



**Statement before the Senate Committee on Banking, Housing, and Urban
Affairs**

Impact of the American Rescue Plan on Families

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Chairman Brown, Ranking Member Toomey, and members of the Committee. Thank you for the opportunity to testify on the important issue of helping American families emerge strong from the economic hardships of the pandemic. My name is Angela Rachidi and I am the Rowe Scholar in poverty studies at the American Enterprise Institute, where I have spent the past several years researching policies aimed at reducing poverty, increasing employment, and charting pathways to a better life for low-income families. Before I joined AEI, I also served as a Deputy Commissioner for the New York City Department of Social Services, where I evaluated safety net programs for low-income New Yorkers and studied how families experience them.

My testimony covers three main points. **First**, statistics on poverty and income show that poverty had already fallen below pre-pandemic rates in the months leading up to the passage of President Biden’s American Rescue Plan, which suggests the additional safety net program expansions included in the American Rescue Plan were excessive and poorly targeted to pandemic-related problems. **Second**, the safety net program expansions included in the American Rescue Plan undermine the successful anti-poverty policies of the past quarter century by discouraging work and increasing the likelihood of single parenthood. If made permanent, these policies will make it harder for families to escape poverty and move up the income ladder, while slowing the economic recovery. **Third**, proponents of the American Rescue Plan have overstated the positive effects of this legislation while understating the true cost. We will see efforts in the coming months to show that this legislation reduced poverty and increased employment – which I have no doubt the short-term data will show. However, these short term gains will mask long-term negative consequences that will be difficult to reverse – such as reduced labor force participation, more children born to single parents, and entrenched poverty for more Americans.

