Trends in the U.S. Safety Net and Its Anti-Poverty Effectiveness

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The Topic

- U.S. safety net has undergone many changes in last 15-20 years
- 1996 reform of the AFDC, now TANF, program
- Food Stamps has expanded
- Medicaid has blown up
- SSI, EITC have also grown
- Now: Great Recession
Questions to be addressed:

(1) Has the transfer system become more or less generous over time? (conventional wisdom: less)

(2) How much does it decrease poverty and has that changed over time?

(3) What types of individuals have benefited or lost ground because of changes in the transfer system?
An old question and much work done on
But hope to provide some new information
Most of what I will present here is based on a series of papers with Karl Scholz and various coauthors
The most recent (with Y. Ben-Shalom) was completed last June, is forthcoming in Oxford Handbook of the Economics of Poverty
Have new project on extending to Great Recession: no results yet but will talk about what my predictions are
Answers, in Brief, to the 3 Questions:

(1) Transfer system has become more generous overall but there has been a redistribution between programs and types of families.

(2) It reduces poverty but, over time, more for families somewhat higher in income dist.

(3) Mostly the worst-off families have benefited from program expansions but sometimes worst-off have suffered from contractions.
Outline

I. The Landscape in 2007
II. Programmatic reforms prior to 2007
III. Trends in Expenditure
IV. Trends in Poverty Effectiveness
V. Thoughts on the Great Recession
## I. The Landscape in 2007

<table>
<thead>
<tr>
<th>Program</th>
<th>No. Recips (000)</th>
<th>Expend ($ mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>54,800</td>
<td>$328,900</td>
</tr>
<tr>
<td>School Food</td>
<td>40,700</td>
<td>10,900</td>
</tr>
<tr>
<td>SNAP</td>
<td>26,500</td>
<td>30,400</td>
</tr>
<tr>
<td>EITC</td>
<td>24,600</td>
<td>48,500</td>
</tr>
<tr>
<td>WIC</td>
<td>8,300</td>
<td>5,400</td>
</tr>
<tr>
<td>SSI</td>
<td>7,400</td>
<td>41,200</td>
</tr>
<tr>
<td>Housing</td>
<td>5,100</td>
<td>39,400</td>
</tr>
<tr>
<td>TANF</td>
<td>4,100</td>
<td>11,600</td>
</tr>
</tbody>
</table>
II. Programmatic Reforms Prior to 2007
Medicaid:

- Large entitlement program
- Subsidized medical care, zero copay
- Parents and children, institutionalized elderly, other elderly and disabled
- Parents and children: used to be tied to AFDC/TANF, now much less so
- 1980s expansions to non-AFDC individuals; and SCHIP
- Research: work disincentives modest; crowdout an issue; no savings studies
SNAP and Other Food Programs:

- SNAP Food allotments, debit card mechanism
- Near-universal, closest to Neg Income Tax
- Growing in last few years
- USDA has been actively reforming (outreach, simplified elig., etc.); also EBT, immigrants eligibility restoration
- Research: work incentives modest (too small), increases food expenditure and nutrient intake (less so)
- **EITC:**
  - Benefits for workers, subsidy rate as high as 40% up to $20,000 (marrieds), then phased out; expanded in 1980s/1990s
  - Distributionally, helps those most in the $10K-$30K range
  - Research: positive effects on LFP of single mothers, zero on men, small negative on hours of married women
  - Generally taken as a refund and single mothers use to draw down debt
SSI:

- Cash for elderly (65+), blind, disabled (80% of recipients)
- High growth rates, especially disabled children (rules; benefits vs wages; medical determination test)
- Some movement into it from TANF; 2000s restoration of immigrant eligibility
- Research: financial incentives and other programs to encourage work among disabled have had little effect
Housing

Still an important program, large in expenditures

Over time, more vouchers and less public housing

Has many complex parts, fears of corruption from developers

Research: some negative effects on work effort (forthcoming AER paper)
TANF

Cash program for low-income children (mostly) in single parent households

Has drastically declined in importance after 1996 welfare reform

7th in terms of recips, 5th in terms of expenditure

Caseload in 2007 what is was in the 1960s

No research on work incentives of current program, though presumed small
Child care, including Head Start:
  11,500 (000) children served,
  $20,600 (mill) (2000)

Head Start
  908 (000) children served
  $6,900 (mill) (2007)

Child Support Enforcement
  11,900 (000) custodial mothers
Some overall comments:

- Most are in-kind (SNAP least targeted)
- Cash programs: EITC, SSI, TANF
- Almost all cash are targeted:
  -- EITC only for workers
  -- SSI only for aged, blind, and disabled poor
  -- TANF is the only ‘unrestricted’ cash program, but now quite small
Social Insurance

- Not anti-poverty in purpose but have a large effect on special low-income groups
- big guys on the block: OASI, Medicare
- dominate the others
- mostly for the older population
- UI, WC, SSDI (DI) small overall but important for particular subpopulations

III. Some Trends in Expenditure
Annual Expenditure Per Capita, 1970-2007

Sources: Available from authors
Non-Medicaid Means-Tested Annual Expenditure Per Capita, 1970-2007

Sources: Available from authors
Answer to first question:

Generosity of the system has gone up over time

Rapid increase in 1990s (non-Medicaid) and rapid increase in 2000s in Medicaid

Next: look on specific non-Medicaid means-tested programs
Annual Expenditure Per Capita, 1970-2007: Selected Means-Tested Programs

Expenditure Per Capita

Year

AFDC-TANF

SSI

EITC

Food Stamps
So:

**Up:** SSI (esp since 1990), Food Stamps (since the 1980s; cyclical), EITC (since the late 1980s)

**Down:** AFDC/TANF
Annual Expenditure Per Capita, Social Insurance, 1970-2007

Expenditure Per Capita

Year

Sources: Available from authors
Winners and Losers in the Expenditure Trends?

