

## Improving the Safety Net: Cross-Partisan Strategies for a Gridlocked Congress



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### Summary

With almost 50 million Americans struggling to escape poverty following the Great Recession, and a bitterly divided Congress locked in a legislative stalemate, creative cross-partisan solutions are needed to weave a safety net that effectively bounces citizens back to self-sufficiency. In their new book, *America's Poor and the Great Recession* (Indiana University Press), SPEA Dean John Graham and Assistant Professor Kristin Seefeldt propose a set of policy guidelines designed to mitigate the harmful effects of economic downturns on low-income individuals and families. These strategies endeavor to simultaneously protect not only vulnerable citizens but also the federal budget, amounting to an actionable plan that bridges liberal and conservative priorities.

### Why Does the Safety Net Need Strengthening?

The Great Recession that began in 2008 left more Americans in poverty than at any other time since the statistic was formally established. One out of every five children in America now lives in poverty. Millions of families that were middle class prior to the recession have come to rely on government assistance in the form of food stamps, unemployment insurance, or other services.

While some portions of the safety net responded robustly to the crisis, others were unable to increase delivery of services to meet demand. The federal government's emergency "stimulus" package helped address some of the shortfall, but those provisions have expired. Meanwhile, despite some signs of economic recovery, long-term joblessness is at a record high, underemployment is widespread, and even those working full time at the federal minimum wage can still fall below the poverty line.

In order to be effective in helping low-income Americans through difficult periods, the federal safety net needs to be responsive to economic cycles. The Great Recession revealed that present policies are insufficient to combat the effects of a depressed economy. A stronger safety net is required to ensure that temporary downturns do not result in inescapable poverty.

### Attracting Cross-Partisan Support

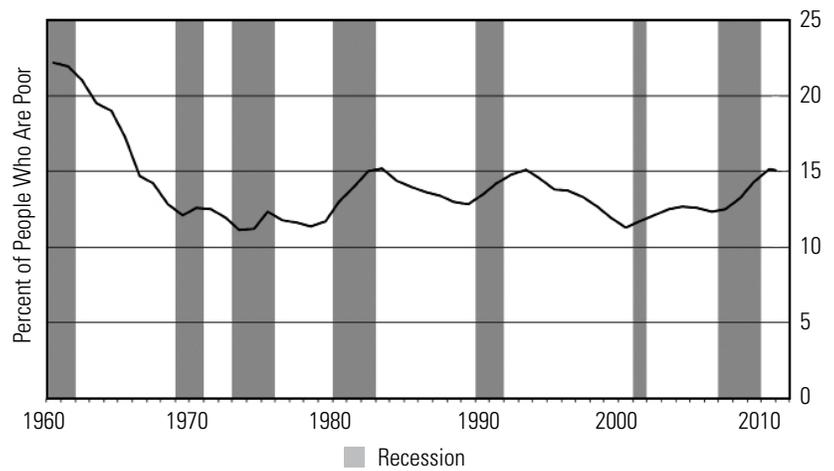
Any legislative proposal to improve the safety net must be capable of attracting support from both political parties if it is to succeed in Congress. Unfortunately, the policies favored by each party are unpalatable to the other, such as liberal attempts to repeal Bush-era tax cuts and conservative strategies to privatize Social Security. Our suggestions, therefore, take into account both political viewpoints, aiming for



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*The views expressed are solely those of the authors and do not imply endorsement by Indiana University or the School of Public and Environmental Affairs.*

## Poverty Status of All People, 1960-2010.



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

a middle ground that should appeal, if not to the leadership of both parties, at least to a significant number of elected representatives on both sides of the aisle.

The safety net – which includes universal programs like Social Security and Medicare as well as means-tested services like Medicaid, unemployment insurance (UI), food stamps (SNAP), and temporary cash assistance (TANF) – is a crucial topic of national concern, both for its import and its cost. As the largest portion of the federal budget after defense spending, it is vulnerable to cuts because of the ballooning federal deficits.

