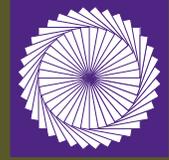


Fast Focus



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IRP Director Timothy Smeeding moderated a March 5, 2009, IRP panel discussion about the economic stimulus bill on which this issue of Fast Focus is based. The discussants were Daniel R. Meyer, Professor of Social Work and IRP Affiliate, commenting on the bill's cash and noncash transfer programs; Sara Goldrick-Rab, Assistant Professor of Education Policy Studies and Sociology, Scholar at the Wisconsin Center for Advancement of Postsecondary Education, and IRP Affiliate, on aid to education; and Pamela Herd, Assistant Professor of Public Affairs and Sociology and IRP Affiliate, on health and health care support. Andrew Reschovsky, Professor of Public Affairs and Applied Economics, IRP Affiliate, and Affiliate of the Wisconsin Center for Advancement of Postsecondary Education, presented a synopsis of how federal stimulus funding influenced the State of Wisconsin's education budget.

March 2009

President Obama and antipoverty policy: What does the stimulus bill do to fight poverty, educate citizens, and improve public health?

Timothy Smeeding

Timothy Smeeding, Director of the Institute for Research on Poverty, introduced the speakers to an audience of over 100 university colleagues, staff, and students.

What does the stimulus bill do to fight poverty?

Daniel Meyer's bird's-eye view of the stimulus package (estimated 10-year totals) is: \$116 billion to making work pay tax credit; \$81 billion to transportation and infrastructure; \$70 billion to extend the Alternative Minimum Tax (a patch through 2009); \$54 billion for state fiscal stabilization; and additional funds for energy and education. The biggest antipoverty ticket item here is the new "Making Work Pay" (MWP) refundable tax credit, 6.2 percent of earned income, which offsets a portion of payroll taxes for all earners with incomes below \$75,000 and couples with incomes below

\$150,000. This new tax therefore covers a wide range of the population, not just the poor.

Additionally, the Earned Income Tax Credit (EITC), which benefits low-income working families, increases the phase-out point for married couples and creates a new range, for families with three or more children. The third big change in the tax system is lowering the income level at which individuals and families are eligible to claim the refundable portion of the child tax credit (CTC). The combination of the larger EITC, the CTC, and the MWP will boost the after-tax incomes of many working poor families by a substantial margin, assuming they can find (or keep) jobs.

The bill also provides benefits outside the tax system. Three features are among the most important components for low-income families: (1) an increase and extension of Unemployment Insurance benefits, these benefits are received by those who are jobless regardless of their poverty status, but will have a substantial effect on poverty; (2) a one-time \$250 payment to recipients of Social Security, SSI, and some other

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programs primarily affecting elders; and (3) a 14 percent benefit increase for those receiving Supplemental Nutrition Assistance Program (SNAP) aid (food stamps).

All told, the stimulus bill represents a continuation of thirty-year trends in policies affecting low-income families—targeting benefits through the tax system and not via direct programs; providing in-kind assistance (health care and education, see below) over cash; and work supports over aid to nonworkers—but there also were some nontrivial increases in existing benefit-program outlays.

What does the stimulus bill do to educate citizens?

Sara Goldrick-Rab says there has been a sea change in presidential attitudes toward education: “It’s LBJ meets JFK meets Barack Obama himself.” President Obama fully embraces the notion that education is key to escaping poverty and to upward social mobility, and he’s acting on this belief by putting people with this worldview in key federal positions, such as the new education czar Arne Duncan; increasing the Pell Grant and reducing dependence on student loans; and encouraging all citizens to receive a thirteenth year of education. As he indicated in his January address to Congress, the President feels that doing anything less than thirteen years is not only failing oneself, but also failing one’s country. Obama is complementing a longtime emphasis on K-12 education with a thoughtful new focus on the problem of dropout in higher education—and by setting the goal of restoring the nation’s premier world standing in educational attainment by 2020.

These are all positive changes; however, a major caveat regarding the \$100 billion earmarked for new education funding is that \$54 billion of it will be absorbed in order to keep schools open in communities where the property tax base has been ravaged by the housing crisis, thereby providing stabilization rather than stimulus. As with most education policies, the decentralized nature of the \$54 billion assistance may also alter its impact. The administration’s education policy retains the central tenets of the Bush administration’s No Child Left Behind policy—student assessment, teacher-distribution equity—and adds additional support for building state longitudinal data systems that allow districts and schools to track students and learn from their outcomes.

