



# Pathways to Economic Recovery

## *Recommendations for Economic Stimulus Legislation to Support Low-Income Populations*

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August 15, 2008

### **SUMMARY**

The continued economic downturn is exacerbating the hardships faced by America's low-income children and families. In July, the unemployment rate reached a four year high of 5.7 percent.<sup>2</sup> To date this year, 463,000 American jobs have been lost.<sup>3</sup> These challenges are compounded by rising food costs and skyrocketing energy prices.<sup>4</sup> Economic instability also threatens the quality and effectiveness of vital publicly supported education, health care, housing and employment programs. In this context, the burden for working families is growing and Congress should take action to spur economic recovery.

The Alliance for Children and Families and United Neighborhood Centers of America recommend investing an additional:<sup>5</sup>

- \$0.832 billion in Head Start;
- \$13.65 billion in the Federal Medical Assistance Percentage (FMAP) to support state health care services;
- \$1.0 billion to assist youth employment programs; and
- \$1.0 billion for the Public Housing Operations and Capital Fund (\$500 million for operations and \$500 million for capital).

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<sup>2</sup> Uchitelle, Louis, "Jobless Rate Climbs to 5.7% as 51,000 Jobs Are Lost in July," *The New York Times* (August 2, 2008), <http://www.nytimes.com/2008/08/02/business/02econ.html?8br>.

<sup>3</sup> Ibid.

<sup>4</sup> Emergency Campaign for America's Priorities and the Coalition on Human Needs, "Towards Shared Recovery: Congress Must Do More to Reverse the Recession," (August 1, 2008), <http://www.chn.org/pdf/2008/stimulus8108.pdf>.

<sup>5</sup> The Head Start, FMAP, and youth employment funding amounts are endorsed by the Emergency Campaign for America's Priorities. The Public Housing funding amount was recommended by the National Association of Housing and Redevelopment Officials.

## **Recommended Measures for Achieving Economic Recovery**

As Congress formulates economic recovery legislation, it should consider including the following emergency stimulus measures:

### **1. Reverse Cuts and Increase Funding for Head Start**

Head Start, the longstanding comprehensive school-readiness program for low-income children, continues to face significant budget shortfalls. Currently, fewer than half of the close to 2 million children who are eligible for Head Start can access the program.<sup>6</sup> Over the previous four years, the Head Start program has experienced a 10.6 percent funding cut when adjusted for inflation.<sup>7</sup> This loss, combined with growing financial uncertainty, has forced many of the nations' Head Start program providers to take drastic measures.

A study from the National Head Start Association found that in the last year, 62 percent of Head Start programs have either reduced program hours or decreased days of operation.<sup>8</sup> Without the means to support high-quality teachers, 78 percent of programs cut staff last year.<sup>9</sup> Additionally, because of rising gas prices, 77 percent of Head Start programs have decreased transportation services leaving low-income parents to shoulder transportation expenses.<sup>10</sup> Parents who cannot disrupt their workdays to bring their children to programs or cannot fund transportation costs on their own are often compelled to withdraw their children from Head Start and find inadequate alternatives.

Further, costly new requirements, such as improved teacher quality standards, that took effect when the program was reauthorized in 2007, add to the weaknesses of the current Head Start funding equation.<sup>11</sup> Since federal appropriations for Head Start continue to fall short, implementing the new standards and maintaining quality programs is increasingly difficult.

Providing funding for Head Start in an economic recovery package will go a long way to reverse appropriations cuts that have undermined program effectiveness, invest in new jobs for local communities, and prevent further damage to this important school-readiness program.

Recommendation: Invest an additional \$0.832 billion in Head Start programs.

### **2. Temporarily Increase the Federal Medical Assistance Percentage (FMAP)**

Medicaid is the nation's largest source of medical services for low-income Americans, specifically, children, pregnant women, parents of eligible children, senior citizens and persons with disabilities. Each state runs its own program, with the federal government providing a determined rate of matched funding. Medicaid serves 58 million low-income people, 29 million of which are children. During economic downturns however, this number tends to increase. A recent Kaiser

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<sup>6</sup> Ibid, 3.