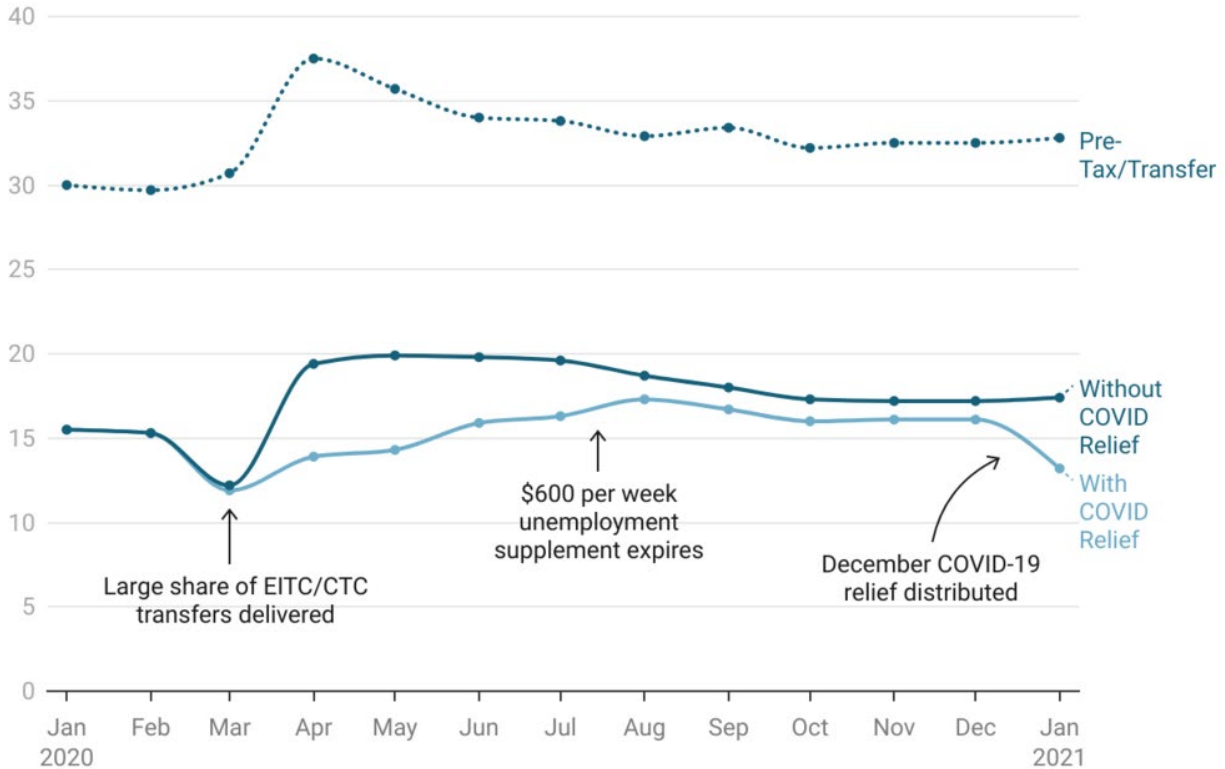
Getting the Context Right

The pandemic that hit in March 2020 was unprecedented and the employment disruptions that followed caused a great deal of hardship for many families. Congress acted swiftly and comprehensively by passing three major pieces of legislation to address the public health crisis and resulting economic fallout – the Families First Act and the CARES Act in March 2020, followed by the Consolidated Appropriations Act in December 2020 – totaling \$3.5 trillion in federal pandemic-related spending over the past year.¹ These packages included tremendous supports for workers and families who faced economic hardships because of the pandemic, including expansions to food assistance, unemployment compensation, housing assistance, and direct payments from the federal government, among other things.

As a result, the poverty rate before Congress passed the American Rescue Plan, when properly measured, was even lower than it was before the pandemic. Using a supplemental poverty measure from researchers at Columbia University, which accounts for many important government benefits that are left out by official poverty measure, the poverty rate in January 2021 (after the December 2020 economic relief package and before the American Rescue Plan) was almost 3 percentage points lower than it was in January 2020.² Even

income poverty measures, which fail to account for government benefits like nutrition assistance, show stable poverty trends over the past year.³

Figure 1. Monthly SPM poverty rates, January 2020 through January 2021



Source: Zachary Parolin and Megan A. Curran, Columbia University Center on Poverty and Social Policy⁴

These trends show that government relief efforts effectively prevented spikes in poverty and shielded vulnerable families from hardship in the months following the start of the pandemic. Additional research shows that households higher up the income distribution even experienced aggregate income increases in the months following the pandemic, largely due to government relief efforts such as expanded unemployment insurance.⁵ Government economic relief efforts helped many families weather the economic fallout of the pandemic well through February 2021. This begs the question of why Congress passed such a large “rescue” package in recent weeks.

The American Rescue Plan

As you know, the American Rescue Plan totaled \$1.9 trillion and included many spending provisions aimed at low-income families. Given the context of the data that I just described, these spending programs have very little to do with the pandemic. Instead, they expand federal government spending in ways that are excessive and undermine the successful anti-

poverty policies of the past quarter century by weakening the connection between the safety net and employment. We have learned over the past twenty-five years that employment offers the best path out of poverty and our safety net policies are most effective when they support rather than supplant earnings.

I want to highlight three specific provisions in the American Rescue Plan that I believe have the greatest potential to make economic opportunity harder for families: expansions to the Child Tax Credit, increases in the Supplemental Nutrition Assistance Program (SNAP), and unemployment insurance extensions.

The Child Tax Credit. The American Rescue Plan increased the amount of the Child Tax Credit (CTC) from \$2,000 per child to \$3,600 for children under age 6 and \$3,000 for older children, paid out in regular installments. The American Rescue Plan also extended the full credit to families without any employment in the household. Before, the credit phased in as families started earning income, ensuring the benefit was linked to work.

Expanding the CTC to nonworking families risks reducing employment and impeding the path out of poverty for too many families, especially for the most vulnerable — such as single mothers. Economic theory suggests that cash payments from the government will decrease employment because they substitute work income, and the literature shows that this risk is real. My colleague at AEI, Scott Winship, recently summarized this literature, highlighting the need for caution when expanding government benefits in ways that undermine employment.⁶ Without work, families will spend more time in poverty and face fewer options to become self-reliant and move up the income ladder.