As Goldrick-Rab noted, the Administration’s proposed budget expands on the stimulus bill’s efforts to improve American higher education. Among other plans, the budget includes a \$2.5 billion state-federal incentive fund intended to increase efforts to close gaps in college completion by experimenting with and evaluating new programs and policies. Community colleges are central to those efforts, and the presence of economist Cecilia Rouse, who specializes in the economics of education, on the Council of Economic Advisers is therefore key. In a time when nearly 75 percent of

low-income students drop out of college, this is a particularly important endeavor.

What does the stimulus bill do to improve public health?

Pam Herd suggested that about one-fifth of the stimulus is going toward broadly construed health and health care, about half of which is to keep the public health insurance system going, mainly through increased spending to maintain the Medicaid program. The majority of the stimulus bill’s health and health care spending focuses on insurance coverage, but it also increases spending on research, and cost-containment provisions. About 57 percent is going to Medicaid, an infusion of money to the states to support existing Medicaid spending and to prepare for increasing costs as rising unemployment increases claims. About 17 percent of the health stimulus funding will go toward COBRA (continuation of health insurance coverage after job loss), to help the newly unemployed pay their monthly premiums by covering about 65 percent of their premium. This is intended to be a short-term change. Another health policy change put forth by the Obama administration, though not as part of the stimulus package, is an expansion of SCHIP health insurance coverage to an additional 4 million children by encouraging states to enroll children from families with incomes up to 300 percent of the poverty level.

The broader context of Obama’s plan is two-fold: (1) expand coverage and (2) control costs. Cost-controlling measures include funding to set up electronic-medical-records systems, which are thought to improve efficiency and control costs. Another cost-controlling measure is the (relatively small) amount of Department of Health and Human Services stimulus funding that would go to comparative-effectiveness research. New technology is seen as the biggest driver of rising health care costs, but most new technologies are compared against placebos rather than existing standard treatments. For example, new drugs’ performance is currently tested against placebos, not against the best drugs currently prescribed for a given condition. This is a situation that is unique to the United States. Most other industrialized countries compare new technologies to existing technologies to test performance. Pharmaceutical companies—which are part of a \$1 billion per year health-care lobby—are critical of comparative-effectiveness research.

How does the stimulus bill’s education funding affect Wisconsin’s education budget?

Andrew Reschovsky has been analyzing Wisconsin Governor Doyle’s budget to see how the stimulus bill might affect education in the state. The governor cut state funding for education and then completely made up for it with federal stimulus funds—this in a context of a \$6 billion state budget gap. In addition, the federal stimulus bill provides about

\$175 million in each of the next two years directly to school districts for the funding of poverty-related programs (Title I) and for special education. The pattern is “pro-poor,” with more money for districts with high concentrations of students from poor families; Milwaukee will receive approximately \$550 per pupil in new federal aid in each of the next two years. About 90 percent of the state’s education funding is going to equalization aid—no change there—and a new “high poverty aid” category increases from \$12 million to \$15 million. There is a tiny increase in categorical aid for SAGE grants, which enable schools with high concentrations of low-income students to have smaller class sizes in grades K-3. Unlike in past years, this budget has no increase in equalization aid. This means that if school districts spend up to their revenue limit, which next year will allow an increase of about \$275 per pupil, all the additional revenue would have to come in the form of higher property taxes. Bottom line: there is no new state money going into education, despite the prospect of increasing costs.

Sources for further reading

The Institute will continue to monitor and report on how the stimulus package, and eventually the Obama budget bill, will fare and how low-income families will be affected. Check our Web site for updates at www.irp.wisc.edu.

Here we list some sites to also consider:

Center on Budget and Policy Priorities, “State-by-State Estimates of Key Provisions Affecting Low- and Moderate-Income Individuals” (<http://www.cbpp.org/1-22-09bud.htm>)

Urban-Brookings Tax Policy Center, “Tax Stimulus Report Card: Conference Bill” (http://www.taxpolicycenter.org/UploadedPDF/411839_conference_reportcard.pdf)

Congressional Budget Office stimulus cost estimates (<http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>)

Wisconsin Council on Children and Families, “Comparative Summary” (http://www.wccf.org/pdf/comparative_summary_ARRA.pdf)

Brookings Institution, “Stimulus for America’s Community Colleges,” Sara Goldrick-Rab and Alan Berube (http://www.brookings.edu/opinions/2009/0203_community_college_berube.aspx?p=1)

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Edited by Deborah Johnson.

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