THE BROOKINGS INSTITUTION

THE GREAT RECESSION AND THE SAFETY NET

Washington, D.C.

Thursday, January 30, 2014

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P R O C E E D I N G S

MS. SAWHILL: Good morning everybody. I understand that the Red Line was a little delayed and overcrowded this morning, so I hope some of you didn't have a terrible trip here. We appreciate your being here. There may be a few more people who will straggle in due to the difficulties.

I'm Belle Sawhill. Happy to welcome you this morning to this event on how the safety net worked during the Great Recession. This event is a collaboration between us and the American Academy of Political and Social Science, along with Sage Publications, which puts out the annals of the American Academy, and the Annie E. Casey Foundation. So, we appreciate all of the work that they did.

I particularly want to recognize the executive director of the Academy, Tom Kecskemethy -- I have a terrible time with his name -- who helped enormously with the organization of this event. And they have really put out an outstanding volume on this topic. It came out in November, and here's what it looks like. There are some copies outside, but if we run out of copies here, there are also some cards out there that will tell you how you can get a discounted volume for yourself, for your own library if you want one.

Now, I'm very proud to be able to say that I'm a member of the American Academy. I'm a Frances Perkins Fellow of the Academy, and that makes me very proud because of course she was one of the first women in high places to be in a cabinet under FDR. But we have several other people here who are members, including Bob Greenstein, and I think it's a terrific organization.

The volume itself has an impressive group of authors. The editor for the whole volume was Sheldon Danziger, and you're going to hear from him in a moment. Also you're going to hear from one of the authors, Bob Moffitt, who did the chapter on the safety net specifically. But there are many great chapters in the volume.

You have people's bios in your packet, I think, so I'm not going to do long introductions here. Sheldon has recently become the new president of the Russell Sage

Foundation. He has a distinguished background -- the University of Michigan, before that the University of Wisconsin. I think, Sheldon, I first met you when you were director of the Poverty Institute. And Robert is, in my view one of the very best analysts of the set of issues that we're here to talk about today.

We'll later have a panel on the operation of the safety net during the recession, so you'll be hearing more about that then.

Right now I want to just turn this over to Sheldon to provide you with an overview.

MR. DANZIGER: Thanks, Belle.

I should say that I edited this volume when I was on the faculty at the University of Michigan, and it turns out that much of the research in the volume, including my own and Robert's and other people's, was funded by the Russell Sage Foundation through a program it had on studying the effects of the Great Recession. So, I did not know, when I started this volume, that I was going to switch sides.

I'm pleased to be here, and I want to basically begin with a brief overview of some of the key findings from the papers that are in this issue. There are 12 papers in the issue, and I can't do them justice, so I'm going to highlight some of the economic issues but not talk about the safety net, because Robert's going to do that in his comment.

As most people know, the Great Recession lasted from December 2007 through June 2009. It was the most severe recession since the Great Depression and GDP and the number of jobs declined about 5 percent; median family income declined about 8 percent. At 18 months, it was longer than any recent recession. We're now four and a half years after the official end of the recession, and the economy hasn't fully recovered. The unemployment rate and the ranks of the long-term unemployed are higher than they were, and the labor force participation is lower than it was prior to the recession. The housing market, like the labor market, has not returned to normalcy. Even though housing prices have been increasing, they are still about 20 percent below their 2000 peak according to the Case-Shiller Index, and only the stock market indices have fully recovered from their recessionary lows.

So, because of its length and depth, the Great Recession negatively affected the economic well-being, current economic security, and future retirement security of a very large percentage of American families. As the authors in the issue show, and I'll emphasize some of them in the slides, inequalities and disparities that were large prior to the Great Recession became even greater in the years afterward.

For example, employment earnings and fringe benefits of less educated workers -- those with a high school degree or less -- compared to those with a college degree had been declining since the mid to late '70s, and those were the workers -- less educated workers -- who were hardest hit. Other groups hit hardest in terms of percentage losses: African Americans, Hispanics, and young adults. The anemic recovery has done little to reduce poverty, income inequality, wealth inequality, or other disparities.

Now, the volume includes papers on economics by economists, political scientists, sociologists, and psychologists. The emphasis is on how federal and state government policies affected the course of the Great Recession and the many ways that the recession affected the opinions, politics, and lives of workers and families.

I'm going to mention four key conclusions that are drawn from many of the papers and then discuss a few in detail.

First, as I mentioned, most workers' families and children have been negatively affected in at least some aspect of their lives, and the scars of the Great Recession will linger for years, and the most disadvantaged suffered in multiple domains. So, those most likely to experience long-term unemployment were most likely to experience foreclosures and most likely to have run down their retirement accounts as an example of the various domains that the chapters focus on.

Second, the financial panic that took the economy to the brink of a depression was blunted by active federal government fiscal and monetary policies. In contrast, the budget cutting of state and local governments reduced employment and consumption and diminished the positive effects of the federal actions in a number of areas.

Third, there were a few positive responses. These include increased enrollment in higher education, some improved aspects of population health -- for example, when fewer are driving to work, fewer people die in auto accidents, so recessions are good in that dimension, and we have a chapter on the health effects that I won't go into -- and, similarly, there were supportive responses by families to the hardship of family members.

Fourth, we are likely to experience some negative effects that are not yet evident, including decreased economic security for future retirees and possible increased poverty among future generations of the elderly and developmental harms for children, particularly whose parents were long-term jobless and lost their homes.

So, let me turn for a minute to some of the specific chapters.

Alan Blinder in his chapter notes that the financial crisis was as deep as it was, because we had too little public intervention in the financial sector in the years leading up to the Great Recession. He points out, though, that the government's fiscal and monetary policies prevented us from falling into another great depression and mitigated a substantial portion of the losses, and in Robert's paper he'll talk about how the expanded safety net was part of that, and in Alan's paper he talks about the mitigating macro effects.

The paradox that Alan points to is that the public and many politicians have erroneously concluded that we had too much public intervention and that it failed to help the economy recover. So, one of his concerns is that the lasting legacy of the Great Recession might be that we will do too little next time, even though many people have concluded, in retrospect, that we did too little this time.

The stimulus, the American Recovery and Reinvestment Act, was large, about 800 billion or 5 percent of GDP. It included tax cuts, increased spending on infrastructure, increased social safety net that Robert will talk about, and increased spending for state and local governments to maintain teachers and other employment.

The authors in the volume emphasize the positive effects of the stimulus and the fiscal and monetary expansion. And Robert Hall didn't have his paper in our issue, but I point out a paper he wrote on fiscal stimulus, because I think it represents how broad the view is that the federal actions, and particularly the stimulus, worked.

I'll read a quotation from Hall: "Stimulus worked in the sense that the recession would have been substantially worse without the stimulus. The stimulus moved the economy, however, only a bit of the way toward its normal growth path. It left an economy badly injured by the recession."

He also notes that the output increasing in employment reducing effects of the stimulus were offset, in part, by state spending cuts and layoffs.

Richard Freeman focuses on the labor market, pointing out that in a typical recession we lost previously about 3 percent of all jobs, and the job loss here was twice as great, peaking at about 6.3 percent of jobs. He also notes that GDP has fully recovered. You can see that in this slide. You can see how the recession was deeper and it took longer to recover, but he points out that GDP increased by 7.5 percent over this period. But employment increased by much less, only about 1.2 percent, meaning that the productivity per worker increased. On the other hand, it is widely known, as he points out, productivity isn't showing up in the wages of a typical worker; in fact, the median wage of full-time, full-year workers is lower in the most recent CPS data than in 1999.

Another chart from Freeman showing the large increase in long-term unemployment, the decline, but the fact that long-term unemployment remains much higher than previously.

In a paper by Fabian Pfeiffer, Bob Schoeni, and myself, we look at panel data on wealth from the panel study of income dynamic and document an unprecedented decline in household wealth. Between 2007 and 2011, about a quarter of all households lost at least 75 percent of their wealth, and more than half lost at least 25 percent. Wealth inequality also increased. You can see this. We've indexed different percentiles in the distribution at one in 2003, and you can see that there is little change at the top and tremendous change at the bottom. In fact, household median net worth in 2011 is lower in inflation adjusted terms than it was in 1984 when the PSID data began to collect wealth data.

Racial wealth disparities also increased. For example, the median net worth of non-White households fell by 73 percent and is only about $5,000 at the median in 2011. That of White and Asian households fell by 31 percent to 84,000. So, losses for all the groups but obviously widening disparities.

Alecia Munnell and Matt Rutledge examine the current economic well-being and future retirement security of older workers, and as part of the handouts, there's a recent op-ed that they wrote that emphasizes some of what's in their paper, and the title of that is "Great Recession Demonstrated: Nation Can't Afford Cuts to Social Security." They point out that even prior to the recession; older workers on average had relatively small amounts in retirement accounts.

One of the good aspects of the shift to defined contribution plans is that you can draw them down when you have a shock, so the good news is many people were able to draw down their retirement accounts and pay their mortgages and keep from getting evicted or foreclosed. Obviously, the bad news is the gains in the current period mean that your retirement security is going to be a lot less secure. And, in fact, the National Retirement Risk Index, which shows the share of working households that are at risk of being unable to maintain their pre-retirement standard of living, increased by about 10 percentage points to 53 percent for all workers and about 12 percentage points to 44 percent for workers between 50 and 59.

