



Cushioning the Blow

ARRA's Direct Assistance to Alabama's Working Families

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An anxious nation watched as Congress enacted the American Recovery and Reinvestment Act (ARRA) in February 2009. The recession that officially began in 2007 was wreaking havoc with families across the nation. In Alabama, the unemployment rate had risen from a low of 3.3 percent in March 2007 to 8.7 percent two years later and would continue to escalate through February 2010's rate of 11.1 percent. State and local governments were faced with declining revenues at the same time that the recession was creating increased demands for services and assistance.

Media coverage of ARRA has focused largely on the infusion of federal funds to improve infrastructure. But the ARRA provisions that arguably have been even more effective at stemming economic decline are the direct assistance measures that put money in the hands of Alabama's citizens. While even "shovel-ready" infrastructure projects took some time to bring up to full speed, the direct assistance began flowing quickly into local economies. Through June 2009, ARRA outlays for infrastructure accounted for 6 percent of the act's total spending at most. Direct assistance to individuals, including tax cuts, accounted for 41 percent of the spending.¹ By late May 2010, the five major forms of cash assistance had provided a total of more than \$2.1 billion to Alabama's economy (*see chart, Page 7*).

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These provisions, along with state fiscal relief, were the Recovery Act's primary tools for rescuing the national economy from collapse. They were valuable because of how quickly they could increase consumer spending for two reasons. First, they operated through efficient, existing mechanisms that allowed federal dollars to reach consumers quickly. Second, they generally were targeted to those whose circumstances required them to spend the extra income quickly, directing these resources straight into a collapsing economy.

The five major provisions are:

- A boost in Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp Program) benefits;
- A \$25 per week increase in unemployment benefits;
- Additional weeks of unemployment benefits through the Emergency Unemployment Compensation (EUC) program;
- A one-time \$250 payment for Social Security, SSI and other beneficiaries; and
- The Making Work Pay (MWP) tax credit.

These programs pumped needed dollars into the economies of municipalities and counties throughout Alabama. The total direct assistance provisions for each county have ranged from a low of \$4 million for Greene County, Alabama's least populous county, to more than \$300 million for Jefferson County (*see chart, Page 7*). A discussion of each of the five provisions, and its impact on poverty in Alabama, follows.

Supplemental Nutritional Assistance Program (SNAP) benefit increase

A primary conduit for rapid and large-scale direct assistance is the food stamp program, which has been a mainstay in helping Alabama's low-income families make ends meet since the late 1960s.

Though it is still widely known as the Food Stamp Program, in 2008 it acquired a new name – the Supplemental Nutritional Assistance Program – which underscores its purpose of contributing to families' food security rather than meeting their nutritional needs in full.

The Recovery Act provided a 13.6 percent boost in the maximum food stamp benefit. Because of the way food stamp benefits are calculated, this boost increased the amount all food stamp households

receive, typically by more than 13.6 percent of their actual benefit. This increase first reached food stamp households in April 2009 and will continue to boost food stamp benefits for the next few years. The benefit will remain at the current level until the normal inflation adjustments, usually made annually, catch up with the ARRA provisions, making the food stamp increase the longest-lasting of the direct aid provisions.

Thanks to the Recovery Act, low-income Alabama families have received \$155.5 million in increased food stamp benefits as of April 2010, according to the Alabama Department of Human Resources. At the same time that the benefits increased, enrollment in SNAP was rising to record levels. In February 2009, Alabama's 269,349 households participating in the program received \$70.6 million in monthly benefits. By May 2010, the lingering recession had swelled those numbers to 347,000 households and more than \$102 million in monthly benefits.²

The temporary increase in food stamp benefits has been one of the most effective forms of economic stimulus in the act. Families receiving food stamps are struggling to meet their basic needs, so when they see a bit more income, they are very likely to spend it. When they do, the grocers they buy from have more income to pay workers, wholesalers, farmers and others. Those employees and suppliers then have more spending power they can exercise in local economies across the state. National estimates of the economic impact of this provision of ARRA range from \$1.73 to \$1.84 for each dollar in benefits issued. While state-level multipliers are difficult to determine, it's safe to say this provision of ARRA not only benefited low-income participants in the program but also significantly helped to strengthen the local and statewide economies.

Unemployment Insurance (UI) benefit increase

Much like the food stamp increase, ARRA's adjustment to Unemployment Insurance (UI) benefits proved an effective way both to help families meet basic needs and to pump cash into the economy.