I experienced this first-hand after spending much of my career working for the New York City Department of Social Services. Unrestricted government cash payments proved to be a poor substitute for employment after the welfare reforms of the 1990s. When government assistance became time limited and connected to work, employment increased and poverty declined in New York and across the country.⁷

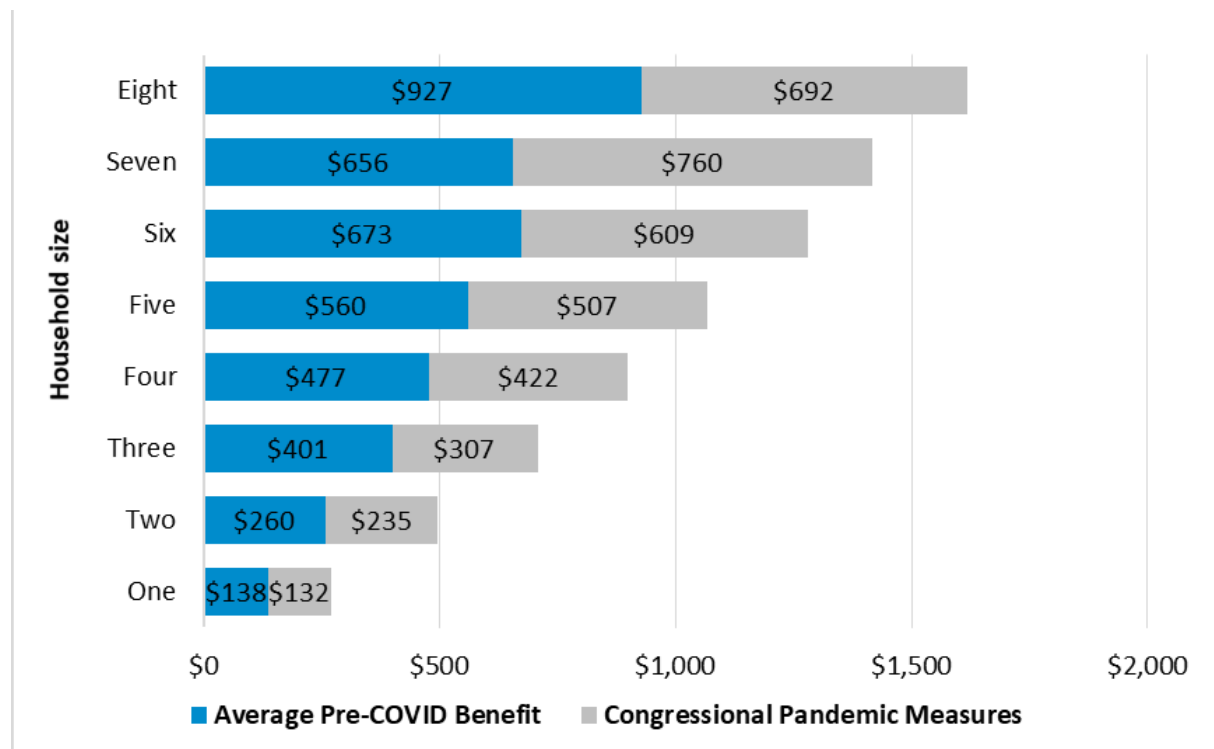
My other concern about expanding the CTC to nonworking families is that it will sever the ties that these families have to job training and other critical supports through existing programs, such as the Temporary Assistance for Needy Families (TANF), and will make it less likely that low-income single mothers will access the Child Support Enforcement program.⁸ TANF provides cash assistance, job search assistance, and job training to participating parents, while child support engages noncustodial parents, secures financial support for children, and results in financial and emotional benefits for children. If cash assistance through TANF becomes less necessary, nonworking parents will have less access to important supports that help them enter the labor market and less access to support from the other parent.