In closing, I want to talk about one of the positive effects. The chapter on education by Andrew Barr and Sarah Turner emphasizes that enrollment increased by about 15 percent even though state appropriations for higher education declined and tuitions increased. Part of the positive effect in their analysis was driven by the increase in Pell Grants. You can see the increase that was included in the stimulus with the jump toward the end of the period, and the number of Pell Grant recipients almost doubled over a three-year period from 5.5 to 9.4 million students.

So, to sum up, taken as a whole, the 12 chapters in this issue present a pessimistic picture for prospects for our economic future. Unemployment, poverty, income, and wealth inequalities have increased relative to where they were six years ago, and along all of these dimensions the typical American worker and family is worse off now than they were at the turn of the 21st century. A combination of fiscal austerity and a slow economic recovery suggest that under current economic and policy projections, these issues are not likely to diminish soon.

Thanks.

MR. MOFFITT: Thanks, Sheldon. And, thank you Sheldon, for helping to organize the very successful conference that took place I think back in February or January. I should say that my work here has been supported by the Russell Sage Foundation, so there was a lot of help from them, and this kind of work that I do, have been doing a lot of lately, takes a lot of research-assisted time. You have to grind out all these numbers. It looks so simple in the nice graph here. Behind that are several weeks of getting it right, so the financial support of places like Russell Sage is really important.

Okay, so I'm going to talk now about the social safety net and am looking forward to the discussions, comments, and comments from the audience as we go through.

So, my question that I posed here was how was the safety net performed in the Great Recession? I'm going to divide that up into four specific questions and then answer them.

One is, first of all, how much did the aggregate safety net expenditures rise? Did they rise more compared to past recessions?

Number two, assuming the aggregate safety net expenditures did rise --

and of course we know the answers to some of these things already; everybody here I'm sure does -- which were the important programs? And there I'm going to try to step back to 2007 and say what we had expected. The problem is now we kind of now which programs expanded, which ones didn't. But I'll just try to do that mental experiment and then see what actually happened, what our expectations should have been.

And then three and four I think are the more new ones.

I'm very interested in the distribution of safety net expenditures. Now, I've done some work prior to this paper on the Great Recession on long-term changes in the distribution. Of course many people think that the safety net has gotten less generous over time. That's not true. If you add everything up, it's gotten more generous over time. What's changed in the long run is which people are getting money has changed both by family type and by level of income, and a lot of that is the ITC, which has really increased the safety net expenditures for families somewhat higher up in their already distribution. So, I was very interested in this distributional impact. So, for here, for this state, I'm interested in the distributional impact in the Great Recession -- and, two, dimensions of it.

Question three here is did the increase go to all demographic groups or disproportionately to some? Just different programs serve different groups. So, we were going to find that some programs responded a lot to the Great Recession and others didn't, and different programs served different demographic groups, and you might find that some groups were left out.

And I'm going to define "success" here, and we might have a discussion on what you mean by success, because that's behind a lot of this. A successful program is one that serves all the demographic groups who are of low income or lose their jobs or are in a very similar financial position during the recession. If it's broad in coverage, I'm going to define that as success.

And, number four; did the increase go to all lower income groups? And I'm going to define these terms: deep poverty; shallow poverty; and near poverty. Near poverty is just above poverty; shallow poverty is just a little bit below it; and deep poverty is very much down at the bottom.

I'm going to define "success" -- and, again, you might argue with this -- as a response where more money went to people with lower income. And I'm going to word "progressive" sometimes here. It's a very traditional view that those who are worse off should be helped more, and as you go up the earnings distribution ladder, even if you're providing benefits, maybe you give somewhat less to them. Again, some people may disagree with that. I'm not going to make any distinction between who might be deserving or undeserving within these categories. I'm just going to say that the traditional view is that's how success should be defined. So, I'll at least answer the question, and we can have a discussion on whether there are other questions of interest.

So, just to -- I'm sure we have a pretty knowledgeable audience here, but just to rank all the programs just prior to the recession in terms of their importance, in terms of expenditures and recipients, Medicaid is the big guy on the block and is enormously large both in terms of recipients and expenditures (inaudible) almost everything else.

In terms of recipients, school food programs are very large, but expenditures are pretty small because benefits are pretty tiny there for a breakfast or a lunch. The SNAP program is large. This is even pre-recession. I'll show some long-term trends there -- the EITC -- and then you have a big drop-off beyond those top four, and you have WIC, which provides nutritional benefits to low-income pregnant mothers just after the births of their children. SSI provides cash benefits to the poor, elderly, and disabled; and you've got housing programs, which we know about. And then there's TANF, which now, today, even in 2007 it was a pretty small program; it's the last on the list here after the welfare reforms of the mid-1990s. So, these are the means tested programs.

And then we have social insurance programs and divide them up in that way with Medicare, Old-Age and Survivors Insurance, or Social Security; SSDI; and then

UI, which actually prior to the recession was pretty small. So, those are the leading candidates, and I'm going to look at all of these programs.

So, as I said, I'll try to step back here and just imagine what we would have predicted in terms of response of these programs that I just listed to the recession or to a major recession, where the employment rate got up to 10 percent -- what it would have been -- and the first point to emphasize is you shouldn't necessarily expect a lot of these programs to respond very much. Some of them have medical eligibility restrictions. Take the SSI portion for disabled and SSDI. You don't expect their people's medical conditions to necessarily drastically worsen during a recession, and for a DI -- the major criterion for getting on the DI is to meet the very severely disabled medical test, and a lot of people don't make that. So, you shouldn't necessarily expect that to respond. I wouldn't expect that. I don't think (inaudible) should expect those to respond very much to recession. We'll find out whether they did.

Old age retirement insurance -- well, I would say the major response there is probably when people change their retirement age and are retiring later, getting work. Or it might go the other way. If you're laid off, you might say "that's it, I'm retiring." So, things could go both ways. And I believe that Alicia found not a whole lot of change in retirement age in her paper.

Is that -- did you -- you may have mentioned that.

But those obvious ones -- among social insurance programs, there's obviously unemployment insurance. It was designed as a countercyclical program. So, that's number one.

And then you have the others, like SNAP, Medicaid, and SSI for the aged where the main eligibility condition is just having low income. So, if your income falls -- you should expect more people to be eligible that fall below the income eligibility level. So, those three I would expect to respond.

NUI, and there's TANF. I don't know if I -- yeah, TANF. We go to the programs that are block granted or restricted and are not entitlements. And there, if there's no extra money being given to the program -- and I'm talking about responses here in absence of the special legislation passed by Congress; I'm just talking about the normal behavior of these programs without anything having changed.

TANF is not an entitlement. It's a block grant program. And unless the block grants are increased, I don't see how you could spend more on recipients of TANF during a recession.

Housing, as we know, both public and Section 8 real subsidies, is also not an entitlement. It's rationed. There are long waiting lists. People wait for two or three years to get into public housing or to get a Section 8 voucher. And unless that's changed, I know that's not going to respond in the recession.

EITC I think is the most interesting one, because on *a priori* grounds you don't know really what's going to happen with the EITC. The EITC, after all, is a tax credit for workers, and if you lose your job, you lose all your EITCs. It's going to go to zero. So, in some ways, the recession is going to reduce both the recipients and the amount of money that is received by a lot of the families who had been getting earning supplements.

However, on the other hand, there are some people who might have had earnings somewhat higher than the EITC eligibility, the top eligibility income, or maybe up in the range where they're only getting a small benefit, and if the recession causes their earnings to fall into the region of the EITC where they're going to receive larger benefits, you might find an increase. So, I think, again, *a priori* -- maybe many of you already know the answer to the question, but on *a priori* grounds, it's not obvious how great the EITC is as a countercyclical part of the safety net. So, we'll find out.

And then of course there's all the special legislation that was passed by Congress, particularly UI extensions. I'm not going to take a lot of time to talk about those, because I think they're pretty well known. Almost all these programs I mentioned got something. UI was the most dramatic, but TANF got a little bit more in their block grant, that's gone away now. Certain families receiving EITC got more. There were some increases in SNAP benefits, which have expired. And a lot of the other programs received a little bit more -- the child tax credit and so on. So, anyway, those are going to boost the countercyclical response above what you would have expected on just a "normal basis."

So, here's a graph that shows the aggregate changes, so it will show assurance and the means-tested programs; and the vertical line there is 2007, so that was the pre-recession mark, and you see that right now both expenditure types of programs experienced pretty significant increased expenditure and the social insurance even more. That's going to be UI when they break it down.

More interesting is you look at individual programs and if you look at the ones that are spotted more now -- I actually have 2008 not 2007 but still you see the -- these are means tested here.

The SNAP program, I think everybody knows, is really dramatically increased in receipt. This is expenditure per capita. Most of these increases, by the way, are coming from increases in the number of recipients. I haven't broken that out here. There was a small increase in the SNAP benefit, but most of this is just becoming more people actually receiving benefits that show that.

The EITC question is answered here, so the ETIC, you see, went up -- not a lot, not anything near the amount that SNAP increased by. Small increases in housing aid and SSI, but not a lot there.

And then the TANF program really did not respond. There was a small increase in the block grant, as I mentioned, but a lot of states -- if you look at all states, a lot of states -- actually caseload went down during the recession. So, I think that's the result of, as I mentioned before, really the block grant nature of the TANF program.

