

Welfare begins to end as recession grows

STEVE SUPPAN



Now that economic recession in the United States has been officially recognised, there are few defenders of the optimistic state and federal government income projections that were used in 2000-2001 to justify tax cuts that largely benefit the wealthy. One analyst noted, “[t]he way for these selective tax cuts was cleared not just with forecasts that made no allowance for contingencies, but with creative accounting worthy of Enron.”¹

With the disappearance of projected budget surpluses have come calls for budget cutbacks that will disproportionately affect already under-funded social programmes. The national government can rely on deficit spending to fund its budget deficits, including a massive military build-up for the “war on terrorism.” However, US state governments, which are the main providers of social welfare services, are prevented by their constitutions from borrowing to fund programmes. This prohibition against state borrowing means that social programme budgets will likely be cut. Once again, the US government has failed to give priority to fulfilling World Social Summit on Development (WSSD) commitments.

The poverty of official poverty data

Technical capacity for data collection and interpretation limits the ability of some governments to evaluate the effects of their policies. In the United States, however, technical capacity is less of a limitation than are outdated statistical definitions of poverty that impede analysis, and hence realistic policy formulation, to reduce poverty and related social problems.

In September 2001, the US Census Bureau announced that from a sample survey of 50,000 households, it had determined that the “poverty rate in 2000 had dropped to 11.3% [of the US population] ... not statistically different from the record low of 11.1% set in 1973.”² The poverty threshold for a family of four was set a USD 17,603.³ Supporters of 1996 US “welfare to work” legislation, which reduced the number of government food and cash assistance recipients, greeted the Census announcement as proof that “welfare to work” programmes reduced poverty. However, federal poverty thresholds are calculated according to a food budget-based formula that has not substantially changed since 1965.⁴ As one critic of the US official definition of poverty noted, “[w]hile the price of food has actually gone down over the past fifty years, poor families now have to spend larger portions of their budget on housing and child care.”⁵

The inadequacy of federal poverty thresholds to reflect the after tax income required to pay for basic needs can be measured by the disparity between government unemployment insurance payment levels and the income required to pay basic costs for food, housing, health care, child care, transportation, heat and other basic necessities. For example, one study determined that current federal unemployment insurance “replaced only 33% of an average worker’s lost earning.”⁶ The same study calculated that the basic monthly budget for two parents with two children under the age of twelve in the town of St. Cloud, Minnesota in 2001 was USD 2,674. In annual terms that would be USD 32,088 after tax income,⁷ about USD 14,485 above the federal poverty threshold for such a family. A May 2001 study by the Congressional Budget Office determined that the average annual after tax income for the bottom fifth of US households in 1997 was USD 10,800. For the middle fifth, it was USD 37,200, just USD 5,112 above what was calculated to meet basic needs in 2001.⁸

What to pay for – food, heat or health care insurance?

The five-year lifetime limit on cash assistance to poor families and individuals mandated in the 1996 legislation was approved in the midst of macroeconomic prosperity. Now, in the words of a *New York Times* headline, “As Welfare Comes to an End, So Do the Jobs.” These were the jobs that were to have enabled poor people to depend no longer on government assistance.⁹ The recession has been particularly harsh on women with children. From October 2001 to November 2001, the unemployment rate of female heads of households went from 6.9% to 8.3%, a 20% increase.¹⁰ Children in these households form a large part of the 7% of US children that receive federal food and cash assistance. According to outdated federal poverty standards, about 16% of children are poor.¹¹

1 Paul Krugman, “Our Wretched States,” *The New York Times*, 11 January 2001. Enron, the most generous corporate campaign contributor to then Governor and now President George W. Bush, is the subject of a federal criminal inquiry for massive and possibly fraudulent accounting practices.

2 “Poverty: 2000 Highlights,” US Census Bureau (20 September 2000) at <http://www.census.gov/hhes/poverty/>

3 “Poverty 2000,” US Census Bureau, 20 September 2000, at <http://www.census.gov/hhes/poverty/threshld/thresh00.html/>

4 Gordon Fisher, “The Development and History of U.S. Poverty Thresholds – A Brief Overview,” Winter 1997, at <http://aspe.hhs.gov/poverty/papers/hptgssiv.htm/>

5 Laura Maggi, “The Poor Count,” *The American Prospect*, 14 February 2000, at <http://www.prospect.org/print/V11/7/devil2.html/>

6 Heather Boushey and Jeffrey Wenger, “Coming up short: Current unemployment benefits fail to meet basic family needs,” Economic Policy Institute, Issue Brief #169, 31 October 2001, p. 1.

