



## The Fiscal Year 2011 Budget: Building Responsibly for a Shared Recovery

During the recovery period after the recession of 2001, most Americans continued to lose ground. The real incomes of middle class families declined. Poverty rose from 11.7 percent in 2001 to 12.5 percent in 2007, the last year before the onset of the Great Recession. Towards the end of this unshared recovery period, the top 1 percent held 23 percent of all income, more than in any year since 1928. While inequality rose, the share of workers with good jobs declined, down nearly 7 percent from 1979 to 2008, with only 27.6 percent of workers holding jobs paying family-supporting wages with health and retirement benefits in 2008.<sup>1</sup> Leaving ordinary workers and families behind turned out not to be a good strategy for a sustained recovery.

Now as the country struggles to climb out of the Great Recession, joblessness, poverty, and hardship have risen steeply. Federal action in 2009 prevented the economy from sliding into a depression, but a continued comprehensive approach to a shared and sustainable recovery is needed. That strategy should be outlined in the Fiscal Year 2011 Budget Resolution.

As much as Congress would like the jobs legislation it is now working on to solve all our economic problems, all signs point to the need for more federal investment in FY 2011 and beyond. Unemployment is expected to remain painfully high for some time. Joblessness will continue to hit some groups disproportionately, including those with little education, African Americans, Hispanics, youth, and women who head households. Economists project that in 2009, one in four children was poor. A 2009 poll found that nearly one in four households with children sometimes did not have enough money to buy food.<sup>2</sup> We do not have more current data, but recent history tells that those hit hardest by the recession will continue to suffer for years after the recovery is supposed to have started. After the last recession ended, there were two more years of continuing job loss; it took four years to regain the number of jobs before the recession began. For African Americans, unemployment was higher in 2007 (the peak before the onset of the Great Recession) than it was in early 2001, before the recession beginning later that year.<sup>3</sup>

These hardships threaten our recovery and our ability to sustain prosperity in the future. With four in ten of the unemployed out of work for more than six months, we risk leaving millions of workers permanently behind. With 25 percent of youth unemployed (and 42 percent of African American youth), their future success in the labor force is gravely threatened. We know that children in food insecure households are more likely to suffer ill health, developmental delays, and problems in school,<sup>4</sup>

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<sup>1</sup> Economic Policy Institute, *Getting Good Jobs to People of Color*, November, 2009, at [http://epi.3cdn.net/ab4fbeca3021741679\\_9om6bnbp8.pdf](http://epi.3cdn.net/ab4fbeca3021741679_9om6bnbp8.pdf)

<sup>2</sup> Food Research and Action Center, *Food Hardship: A Closer Look at Hunger*, January 2010, at [http://www.frac.org/pdf/food\\_hardship\\_report\\_2010.pdf](http://www.frac.org/pdf/food_hardship_report_2010.pdf)

<sup>3</sup> Economic Policy Institute, *The State of Working America 2008-2009*, p.238.

<sup>4</sup> Children's HealthWatch, *Even Very Low Levels of Food Insecurity Found to Harm Children's Health*, May 2009, at [http://www.childrenshealthwatch.org/upload/resource/lowlevelsfi\\_brief\\_may09.pdf](http://www.childrenshealthwatch.org/upload/resource/lowlevelsfi_brief_may09.pdf)

putting them on a pathway to a future of low wages and unstable employment. We cannot leave so many behind and expect to compete successfully in the global economy.

The FY 2011 budget should be constructed as a comprehensive plan to prevent these trends from continuing to worsen. It should ensure that there is enough funding in domestic discretionary and mandatory programs to promote job creation, improve workers' preparation for good jobs, and provide for children's healthy development and education.

Although the Budget Resolution does not spell out the details of programs to achieve these ends, it can and should do much to establish the goal of shared economic recovery.

The Budget Resolution should shape a comprehensive commitment to shared economic growth by incorporating the following assumptions and steps:

- **Deficits:** Recognize that deficit spending is required in order to spur economic growth and has desirable results when invested wisely. Deficits should be assumed for the next decade, with steps taken gradually to reduce the deficit's share of GDP as the economy is strengthened, while excluding measures that would place a heavy burden on low-income people.
- **Discretionary Spending:** Set discretionary totals at no less than the President's FY 2011 recommendation. The President's FY 2011 budget proposal provides for above-inflation growth in many important human needs programs, but does include cuts in certain child welfare, juvenile justice, low-income housing, public health, and other services. (See CHN table of human needs funding levels, at <http://chn.org/pdf/2010/FY11Pres-v-FY09-FY10-FY05-Feb18.pdf>.) These cuts should be avoided and further investments made to train workers for new jobs and to provide more child care and Head Start services for young children. One strategy to allow for adequate investments in today's and tomorrow's labor forces would shift funds from military to domestic spending through reductions in wasteful military programs. **The Budget Resolution should reject multi-year discretionary spending freezes or caps.** Locking in spending limits without regard to the needs of families and communities will do little to shrink the deficit but will undermine economic recovery. Multi-year caps often avoid unpopular cuts in the first year, but set up large cuts farther into the future, with supermajorities needed to prevent lasting damage to needed services. It is hard to imagine any multi-year cap that would not cut into efforts to rebuild communities by investing in education, public health, renewable energy, affordable housing, child care and other family services, care for the elderly, and/or nutrition assistance.
- **Mandatory Spending:** Allow for mandatory spending levels sufficient to accommodate
  - **Continued enhanced levels of Medicaid payments to states.** Congress should extend for no less than six months the increased federal Medicaid payments enacted as part of the American Recovery and Reinvestment Act (ARRA). Increased federal Medicaid support is judged by Mark Zandi of Moody's Economy.Com to be an effective strategy for preventing job loss and spurring economic growth. It also protects vulnerable people from loss of Medicaid services. It would be a cruel trick on low-income people if they lost needed medical services for years while awaiting the implementation of health care reform.
  - **Increased spending on nutrition programs.** The Budget Resolution should leave room for no less than the President's proposal to increase child nutrition programs by \$10 billion over 10 years, as part of the plan to end childhood hunger by 2015.