<sup>7</sup> First Focus, "Children's Budget 2008," (2008): 26, <http://www.firstfocus.net/Download/CBook.pdf>.

<sup>8</sup> National Head Start Associations, "NHSA Survey: 77 Percent of Head Start Programs are 'at Breaking Point,' Unable to Absorb New Cuts and Hundreds of New Rules," (March 19, 2008), [http://www.nhsa.org/press/News\\_Archived/index\\_news\\_031808.htm](http://www.nhsa.org/press/News_Archived/index_news_031808.htm).

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Center on Budget and Policy Priorities, "2008 Omnibus Appropriations Bill Cuts Funding for Head Start: Bipartisan Reauthorization Bill Enacted Two Weeks Before Omnibus Was Completed Called for Increased Investment," (February 6, 2008), <http://www.cbpp.org/2-5-08bud.htm>.

Commission on Medicaid and the Uninsured found that for every 1 percent increase in national unemployment, 1 million additional people seek to enroll in Medicaid programs.<sup>12</sup>

The higher number of enrollees means more people urgently need this service even as states look to cut back on the program. Currently, 29 states and the District of Columbia are facing budget shortfalls totaling \$48 billion.<sup>13</sup> As of August, 13 states are considering or implementing cuts to their Medicaid programs; if revenues continue to decline as expected, deeper cuts are likely.

One way to help ensure states are able to continue providing health care services to low-income populations is to provide a temporary increased FMAP. This method proved effective when utilized to combat the effects of the 2001 recession. Around half of all states were able to lessen or avoid Medicaid cutbacks and five to seven states were able to use this funding to restore previous Medicaid cutbacks.<sup>14</sup>

In addition to helping to support states, as well as ensuring continued health care for vulnerable populations, a temporary raise in the FMAP rate may also serve as an economic stimulant. The Medicaid program is widely considered countercyclical, automatic fiscal stabilizer, enhancing business activity and even creating jobs.<sup>15</sup>

**Recommendation:** Include an additional \$13.65 billion to provide for a temporary increase in the Federal medical assistance percentage (FMAP) to support state health care services.

### **3. Invest in Youth Employment**

Since 2001, Workforce Investment Act (WIA) youth funds have been cut by 33 percent (\$454 million).<sup>16</sup> These reductions contrast with statistics that show an unprecedented need for youth employment programs. During the summer of 2007, only 39 percent of 16 to 19 year olds were employed – the lowest rate in 60 years.<sup>17</sup> Because of budget shortages, already extensive waiting lists for youth employment have grown and many programs have been forced to turn interested youth away.<sup>18</sup>

When teenagers and young adults have early exposure to work experience, they are more likely to graduate from high school and pursue higher education.<sup>19</sup> Youth employment is also

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<sup>12</sup> Kaiser Commission on Medicaid and the Uninsured, "Medicaid, SCHIP and Economic Downturn: Policy Challenges and Policy Responses," (April 2008),

<http://www.kff.org/medicaid/upload/7770.pdf>.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Families USA, "H.R. 5268: A Temporary FMAP Increase is Good Medicine for State Economies and Workers," (July 2008),

<http://energycommerce.house.gov/FMAP/EconImpact.HR5268.pdf>.

<sup>16</sup> National Youth Employment Coalition, "Appropriations Letter July 2008," (July 28, 2008),

<http://www.nyec.org/content/documents/AppropriationsLetterJuly2008onepage.pdf> .

<sup>17</sup> Ibid.

<sup>18</sup> Emergency Campaign for America's Priorities and the Coalition on Human Needs, "Towards Shared Recovery: Congress Must Do More to Reverse the Recession," (August 1, 2008),

<http://www.chn.org/pdf/2008/stimulus8108.pdf> .