Okay, Medicaid I didn't show, because it took some more off the chart there that -- I couldn't show it. There was a tremendous increase in Medicaid expenditures. Again, I would have predicted that just because even aside from the AURA supplements, people's incomes dropped and they became more eligible.

And the social insurance programs -- the green line there is the unemployment insurance, and that's the one that really dramatically grows. Interesting enough, even SSDI rose. Disability, as I mentioned -- I wouldn't necessarily expect that -- I wouldn't necessarily expect more people to be receiving DI. I think what that's a reflection of is that there aren't a lot of people out there who are satisfied with medical eligibility conditions for DI, but they're actually out trying to work and they're not receiving benefits. So, there actually are some potential eligibles out there who are not in the program. One of the data problems for SSDI is we can't get a good estimate of the eligible population, so nobody really knows what the take-up rate is in SSDI. But I think the evidence shows that it's not a hundred percent and that there are a lot of people out there working. During the recession they lose their jobs and they go in and they're medically eligible. They were just trying to stay off. Some increases in Social Security as well.

So, I would say on the aggregate response, aside from TANF, which is the glaring exception there, the aggregate response is pretty large. There were particular programs there that increased the most. UI, obviously, and SNAP are the two big ones, and to some extent the EITC. I'm going to come back to those three programs and really say that those are the three that really are responsible for most of what happened.

I have a little comparison (inaudible) sessions, so you go back to the early '80s, and there was an increase in expenditures in the early '80s recession as well -- a little bit smaller than what happened in the Great Recession.

An economist by the name of Hilary Hoynes -- I'm sure many of you know her as having recently published a paper in which she argues that in terms of changing the poverty rate per unit -- changing the unemployment rate -- the Great Recession actually was kind of the same as the early '80s, kind of the same ratio of poverty rate changes to unemployment rates, because the unemployment rate wasn't quite the same for as long in the early '80s. Okay, anyway, so there's that.

So, let me quickly just go on to the distributional effects that I talked about. Here is a graph that shows the average monthly government expenditures by demographic group for three years. The first year, which is the blue bars here, for 2004 -- unemployment rate was pretty low in 2004. That was after the early 2000 recession, so we kind of come back to "full employment." So, that's kind of a benchmark. 2008 is the red bars, and that's the early part of the Great Recession, and we know the unemployment rate had started going up. It hadn't peaked by any means. And furthermore, 2008 was before most of the AURA programs had really kicked in. And then the green lines are 2010 when all the AURA programs had kicked in and we were in the severest part, even though it was past the official date of the end of the recession, June 2009. In fact, we know that, from a labor market perspective, 2010 was still a very weak period.

So, what you see here, what kinds of groups I have -- I'll go through them -- are, first of all, by family type: single parents, two-parent families, and childless families. Not surprisingly, anybody who knows anything about safety net programs in the U.S. knows that single parents tend to get a bit more than two parents, so all the bars are higher. And childless get very little from our programs since we provide more for families with children. But the point is that all three of them went up. All of the three family types received more benefits, and I'll talk about which ones they were in a minute.

I also have a couple of graphs here for families that at least had some employed member, some full-time employed member, and families that had no full-time employed member. Not surprisingly, if you had nobody working, then you'd be eligible for more benefits, particularly UI. But, again, all of them went up, increased in expenditures.

And then the elderly and disabled -- again, students of this know that the elderly and disabled receive large transfers in Social Security and for the disabled in terms of that society. This is DI, so they're much larger. But all three of those went up as well, particularly for the disabled, which I think is kind of interesting.

So, my conclusion for this was that all the groups benefitted. It was pretty widely spread across the demographic population.

And then the other one is by income range, and what is mean by "income" here is only your private income, your earnings, and whatever private non-labor income you have, which is usually not very much for these low-income families.

And I'm going to look at three different groups. One is the deep poverty group where their earnings, private income, was less than 50 percent of the poverty line. This is what I call now shallow poverty, whatever you want to call it. They're between 50 and 100 percent. So, that's the group in the middle. And then the top group are the people near poverty, just a little bit above the poverty line, again just on the basis of their earnings, their private earnings. And what you see, once again, is that the increase in expenditures from the safety net programs from pre-recession, the 2004 to 2008 to 2010, steadily went up for all groups. No one was left out, and that's a little bit in contrast of (inaudible) long-term trends, because, as I said, this paper is not about long-term trends, but in terms of long-term trends actually there's been a much larger increase in transfers for that shallow poverty group because of EITC.

You notice the system's not very progressive here. The deep poverty families actually don't receive that much more, just in general, than the families higher up. So, which programs are responsible? It turns out, if you look at those families in deep poverty, its UI and SNAP by far that are responsible for that increase. If you look at the shallow and near poverty, people just above and below the poverty line, it's the EITC predominantly, disproportionately. So, that's an important point to recognize.

The work that (inaudible), I have a bit on that, and maybe we could talk about whether or not some of the increases in expenditures here cause people to not work as much. My view is that the evidence is very slim. If you just look hard-nosed about it, look at a study where it's shown -- I don't see a lot there, but there are also a lot of unknowns. So, it's an issue we might talk about.

Conclusions -- I thought, just to repeat, that safety net did a pretty good performance, with TANF the exception. They got (inaudible) increases and very widespread increases by demographic group and by poverty line.

So.

MS. SAWHILL: Thank you very much. Those were terrifically clear and informative presentations and wonderful work that lies behind them. I have two questions, and one is for each of you.

I think for Sheldon I want to back to the macroeconomic picture. I don't know if David Wessel is still here -- I saw him earlier -- perhaps not, but he is the new director of the Hutchins Center on Fiscal and Monetary Policy here, and I know he was listening to your presentation earlier.

I think that the Blinder Macroeconomic Policy Paradox is very, very concerting, the argument being that most experts believe that fiscal and monetary policy can have a major role to play in a recession and especially in a deep recession like the one we had. And yet a few experts and a lot of elected officials no longer believe in their efficacy, and they even argue that they are counterproductive. And we've heard a lot of that in recent years, and I'm reminded of the fact that we had another event here just recently to launch the Hutchins Center. And Christi Romer made this point very strongly as well. We'd had a conversation about the attacks on the independence of the Federal Reserve, and she added to that the fact that there's increasing skepticism about the ability of these instruments to work at all, and I find that very concerting.

So, I think my question to you, Sheldon, is if you could -- and I know this is a hypothetical, but if you could choose between the getting the economy back to full employment, which CBO now defines as 5.4 percent unemployment rate, versus bumping up some of the safety net programs -- obviously, I know you'd like to both. Sometimes I think that people, those of us who work in the sort of anti-poverty realm, forget about the fact that the best anti-poverty policy is a job, and if we're losing the will and the understanding as a country to get the economy back to full employment, that is a huge, huge problem. So, just more comment on that, if you'd like.

And thanks for the next panel that Ron Haskins is going to be moderating. Maybe they would take that up as well.

I think I neglected to say earlier that Ron is, of course, my co-director for the Center on Children and Families, and he did a huge amount of work on helping to organize this event. So, you'll hear more from Ron.

Robert, the question I have for you is the EITC. You showed it going up.

MR. MOFFITT: (off mic)

MS. SAWHILL: All right, but I'm just going to leave this. He doesn't have to answer it now. I just want to use my air time to get the question on the table. I'm almost through.

The EITC spending went up. I wasn't clear how much of that is because of the economy or people being eligible, and you said it's ambiguous, *a priori*, and how much of that is because the EITC was made more generous by legislative actions of the Recovery Act.

So, you don't have to answer that now. In fact, maybe we should just have --

MR. HASKINS: (off mic)

MS. SAWHILL: Is this all right -- to let them answer? Okay.

I always listen to Ron. If he tells me I'm not allowed to say anything more, I'll shut up.

MR. DANZIGER: I'll give a quick answer related to the Blinder Paradox, and that would be infrastructure spending, which I've always found to be a boring topic. But because it seems so non-controversial, it's much harder to talk about poverty where people can say, you know, is this person willing or not able to work. But when engineers go out and say there are these bridges that are falling down and ones on which trucks have to be diverted and go extra because heavy trucks can't go over, there's a pretty strong case to be made that now would be a good time to invest in infrastructure. By the way, it would be employment increasing. But the politics of it seem to be infrastructure spending means stimulus; stimulus doesn't work; we shouldn't do it. So, I think Blinder is very worried about the next great recession. But even in the short run, this, I think, view that came out that federal spending in general and the stimulus in particular didn't work has negative effects.

MS. SAWHILL: Well, you're seeing that around the attempt to extend unemployment insurance that, you know, Republicans want it paid for, which is, again, you know, counterproductive when unemployment is so high.

Robert, quick answer on the EITC?

MR. MOFFITT: Quick answer is it's almost entirely eligibility increases. The EITC increased benefits for the larger families but smaller families received more -- those people moving down into the fat part of the EITC benefit.

MS. SAWHILL: Okay, thank you to both of you. We'll now be shifting panels.

MR. HASKINS: All right. Shortly we're going to have a little change in our normal procedure because one of our guests would like to show slides. So where is Betsey? Oh yeah, come on up, Betsey. So the other panelists just there until -- because otherwise I don't want to show slides about the recession on Bob Greenstein's forehead. So stay there; come on up.