7 *Ibid*, p. 3.

8 Isaac Shapiro *et al.*, “Pathbreaking CBO Study Shows Dramatic Increases in Income Disparities in 1980s and 1990s: An Analysis of the CBO Data,” Center On Budget And Policy Priorities, 31 May 2001, at <http://www.cbpp.org/5-31-01tax.htm/>, p. 3.

9 Nina Bernstein, “As Welfare Comes to an End, So Do the Jobs,” *The New York Times*, 17 December 2001.

10 “The Economic Stimulus Package Must Include Unemployment Insurance for Low-Wage Working Women,” National Women’s Law Center (revised, December 2001) at <http://www.nwlc.org/>

11 Peter Edelman, “A Fairness Agenda for the Bush Era,” *The Nation*, 23 April 2001.

According to a report by Second Harvest, the largest emergency food assistance network in the United States, 45% of the 23 million emergency food recipients it served last year “had to choose between buying food and paying for utilities or heat.”¹² In addition to the aforementioned increase in use of non-governmental food assistance programmes, participation in the government’s Food Stamp Programme (FSP) increased 8% from October 2000 to October 2001. Food stamps are government-funded vouchers to pay for basic foods. Tougher FSP eligibility requirements caused a drop of 40% or more in FSP participation in five US states since the 1996 welfare legislation.¹³ Many former FSP participants now get mostly church-based food assistance.

Low household income was the chief reason that 39 million US residents could not pay for health care insurance in 2000, according to US Census Bureau data. In 1991, 14.1% of US citizens had no health care insurance at any point in the year. After nine years of unprecedented economic expansion in the United States, in 2000 14% lacked insurance.¹⁴ Legislation to extend health care insurance to more US residents is deadlocked in Congressional budget debates.

Bush Administration fiscal policy and its social programme impacts

President George W. Bush’s first budget address called for a USD 1.6 trillion tax cut that was greeted by loud applause.¹⁵ Some of the applause came from those who sought tax cuts for their corporate clients. Critics, however, feared that the Bush tax cut would repeat the result of President Ronald Reagan’s 1981 tax plan, making “it structurally impossible to find money for domestic social programmes,” in the words of Reagan’s budget director.¹⁶ In June, Congress approved a USD 1.35 trillion tax cut over ten years, just four months before the government recognised that the United States had been in an economic recession since March 2001. There is now a national debate about the implementation of the tax cut. The results of this debate will affect the policies and budget for fulfilling WSSD commitments.¹⁷

Against the evidence of leading economic indicators that pointed to a deepening recession before September 11th, apologists for US economic policy, such as Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert Rubin, argued that the economic consequences of the September 11 attacks interrupted a burgeoning recovery from the current recession.¹⁸ Budget constraints, partly resulting from the economic impact of the September 11 attacks, are being used to justify a continuation or even cutting of already inadequate food and cash assistance programmes.¹⁹ Yet some advocates of cutbacks in assistance to the poor, argue that a USD 202 billion programme of tax reductions and tax subsidies for upper income individuals and corporations will help the United States recover from the September 11 attacks.²⁰

An economic stimulus bill approved by the House of Representatives will send 41% of the USD 202 billion to the top 1% of US income earners and 6% to the bottom 60%.²¹ The bill includes a provision, sought by lobbyists for 15 years, to repeal the Alternative Minimum Tax (AMT) for corporations. According

to an analysis by Public Citizen, if the bill is approved by the Senate and signed into law by President George Bush, sixteen companies will receive about USD 7.5 billion in tax rebates. From 1992 to 2002, those companies spent a mere USD 45.7 million to influence legislation.²²

US foreign policy impacts on social welfare²³

The pugnacious unilateralism on major foreign policy questions of the Bush Administration’s first nine months in office, *eg*, on global warming, changed to a tactically necessary US multilateralism following the September 11 attacks. In recognition of the need for United Nations support for the “war on terrorism”, the US Congress voted shortly after September 11 to pay “USD 582 million in back dues, long owed the UN.”²⁴ Whether US “*a la carte* multilateralism,” in the words of the State Department’s Richard Haass,²⁵ will support UN programmes to meet WSSD commitments cannot be predicted with confidence.