The experience of welfare reform also teaches us that unrestricted cash payments from the government, like the expanded CTC, make single parenthood more likely. A review of the

literature on the relationship between the government assistance and fertility found that unrestricted cash payments increased single parenthood and reduced marriage, although the size of the effects in some cases were small.⁹ The American Rescue Plan returns us to this system. Further, the plan also undermines marriage by providing the full CTC to all low-income families and tripling the childless earned income tax credit (EITC), thus worsening the marriage penalties built into the existing EITC.

Supplemental Nutrition Assistance Program (SNAP). Prior to the American Rescue Plan, Congress had already authorized substantial expansions to the Supplemental Nutrition Assistance Program (SNAP) that addressed the food needs of low-income households. All states received authorization to issue “emergency allotments” through at least this month, which increased average benefits by approximately 40 percent for a total obligated amount for Fiscal Year 2020 (ending September 30, 2020) of \$95.4 billion. This was before Congress authorized an across-the-board 15 percent increase in maximum SNAP benefits in the December 2020 relief package, which Congress extended until September 2021 in the American Rescue Plan. As long as a federal or state public health emergency remains in effect, SNAP households will receive the maximum benefit plus 15 percent, no matter their income.

Figure 2. SNAP increase resulting from congressional pandemic measures, by household size



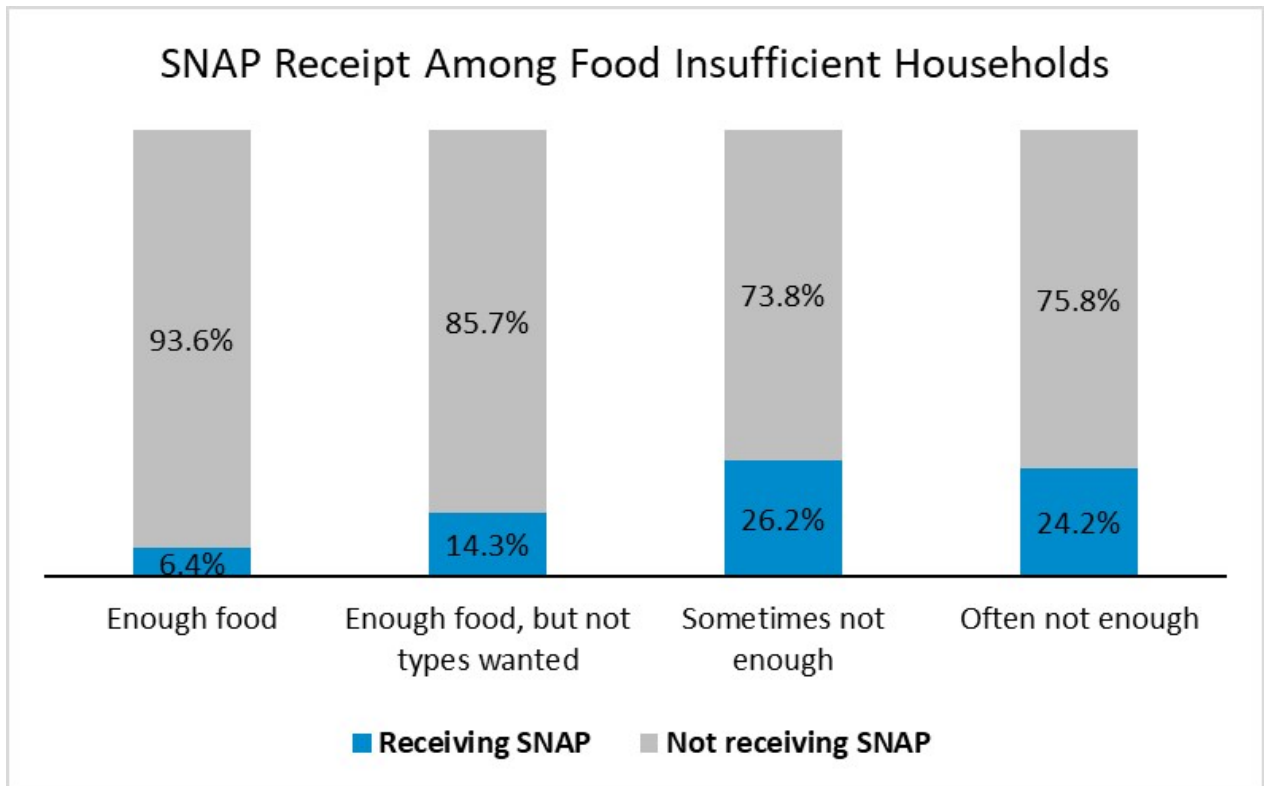
Source: Supplemental Nutrition Assistance Program (SNAP) Fiscal Year (FY) 2021 Maximum Allotments and Deductions Tables¹⁰