In reality, spending on non-medical means-tested programs is projected to decline over the next ten years as the economy recovers, a fact that must be entered into deliberations in order to arrive at sound and effective policies. Keeping in mind that programs like SNAP, TANF, and UI are not significant contributors to the nation's long-term fiscal crisis, we offer a number of strategies for protecting low-income Americans while also limiting federal expenditures.

### Indexation of the Federal Minimum Wage

An immediate step to buttress the earnings of low-income workers is to index the federal minimum wage to inflation. Without this measure in place, those employed at the minimum wage will see their earnings effectively decline as the economy recovers and prices rise. This measure has historically attracted cross-partisan support and can serve as an important first step in addressing the long-term wellbeing of lower-income Americans. Both Romney and Obama supported this idea.

### Medicaid Reform

Medicaid comprises the largest portion of means-tested safety net expenditures. Efforts to limit federal spending through Medicaid reform will have far more impact than cutting from smaller-budget programs like TANF or SNAP. Medicaid is also the one area of means-tested assistance that is projected to become more expensive in the near term if significant reforms are not enacted.

The concern, however, is that cuts to Medicaid must not be allowed to result in less access to or quality of care. Not only would such limitations harm low-income Americans by denying them medical attention, but such cuts would also drive up costs over time by allowing illnesses to progress to the point of necessitating expensive interventions.

Effective reforms must therefore take the approach of incentivizing cost-effective care. Patients and providers must be encouraged to move Medicaid activities out of emergency rooms and into offices and clinics, and work to achieve greater patient health and to rely on fewer medical services. To this end, a “managed care” approach holds promise by rewarding medical providers for keeping their patients healthy, whereas the current fee-for-service model generates more income for providers when patients require more treatment.

Managed care will require oversight in order to ensure that providers are not dissuaded from administering necessary treatments, but this approach accomplishes the true goal of Medicaid – protecting the health of low-income Americans – in a way that encourages patients and providers to work together toward improved, cost-effective outcomes.

### Better Targeting of Transfer Programs

Although the topics of Social Security and Medicare can be political land mines, it is reasonable to consider some revisions to the way in which these services are allocated. The colossal expense of these programs, particularly as lifespans increase and more advanced medical interventions become available, necessitates a willingness to take some steps to contain costs.

**Federal Spending (billions of \$) on Programs to Assist Low-Income Americans in the United States: The Six Largest Programs.**

<i>Program</i>	<i>FY 2007</i>	<i>FY 2011</i>	<i>% Change</i>
Medicaid	190.6	275.0	+44
Unemployment Compensation	32.5	117.2	+361
Food and Nutrition Assistance	48.7	95.7	+97
Supplemental Security Income	32.8	49.6	+51
Earned Income Tax Credit	38.3	55.7	+45
Housing Assistance	39.4	47.7	+21

Source: U.S. Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 2013, Historical Tables 8.5 and 8.7.

The most politically feasible of these measures, we believe, are increasing the age of eligibility and introducing some progressive means testing that will direct more services toward citizens at the lower end of the economic spectrum. By concentrating benefits on those whose income is in the bottom 40%, while also delivering significant services to families falling between the 40th and 60th percentiles, Congress can achieve some savings without abandoning those in need of assistance within their constituencies.

Better targeting of Medicaid may also be possible. There is some evidence to suggest that a portion of benefits is being delivered to families in higher income brackets. We recommend a rigorous review of Medicaid eligibility practices to determine whether services are being directed where they are most needed.

**Subsidized Employment and Job Training**

At present, there is no systematic national effort to assist states in providing subsidized employment or job training to unemployed Americans. These areas represent a significant unrealized opportunity for improving the country’s economic health.

Subsidized employment (such as public works projects or teaching programs like Teach for America) creates jobs that would not otherwise have existed and delivers valuable services that benefit taxpayers. Second, it provides support in the form of wages, which is meaningful to American citizens. Finally, and most importantly, it enables recipients to maintain ties to the labor market, helping them go on to obtain (unsubsidized) employment.

