



COALITION ON HUMAN NEEDS

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IN THIS EDITION

ECONOMY: The State of the Union: Jobs, Health Care, and the Deficit

HEALTH: The Way Forward on Health Care Reform Remains Unclear

LABOR: Unemployment Insurance Extension Is Urgently Needed

BUDGET: Senate Increases Debt Limit and Imposes PayGo Budget Rule

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The State of the Union: Jobs, Health Care, and the Deficit

“I don’t quit.” Those wondering whether the President would hold firm on his domestic agenda in the face of looming difficulties in the Senate were gratified to hear in the State of the Union address President Obama’s resolve to continue the fight for health care reform. He tied health care and his call for protections against the excesses of the financial industry to his overall plan for economic recovery and long-term growth.

Job creation was central to the President’s concerns. Although the State of the Union is not the forum for listing out specific policy details or funding, the President has outlined his approach in a number of speeches recently. He proposes to increase investments in infrastructure and energy efficiency, including tax credits for consumers who purchase high efficiency products and subsidies for manufacturers of efficient energy equipment. He wants to help small business, by increasing access to credit, ending their capital gains taxes, and providing tax breaks for hiring new workers. The President would also invest in a better-educated workforce, saying “the best antipoverty program in the 21st century is a world-class education.” His speech called for increased financial aid for college students, reduced cost of college loans and loan forgiveness for those in public sector careers.

Many economists and job creation advocates question whether the President's jobs proposals are equal to the seriousness of our economic situation. They also note the absence of targeted efforts to ensure that people with the highest unemployment rates (youth, people of color, women maintaining households, for example) get into the jobs that will be created. Advocates have joined in Jobs for America Now, an effort to promote a package of job creation strategies including much of what the President has highlighted, but adding funding for direct creation of temporary public service jobs and for aid to states and localities to prevent massive layoffs and loss of services. Both the President and advocates have included the extension of unemployment benefits in their plans to combat joblessness.

The President attempted to balance the need to invest now in jobs and economic growth with steps to curb long-term deficits. He included a three-year freeze on the kinds of domestic spending that need annual appropriations from Congress (aka "discretionary" spending). In the first year, it was reported that the freeze would result in \$15 billion in cuts, but the size of the annual cut would grow in the next years. The President would exempt from the freeze spending on the military, international programs, homeland security, and veterans' service. The freeze would not be achieved through across-the-board cuts, but would result from item-by-item choices, with some programs receiving increases, and other programs cut. The President will lay out his specific choices when his budget for FY 2011 is released on February 1. Because some programs are expected to increase (for instance, the President is calling for \$3 - \$4 billion in new K-12 education funding) there will be pressure within domestic human needs programs either to make outright cuts or to flat-fund programs despite growing need and cuts in funding for these services in many states.

For more commentary on the State of the Union address, see CHN's Executive Director Deborah Weinstein's Huffington Post [blog](http://www.huffingtonpost.com/deborah-weinstein/what-i-heard-on-wednesday_b_441028.html) at http://www.huffingtonpost.com/deborah-weinstein/what-i-heard-on-wednesday_b_441028.html.

The Way Forward on Health Care Reform Remains Unclear

The recent Massachusetts special elections to fill the U.S. Senate seat of the late Senator Edward Kennedy (D) threw a monkey wrench in the health care reform negotiations. After the Senate passed the Patient Protection and Affordable Care Act of 2009, H.R. 3590, on a 60-39 party line vote on December 24, 2009 Congressional leaders agreed to bypass a formal conference, which would be subject to delaying tactics, and instead to hammer out a compromise in private. Negotiations between Congressional leaders and the White House on how to merge the Senate and House health care bills were coming to a close just before the January 19 special election. The original plan, which was dependent on the Senate having 60 votes to overcome a filibuster, was to reach agreement on a set of amendments to the Senate bill that could clear both the House and the Senate. Changes that were being considered in negotiations included amending the tax treatment of health benefits, improving health care subsidies for low- and moderate-income people, closing the Medicare Part D prescription drug "doughnut hole" affecting seniors, and altering the special Medicaid deal given to the state of Nebraska. But with the victory of avowed health care bill opponent Scott Brown in Massachusetts the political dynamics have shifted. Without any signs of a Republican supporting the health care bill, Democrats are now one vote short of the 60 vote super majority they need in the Senate.

The way forward is still unclear. Various scenarios have been considered including passing a scaled-back bill that focuses on the more popular provisions like insurance market reforms. However, many of the

provisions in the health bills are intricately connected and would not necessarily work in isolation. For example, the Center on Budget and Policy Priorities explains how simply passing insurance market reforms would actually drive up premiums and raise, instead of lower, health insurance costs, since people who could not be denied insurance due to pre-existing conditions would tend to wait to buy insurance until they became ill. The pool of the insured would as a consequence be sicker and more expensive to serve. (See the Center's paper at: <http://www.cbpp.org/files/1-27-10health.pdf>.)

The strategy that seems to hold the most promise is to identify changes that can be passed in a budget reconciliation bill that cannot be filibustered and only requires 51 votes for passage in the Senate. In this scenario the House would have to approve the Senate-passed bill and then both chambers would pass a reconciliation bill with provisions consistent with the compromises to be worked out between House and Senate.