I have two concerns with these SNAP expansions. First, the American Rescue Plan poorly target households that have reported food problems. Second, the SNAP expansions in this package further undermine employment by worsening work disincentives, which will slow the economic recovery and increase the chances that families will remain poor.

My colleague Scott Winship and I found last fall that early reports suggesting doubling and tripling rates of food hardship were exaggerated, and that food access problems among households following the pandemic were only slightly elevated.¹¹ Given this context, expansions to SNAP through the American Rescue Plan have not been justified, and they risk reducing employment for many households, ultimately slowing the economic recovery by making work less important for some households.

The SNAP increases also poorly target the households who have reported problems affording food during the pandemic. According to the COVID Impact Survey, the vast majority of people who reported not having enough food are not SNAP recipients.¹² This suggests that efforts to increase the size and scope of SNAP have little to do with addressing food problems caused by the pandemic and more to do with increasing the footprint of the federal government. Research shows that SNAP reduces employment, suggesting that efforts to extend it to a larger share of US households will undermine economic recovery efforts.¹³

Figure 3. Supplemental Nutrition Assistance Program (SNAP) receipt among food insufficient households



Source: Angela Rachidi, American Enterprise Institute¹⁴

Unemployment Insurance. Most economists believe that generous unemployment benefits reduce exits from unemployment, although they debate the precise size of the effect.¹⁵ In a recent paper, economists from the University of Chicago found that the disincentive effects of unemployment compensation expansions shortly after the pandemic were less than expected,¹⁶ leading some commentators to suggest that generous pandemic-related unemployment benefits will not affect employment. However, these findings came during a time when job vacancies were extremely low and there was a great deal of uncertainty around the public health crisis. With the employment situation improving rapidly and the public health situation becoming clearer due to the vaccines, the American Rescue Plan still extended federal unemployment benefits through September 2021. This will likely influence behavior around job seeking and slow the economic recovery.

Childcare, School Closings and Maternal Labor Force Participation. The economic recovery will also suffer if labor force participation among mothers does not rebound fully. Analysis from the Minneapolis Federal Reserve shows that the labor force participation among fathers and mothers declined in the immediate aftermath of the pandemic, but mothers have been slower to reenter the labor force.¹⁷ This is because the caretaking responsibilities associated with closed or partially closed schools, along with fears over sending young children to childcare centers, has disproportionately fallen on mothers.¹⁸ These labor force participation declines are especially acute for mothers without a college degree, suggesting that low-income mothers are at particular risk for long-term employment challenges.

I can personally attest to the substantial difficulties for families and children when schools fail to open for in-person learning. In fact, I am speaking to you from Morocco (my husband's native country) after relocating my family from the US so that my four children can attend school in person. Until January of this year, my three oldest were attending public school virtually and like so many children, they struggled with virtual learning and lost seven months of critical learning time. My children struggled even though they had two parents at home to offer guidance and supervision. Many low-income children do not have the same supports and they have suffered the most from learning and socialization loss. It is a tragedy that after a full year so many children in the US still do not have access to full-time in-person school. It remains crucial that schools open fully for in-person learning and I urge Congress to do whatever is in your power to make that a reality.

