT	11.1
36	PA	11.2	36	KS	11.1
37	MN	11.1	37	AK	11
38	WI	11.1	38	OK	10.8
39	ND	11	39	MN	10.7
40	IA	10.9	40	WI	10.7
41	MA	10.9	41	PA	10.5
42	VA	10.8	42	MT	10.5
43	NE	10	43	NH	10.4
44	UT	9.8	44	ME	9.6
45	MD	9.7	45	UT	9.5
46	VT	9.6	46	NE	9.1
47	NJ	9.5	47	WY	9
48	WY	9.3	48	ND	8.4
49	CT	8.6	49	VT	8.3
50	NH	7.9	50	IA	7.9

Source: U.S. Census Bureau: http://www.census.gov/hhes/povmeas/methodology/supplemental/research/Renwick2009RevisedTables.pdf

Appendix B.
Percentage-Point Change in State Poverty between 2006 and 2010
Official Poverty Measure and Three-Year Averages from the American Community Survey (ACS)

Official Poverty Measure			*Official Measure with American Community Survey*		
Rank	*State*	*Percentage-Point Change*	*Rank*	*State*	*Percentage-Point Change*
1	NV	6.9	1	FL	2.4
2	GA	6.1	2	NV	2.2
3	SC	5.8	3	AZ	2.1
4	IN	5.7	4	GA	2.0
5	LA	4.6	5	MI	2.0
6	FL	4.5	6	IN	1.7
7	ID	4.5	7	OH	1.6
8	AZ	4.2	8	CA	1.5
9	CA	4.1	9	CT	1.5
10	NC	3.6	10	SC	1.5
11	AK	3.5	11	MN	1.4
12	WA	3.5	12	NC	1.4
13	IL	3.5	13	WY	1.4
14	MO	3.4	14	ID	1.3
15	OH	3.2	15	WI	1.3
16	RI	3.1	16	UT	1.2
17	AL	3.0	17	KY	1.1
18	VT	3.0	18	MO	1.1
19	HI	2.9	19	OR	1.1
20	DE	2.8	20	RI	1.1
21	SD	2.5	21	IL	1.0
22	CO	2.5	22	TN	1.0
23	OR	2.4	23	VT	1.0
24	MD	2.4	24	AR	0.9
25	MN	2.3	25	HI	0.9
26	ME	2.3	26	IA	0.9
27	MI	2.2	27	KS	0.9
28	MS	2.1	28	MD	0.9
29	VA	2.1	29	PA	0.9
30	TX	2	30	NJ	0.8
31	NY	2	31	VA	0.8
32	NJ	1.9	32	CO	0.7
33	TN	1.8	33	DE	0.7
34	NM	1.7	34	MA	0.7
35	WV	1.6	35	MS	0.7
36	KS	1.5	36	WA	0.7
37	NH	1.2	37	AL	0.6
38	OK	1.1	38	MT	0.6
39	KY	0.9	39	NE	0.6
40	PA	0.9	40	SD	0.5
41	ND	0.8	41	NH	0.4
42	UT	0.7	42	NY	0.4
43	MT	0.5	43	ND	0.4
44	CT	0.3	44	NM	0.3
45	IA	0	45	TX	0.1
46	NE	0	46	WV	-0.1
47	WI	-0.2	47	ME	-0.2
48	WY	-0.4	48	OK	-0.3
49	MA	-1.4	49	AK	-1.3
50	AR	-2.2	50	LA	-1.5