

# Recession and stimulus

**T**he bursting of the housing bubble and the subprime lending debacle have made it very likely that a recession will begin during the first half of this year. The country has gone through three recessions in the last 30 years and, for each of these downturns, the impact on working families has been far more severe and longer-lasting than the recessions themselves.

The coming recession will severely and negatively impact the living standards of America's working families. In the recently published "What We're In For: Projected Economic Impact of the Next Recession," John Schmitt and Dean Baker of the Center for Economic and Policy Research use the experience of the last three recessions to forecast the impact of a 2008 recession on working families. The story is sobering. A recession will result in:

1. A substantial increase in unemployment.
2. A decline in the employment rate.
3. A decline in the proportion of the population covered by health insurance.
4. A decline in average family income.
5. An increase in the number and percentage of Americans living in poverty.

To their credit, both Congress and the White House realize that policy measures should be taken swiftly to stimulate the economy. A compromise plan between the White House and the House leadership was announced last week, and the Senate is now considering a plan.

Unfortunately, the stimulus package agreed to last week is not as effective as it could be. Although the plan provides \$150 million in stimulus, the relief will not be

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timely, will not target those who need it most, and will actually hurt state budgets. The plan has two main components: a rebate package for households and a set of business investment incentives. The main problem with the rebate package is that checks will not be mailed out until May or June. By this point the recession may be fully upon us. In addition, the business tax incentives could cost New Mexico state government up to \$40 million because of the linkage between state and federal income taxes.

Stimulus policies targeted at the hardest-hit families, especially those depending on unemployment benefits, would have a much surer anti-recession impact than the business incentives in the compromise package. Families with the lowest incomes must spend the highest percentage of their incomes on day-to-day living expenses. Increasing food stamp payments injects large amounts of money into local economies. In order to realize these benefits, New Mexico would have to make sure people are taking advantage of the current food stamp funding. Expanding assistance to families struggling to pay their heating bills would also provide a boost to those most vulnerable, as would extending the period in which unemployment compensation could be received. All of these measures would provide more lift to the economy. The unemployment compensation extension alone would help about 6,000 New Mexicans who are likely to exhaust

their unemployment benefits in the first six months of 2008. The Senate Finance Committee package being discussed this week does include an extension of unemployment compensation, and heating assistance is on the table, but increases in food stamps are not.

The final component of an effective stimulus package is direct aid to state governments. In the 2001 recession, Congress created a package to increase the federal match to the Medicaid program, which provides health care to low-income Americans — mostly the elderly, children, and disabled adults — along with a flexible block grant to state governments. If such provisions were included, the contributions to New Mexico state government would be slightly more than \$100 million, a significant amount for a relatively poor state with a budget of about \$6 billion.

It is clear that New Mexico's state revenue picture will be grim next year. State revenue growth is expected to slow drastically even in the absence of a national recession. If the national economy topples into recession, growth in state government revenues will slow even more. Stimulus measures that include assistance for state governments would help avert cuts in health care, education and public safety, and would also act to soften the impact of the loss in revenues due to the business tax cuts. Expanding assistance like food stamps and unemployment would not only help the state's economy, but would help those families that need it the most.

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