So we have three panelists that are going to join our previous guest in a discussion now. Bob Greenstein, who's the head of the Center on Budget and Policy Priorities -- I always think of Bob when I used to be in Congress with the Ways and Means Committee, people would talk about the power of K Street and the poor kids never have anybody effective and all the monies on K Street and so forth. And I always say to them, "Have you ever heard of Bob Greenstein?" because Bob is extremely influential, especially in Democratic administrations. I think he's the single most effective lobbyist for kids in Washington.

Second, Betsey Stevenson from the Council of Economic Advisers, I think her normal life -- I don't know whether maybe she's going to stay but she's a professor at the University of Michigan, and she also has been the Chief Economist at the Department of Labor.

And then Michael Tanner -- thank you very much, Michael, for coming --

from the Cato Institute. Michael has the distinction of being the sole, I don't know whether to say conservative or libertarian, but the person who's right of center on our Panel. And I'm going to give you a chance to answer Belle's question, so I think that's a good thing for you to answer as well.

All right, so Betsey -- each of our guests have 8 minutes. As soon as Betsey's done -- we'll be very informal. I'll sit here. They'll say their 8 minutes. I'm going to ask them some questions, try to provoke them, and then we're going to give you an opportunity to ask some questions. So, Betsey.

MS. STEVENSON: Great. So I wanted to show some pictures simply because when -- this fall we were trying to answer this question: How did the poverty rate respond to the programs that were expanded under the recession? And, of course, we also wanted to ask the question: Since the war on poverty was declared 50 years ago, what kind of success have we had? And now I'm going to get into some, into the wonky weeds for a few minutes because the challenge with answering that question is that none of our poverty rates or our poverty measures were really designed to answer a question of how have our programs fared in reducing poverty. So this isn't direct criticism of those measures, it's just a statement of fact that they're not really designed to measure poverty, how poverty has changed overtime taking into account all of our tools that we use to fight poverty.

So as you are probably familiar with, the official poverty rate is the one we have going back in time. But, of course, the official poverty rate misses a lot of the things that happens through our tax and transfer system. So it misses benefits like SNAP and the ITC, the very benefits you've just hear Robert talk about. And I think in your paper one of the things you say is you don't look at the poverty rate to evaluate these programs because it's kind of challenging to do that.

We wanted to do that so we took a look at the supplemental poverty measure. Now, of course, that has the challenge of only going back to 2009, so that doesn't give us a great historical way of looking at it. It's also got another feature, which makes it challenging for thinking about how the safety net has fared over a period of time, which is that the supplement poverty measure is actually a relative measure. So as society's spending on necessities, changes, so, too, will be the threshold that defines what it means to be underneath the poverty measure.

So we worked with a team of researchers at Columbia to come up with a measure of poverty that would be absolute, so not relative, in order to think about just how poverty has changed overtime and that would take into account -- that would let us measure what does poverty look like, mark it poverty. If the only thing people were out there doing was earning their wages and taking them home, and then look at poverty when we measure it in sort of a post-and-transfer world.

And what we found is over the last 50 years, we have actually made enormous progress in reducing poverty through our government programs like EITC, like SNAP, so I think it's very similar to what you've heard the previous Panel saying. This is, of course, taking a long run view; I'll highlight the numbers over the Recovery Act in just a minute. But I think what's really stunning about this graph is that if you were looking at market-based poverty, so what would happen just based on people's earnings, actually poverty went up slightly between 1967 and 2012. That's not that surprising if you consider the fact that the real value of the minimum wage is much lower in 2012 than in 1967. But once we put all the government programs into account, you see that we've actually made substantial progress in bringing down poverty; that these programs have brought poverty from 26 percent in 1967 down to 16 percent in 2012.

So one of the things that's happened overtime is we made our poverty-fighting programs more worked based. And so the previous Panel touched on that just a little bit; the fact that most of the programs we rely on today haven't been shown to reduce work. In fact, many of them have explicit incentives built in to encourage work like the EITC, and you can see since the 1980s just how much the EITC has exploded and refundable child tax credit has exploded.

So what would have happened when we measure poverty, taking into account all of our programs into effect? Well, between 2007 and 2010, the market-based poverty rate would have increased 4.5 percentage points. And what actually happened when we take all of our programs into account was the poverty rate increased by .5 of a percentage point. So, obviously, the programs did enormous heavy lifting in keeping the poverty rate down during the recession. Without the Recovery Act it would have done some of the work. We would have seen a 3 percentage point increase, so that's the automatic stabilizer. How do these programs expand automatically even if government does nothing? But, of course, as you can see most of the reduction or a large share of the reduction actually came from the kind of expansions that were made. The Recovery Act put $37.6 billion into SNAP, $57.3 billion into unemployment benefits. It increased, again as the previous Panel mentioned, the number of children eligible for the EITC to three and reduced the marriage penalties, which increased spending on that program by $6 billion, and it made a larger share of the child tax credit refundable, which gave families $8.7 billion. All of these things combined to bring down the poverty rate, or to keep the poverty rate from rising.

Now, since the previous Panel had discussed -- oh, and let me put this in just a little bit of context because I think the last Great Recession, if you think about the early '80s, if you compared to the change between 1979 and 1983, market-based poverty rose about the same amount. It rose 4.1 percentage points. The difference was in the '80 recession, the SPM measure, the supplemental measure, which takes into account all of our programs, rose by just about the same amount. So if we think about, did we have success in this recession in keeping people out of poverty while they were struggling to look for work, while they were weathering the storm, I think both by relative and absolute measures, I think we had enormous success in helping those families.

And the last thing I wanted to add is we spent some time looking at deep poverty, the people who live 50 percent or more below the poverty line. What we actually found is typically there our programs do a pretty good job of keeping people out of deep poverty. There's very little cyclical trends in deep poverty, and this was true as well in this current recession.

So I think one of the things I wanted to emphasize was that one of the most important goals of the Recovery Act was to get money into the economy quickly and spending on the safety net definitely accomplished that goal since the people who get those benefits get them out into the economy right away. They need them to put food on the table and to pay their rent. But it is important to realize that a lot of the responsiveness of the safety net is not completely automatic. And this is one of the reasons I wanted to highlight the fact that while we had enormous success in preventing an increase in the poverty rate, such a large share of that came from the deliberate actions that Congress and the Administration took to keep people out of poverty. And if we want to make sure that our programs are responsive to recessions in the future, it might behoove us to do more to make them automatic. Thank you.

MR. HASKINS: Well, let me thank our guest for coming, and we're now going to go to Bob Greenstein. Each of them has 8 minutes, so Bob, go ahead.

MR. GREENSTEIN: Well, let me start by strongly recommending this volume, which really is terrific. I had read before today Sheldon and Robert's chapters, both of which I thought were excellent, and this morning I've gone through a couple of the others and they're equally good.

I'm going to focus primarily on the safety net issue in Robert's chapter. When Robert wrote the chapter and the book came out, his volume came out, that was before we had this extremely important new research that Betsey has talked about by the Columbia University Research team. In Robert's chapter he says, "Well, at this point we don't have that much evidence on what was the effect on the poverty rate because you can't really use the official poverty measure to determine the effect of expansions in things like food stamps, the earned income credit, and the like." And this is precisely what the new Columbia University research allows us to do. So Betsey's talked some about it; I want to talk about some other aspects of the new findings from the Columbia team and they're really interesting.

So, what their work shows is that using one of their key measures, the supplemental poverty measure, what they call the anchored supplemental poverty measure that taxes and transfers, earned income credit, food stamps, all these programs, lowered the poverty rate from what it otherwise would be by 8.8 percentage points in 2007, but by 12.7 percentage points in 2012. In other words, the safety net was 50 percent more effective in reducing poverty in 2012 than in 2007 among children. It was two-thirds more effective, 6.6 percent of children were lifted out of poverty by -- the difference was 6.6 percentage points in the poverty rate in 2007, but it went up to 10.9 percent in 2012. They have a different supplemental poverty measure. They also look at -- there, instead of the effectiveness going up by half, the effectiveness goes up by a third. These are really large increases in any poverty effectiveness. They're dramatic. And the key reason why Betsey mentioned that they found only about .5 percentage point increase in the poverty rate, Arloc Sherman of our staff looked at this. You can look at the different supplemental poverty measures the Columbia team looked at. Depending on what you look at, the poverty rate goes up .5 point. It maybe goes up 1 percentage point. You compare that to how much the poverty rate went up in the recession of the early '80s, the difference is really dramatic. When Arloc Sherman of our staff modeled the effect of six key elements of the Recovery Act -- the increases in the earned income credit, the child credit, the making-work-pay tax credit, the duration of unemployment benefits, the weekly unemployment benefit level, and the increase in SNAP benefits -- he found that between them in 2010 they kept 6.9 million people out of poverty who otherwise would have been in.

Robert's chapter also looks at, and he talked briefly this morning about it, another interesting question. Well, how does that relate to work disincentive effects? Did fewer people work because of the benefits? And as Robert notes in his chapter, whatever the effects, the work disincentive effects of these programs during a normal period, you'd expect them to be somewhat less in a deep recession when people are less able to find jobs. He notes that there really aren't good studies on the work disincentive effect specifically during economic downturns, but that we have a pretty rich literature on the work disincentive effects of various key safety net programs during normal economic times. And I just want to quote a key sentence from his chapter here. He says "For the two most important programs in the recession, SNAP and the EITC, the literature shows they have very small effects on work effort."