House and Senate leaders are still weighing their options and assessing whether they have the votes. Meanwhile, the President reiterated how vital health care reform is in his State of the Union address and urged Congress to find a way forward. Advocates also continue to press Congress to enact reform legislation. Over 500 national, state and local organizations from across the country sent a letter to Congress urging them to continue to move forward with meaningful health care reform. You can view the letter here: <http://www.familiesusa.org/assets/pdfs/medicaid-coalition-stuff/1-26-10-sign-on-imperative-of-meaningful-reform.doc>. Although the current bills have their shortcomings, most advocates believe they would still make vast improvements to our present health care system. If the compromise that was almost finalized between House and Senate passed, it would extend coverage to over 30 million people currently uninsured, make health care more affordable and ensure that no one is denied coverage for preexisting conditions.

Unemployment Insurance Extension Is Urgently Needed

Unless Congress acts within weeks to extend the two federal unemployment insurance (UI) programs, one million workers in March alone will exhaust their unemployment benefits. The federal programs which unemployed workers can access after the 26 weeks of state benefits have expired is critically important because the national unemployment rate currently stands at 10 percent. Over 15.3 million workers are officially unemployed with a record 6.13 million who have been unemployed for more than 6 months. UI provides a safety net for families of unemployed workers who are unable to find work in an economy where there is only one job for every 6.4 job seekers.

Congress put in place an expansion of federal unemployment benefits programs in the American Recovery and Reinvestment Act (ARRA) enacted in February 2009. ARRA provides for the federal government to assume the full cost both of the state Extended Benefits program and any additional weeks of temporary Emergency Unemployment Compensation. ARRA also provided an increase of \$25 per week for unemployed workers receiving both regular and extended benefits. In addition, ARRA provided some unemployed workers a subsidy to allow them to keep the health insurance they previously held through work. The subsidy covers 65 percent of the cost of insurance under the federal COBRA program for up to 9 months. In December, both of these vital safety net programs received a two-month extension to February 28, 2010, and the COBRA benefit was extended to 15 months.

Most economists anticipate that high unemployment rates will continue at least to the end of 2010. Based on this assumption, it is imperative that Congress pass an extension of the ARRA provisions through

December 31, 2010. There is support in Congress for extending the programs, but the path to passing an extension is not clear. In December, the House passed a six-month extension of UI and COBRA in the Jobs for Main Street Act of 2010 (H.R. 2847). It is anticipated that the Senate will introduce a jobs bill within days that will not include these programs. They could be extended in a free-standing bill, attached to a jobs bill, or to other legislation. One thing is clear however. Time is running out.

Senate Increases Debt Limit and Imposes PAYGO Budget Rule

On January 28 the Senate passed H.J. Res. 45 authorizing an increase to the ceiling on federal borrowing, raising it to \$14.3 trillion. An amendment to the bill passed that imposes a pay-as-you-go (PAYGO) budget rule meant to rein in new spending both on entitlement programs and new tax cuts. Both votes were along party lines with all Democrats in favor and Republicans opposed.

The federal debt currently stands at \$12.3 trillion and is growing rapidly as spending has increased to address the fragile economy and revenues are at a historic low. The large \$1.9 trillion increase in the debt ceiling means that Congress will not be forced to address the politically volatile issue again until 2011, after the midterm elections.

The House, which has been much more supportive of PAYGO, pressed the Senate to pass a statutory PAYGO rule as the condition for approving an increase in the debt limit. Under PAYGO, Congress would keep a scorecard on new entitlement spending and new tax cuts that were not fully offset with other spending cuts and/or taxes increases. If at the end of the year those actions resulted in adding to the deficit, non-exempt entitlement programs such as Medicare and farm subsidies would have to be cut to offset that deficit. In addition to exempting programs such as Social Security, the bill exempts from the PAYGO rule extensions of certain low- and middle-income tax cuts that are set to expire at the end of 2010, a two-year extension of the estate tax at the 2009 level, and changes to doctors' Medicare reimbursement rates. Congress can also declare an entitlement program like Unemployment Insurance as *emergency* spending, in which case it would not have to be offset. The House, which passed a slightly different version of PAYGO in July is expected to approve H.J. Res. 45 next week.

As a stipulation for allowing H.J. Res. 45 to come to the floor for a vote, Senators Conrad (D-ND) and Gregg (R-NH) negotiated with Majority Leader Reid (D-NV) an agreement that allowed for a vote on their proposal to create a bi-partisan fiscal commission. The goal of the commission would be to make recommendations to Congress for addressing the debt through entitlement program cuts and/or tax increases. The Conrad/Gregg commission, composed of 18 members (10 Democrats and 8 Republicans), would have required Congress to take an up-or-down vote (no amendments allowed), requiring a three-fifths majority of both the House and Senate for passage on any recommendations agreed to by 14 members of the commission. The vote would occur in 2010 after the fall elections. The amendment failed the 60-vote threshold by a vote of 53-46.

While there is agreement that deficits and the debt need to be addressed, there is not consensus on whether a commission proposing changes that cannot be amended by Congress is the best route to take, nor that this is best timing given the state of the economy. Further, many Republican members seem unwilling to agree to tax cuts and many Democrats are concerned that entitlement programs would be subject to deep cuts. However, during the State of the Union the President promised to establish a deficit commission through an executive order that would similarly come up with a plan to reduce deficits. Members would be composed of 6 Democrats, 6 Republicans and 6 Administration appointees. The

White House has given assurance that any plan that 14 members of the commission agrees to will be sent to Congress for action.

Another amendment failing to garner the necessary 60 votes was sponsored by Senator Thune (R-SD) to terminate the Troubled Asset Relief Program (TARP), enacted over a year ago to aid large banks and financial institutions. Much of the \$700 billion TARP program money has been repaid. The vote failed 53-45. The jobs bill passed by the House in December uses \$75 billion in repaid TARP funds to offset its cost, and some in the Senate hope to use the offset for their jobs bill. Others want to keep the TARP program open to potentially provide aid to smaller financial institutions.