<sup>19</sup> Sum, Andrew et al., "Still Young, Restless, and Jobless: The Growing Employment Malaise Among U.S. Teens and Young Adults," (January 2004): 20-21,

<http://www.aypf.org/publications/stillyoungrestlessandjoblessreport.pdf> .

associated with increased lifetime earnings.<sup>20</sup> However, there are currently 3.8 million 18 to 24 year olds who are neither in school nor employed.<sup>21</sup>

Funding youth employment in the economic stimulus package will set young adults on a track towards future success. Additionally, employed youth join the local workforce and earn wages that quickly flow into local economies.

Recommendation: Provide an additional \$1.0 billion for youth employment programs.

#### **4. Safeguard the Public Housing Operations and Capital Fund**

Communities facing financial upheaval depend on the stability of the nations' public housing program which serves more than 2 million low-income children, senior citizens, and families. However, the public housing program is at risk.<sup>22</sup> The available funding for public housing can only support 81 percent of costs for utilities, maintenance, security, fraud prevention, and necessary services for residents.<sup>23</sup> This significant under-funding threatens to further destabilize struggling communities.

To support low-income neighborhoods, Congress should invest in the Public Housing Operating and Capital Funds. Operating and capital expenses are essential to maintaining public housing as a safe and supportive environment for low-income populations.

The Operating Fund facilitates housing maintenance performed by local service providers such as carpenters and plumbers. The Capital Fund finances efforts to refurbish and renovate housing units.<sup>24</sup> Currently, the public housing system is experiencing a \$18 to \$20 billion backlog on capital needs. Capital Fund expenses often involve, for example, essential repairs to home heating systems and roofs.<sup>25</sup> Capital investments also require the purchase of construction materials that invest money in the local businesses. Recovery measures that support the Public Housing Operating and Capital Funds will both stimulate the economy and safeguard the country's vital public housing infrastructure.

Recommendation: Include \$1.0 billion for public housing (\$500 million for the Operations Fund and \$500 million for the Capital Fund)

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<sup>20</sup> Ibid.

<sup>21</sup> Emergency Campaign for America's Priorities and the Coalition on Human Needs, "Towards Shared Recovery: Congress Must Do More to Reverse the Recession," (August 1, 2008), <http://www.chn.org/pdf/2008/stimulus8108.pdf> .

<sup>22</sup> Couch, Linda, "Public Housing," *National Low Income Housing Coalition*, (February 2008), [http://nlihc.org/detail/article.cfm?article\\_id=5243&id=19](http://nlihc.org/detail/article.cfm?article_id=5243&id=19) .

<sup>23</sup> The Council of Large Public Housing Authorities, "Housing Experts Confirm Critical Need for Public Housing in U.S. - Stark Contrast with Administration Budget Proposal," (2006), <http://www.clpha.org/page.cfm?pageID=843> .

<sup>24</sup> National Association of Housing and Redevelopment Officials, "Worth Fighting For: Preserving Our Nation's Affordable Housing Infrastructure," (2008), <http://www.nahro.org/legislative/worthfighting.pdf> .

<sup>25</sup> Ibid.

### **About the Alliance for Children and Families and United Neighborhood Centers of America**

The Alliance for Children and Families, a nonprofit association, was formed by the 1998 merger of Family Service America and the National Association of Homes and Services for Children. The Alliance represents over 370 nonprofit organizations across the nation that provide services and economic empowerment to children and families. Alliance agencies cover a wide spectrum of providers, including a diversity of faith-based organizations and nonsectarian agencies. Together, these organizations deliver more than \$2 billion annually in services to more than 8 million people in nearly 6,700 communities across the United States. More information about the Alliance is available at [www.alliance1.org](http://www.alliance1.org).

United Neighborhood Centers of America (UNCA) is a voluntary, nonprofit, national organization with neighborhood-based member agencies throughout the United States. Formerly known as the National Federation of Settlements and Neighborhood Centers, it was founded in 1911 by Jane Addams and other pioneers of the settlement movement. More information about UNCA is available at [www.unca.org](http://www.unca.org).

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