If, as Sheldon noted, there's a large gap between the impact the Recovery Act had and the popular perception of the failure of the Recovery Act and the effect on the economy, I would say there is a similarly large gap between what policymakers commonly believe in terms of massive work disincentive effects from the safety net and what the literature actually shows.

Now, having said that, a little more on the Recovery Act. This Recovery Act was different in terms of the safety net aspects of it from most prior stimulus bills in previous recessions. We always expand on the duration of unemployment benefits, but in no prior recession in recent decades did we do a temporary increase in SNAP or food stamp benefits. I don't remember any prior recession when we increased things like the earned income credit in the recession, and the degree of additional support to states for Medicaid was much larger here than in any prior act. The results? There was a double benefit here not only as we've seen did it keep the poverty rate from going up very much in what was the worst, particularly in terms of duration, recession since the Great Depression, but extensive economic literature suggests that these very kind of measures are the most effective at stimulus, have the largest bang for the buck, because they're putting more money into the pockets of people with the highest margin or propensity to consume quickly.

I think a key question is what happens in future recessions? We all take it as a given that we're going to extend the number of weeks of unemployment benefits when there's an economic downturn. I would like, although I don't think this will happen, for one of the lessons from what's happened to be that at best we would actually enact automatic countercyclical measures in programs like SNAP and Medicaid where they would automatically expand temporarily when the economy went down. At a minimum when we have another substantial recession, we ought to quickly move to do the kinds of measures in those areas that the Recovery Act did alongside additional weeks of unemployment benefits.

I think one of the unfortunate aspects of the widespread popular misunderstanding of the effects of the Recovery Act is that it likely lessens the potential for us to learn those lessons and to take the appropriate steps when the next big recession comes. And I think the single biggest illustration that we haven't really learned the right lessons is the impasse right now on unemployment benefits. I just want to close with three factoids: Number one, the number of unemployed workers not receiving unemployment benefits is larger today than when the recession hit bottom. Number two, the long-term unemployment rate, the percentage of the workforce that's been out of work more than six months, is nearly double today what it was when allowed unemployment benefits to expire coming out of every prior recession going back three or four decades. And number three, with the benefits having expired, we are on track to having a percentage of the unemployed who receive unemployment benefits fall into the 20s and to be, I think -- Gary may correct me if I'm not getting this right -- but I think the lowest percentage on record going back a number of decades in terms of the percentage of unemployed getting benefits, all these are indications that we ought to be extending those benefits, not ending them.

MR. HASKINS: Thank you, Bob. Michael Tanner.

MR. TANNER: All right. I guess now for the minority report or something like that. Actually I'd like to start with sort of a cross ideological endorsement of this volume and some of the work in it, which is really terrific, and is going to be studied I think at Cato for a long time along with everywhere else on this.

I want to mention a sort of something that I don't think has really come up here, and that's a little bit -- that's sort of moving beyond the actual end of the recession. Because I think one of the problems with a lot of these programs is what we call the ratchet effect; and that is once these programs increase, they never seem to decrease, they never go back down. So you have the countercyclical effect, and we loosen up eligibility standards. We make changes in these programs in order to make it easier for people to access them during times of economic downturn and high unemployment. But then even after employment begins to pick up and the recession ends, we don't return the programs to their previous status.

Now, we looked at the antipoverty programs and we used a slightly different definition I think of what is an antipoverty program. And we look at the fact that -- we call at Cato an antipoverty program if it is either means tested, so it is going to low income individuals; or if the program says in the definition of the program somewhere, this is an antipoverty program, this is a program designed to fight poverty or something to that effect. And we found 126 different federal antipoverty programs that meet one of those two definitions.

Now, if you look at 2009, the last year of the recession -- the recession officially ended in June -- the last year that the federal government spent about $570 billion on those 126 programs. Last year, well after the recession ended and we're supposed to be back in the recovery, we spent $690 billion on those programs. And if you look at specific participation in those programs in 2009, there were roughly 33.5 million people on food stamps. Today there's 47.5 million people on food stamps. You had 47 million people receiving Medicaid when the recession ended; today its 55 million people receiving Medicaid. You had about 4 million people in public housing when the recession ended; today it's about 4.2 million, almost 4.3 million people in public housing.

So what you've actually had is the recession ended. You would think the countercyclical efforts would go down. Instead, participation in all these programs has actually continued to increase. And if you look, for example, at say food stamps -- just to cite one example -- if you look at the CBO projections for that, it would suggest that even after unemployment returns down into the 6 to 6.5 percent range by around 2023, you're still going to see food stamp participation levels much higher than they were pre-recession. So you're never getting back down to the pre-recession levels in participation in these programs. And in many cases it's because you didn't just make -- these weren't just natural countercyclical. More people fall into poverty and, therefore, more people are eligible, but you've made deliberate policy decisions, which then become very hard to reverse. And I'll just use food stamps for one example. In 2009 in the recession we decided to eliminate the normal work requirement that went with food stamps; that after 90 days you had to be working or in a work participation or job search and so on. That was eliminated across the board in 2009. In 2010 they went in and said okay, we're not going to eliminate across the board, but we're going to give states the chance to have a waiver for this and 45 states took the waiver. I mean almost everybody did. Today, still over 40 states have that waiver and it attempts to just put the work requirement back in as part of the new farm bill that just passed, which wiped out -- they couldn't put a work requirement back in on food stamps back in the farm bills. So having eliminated it, it now looks like it's going to stay eliminated.

What you're ending up with is -- when you sort of have and never let a crisis go to waste sort of event, what you're doing is taking advantage of the need for normal countercyclical measures to enlarge if you will the welfare state on a permanent basis. And I think this has very negative consequences in the long run both for the economy as a whole, but also for the people who end up sort of trapped in a level of permanent dependence. And what we have seen is that while, if you use the supplemental poverty -- if you use the normal poverty relations, you haven't seen much in the terms of war on poverty. The supplemental poverty rates do show a decline. Most of that decline has taken place on things like work-based things like the earned income tax credit, the child credit, things like that, relatively little as a result of traditional transfer programs if you will.

But we've also seen a decrease in mobility from people moving out of poverty into the middle class at the same time. And I think what we've done to a large degree is use the safety net to make poverty more comfortable if you will, to make poverty less -- you know, to deal with some of the worst aspects of poverty, but we haven't done a great deal of good in terms of actually enabling people to get out of poverty and to become self-sufficient and to become fully actualized individuals. And I think to the degree that we continue to ratchet up the safety net, sweep more and more people into that safety net on an ongoing basis, then we will make that problem worse going forward.

So I'm just going to leave it off there I think because I think that's something that needs to be considered, not just the immediate impact of saying okay, we've got a problem, let's solve it. Let's throw some money at it, but the longer term problem of what do you do once you've gone through that immediate crisis.

MR. HASKINS: Michael, when Belle asked her question about the overall effects of a stimulus during the recession, I don't think there was anybody up here on this stage who would be likely to defend the conservative view that it might not do that much good. It isn't just politicians who say that. So, do you have a response to Belle?

MR. TANNER: Yeah, I mean I do think there's this -- it's probably not the majority, but I think there's a significant minority of economists who argue in effect that stimulus does not have a long-term effect on the economy. It might not even have a positive short-term effect on the economy. And in many ways I think the best way to illustrate that is to go back to the 19th century economist, Frederic Bastiat, and his terrific article, "The Seen and the Unseen." And he posited a case, he said let's take a French farmer -- he was French -- and he said that farmer is planning to irrigate his fields, so he is about to hire a number of workers to go dig a ditch in his field and then irrigate the crops. But before he could do this, along comes the French government and taxes him and takes the money he was going to use to hire those workers and takes it away. Now he can't hire those workers and so on. And the French government now flush with taxes goes out and says we're going to build a new road in the village. And they hire a bunch of workers and they put them to work building the road and everyone says hey, the French government's wonderful. They've built this road. They put all those workers to work. They've done wonders. They've improved the economy. And they've done absolutely nothing and nobody notices the fact that the farmer, of course, now hasn't hired those workers. The workers who were going to dig that ditch are now unemployed and the farmer's crops are now withering in the field and all the problems that went with that.

That's the unseen, and I think you get the same problem when you talk about stimulus in the economy. We see what the government does. It builds roads and bridges and hires construction workers. It does all those things. But we don't see the fact that it had to extract resources from the economy in order to do that work. And the money it took out, whether it was from taxes or borrowing, ultimately harmed the economy maybe not in the short term, but certainly in the long term, and maybe did more harm than good. And we don't take that into account when we look at the stimulus.

MR. HASKINS: Okay, I want to go now to questions about the safety net. Let's start with the single most important question -- I'd be interested in hearing your answer to this, Michael -- everything that's been said or almost indicates that the safety net was enormously effective. It probably cut the poverty rate by at least half. We have studies with all different datasets that show this. The Richard Braver paper as well that you did not mention, but Arloc Sherman's paper. So can I take it as given that everybody on the Panel agrees that the safety net did work and it did reduce poverty? It did exactly what it was supposed to do. Does anybody disagree with that?

MR. TANNER: Yeah, I want to throw out I want to semi-agree with that, not say that that didn't take courage, but I want to throw out a couple of caveats to that. Number one is you shouldn't -- to use the broad term "safety net" implies that all these programs were somehow effective or equally effective. And the fact is that we don't know that they weren't. I mean some programs were effective, some weren't, and I think a lot more research needs to be done on which ones were and which ones weren't. But to make the broad assumption that --

MR. HASKINS: Bob's given us a pretty good start, though, wouldn't you say?