Impacts of the American Rescue Plan on poverty

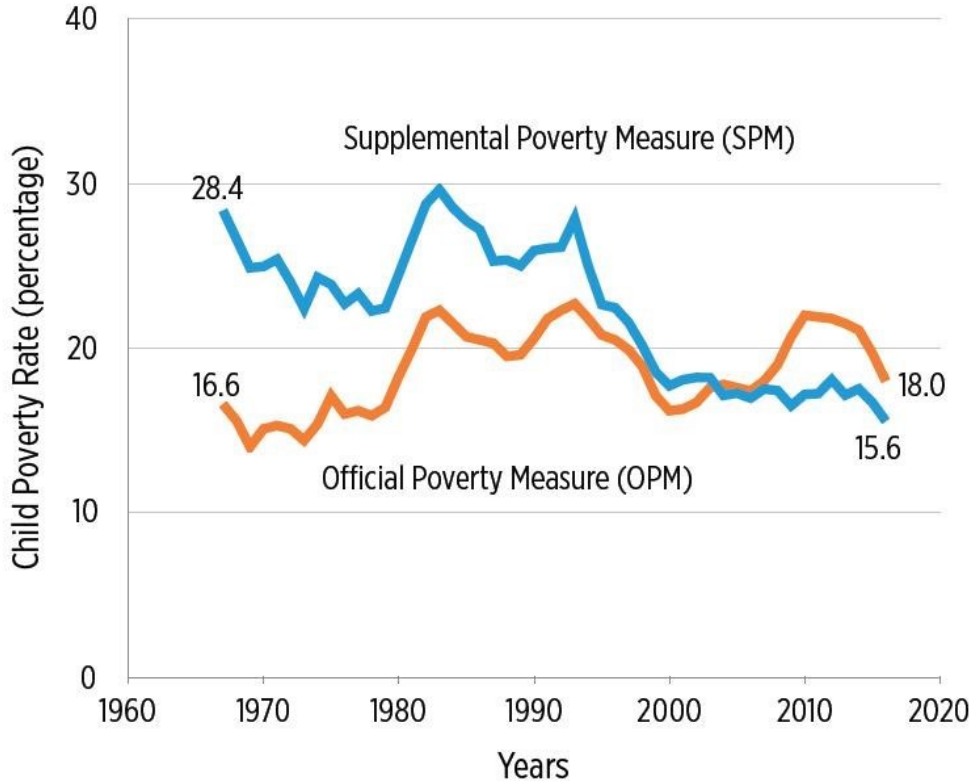
Turning to my last point, proponents of the American Rescue Plan overstate the projected impacts of its provisions on poverty, using it as a justification for further government expansions. Meanwhile, the poverty rates after the December 2020 relief package were already below pre-pandemic rates. Estimates suggest that the American Rescue Plan as a whole will reduce child poverty by approximately one-half, and because a disproportionate share of children in poverty are Black and Hispanic, the poverty-reducing aspects of the legislation will disproportionately benefit them.¹⁹ However, it is important to distinguish

short-term and long-term poverty effects and consider whether the American Rescue Plan will offer children long-term security against poverty.

Most of the poverty-reducing aspects of the American Rescue Plan come from the one-time stimulus payments, not from the expanded CTC or other safety net expansions. Thus, making the safety net program expansions in this package permanent would have only a small effect on short-term child poverty, while discouraging employment and making it harder to for parents to form intact families. Discouraging employment will mean more low-income people out of the labor market for longer, which can lead to skill atrophy, making it harder for people to reenter the labor market eventually. This will have long-term negative impacts on poverty rates, and will make a strong economic recovery harder.

Even more concerning is that these program expansions directly contradict the policies that have successfully led to child poverty reductions over the past quarter century. The often-cited National Academies of Sciences Roadmap to Reducing Child Poverty concluded that poverty reduced by almost one-half because of policy changes that expanded the EITC and conditioned government assistance on employment in the 1990s.²⁰ According to the report, the child poverty rate was 28 percent in 1993; by 2016 it was 15.6 percent – a 44 percent reduction.