- **Improvements in refundable tax credits.** The President's proposals to improve, expand, and/or make permanent refundable tax credits are extremely important. Unlike many tax breaks, these credits are heavily targeted to the bottom half of the income spectrum, help to lift children out of poverty and prevent child hunger, and help families enter the middle class through increased savings and help with the costs of post-secondary education. The President proposes to make permanent improvements to the Child Tax Credit enacted in ARRA, which allow parents with earnings of \$3,000 or more to claim at least a partial credit for their children under 18. We urge Congress to build on this proposal by allowing eligibility for the credit to start with the first dollar of earnings, as enacted by the House in its Jobs for Main Street Act. The budget should also leave room for permanent improvements in the Earned Income Tax Credit for families with three or more children, as the President proposes, and the American Opportunity Tax Credit (towards the cost of up to four years of post-secondary education). The President also makes the Saver's Credit refundable, allowing a credit for 50 percent of contributions to retirement plans and making the credit available to more middle class families.
- **Continued federal incentives for child support collections.** The American Recovery and Reinvestment Act temporarily restored funding for incentive payments to states that invest in improving child support collections that had been cut as part of the Deficit Reduction Act enacted in 2006. The President's budget proposal continues the restoration for one year, preventing cuts to state child support enforcement operations. Government child support collections help 17 million children; the Congressional Budget Resolution should keep in place the restored incentive payments.
- **Greater investment in child care.** The President's budget includes \$1.6 billion in funding for child care assistance for low-income families, of which \$800 million is an increase in mandatory funding. The total will allow states to provide help to 235,000 more children. The Budget Resolution should provide no less than \$1.6 billion for the Child Care and Development Block Grant (CCDBG).
- **More help for the poorest families with children.** ARRA provided \$5 billion over two years for a new Temporary Assistance for Needy Families (TANF) Emergency Fund, which provided additional funds to states spending more on income assistance (either monthly benefits or one-time payments) or on subsidized jobs. Access to these funds will expire at the end of September. The President's budget calls for providing \$2.5 billion for another year of funding, and modifies the terms by allowing states to tap the Emergency Fund to create subsidized jobs without having to supply any matching money (for its other purposes, the President's proposal continues the Fund's 20 percent match requirement), and making the funds available for employment-related services. The President's budget also would create a new \$500 million **Fatherhood, Marriage, and Family Innovation Fund**, which would expand the \$150 million previously available for fatherhood and marriage programs to include support for custodial families with severe barriers to employment. The Budget Resolution should allow for both new areas of TANF funding, in order to enable states to assist more of the poorest families, help both parents to play a role in raising their children, and build on the beginning success at creating subsidized employment. By the end of this September, it is estimated that more than 100,000 jobs will be created.
- **More secure funding for college aid.** The Budget Resolution should allow for no less than the President's proposed \$200 increase in the maximum Pell Grants, to \$5,550, and to make Pell Grants mandatory, with subsequent annual increases tied to the Consumer Price Index plus one percent.

- **Adequate funding to meet home energy assistance needs.** The President's budget reduces funding for the discretionary Low Income Home Energy Assistance Program (LIHEAP) to \$3.3 billion, from the FY 2010 level of \$5.1 billion and would create an automatic trigger to increase LIHEAP assistance in times of spiking energy costs or rising poverty. The Budget Resolution should ensure that no less than \$5.1 billion is made available in LIHEAP funding in FY 2011, whether in discretionary or mandatory form. Home energy prices have risen 50 percent in the last five years, averaging \$990 over last year's winter season.
- **Adequate Revenues, Equitably Collected:** Include assumptions of at least as much revenue as the President's FY 2011 budget recommends, and ideally increase revenue by such measures as reinstating the estate tax with exemption levels of no more than \$2 million for individuals and \$4 million for couples and a rate of 45 percent with an additional 10 percent tax on the taxable portion exceeding \$10 million. The President's budget does make very important progress by allowing some Bush-era upper-income tax cuts to expire. According to Citizens for Tax Justice, if all the Bush tax cuts were extended into FY 2011 (including estate tax repeal and AMT relief), the resulting tax cut for the top 1 percent of taxpayers would average \$73,290 each. The President's proposal, by eliminating most of the Bush tax breaks targeted to upper-income households and exempting estates of less than \$3.5 million for individuals or \$7 million for couples from the estate tax, would drop the tax cuts to the top 1 percent down to an average of \$22,740. In addition, the President's budget incorporates revenue increases targeted to the highest-income taxpayers and closes corporate tax loopholes for a total of \$760 billion in new revenue over the next ten years. Congress should do no less. (For more information, see Citizens for Tax Justice, *President Obama's Fiscal Year 2011 Budget*, February 10, 2010, at <http://www.ctj.org/pdf/obamabudgetfy2011.pdf>.)

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