MR. TANNER: Yeah, he's actually given us some very good information on that, some stuff we'll have to dig into in more depth. But I do think there's sort of a broad-based -- safety net worked; therefore, every program that defines itself as safety net is somehow effective. And I think we've got to go beyond that.

Second, you can't sort of prove the counterfactual. We don't know what behavior would have been, what people would have done, in the absence of the safety net. We can't know, for example, would some people have taken a job that they might not otherwise have done? We know that, for example, unemployment benefits, which we actually did not include. We do not actually include unemployment benefits in our definition of an antipoverty program because it's neither means tested nor specifically defined to fight poverty. But we do know that unemployment benefits have some disincentive effect on taking jobs. They prolong the length of time people are out of the labor force and they have some small impact on the amount of unemployment rates, somewhere between .5 point and 1.5 point depending on how you look at this. So we don't know whether people might have gone back and gotten a job and how that would have affected the economy as a whole and how that would have affected their poverty levels and all of those sorts of things. So we don't know that.

And then finally, we don't know to what effect we could have reduced or had more economic growth and, therefore, reduced unemployment and changed the whole poverty rate measure if we hadn't spent so much money and if we'd had more fiscal discipline during this entire period. So with those caveats in minds, I would say there's still some evidence that the safety net did lift some people out of poverty during that period of time that otherwise would have been in poverty.

MR. HASKINS: Does anybody else have a short response?

MR. DANZIGER: Can I just --

MR. HASKINS: Yes, go ahead.

MR. DANZIGER: The reason I quoted Robert Hall, who was the one author not in the volume, is because the difference in Alan Blinder's view about the effectiveness of the stimulus in increasing consumption and reducing unemployment and Robert Hall's is relatively small. So I think

MR. TANNER: John Taylor's is much bigger.

MR. DANZIGER: I would say John Taylor is the outlier and there are always outliers in this.

MR. HASKINS: But that's the species of argumentum ad hominem there, Sheldon. In any case --

MR. GREENSTEIN: Can I --

MR. HASKINS: Yeah, go ahead, but don't go back to the food stamps. We'll get to that.

MR. GREENSTEIN: Michael makes three points: So first, he notes that there's evidence that unemployment insurance lengthens the duration of unemployment. What he fails to say is the evidence shows that that effect is much smaller in recessions than in normal economic times. And to imply there'd have been a big effect here would have to imply that if we hadn't done these things, we'd have lots more jobs during the downturn than we do.

Secondly, he notes correctly that if we hadn't spent this money, we would have had -- his term was "fiscal discipline;" other people would use the term "austerity." But as Sheldon notes and as Alan Blinder's chapter ably describes, had we had less spending, we would have been putting less demand into the aggregate economy. We would have had more unemployment and fewer jobs is what most economists would think.

My most important point I think I want to make here is the third. There are other aspects of this that are not measured by the measures we use and those include the fact there is a potential -- I'm not saying a fact, a potential -- that certain aspects of the Recovery Act in particular may have positive effects relative to where we would otherwise be on poverty over the longer term. What I mean by that is the following: One of the things that the Recovery Act also did was to significantly increase funding for Pell grants and the size of the Pell grant. And the chapter in the volume finds that this is connected to more people going to college during the downturn, some people who might not have otherwise been able to afford it, some people who were out of work and Pell grants helped them go to college; lots of evidence suggesting that more college education is good for people's earnings and good for reducing poverty over the long term.

And while Michael says that there are these disincentive effects and dependency in getting benefits, some of the most important new poverty research in the last several years is research finding that -- Ron referred to this in his testimony before Paul Ryan on Tuesday -- research finding that increases of several thousand dollars in family income for very poor families with young children seems to be connected to improved school performance and in some studies increases in earnings in employment when they grow up. And it is possible -- we don't know yet -- that some of the increases in benefit levels in the Recovery Act will also have positive long-term effects on the development of some very young children in those families. None of that shows up in the measures we currently use, and we really won't know about that for many years to come.

MR. HASKINS: By the way, a colleague of ours, Greg Duncan at the University of California, Riverside, I think -- is it Riverside? Irvine, I'm sorry -- just won $1 million prize and between that and money from NIC he is launching a huge experiment precisely to test this issue of if a big income supplement during I think when the kids are under age 2, the parents get a big earnings supplement, whether that would affect their development. They're going to test all kinds of brain stuff.

MR. GREENSTEIN: That's important research.

MR. HASKINS: Yes, it is, and it's also a good way to spend a prize I think. Most people spend a prize by buying a new house or a yacht or whatever.

All right, second --

MS. STEVENSON: Can I actually -- just a couple of things.

MR. HASKINS: Yeah.

MS. STEVENSON: First of all, there is existing research that leads us to think that they will find that this is actually important. The research shows that when people are caste constrained or otherwise constrained in their nutrition during pregnancy, it has lifetime effects on children. So we do think that putting money into these families to make sure that they're able to properly feed their kids and that the kids are able to stay in school will have important effects. I can't emphasize enough the fact that we had education increasing through the recession. That was an important part of how America came out of the Great Depression was to get so many people into education to build their skills. And at a time in the United States when we have such sharply rising returns to skill, this is a critical thing. And, in fact, it's what everyone should do; when the opportunity cost of being in the labor force is lowest, you should be investing in your skills for when that opportunity cost goes back up and you can come back into the labor market when there's a lot of labor demand.

And then the final thing that hasn't been mentioned that I really feel has to be said is this is the only recovery in which we've been facing a headwind of contraction in overall government employment. And while the spending on the safety net and the things we did on the safety net certainly help keep people out of poverty, I think in thinking about the overall government response and what was happening at the state and local level it's important to realize in every other recession, the government expands and that's part of what contributes to us coming out of the recession. And in this recovery, government contracted.

MR. HASKINS: All right. Here's a second question I want to ask, I think also the next important question, and that is our general strategy to fight recessions is that we have programs that have built-in mechanisms that increase automatically. And then the second thing is we do special things during recessions. We always do something with UI without exception. But this time we went way beyond that and there are six or seven, and Bob mentions them and traces the numbers, we expanded Congress above the regular benefits for unemployment -- I'm sorry; they did that, too --

but for food stamps, for housing, Medicaid, for a whole bunch of programs. So is this the way we should fight recessions and could we improve that with those two things wise? Should we have more of one or the other?

MS. STEVENSON: Well, I just have to comment on -- you say the number of times we expanded unemployment insurance. It was expanded so many times because Congress was shortsighted in terms of expanding it for very short periods of time. As Bob noted,

MR. HASKINS: No, no, that's not what I meant. That's not at all what I meant. What I meant was when a recession comes, unemployment insurance expands. It automatically goes from 26 weeks to 13 weeks and then Congress in the recession they have beyond that. That's all I meant. You know, that's the way we do it. So my question is, is that a good way to do it or should we improve any of these programs? Are there things that you think would be more effective in fighting recessions?

MR. GREENSTEIN: I'm unclear which of two things here. I thought at first you were saying for future recessions, should we follow what we did here and expand. And I think the answer in part depends on the severity of the recession. I mean recession is a very broad term. This was a deep recession. We have shallow recessions. I'm not sure you would do all of these things in a shallow recession. But I do think the concept in major recessions of going beyond just extending the number of weeks of unemployment benefits and increasing the unemployment weekly benefit level, increasing the food stamp benefit level, things of this sort, particularly providing aid to states so they don't I mean they still laid off what? Something like, we lost something like 600,000 jobs at the state and local level. It would have been substantially worse and there would have been even deeper cuts in education and Medicaid and so forth had there not been that kind of aid. But you have to try to scale it to the severity of the economic downturn you're dealing with I think.

MR. HASKINS: Good. I wanted you to answer this because you've looked at this very carefully. Is our overall strategy -- does it make sense? How would you modify it?

MR. MOFFITT: Well, are you talking about the automatic verses discretionary aspect of it?

MR. HASKINS: Both, both.

MR. MOFFITT: Because clearly I think the overall expansions made a difference here in a significant way, so you don't want to not have -- I think you want to have something.

On the automatic question, I think actually Congress did a little bit better here than in some. Usually our problem is that Congress acts slowly and they don't react to do these discretionary things until things have really gotten bad. And by the time they sign the bill and by the time the agencies actually get active, to actually get the money out, you're like two years into the recession. I think that's what happened in the mid-1970s and even a little bit in the early '80s. They acted relatively quickly this time I think compared to past, so that argument may -- you need the automatic piece there. But on the other hand you --

MR. HASKINS: Still they reacted a year and two months after what the official beginning of the recession.

MR. MOFFITT: That's right. No, they were still not immediate for sure. I think also the problem is if you do it discretionary, they're going to have a sunset provision here and they're just going to go away. And to make them -- you don't know when they really should go away. The problem is you don't know what's going to happen to the economy, but you have to pass this bill. It's going to have a date on it. And then when you get to that date, it may not be quite appropriate to end it there or maybe you should end it sooner. If you had an automatic provision, which ties the conditions properly, the expansions to conditions of the labor market, you wouldn't face this problem of ending it too early or too late and get into a bit political fight of whether this is the right time or the wrong time.

MR. HASKINS: So your answer is more automatic, more programs with automatic expansions.