Between February 2009 and May 2010, Alabama saw the number of unemployed workers balloon from 187,000 to 227,403. For those eligible, Alabama's Unemployment Insurance program provides weekly benefits ranging from \$45 to \$265, among the lowest benefit structures in the nation.³ The Recovery Act provided an additional \$25 per week to all workers receiving Unemployment Insurance benefits.

Alabama UI recipients have received more than \$171 million in additional benefits from this provision

through May 21, 2010, according to the Alabama Department of Industrial Relations. Nationally, every dollar spent on extended unemployment benefits is returning \$1.63 in economic activity, reports Mark Zandi of Moody's Economy.com.⁴

This ARRA provision, utilizing the already established system for delivering unemployment benefits, placed millions of dollars in the hands of Alabama's unemployed workers quickly and efficiently. The extra \$25 a week in spending by UI recipients created a snowball effect in local economies, increasing the income of local store owners, who then were better able to pay their workers and suppliers, who in turn had more income to spend. Originally set to expire at the end of 2009, this provision had several short-term extensions, most recently through June 1, 2010. Congress's failure to extend the increase into the summer was a financial setback not only for the families affected but also for the neighborhood shops and services they patronize.

Emergency Unemployment Compensation (EUC)

To help jobless families stay afloat and maintain at least marginal spending power, ARRA extended the Emergency Unemployment Compensation (EUC) program that Congress had created in 2008. In its original form, EUC provided up to 33 additional weeks of unemployment benefits to workers who exhausted their 26 weeks of regular benefits. The ARRA extension lasted through the end of 2009, and later congressional actions extended the provision through June 1, 2010. With these extensions, EUC has provided additional assistance to thousands of Alabama workers at a time of spiraling unemployment. Since the enactment of the Recovery Act, Alabama has issued more than \$350 million in unemployment benefits to workers who otherwise would have exhausted their unemployment insurance.⁵ Without these additional supports, workers would have had to further reduce their spending, which would have further slowed the economy. Such will likely be the case in the coming months, as a result of Congress's allowing the latest extension to expire.

Making Work Pay (MWP) tax credit

ARRA's Making Work Pay (MWP) tax credit, equal to 6.2 percent of a worker's earned income, targets lower-income workers, those most likely to spend income quickly, by making the credit available at its full value and by phasing out the credit for the highest-income workers. Designed to reach most

people quickly, the credit was implemented through a change in the withholding tables that employers use to determine take-home pay. Most taxpayers will receive the maximum credit – \$800 for married couples, \$400 for others. The credit begins to phase out for married couples earning more than \$150,000 and for other taxpayers above \$75,000. The credit is not available to couples with earnings of more than \$190,000 and others above \$95,000.

The Washington-based Center for Budget and Policy Priorities estimates that Alabama taxpayers have received \$1.18 billion through the MWP credit. Though not targeted exclusively to low-income or unemployed workers, the tax credit has been an effective economic stimulus. The Internal Revenue Service released new withholding tables within days of the President's signing of ARRA, quickly putting the additional funds into the hands of working Alabamians. The credit's design, providing a small increase in most workers' regular paychecks, also may have improved its efficiency as economic stimulus. There is some evidence that taxpayers are more likely to spend tax cuts delivered in small portions than tax cuts received in one large chunk. Taxpayers may view the MWP credit as income, to be spent, rather than an unexpected influx of wealth to be saved.

Economic Recovery Payments

Reaching more broadly across the income spectrum than the Recovery Act's other direct assistance provisions, the one-time \$250 "Economic Recovery Payment" went to all Social Security and SSI recipients, as well as recipients of Railroad Retirement and disabled veterans' benefits. In general, anyone who received these payments between November 2008 and January 2009 was eligible to receive the \$250. There were no income limits, and nearly all payments were distributed in May 2009. The Social Security Administration indicates that this provision of the act has provided more than \$244 million to Alabama residents. As these payments were not targeted to low-income individuals, they likely had less of a direct impact on local economies than other provisions. The payments were sent to anyone who received a qualifying retirement or disability benefit, regardless of their wealth or total income. As such, the money was not particularly well targeted to those who were most likely to spend it quickly. The payments were, however, released quickly enough to influence the course of the economy at a time when it was particularly fragile. Mark Zandi of Moody's Economy.com estimates that the impact nationally for the refundable lump-sum tax rebate is \$1.22 for each dollar in benefits. Total

nationwide benefits in May 2009 reached \$1.3 billion, a sizeable boost in the income Americans had available to spend.

