

Recession Ready: Fiscal Policies to Stabilize the American Economy

A new book by The Hamilton Project and Washington Center for Equitable Growth, titled *Recession Ready: Fiscal Policies to Stabilize the American Economy*, offers detailed proposals from leading economists and policy experts for better fiscal policy responses to recessions. These proposals aim to strengthen our automatic stabilizers: policies that inject money into the economy in a downturn and withdraw stimulus when the economy is strong.

Improving TANF's Countercyclicality Through Increased Basic Assistance and Subsidized Jobs

A proposal by Indivar Dutta-Gupta of the Georgetown Center on Poverty and Inequality aims to set up a countercyclical stabilization program that would fund both job subsidies and basic assistance through the Temporary Assistance for Needy Families, or TANF, program. Specifically, the program would:

- **Expand federal support for basic assistance during economic downturns** using both national and state triggers to determine the federal match for state spending on TANF basic assistance.
- **Create an ongoing job subsidy program** that would provide a larger federal match of state subsidized job spending during economic downturns.

Issue Overview

- **Safety net programs in the United States can be a crucial backstop** for families struggling with the loss of a job or other hardships. They also provide a crucial boost to the economy during recessions.
- **The TANF program is unresponsive to changes in need** and unhelpful for mitigating the effects of recessions.
- **For typical workers in the United States, the most damaging effect of a recession is the loss of a job.** Well-timed employment subsidies could help to reduce employment loss, as was done temporarily through TANF as part of the American Recovery and Reinvestment Act of 2009.

The Challenge

The Temporary Assistance for Needy Families program—a mix of state spending and a fixed (unadjusted for inflation) \$16.5 billion in federal block grants to states—serves low-income families with children. As a rare source of cash support for working-age families without access to good jobs, disability benefits, or unemployment insurance, this family assistance remains a core part of our nation's economic security system. TANF also provides holistic services and supports—in theory, offering a multifaceted approach to overcoming some of the serious and multiple barriers to decent employment that many families with very low incomes face.

Unfortunately, the block grant structure makes it impossible for TANF to provide more support during economic downturns, when need is greater. As a result, the program reaches only a small share of very disadvantaged families with children and does

not function as an automatic stabilizer. Dutta-Gupta points out that this lack of business cycle responsiveness persists, despite the existence of the TANF Contingency Fund created for just such a purpose.

The Path Forward

As a response to these problems, Dutta-Gupta proposes a TANF Community and Family Stabilization Program that would make the Temporary Assistance for Needy Families program an effective automatic economic stabilizer. Drawing on the lessons learned from the TANF Emergency Fund created during the Great Recession, this proposed new fund would offer a generous and open-ended match to state efforts to provide families with two specific types of support:

- 1. Basic assistance.** This assistance would be in the form of cash and vouchers, including emergency assistance, to meet the basic needs of families during recessions. This assistance would stimulate the economy, reduce immediate family hardship, and lead to longer-term benefits for disadvantaged children, who ordinarily suffer the most during recessions. This program would include:
 - A countercyclical federal match rate on additional basic assistance spending, ranging from 0 percent to 100 percent as national and state triggers are activated during recessions.
 - In order to maintain eligibility for these new stabilization features of the program, states would be required to demonstrate an increase in enrollment and costs relative to baseline periods.
- 2. Subsidized jobs with wraparound support services.** As the experience during the Great Recession showed, a TANF-based job subsidy can be an effective way to increase employment. Given the need for such support throughout the business cycle, as well as challenges in standing it up quickly in a downturn, it would be a permanent feature of TANF.
 - The program's services would be available throughout the business cycle to cover part of the cost of employers hiring and employing workers who probably would not have otherwise been hired and in positions that probably would not have otherwise existed.
 - These programs would also partially fund state spending on related job preparation and training, and wraparound services such as assistance with transportation, caregiving, job searching, legal issues, and post-placement job search.
 - It would include a countercyclical federal match rate on subsidized employment spending, ranging from a state-specific base match rate (never lower than 75 percent) to 100 percent.
 - States would be asked to show that their programs targeted jobs that would not have otherwise existed.

Because the Temporary Assistance for Needy Families program is a federal-state partnership, the proposed TANF stabilization program would be run as an extension of that partnership, ideally with universal state participation. For the subsidized jobs component, the stabilization program and participating states would also leverage financial contributions by public-sector, nonprofit, and particularly private-sector employers. Both the basic assistance and subsidized jobs components of the new stabilization program would expand to meet increased need during economic downturns.

Providing countercyclical basic assistance would help both families and the economy, and establishing a permanent, robust TANF stabilization program that responds appropriately to recessions could serve as an important stepping stone to eventually establishing an impactful and wider subsidized jobs program.

About the Author

Indivar Dutta-Gupta is co-executive director of the Center on Poverty and Inequality and the Economic Security and Opportunity Initiative at Georgetown Law.