Prior to September 11, shifts in public attitudes on foreign aid indicated a better political climate for increasing US foreign aid. Opinion polls in 2001 on US public attitudes on foreign aid show that “overwhelming majorities” support “efforts to alleviate hunger and poverty—much more so than for foreign aid overall.”²⁶ In 1995, 64% of those polled favoured foreign aid cuts. But in 2001, only 40% supported such cuts (the margin of polling error was +/-3.5-4%).²⁷ In 2001, when pollsters asked respondents to estimate “how much of the federal budget was devoted to foreign aid, the median estimate was 20% of the budget—20 times the actual amount, which was just under 1%. Only 5% of respondents estimated an amount of 1% or less.”²⁸ To date there has been no political leadership to turn this popular support for foreign aid into budget allocations.

The Global Development Alliance (GDA), the US Agency for International Development’s (USAID) new “business model,” is limited to coordinating, facilitating and networking with private sector and “third sector” (NGOs, unions, churches, *etc.*) to fulfil USAID’s foreign assistance mandate. The GDA Secretariat was officially launched on 26 November 2001 as a “technical resource unit which catalyses and supports alliance creation and operation.”²⁹ Sample alliances include The Global Alliance for Vaccines and Immunisation, Chocolate/Coffee Production and Distribution Alliances, U.S.-Asia Environmental Partnership, Public-Private Agricultural Research Programmes (*eg*, Monsanto Company and the Kenyan Agricultural Research Institute), and TechnoServe Alliances for Rural Economic Growth (*eg*, Cargill’s assistance to “develop competitive oilseed businesses in southern Africa”). Because of the heterogeneity and private/public character of many GDA programmes, GDA results, like those of past USAID “partnership” programmes, will be difficult for *Social Watch* to verify and analyse in terms of meeting WSSD commitments. ■

Institute for Agriculture and Trade Policy
 <ssuppan@iatp.org>

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14 “The 39 Million Who Mustn’t Get Sick,” *The Wall Street Journal*, 27 December 2001.

15 “Bush’s Bogus Budget,” *The Nation*, 19 March 2001, p. 3.

16 Edelman, *op.cit.* footnote 17.

17 “Coalition Joins Call For Delaying Additional Tax Cuts for the Wealthy to Meet Urgent National Priorities,” National Women’s Law Center, press release, 16 January 2002, at <http://www.nwlc.org/>

18 Christian E. Weller and Laura Singleton, “Prosperity wasn’t just around the corner: Signs indicating weakening economic performance before September 11 attacks,” Economic Policy Institute, Issue Brief #166, 4 October 2001) at <http://www.epinet.org/Issuebriefs/ib166.html/>

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20 “Latest GOP Corporate Tax-Giveaway ‘Compromise’ Looks Almost Identical to Original Bloated Plan,” Citizens For Tax Justice, 16 December 2001, at <http://www.ctj.org>.

21 “The Wealth Concentration Act,” Citizens for Tax Justice in *Multinational Monitor*, November 2001, p. 25.

22 Nancy Watzman, “The Corporate Tax Break Feeding Frenzy,” *Multinational Monitor*, November 2001, pp. 24-26.

23 For information on the claims of US trade policy to foster social development, see documents at <http://www.wtwatch.org/>

24 John G. Ruggi, “The UN: Bush’s Newest Ally?” 31 December 2001, p. 18.

25 *Ibid*, p. 20.

26 “Executive Summary: Americans on Foreign Aid and World Hunger: A Study of U.S. Public Attitudes,” Programme on International Policy Attitudes, University of Maryland – College Park, 2 February 2001, p. 2.

27 “Findings: Americans on Foreign Aid and World Hunger: A Study of U.S. Public Attitudes,” Programme on International Policy Attitudes (2001), p. 1.

28 “Introduction: Americans on Foreign Aid and World Hunger: A Study of U.S. Public Attitudes,” Programme on International Policy Attitudes (2001), p. 1.

29 “USAID’s Global Development Alliance,” United States Agency for International Development at <http://www.usaid.gov/gda/index.html/>