Summary

The American Recovery and Reinvestment Act saved millions of jobs nationally and protected the country from an even deeper recession. It also reduced the harm Alabama's working families have experienced during the nation's worst economic downturn since the Great Depression. In the broad arena of employment and state fiscal challenges, ARRA provided funding for infrastructure improvements and helped states balance budgets, maintain essential services and avoid layoffs of public-sector workers. And at the kitchen-table level, the act provided direct assistance that boosted the purchasing power of working families across Alabama, in turn cushioning the recession's blow to local economies.

NOTES

¹ Center on Budget and Policy Priorities analysis of data from Council of Economic Advisers, *The Economic Impact of the American Recovery and Reinvestment Act of 2009*, Third Quarterly Report, April 14, 2010.

² Alabama Department of Human Resources.

³ Government Accounting Office (GAO), April 2010 report to the Chairman of the House Subcommittee on Income Security and Family Support, Committee on Ways and Means.

⁴ http://www.economy.com/mark-zandi/documents/Small%20Business_7_24_08.pdf.

⁵ Alabama Department of Industrial Relations, Weekly Report of Benefits Paid, May 21, 2010.

APPENDIX

American Recovery and Reinvestment Act of 2009 (ARRA) payments by Alabama county and program

County	SNAP increase	\$25 increase in UC	Emergency UC	MWP tax credit	\$250 recovery payments	Total
Autauga	\$1,349,509	\$1,550,000	\$3,580,000	\$13,540,000	\$2,290,000	\$22,309,509
Baldwin	3,416,962	4,980,000	10,140,000	45,700,000	9,570,000	73,806,962
Barbour	1,209,938	920,000	2,230,000	5,230,000	1,670,000	11,259,938
Bibb	707,606	850,000	1,720,000	4,680,000	1,240,000	9,197,606
Blount	1,524,781	1,320,000	2,500,000	14,460,000	2,800,000	22,604,781
Bullock	542,808	430,000	1,020,000	1,940,000	550,000	4,482,808
Butler	974,635	1,280,000	2,680,000	4,640,000	1,350,000	10,924,635
Calhoun	4,686,473	4,880,000	10,370,000	29,500,000	6,850,000	56,286,473
Chambers	1,585,885	2,450,000	7,100,000	7,150,000	2,260,000	20,545,885
Cherokee	970,947	850,000	1,240,000	6,350,000	1,600,000	11,010,947
Chilton	1,796,799	1,360,000	2,660,000	10,580,000	2,120,000	18,516,799
Choctaw	624,708	380,000	840,000	2,710,000	1,050,000	5,604,708
Clarke	1,176,732	1,440,000	2,770,000	5,260,000	1,680,000	12,326,732
Clay	352,984	830,000	1,690,000	2,850,000	930,000	6,652,984
Cleburne	456,728	350,000	530,000	3,550,000	850,000	5,736,728
Coffee	1,063,653	1,030,000	2,080,000	11,930,000	2,500,000	18,603,653
Colbert	1,654,340	2,170,000	4,190,000	13,860,000	3,580,000	25,454,340
Conecuh	849,605	860,000	1,690,000	2,380,000	920,000	6,699,605
Coosa	365,508	770,000	1,580,000	2,410,000	760,000	5,885,508
Covington	1,487,806	1,430,000	2,130,000	9,160,000	2,450,000	16,657,806
Crenshaw	556,095	580,000	920,000	3,520,000	900,000	6,476,095
Cullman	2,057,869	2,900,000	5,580,000	21,120,000	4,650,000	36,307,869
Dale	1,919,409	1,200,000	2,560,000	11,250,000	2,490,000	19,419,409
Dallas	3,325,646	3,070,000	7,060,000	7,660,000	2,990,000	24,105,646
DeKalb	2,385,067	3,490,000	6,070,000	15,490,000	3,680,000	31,115,067
Elmore	1,991,506	2,400,000	5,280,000	19,880,000	3,650,000	33,201,506
Escambia	1,847,762	1,300,000	2,840,000	7,830,000	2,240,000	16,057,762
Etowah	3,146,841	3,600,000	7,300,000	24,390,000	6,600,000	45,036,841
Fayette	674,771	770,000	1,340,000	3,660,000	1,260,000	7,704,771
Franklin	1,219,279	1,480,000	2,960,000	7,000,000	1,830,000	14,489,279
Geneva	1,011,037	870,000	1,720,000	6,170,000	1,730,000	11,501,037
Greene	580,110	450,000	820,000	1,730,000	620,000	4,200,110
Hale	692,010	990,000	2,070,000	3,730,000	1,020,000	8,502,010
Henry	626,794	760,000	1,910,000	3,920,000	1,070,000	\$8,286,794
Houston	3,359,592	2,590,000	5,420,000	25,430,000	5,500,000	42,299,592
Jackson	1,705,641	2,660,000	5,030,000	14,120,000	3,100,000	26,615,641
Jefferson	20,828,469	24,750,000	56,390,000	167,490,000	32,840,000	302,298,469
Lamar	517,377	1,030,000	1,760,000	2,840,000	1,030,000	7,177,377
Lauderdale	2,333,542	3,220,000	5,880,000	23,810,000	5,400,000	40,643,542
Lawrence	1,061,813	1,530,000	2,630,000	8,440,000	1,960,000	15,621,813
Lee	3,050,330	3,050,000	5,930,000	36,100,000	4,600,000	52,730,330
Limestone	2,005,735	2,470,000	4,340,000	21,110,000	3,530,000	33,455,735
Lowndes	881,578	880,000	2,070,000	2,500,000	760,000	7,091,578
Macon	1,572,562	760,000	1,420,000	4,970,000	1,200,000	9,922,562
Madison	5,936,567	8,400,000	16,570,000	95,490,000	13,000,000	139,396,567
Marengo	946,754	870,000	1,600,000	4,250,000	1,470,000	9,136,754
Marion	1,163,541	1,860,000	3,810,000	6,250,000	1,760,000	14,843,541
Marshall	2,655,412	3,340,000	6,180,000	22,420,000	4,900,000	39,495,412
Mobile	18,243,297	14,320,000	31,870,000	101,220,000	20,060,000	185,713,297
Monroe	1,028,322	1,510,000	2,990,000	4,210,000	1,370,000	11,108,322
Montgomery	10,070,300	7,730,000	18,930,000	57,760,000	10,610,000	105,100,300
Morgan	2,836,938	5,460,000	9,640,000	30,740,000	6,100,000	54,776,938
Perry	915,049	680,000	1,310,000	1,860,000	840,000	5,605,049
Pickens	756,521	930,000	1,600,000	4,250,000	1,370,000	8,906,521
Pike	1,402,236	1,180,000	2,190,000	8,740,000	1,610,000	15,122,236
Randolph	1,097,706	1,260,000	1,700,000	4,970,000	1,400,000	10,427,706