Likewise, job training programs, if well designed, can reduce unemployment while simultaneously filling vacancies in critical sectors. The most successful programs often involve partnerships with community colleges and local employers to enable participants to earn certificates that prepare them for work in high-demand areas (for example, as medical lab technicians or computer support specialists). Such programs can be especially

beneficial for young people who, lacking experience, are at a particular disadvantage in competing for jobs.

We recommend the temporary utilization of subsidized employment as a means of putting unemployed Americans to work during economic downturns. Funds should also be made available to test and evaluate job training programs and, based on those results, expand only the initiatives that show promise.

**Restructure Allocations to Act as Economic Stabilizers**

While some portions of the safety net, such as unemployment insurance (UI), responded robustly to heightened needs during the Great Recession, others, including Temporary Assistance to Needy Families (TANF), could not increase support due to the fixed size of the federal block grant to the state. The 2009 stimulus measures helped to boost TANF spending, but these provisions will have expired.

Rather than forcing Congress to vote on extending funds each time the country suffers a blow to its economy, a sensible approach would be to structure allocations such that more funding would be available for the safety net during a recession, with funding levels decreasing as the economy improves. By indexing allocations to unemployment levels or some other measure of broad economic health, the safety net can act as an automatic stabilizer.

To counterbalance these added expenditures, however, we recommend that the indexation of the safety net be coupled with tighter procedural controls on discretionary spending, such as requiring super-majorities in both chambers of Congress to increase spending beyond dedicated revenues.

## Poverty Impact Analyses

Poverty reduction measures need not be limited to the safety net. There are many other federal programs that, with some minor adjustments, could incorporate strategies for assisting low-income Americans while also advancing other national priorities. In *America's Poor*, we offer the example of how the federal tax credit for electric vehicles could be modified to assist low-income Americans in obtaining (environmentally friendly) transportation to and from work. This example is but one opportunity for aligning programmatic objectives without incurring additional expenses.

We are confident that many more such opportunities could be identified through the implementation of “poverty impact analyses.” These assessments, akin to the environmental impact assessments that are currently incorporated into aspects of the legislative process, would evaluate the impact of proposed legislation on low-income Americans and identify potential new pathways to poverty reduction without requiring additions to the budget.

## Conclusion: An Actionable Anti-Poverty Plan

The Great Recession created a poverty crisis in America that must be addressed through better targeted and more robust safety net measures. Equally, this event demonstrated the need for more responsive policies that automatically provide additional assistance during downturns in the business cycle, with funding tapering off as the economy recovers.

These policies are difficult to craft, however, due to the swelling federal deficit, and the legislative gridlock between liberals and conservatives appears to have taken off the table the two strategies that have the most potential to decrease this debt: raising taxes and redesigning Medicare and Social Security.

Conscious of these limitations, we have put together a set of proposals for reducing poverty in America while still

protecting the federal budget and enhancing long-term financial security. These recommendations include indexing the federal minimum wage to inflation, restructuring Medicaid, targeting program recipients more precisely, allocating funds in concert with the business cycle, creating a systematic effort to provide subsidized employment and job training, and putting in place poverty impact analyses to identify new and low-cost avenues for poverty reduction.

Our proposals are designed not only to succeed in reducing poverty but also, first and foremost, to succeed in Congress. This policy brief describes an actionable plan that can attract support from both liberal and conservative legislators. We fervently hope these proposals are introduced as part of a cross-partisan effort to address America's poverty crisis and create a more stable, secure, and prosperous nation.

*The preceding discussion is adapted from America's Poor and the Great Recession (2012), by Kristin S. Seefeldt and John D. Graham, with the assistance of Gordon Abner, Joe A. Bolinger, and Lanlan Xu, IU Press; available from [www.iupress.indiana.edu](http://www.iupress.indiana.edu).*

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