MR. MOFFITT: More automatic. You've got to have some flexibility there. The conditions are going to be different in every recession. But I would have more automatic -- especially I think the glaring example, by the way, is TANF. I mean I just can't see how you could oppose something more automatic for TANF. With the block grant coming in very late -- by the way, I think another point here on food stamps. I actually think that part of the increase in the food stamps or the SNAP caseload was because we don't have TANF anymore and we did in previous recession. TANF stayed down. A lot of single mothers who would have been on TANF are now on SNAP. In fact, that even happened after the 1990s welfare reform because you got food stamps categorically if you're on TANF. A lot of women lost it, but then they started coming back on because their earnings weren't good enough to get them high enough to not need it. But TANF I think you need something automatic there. To me that's the glaring example.

MR. HASKINS: Just one clarification, by TANF I think he means cash benefit.

MR. MOFFITT: Yeah, I'm talking about the cash benefits.

MR. GREENSTEIN: I was just going to say some significant recent research by Jim Ziliak that was presented at an earlier forum here at Brookings a few months ago suggests that the increase in SNAP benefits during the recession itself increased the take-up rate because it increased the benefits relative to the transaction costs, and this suggests that some of that increase in the take-up rate may overtime come down now that the benefits have fallen back to their previous level. Again, we'll see.

But I think Robert's answer in thinking about suggests I think he's right. There should be more that's automatic. So what do you do by the fact that recessions vary in severity? Well, maybe you have a certain amount that's automatic that's kind of for a normal recession and then when you get into particularly severe recessions, you can do additional things on top of that.

MR. TANNER: I want to make a distinction on two things because we've talked about this as fighting the recession and at the same time there's the safety net issue, and I think you want to differentiate between the two of those. I think something like the stimulus bill, which was designed to fight the recession, we could have done well without. I think it turned what would have been a V-shaped recession into a more L-shaped recession, and I think the best thing that the government can do when it comes to fighting recession is nothing. Just stay out of it altogether.

When it comes to dealing with the safety net issue and the people affected by the recession, then I think there's a question of what, depending on the severity of the recession, whether you want to put things in or not. But again, my concern is that when the government tends to act, such as say waiving work requirements in the food stamp program, they never go back and you end up with this ratchet effect that's going to go on sort of forever.

So I think what you want to do is design programs so that they are countercyclical, but designed to be a program as it should be and not go in and meddle with it because there's this sense of "don't just sit there, do something" because I've got to look like I'm doing something on Capitol Hill. So I'm going to enact a law without any real thought for the future consequences of it, which may go into -- the law may not be passed until after the recession is actually over.

MR. MOFFITT: So the ratchet effect is the fact that real wages for less skilled workers have been declining since the 1970s. To me, it's perfectly appropriate. Betsey had up a slide saying in the absence of the safety net market poverty is higher than it was in 1967. So one of the reasons food stamps doesn't go down is because even as we recover, people who earn $7.25 an hour and work full time, full year, are eligible for food stamps. If the economy had grown over the last 30 years for those at the bottom in terms of getting productivity growth, then there wouldn't be a ratchet effect. The problem is not big government. The problem is big business where we have an economy that no longer trickles down. The median earnings of full-time, full-year, male workers who get no UI, no food stamps, no EITC, is virtually the same today as it was in 1973.

So it's the economy that's generating what you're calling the ratchet effect and its employers shedding pensions and health insurance that is why Medicaid is higher. So, in fact, with 10 million uninsured or however many, I would hope the number of people on Medicaid increases if firms are going to keep cutting health insurance.

MR. GREENSTEIN: Could I correct the record on something here. Michael has twice said, he just repeated it, these things never go away and his prime example is the food stamp work requirements. He is simply factually wrong. The food stamp work requirements today are identical to what they were under George W. Bush. The facts are as follows: There is a provision in the law that says that people age 18 to 50 who are not raising minor children can only get food stamps for three months out of every three years during periods when they're not working at least 20 hours a week. This was enacted in 1996. It was a Republican amendment, and the author of the amendment got up on the House floor and specifically said my amendment has a protection. It provides waivers for areas with high unemployment. That was in the Republican provision. The waiver rules were developed in regulations under the Clinton and then the Bush Administrations.

In the Recovery Act the provision was suspended for about a year and a half, and there was not three-month limit. That ended at the end of 2010. At the beginning of 2011, the entire original law and all the regulations as they were in effect under the Bush Administration took effect. Yes, 45 states got waivers. They got waivers because they had high unemployment. They got waivers under the exact same rules, to the comma that were in effect under the Bush Administration and those waivers are now expiring as the economy improves. And the Congressional Budget Office projects that under current law, 2 million people now getting benefits under those waivers will get taken off the program in the next few years as the unemployment rate comes down. The provision that the House Republican bill passed in September did was not to restore the old rules. It was to eliminate the very waiver provision that was an integral part of the Republican amendment in '96 and to say that even in a place where the unemployment rate was 10 or 15 or 20 percent, you'd still get thrown off after three months. And the rejection of that provision in the conference report puts us back in the same rules that were in effect under the Bush Administration.

MR. HASKINS: Thank you for that clarification. The last question here: A lot of discussion about incentives. It's a huge issue. It applies during recessions and it applies in general. One of the main conservative libertarian arguments is that if you give people money, they're going to work less. And, in fact, I think Sheldon many years ago wrote a review of the literature on this point. I might be the only person that remembers that. I think it might be 30 years ago. And it was a masterful review, and it showed that there was such an effect. So there is an effect like that. The big question is the size of it. So first, do we agree that whatever the effect is, that it's less during a recession? That we could be less concerned about the incentive effects? Second, in general this is a huge question about our welfare system. Now this is real important here. CBO estimates that there's about a 30 percent tax rate if you consider the tax system and benefits for people -- this is an average -- for people who earn more money. When they're under 450 percent of poverty, if you earn a dollar, the tax rate between taxes and benefits that you lose, it's about 30 percent. There's some places where it's much higher, could be almost 100 percent. So the question is, now when you mathematically draw it out and look at what the law actually says, but it doesn't tell you a thing about what actually happens. It doesn't tell you how many benefits people actually have and so forth. So the question is do we have a general incentive effect in our welfare system? Are we, in fact, encouraging a lot of people not to work or work fewer hours because of our welfare system?

MR. MOFFITT: No, and the answer -- I mean Robert will give you the exact numbers, but the problem when people talk about work incentives is the labor market has a supply side and a demand side. And so we're going to do a test of this now. You're going to cut people off unemployment. Now, there will be some people who will be able to find an employer who hires them at a wage lower than they wanted and they reduce their work. You're going to have other people who apply to firms that have now computerized screening and they just don't hire anybody who is long-term unemployed and they're not going to find jobs. And so we're now going to do a test, and Jesse Rothstein and other economists will tell us how large one side is versus the other. But the whole issue of yes, get people to look for work -- I'm all for work requirements as long as there's some low wage job of last resort, which was in the original Clinton bill, I'm perfectly happy to say to somebody your UI ends, but if you can document you can't find an employer to hire you, here's a low wage job of last resort. Then you've met the supply and the demand. But, otherwise, to assume that anybody who's kicked off work can find a job is what you're doing with work incentives --

MR. HASKINS: Okay, let me do this. I'm going to give Michael a chance to respond, but I'm assuming that everybody on the Panel -- and especially Bob who studied this probably more carefully than anybody not only on this Panel, but in the country over the years because I've read many things you've written about this -- that work disincentives exist. There is a slight effect, but it's very small and it's not a huge effect that people should really be concerned about. Is that --

MR. MOFFITT: Yeah, yeah, I think that's right, but you just need to make a few distinctions here. First of all, the worst work disincentives are in that kind of oh, we're on the poverty line or a little bit above. That's where the high tax rates kick in. The numbers that have been looked at for the poorest people actually the marginally tax rates there are negative because of the EITC and the child tax credit, which is also progressive. And for two-parent families, for example, if you're in deep poverty, the net tax rate is something like minus 10 percent. If you look at single mothers in deep poverty, the aggregate tax rate is 2 percent. I mean it's not there. Then when you get up to the phase-out period of these programs, then you have the higher tax rates. The food stamp program will give you about a 25 percent marginal phase-out rate. It's a little bit lower than the official 30. The EITC will add in another like 15 percent phase-out on that, so you can get up to the 35 or 40 rate. On other programs it will be higher, although not many people are actually on a whole lot of these other -- multiple program receipt is not as common as some people think.

But you've got a tradeoff here. You can't have the low ones without phasing them out. And so the question is in that phase-out region, where a lot of these single mothers aren't there anyway, you have work disincentives. And that's where if you look at the studies, they don't look like even there they are very large. I mean you can't find a study which shows that 40 or 50 percent in a particular range has actually had a big negative effect. I just can't find it. So I think that's part of the problem.

MR. HASKINS: Michael?

MR. TANNER: Yeah, I think it's larger than we think, and I think you have to look at the combination of how all these programs interact and when they start stacking one on top of the other. One CBO study looked at Pennsylvania, for example, and it found that the marginal tax rate for leaving welfare I believe was around 17 percent of the first dollar. But as you moved up and as more and more programs dropped off, it got as high as 95 percent at some point for the next marginal dollar earned. And I think that -- look, poor people aren't stupid. And at some point they recognize that there's a great deal of cost going to work. There's a cost involved not just with taxes, but with childcare and transportation and clothing and loss of leisure, which is an economic good, and all of those sorts of things. And if you combine that and you're not earning substantially more money, you're not going to necessarily take that job particularly if you don't see a lot of future in other things.

