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Statement for the Record

of the

American Federation of State, County and Municipal Employees (AFSCME)

for the

Hearing on

Economic Recovery, Job Creation and Investment in America

Before the

U.S. House of Representatives Committee on Ways and Means

October 29, 2008

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The American Federation of State, County and Municipal Employees (AFSCME) represents 1.6 million members who provide the vital services that make America happen and advocate for prosperity and opportunity for all working families. AFSCME members are deeply concerned that national economic outlook continues to darken. The American economy has lost 760,000 jobs this year. The national unemployment rate of 6.1% is at a five-year high and is projected to significantly worsen in the coming months. Foreclosure signs continue to spread across neighborhoods. The repeated nosedives of the stock market have threatened to lay waste to worker and retiree savings and retirement accounts. The continued downward spiral of the economy has caused state revenues to fall hard and fast, causing a fiscal crisis of major proportions. Nearly three out of four states are in fiscal stress. And state deficits threaten a broad range of vital services – health care, education, child care, job training, and public safety –which help maintain the fabric of our communities.

To begin to change the direction of our economy Congress must develop and pass a comprehensive economic recovery package that addresses the mounting economic challenges facing working families and the urgent fiscal distress confronting state and local governments. Such a package should include direct and immediate state fiscal relief, unemployment benefits for those looking for work and strengthening of the unemployment insurance system, investments in job creation and infrastructure, and an increase in food stamp assistance to help maintain a basic standard of living for those struggling to feed their families.

This statement will focus on two key components of a needed economic recovery package, state fiscal relief and modernizing the unemployment insurance system.

State Fiscal Relief

According to the Center on Budget and Policy Priorities, 29 states closed budget shortfalls of at least \$48 billion in fiscal year 2009. Since the enactment of the 2009 state budgets, revenues have dropped sharply already causing 22 states to have new, mid-year deficits totaling more than \$11 billion. States are exhausting their “rainy day funds” and other reserves dedicated for weakened fiscal times. The expected continuing deterioration of tax revenues, rising unemployment and declining property values is a toxic combination for state budgets. With worsening economic conditions, states are projected to have budget gaps in 2010 in the \$100 billion range. And unlike the federal government, states must balance their budgets each year, requiring service cuts or tax increases – actions which may further exacerbate the current recession.

During the last economic downturn in 2003, Congress provided states with a combination of a temporary increase in the percentage of the Federal Medicaid reimbursement rate and emergency block

grant funding. The short-term increase in the Federal Medical Assistance Percentage (FMAP) and flexible grants proved to be an effective form of state fiscal relief. It helped stave off additional cuts to health care and other vital services and in fact helped stimulate the economy.

Due to declining state economies, our Medicaid system – which is a federal-state partnership – is experiencing particularly corrosive pressures. Even before the recession, the effect of rising Medicaid costs has had devastating consequences for state budgets. Moreover, the growing strain of the rising number of uninsured Americans seeking Medicaid assistance adversely affects other important public services. States have not been able to adequately invest in education or meet basic infrastructure needs because of rising Medicaid costs.

The demand for Medicaid increases during an economic downturn as people lose their employer-sponsored health coverage, or because their declining wages push them into poverty. New York, for example, has seen applications for Medicaid rise 30 percent between December 2007 and April 2008 as a result of increased unemployment. A recent analysis by the Kaiser Commission on Medicaid and the Uninsured projects that a one percent rise in our nation's unemployment rate – which has already occurred – will translate into increased Medicaid and SCHIP enrollment of approximately one million and will result in another 1.1 million Americans becoming uninsured. This will result in a three to four percent drop in state revenues and in increased health care spending of at least \$3.4 billion.

An analysis by Mark Zandi, chief economist of Moody's Economy.com, demonstrates that of all the options available to Congress, state fiscal relief through general aid or a temporary increase in the Medicaid matching rate to state governments generates one of the greatest economic returns. Specifically, every \$1.00 increase in spending for general aid to state governments will generate \$1.36 in increased real gross domestic product (GDP). Zandi has called aid to states a potent stimulus. Similarly, earlier this year, the Joint Economic Committee concluded that increasing the federal medical assistance percentage (FMAP) is one course of action to alleviate increased fiscal demands on states because it would "help buffer the impact of the economic slowdown to preserve Medicaid coverage as people lose their jobs and health insurance, as was done during the last economic downturn."