APPENDIX

Russell	2,794,242	1,130,000	2,300,000	11,730,000	2,770,000	20,724,242
St. Clair	2,195,322	2,820,000	5,460,000	19,690,000	6,550,000	36,715,322
Shelby	2,260,853	3,690,000	7,270,000	55,320,000	3,770,000	72,310,853
Sumter	874,941	650,000	1,060,000	2,480,000	860,000	5,924,941
Talladega	3,231,081	4,800,000	10,910,000	19,720,000	4,920,000	43,581,081
Tallapoosa	1,605,323	2,130,000	3,870,000	9,510,000	2,730,000	19,845,323
Tuscaloosa	4,861,153	5,440,000	9,980,000	48,960,000	8,590,000	77,831,153
Walker	2,047,834	2,680,000	5,020,000	15,400,000	4,650,000	29,797,834
Washington	669,291	820,000	1,390,000	3,610,000	1,050,000	7,539,291
Wilcox	1,003,833	1,010,000	1,880,000	1,630,000	960,000	6,483,833
Winston	713,796	1,900,000	3,200,000	4,750,000	1,560,000	1,123,796
TOTAL	\$155,459,554	\$171,542,975	\$352,766,940	\$1,177,000,000	\$244,590,000	\$2,101,359,469

NOTES

Supplemental Nutritional Assistance Program (SNAP) increase – Alabama Department of Human Resources, Food Assistance Program; totals as of April 30, 2010.

\$25 weekly increase in Unemployment Compensation (UC) – Arise Citizens’ Policy Project county estimates as of May 21, 2010, based on data from the Alabama Department of Industrial Relations. (County totals do not equal state total because of rounding.)

Extended Unemployment Compensation (EUC) – Arise Citizens’ Policy Project county estimates as of May 21, 2010, based on data from the Alabama Department of Industrial Relations. (County totals do not equal state total because of rounding.)

Making Work Pay (MWP) tax credit – Arise Citizens’ Policy Project county estimates based on Center on Budget and Policy Priorities estimate of total MWP credits in Alabama through April 30, 2010. (County totals do not equal state total because of rounding.)

\$250 Economic Recovery Payments – Social Security Administration. (County totals do not equal state total because of rounding.)