MR. GREENSTEIN: I think that's an important point. The very high ones that the CBO calculated included TANF, another program, and they have like a 50 percent tax rate. Add that on top of the EITC and the food stamps, then you're going to be up there. But if you look at the percentage of people on TANF and food stamps right now, it's tiny.

MR. HASKINS: This is why I drew the distinction between if you look at it and just trace out what the law says and what the actual situation is and how many people have multiple benefits, it looks very different.

MR. GREENSTEIN: I wouldn't downplay the fact that there is a small group of people who really face --

MR. TANNER: We're talking about the hard core --

MR. MOFFITT: Two points. What Robert is saying is when we get beyond theoretical issues we have empirical research on this. And the empirical research does not find large effects of people not going to work. You find small effects, not zero, but it doesn't find really big effects. The bottom line is this; Robert's word was the perfect word, tradeoff. There are only two ways to lower marginal tax rates in those phase-out ranges. Number one, you can have much smaller phase-down rates and extend these benefits much farther into the middle class. That's substantially additional budgeting costs, and I don't know of anybody who thinks that can pass the Congress. Or number two, you can really lower the benefits that people at the bottom get so you don't have as much to phase-out and that increases poverty and probably hurts child development. But there are no free lunches here. There are no ways to wave a wand and not either increase costs or increase poverty that you can lower these phase-down rates.

MS. STEVENSON: So could I actually add one thing to that because the one thing we didn't discuss here that when we're thinking about work disincentives is to actually think about what the work incentives are. And I really have to say that we have to think about the real values of minimum wage when we're having this conversation because the real value of the minimum wage hasn't kept up with inflation. Families today earning the minimum wage are in the same place they were in real terms as in 1950, and in a relative perspective, extremely low because everybody else's incomes have increased.

So coming back to Sheldon's point, you have to make sure that the incomes and the earnings that businesses are providing for people at the bottom are creating the work incentives while we're also thinking about what are the work disincentives of the safety net. And, of course, I agree with everything everyone said here about the work disincentives being small, but a real solution to this issue would be the $10.10 minimum wage that the President's called for.

MR. TANNER: Well, I just want to point out that the minimum wage is very poorly targeted to low income people; that for every person who'd be below the poverty level you would sweep up by raising the minimum wage to $10.10, you'd sweep up about four people who are lower than 300 percent of the poverty level; that you're primarily benefiting second earners, college students, things like that. At the same time, you'd have a loss, certainly some loss, of jobs for the people at the lowest skill levels where that would take place. The EITC is much better targeted in terms of an ability to raise the income of low income people than the minimum wage increase.

MR. HASKINS: Audience, raise your hand, state your name, and ask a brief question, not a comment. Right up here in the front on the right.

QUESTIONER: My name is (inaudible). My biggest concern is this Panel, I appreciate your presentation, but I still don't think you addressed the issues of our system problem, which affected reliability of data and the policy consequences. So, for instance, if you are talking about one of your slide show, you have the expenditure figures, but you don't even have the number. And that is supposed to be a small number, but you don't even have that. So just really accountability of the system have a problem, and how do you measure all the numbers? For instance, if you are talking about you want to protect a family and children, but you don't address the issues of mass incarceration or for racial profiling or how to look at where people's issues count. So we don't have you address all these issues and policy is almost meaningless.

MR. HASKINS: Anybody want to respond to that? The Panel is stumped. Next question. Yes, right here.

QUESTIONER: Hi, this is actually for Betsey. Her comment, if I understood it, was that the SPM poverty measure was a relative measure. That's not my understanding, and I thought what the Columbia group was trying to do was just extend the Census Bureau's SPM.

MS. STEVENSON: The SPM is a relative measure as measured by census.

QUESTIONER: You're talking about the census.

MS. STEVENSON: The census supplemental poverty measure is relative. So the threshold changes every year based on what a person at the 33 percentile spends on what they consider to be the basic necessities. What the Columbia group did was anchor that threshold and then adjust it for inflation taking it back. So they took the 2012 threshold and then used inflation to calculate the thresholds for all the prior years and then figure out how many families are beneath it. You actually would get something very different if you calculated the SPM measure the way census does it for 1967 and then use inflation to adjust the thresholds going up because what we see is that as people have gotten -- as we've had economic growth, people do spend more on what we might think of as necessities -- food, housing, et cetera. And so what the household at the 33 percentile spent in 2012 on that was very different from 1967.

MR. HASKINS: Is there another part of your question?

MR. MOFFITT: There is a key point of information here. The Columbia group actually has two SPM measures and they give data on both, and one is the anchor and the other one is somewhat more relative than the anchor. I don't want to get more technical than that, but if you read their papers they actually have two SPM measures and they give you all the data on both of them and they explain how each one differs from the other.

QUESTIONER: But the question I'd actually like to ask to make sure I understood what you said is the census SPM measure, you're saying, is relative in the traditional sense of relative to the average median income, for instance, which is a typical relative measure, or relative in the sense of the distribution of the household budget.

MS. STEVENSON: I mean that the threshold is not adjusted based on inflation. The threshold is adjusted based on typical spending.

MR. HASKINS: On consumption. It's based on consumption.

MS. STEVENSON: But the Columbia group explains them both.

MR. HASKINS: Okay, the next -- please ask a concise question.

QUESTIONER: Okay, I'm Trey Altman, and I'm just wondering are these Panels constructed appropriately because what you point out is there's more or less academic consensus, but somehow or another you're not managing to get this information out to the Legislature or the public. In addition to doing the work, it's important that it be used, anything you can do to improve that.

MR. HASKINS: Well, we attract a lot of congressional staffers and administration staffers. We put out all kinds of paper. We do our best, but if you have suggestions, I'd love to hear them. We'd love to get the word out more.

Belle, are you going to ask a quick question?

MS. SAWHILL: I was simply going to respond to this gentleman, to point out that several members of this Panel have just finished testifying before Congress. And Michael Tanner, I know I saw him on the *News Hour* the other night. I mean all of these people are out there and obviously the Council of Economic Advisors is very influential. So I think you're missing something if you don't think this is an influential group.

QUESTIONER: No, I don't think that at all. It was just that I'm so frustrated that there's clear data one way and there's so much public opinion the other way --

MS. SAWHILL: Well, I share your frustration. I articulated my own earlier about the breakdown of any kind of consensus about macroeconomic policy, and we see it reflected here.

MR. HASKINS: All right. This is the last question.

QUESTIONER: Hi, my name's Mitch. Thank you so much for speaking with us today. It's been very enlightening. I wanted to ask about fiscal restraint/austerity/responsibility that many of you alluded to. My experience in this area is limited, but it seems to me intuitively that fiscal responsibility takes a different priority level when you have a massive recession and when you have a lot of people doing really poorly. And it seems to me that it wasn't just domestically that austerity became a big point of purpose for especially conservatives; that it was a worldwide phenomenon, particularly in Europe. And so I'm curious if you can talk about why you think that emerged so powerfully during this recession and what role responsibility/austerity has going forward as we hopefully emerge from recession and have a higher growth period. When do we stop in my view valuing investment in the people of our country and our economy and start valuing responsibility or austerity more?

MR. TANNER: I guess one thing I want to raise in terms of the definition of austerity because I think the definition of austerity, particularly when it was applied to Europe, may often have been misleading. Austerity there was often defined as anything that shrank the deficit regardless of whether it was on the spending side or the tax side. And, in fact, if you actually looked at the mix overall through Europe, it was about $9 in tax increases for every $1 in spending cuts that they made, and in some countries it was much worse than that. So what you actually had was there austerity involved simply taking money out of the economy and using it to pay off debt, which I think was not a particularly good move.

If you look at the countries, I think the Baltic nations -- especially Estonia, Latvia, Lithuania, and so on -- that actually did have much more spending restraint than they did tax increases, they bounced back from the recession. They had much more of that V-shape that I was talking about. They had a fairly deep recession, but then they came back out of it fairly quickly with economic growth. Most of them haven't quite gotten up to where they were pre-recession, but they've actually bounced back much faster. A lot of the other countries seem to have settled into this L-shaped type of thing where they've come down -- they didn't bottom out as low as the Baltic nations, but then they sort of flattened out and they haven't come back. So I think that's something to look at.

MR. GREENSTEIN: What we really need in economic policy is you need government to increase aggregate demand. You need larger deficits during economic downturns. And we need to reduce deficits out in the long term for future decades. It's kind of the right mix. So you want to have measures that increase spending during downturns and your one concern -- Michael alluded to this -- is you don't want them to become permanent. But contrary to what Michael said, they generally don't become permanent. The TANF unemployment benefit increases all ended in 2010. The Medicaid extra federal funding ended in 2011. The food stamp additional benefits ended last November. The unemployment weeks are either going to over now or at most go till some point later in the year. This stuff isn't becoming permanent by and large. It is ending. The two things we did wrong is we didn't do enough of that. We ended some of them too early and ideally you would mix them with some things that make more progress for the long term on the fiscal restraint side.

MR. HASKINS: So that is the last word. I'd like to ask the audience to join me in thanking the Panel. Thank you very much.

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