When states cut Medicaid and other public services to balance their budgets, it hurts individuals, communities and the economy. An analysis of the Medicaid cuts made in Oregon during the 2003 recession found that more than 50,000 low-income adults lost health care coverage which, in turn, spurred a \$253 million increase in uncompensated care for Oregon's hospitals because of increased use of emergency rooms and hospitalizations.

An economic recovery package that provides state fiscal relief through a temporary increase in the federal share for Medicaid and flexible grants could make a real difference in the lives of millions of average Americans. It could help stabilize state budgets, forestalling deep and damaging cuts to health care and other vital public services. It could help avert state actions that would undermine the stability of the health care sector which is important to the economic health of many communities.

In addition to helping to avert state cuts in Medicaid and other public services, AFSCME urges Congress to impose a moratorium on federal cuts in Medicaid reimbursement for outpatient hospital services. Shifting federal Medicaid costs onto states through a regulation on outpatient hospital clinics is harmful to beneficiaries, state budgets and providers.

Unemployment Insurance System Improvements

Our national unemployment insurance system was established during the Great Depression in response to another major economic crisis. It was designed to mitigate economic hardship for jobless workers and their families and to help stabilize the economy during periods of economic downturns.

Today, there is more need than ever for a strong unemployment insurance program. Unemployment is accelerating, and long-term joblessness is growing. Since Congress passed the Emergency Unemployment Compensation (EUC) program in June, national unemployment has jumped from 5.5% to 6.1% and from 8.5 million jobless workers to 9.5 million. The number of long-term unemployed workers (those unemployed for more than 26 weeks) rose by 450,000 between May and September to more than two million workers, while the number of states with unemployment rates over 6% more than doubled from 7 to 18 states. According to some projections, the national unemployment rate could exceed 8% next year.

Congress should act now to strengthen the EUC program and the underlying federal-state system in order to provide greater assistance to American families and a greater stabilizing effect on the economy.

Unemployed workers who began collecting the 13 weeks of federal unemployment benefits under the EUC program in July started running out of those benefits on October 5. According to estimates by the National Employment Law Project (NELP), 775,000 workers ran out of EUC benefits in early October. Absent congressional action, that total will rise to 1.1 million workers by the end of December.

Shortly before the congressional recess, the House of Representatives approved legislation to strengthen the EUC program as part of its economic stimulus package. The legislation, sponsored by Chairman Rangel and Representative McDermott, would provide 20 weeks of federal extended benefits for unemployed workers in all states and an additional 13 weeks of benefits for workers in states with unemployment rates exceeding 6 percent. AFSCME strongly supports the House bill and urges continued efforts to adopt these provisions.

Earlier this year, the House of Representatives also passed important and long-overdue legislation to modernize the unemployment insurance program. Outdated state policies have limited the stimulative effect of the program. Currently only about 36% of jobless workers receive unemployment benefits – far fewer than in the 1950's. Most significantly affected by these outdated policies are women, part-time and low-wage workers who are twice as likely to become unemployed as higher wage workers but only one-third as likely to receive unemployment benefits.

The Unemployment Insurance Modernization Act would provide financial incentives to states that adopt measures to enable these workers to qualify for unemployment benefits, and it provides \$500 million to the states to address a severe underfunding crisis in the state agency operations. If fully implemented, it will result in an additional 500,000 workers qualifying for unemployment benefits and a substantial improvement in the ability of states to process benefits accurately and in a timely fashion. AFSCME believes this legislation should be part of the upcoming economic recovery package.

Conclusion

Since Congress passed a stimulus plan in February, the economy has deteriorated significantly causing tremendous upheaval in the lives of millions of working class Americans. Congress must act again to change the direction of our economy. As an initial step, Congress must develop and pass a comprehensive economic recovery package that addresses the mounting economic challenges facing working families and the urgent fiscal distress confronting state and local governments. Such a package should include direct and immediate state fiscal relief, unemployment benefits for those looking for work and a revitalized unemployment insurance system, investments in job creation and infrastructure, and an increase in food stamp assistance to help maintain a basic standard of living for those struggling to feed their families.