# New York City Panel: Recession Mitigated by Federal Assistance Programs

Added by Julia Waterhous on January 30, 2014.

Contrary to beliefs that federal assistance programs did little to mitigate the recession, a New York City based panel emphasized that without those programs, the poverty rate would have increased significantly. Without the federal safety net, the economic recession would have been far more detrimental according to panelists from the Brookings Institute who discussed the recession and federal assistance programs Thursday.

Betsey Stevenson, member of Obama's Council of Economic Advisors, presented findings that federal programs have reduced poverty rates from 25.8 percent in 1967, to 16 percent in 2012. Without federal assistance programs, Stevenson said that the poverty rate would have increased to 29 percent. This equates to a 40 percent reduction in poverty due to federal programs.

These findings come on the heels of a farm bill passed by the House on Wednesday which cuts the budget for the Supplemental Nutrition Assistance Program, or food stamp program, by nine billion dollars. The cut is said to be a compromise between the $40 billion cut passed in a bill by the House last November, and the lower cuts advocated by the Senate.

Michael D. Tanner, Cato Institute Senior Fellow and sole conservative voice on the New York City based panel, said that the reason for cuts is to mitigate a ratchet effect. He defined the ratchet effect as an increase in federal assistance programs which never decreases to pre-recession levels.

Bob Greenstein, founder and President of the Center on Budget and Policy Priorities, responded that SNAP requirements are the same today as they were when Republicans enacted the provisions, in 1996. Although the recovery act temporarily suspended some of these requirements, they were reinstated in 2011.

Ideas about the inefficacy of federal assistance, may have come from the fact that inequality, disparity and the number of long term unemployed *rose* during the recession, while the number of jobs fell. These findings came from a study conducted and presented by Sheldon Danzinger, president of the New York City based Russell Sage Foundation. The study concluded that without government intervention, the recession would have been far worse. At the same time, the study found that some of the positive effects of the federal stimulus, were offset by state spending cuts.

Tanner said there are caveats to how effective the federal safety net actually is. He cited "decreasing upward mobility" as evidence that poverty has become more comfortable, then said that policy makers have done little to lift people from poverty.

Between 2007 and 2011, one quarter of American families lost 75 percent of their wealth, according to Danzinger's research. Stevenson presented further findings that without federal assistance, the number of people who fell into deep poverty, would have been over eight times higher than it was with federal programs. Stevenson insists those programs serve to soften the impact of the recession. Deep poverty is defined as "well below the poverty line," as opposed to "just below" or "just above" the established poverty threshold.

The numbers presented by Stevenson are based on a recalculation of the supplemental poverty rate by a Columbia University research team. The supplemental poverty rate is recalculated every year and is  sometimes based on incomplete data. The team realized that apparent changes in the poverty rate, could have been based on changing poverty thresholds. In order to create a more clear picture of poverty, the team used current data adjusted for inflation, to calculate historical poverty thresholds. Which seemed a better measure to them, than using data which recalculated the poverty rate annually.

The findings led Danzinger to conclude that government spending on assistance programs is beneficial. However, because of the misguided notion that there has been too much federal intervention, the incorrect narrative will likely persist. Tanner said that the best government approach is to do nothing, and that the stimulus was simply an effort by officials to appear to be doing something. The New York City based panel presented multiple studies showing that federal assistance programs mitigated the effect of the recession. Unfortunately, how these findings are interpreted, and what they mean for future policy intervention, is still debatable.

By Julia Waterhous