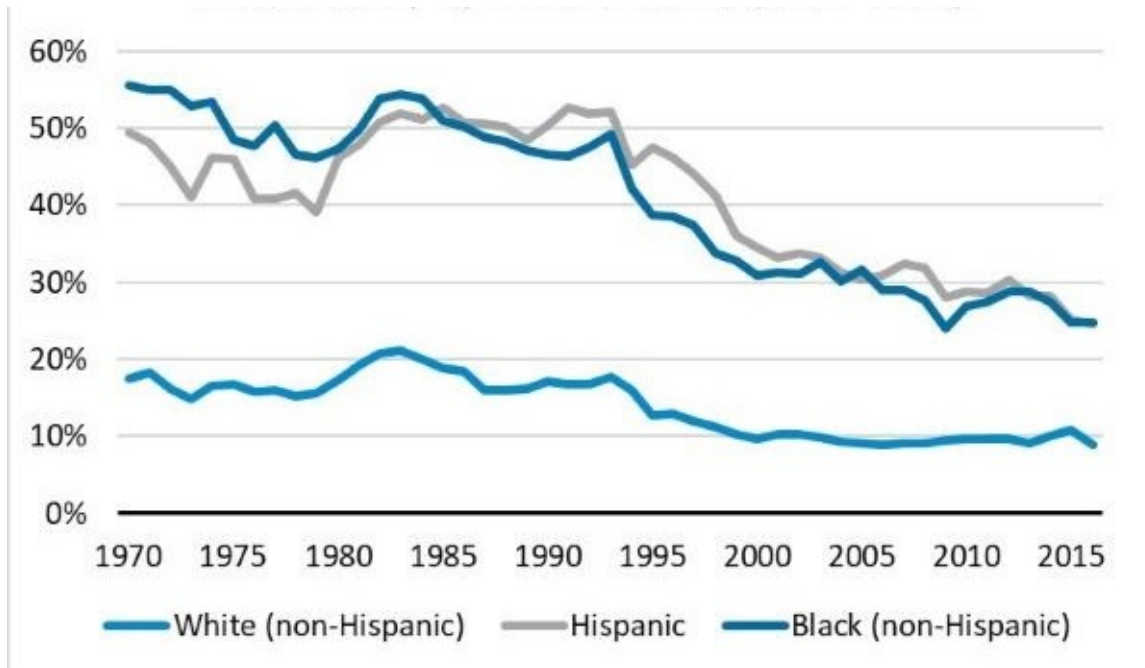
Figure 4. Official Poverty Measure (OPM) and Supplemental Poverty Measure (SPM) child poverty rates, 1967–2016.



Source: National Academy of Sciences²¹

These historic poverty reductions have disproportionately benefitted Black and Hispanic children. The gap in poverty rates between Black and White children, and Hispanic and White children has narrowed substantially since the welfare reforms of the 1990s, benefitting millions of children. Changes enacted by the American Rescue Plan risk reversing this progress and returning us to high poverty rates of the past.

Figure 5. Child poverty in the US by race / ethnicity



Source: Angela Rachidi, American Enterprise Institute²²

Conclusion

We know how to cut poverty in this country. Policies that support employment and intact families have successfully reduced child poverty in the US by one-half since the welfare reforms of the 1990s. The American Rescue Plan reverses those policies by expanding unconditional cash payments to nonworking families, jeopardizing the policy successes over the past thirty years.

Thank you for the opportunity to comment and I look forward to taking your questions.

Notes

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³ Jeehoon Han, Bruce Meyer, and James Sullivan, “Real-time Poverty Estimates During the COVID-19 Pandemic Through February 2021,” Wilson Sheehan Lab for Economic Opportunities at the University of Notre Dame and University of Chicago Harris School of Public Policy, March 18, 2021.

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¹⁸ Misty Heggeness, “Why Is Mommy So Stressed? Estimating the Immediate Impact of the COVID-19 Shock on Parental Attachment to the Labor Market and the Double Bind of Mothers,” Minneapolis Federal Reserve, October 2020, <https://www.minneapolisfed.org/research/institute-working-papers/why-is-mommy-so-stressed-estimating-the-immediate-impact-of-the-covid-19-shock-on-parental-attachment-to-the-labor-market-and-the-double-bind-of-mothers>.

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