Although aggregate expenditure has raced upwards, the uneven increases in different programs, coupled with their different types of recipients, suggest there have been winners and losers.

- Single mothers vs marrieds vs singles;
- working poor vs non-working poor;
- elderly vs non-elderly;
- disabled vs non-disabled
Can’t make any more progress on this question with published aggregates; need micro data

Series of papers with Scholz and grad student coauthors

Latest: Ben-Shalom, Moffitt, Scholz (forthcoming)

SIPP: 1984, 1993, 2004; similar points in business cycle; counted benefits per family; adjusted for undercounts
### Average monthly expenditures per family (2007 dollars) *

<table>
<thead>
<tr>
<th>Category</th>
<th>1984</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single parent</td>
<td>$600</td>
<td>$500</td>
</tr>
<tr>
<td>Two parent</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Childless</td>
<td>140</td>
<td>150</td>
</tr>
<tr>
<td>Employed</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Nonemployed</td>
<td>700</td>
<td>540</td>
</tr>
<tr>
<td>Elderly</td>
<td>1,200</td>
<td>1,300</td>
</tr>
<tr>
<td>Disabled</td>
<td>1,250</td>
<td>1,450</td>
</tr>
</tbody>
</table>

Elderly and disabled groups classified by head status; employed have one person 15+ who worked in last four months; disabled are SSI or DI recipients

*Means-Tested + Social Insurance
IV. Anti-Poverty Effectiveness

- SIPP: for each family, count all private income and all transfers except Medicare and Medicaid (too hard to value), and take out income and payroll taxes.
- Compare to official government thresholds for each family size.
- Also look at deep poverty (income < 50% PL) and go up to 150% PL.
<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-Transfer</th>
<th>Post-Transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pov</td>
<td>Deep</td>
</tr>
<tr>
<td>Rate</td>
<td>Pov</td>
<td>Pov</td>
</tr>
<tr>
<td>1984</td>
<td>32%</td>
<td>20%</td>
</tr>
<tr>
<td>1993</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>2004</td>
<td>29%</td>
<td>21%</td>
</tr>
</tbody>
</table>
Answer to second question: yes, system reduces the poverty rate

System reduced the poverty rate from 29% to 14% in 2004

Filled one-third of the poverty gap

Reduced deep poverty but also went to families above poverty line

Effectiveness has declined slightly from 1984 to 2004

Deep poverty has risen, pre and post-transfer
Figure 12.
Reduction in Income Inequality from Transfers and Federal Taxes
(Percentage reduction in Gini index)
Table 7.2. **Redistribution: general country trend**

Inequality before and after taxes and transfers\(^1\)

Countries with full tax and benefit information for mid-1980s, mid-1990s and mid-2000s\(^2\)

<table>
<thead>
<tr>
<th></th>
<th>Market income</th>
<th>Disposable income</th>
<th>Redistribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gm</td>
<td>Change, % of base period</td>
<td>Gd</td>
</tr>
<tr>
<td>12-country average</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>mid-1980s</td>
<td>36.2</td>
<td></td>
<td>26.7</td>
</tr>
<tr>
<td>mid-1990s</td>
<td>39.2</td>
<td>8.2</td>
<td>27.4</td>
</tr>
<tr>
<td>mid-2000s</td>
<td>39.8</td>
<td>9.8</td>
<td>28.3</td>
</tr>
</tbody>
</table>

\(^1\) National account definitions are used for Gini measures.

\(^2\) For details, see Table 7.1.
Using NAS-style poverty measure makes almost no difference, since income measure here already adds in-kind, tax credits, and takes out income/payroll taxes.

Additional deductions suggested by NAS make little difference.

NAS threshold is slightly higher than government, so all rates up, but no change in effectiveness of government programs.
But how poverty impacts of the system have changed over time for different demographic and economic groups?

Demographic: have already hinted at it by showing expenditure differences by group

Now: show poverty impacts by group
Poverty Rates
By Demographic Group
2004

Pre-Transfer Poverty Rate
Post-Transfer Poverty Rate

Poverty Rate

Single Parents  Two Parents  Employed  Nonemployed  Elderly  Disabled
Difference between Pre-Transfer & Post-Transfer Poverty Rates
By Demographic Group
1984 & 2004

- Single Parents
- Two Parents
- Employed
- Nonemployed
- Elderly
- Disabled

1984 vs 2004
System helps the elderly and disabled the most

Helps the employed and nonemployed the least

Although post-transfer poverty rates are highest for the non-employed

Over time: main change is that poverty impacts for single mothers and non-employed have declined
Average Monthly Government Expenditures:
By Demographic Group & Poverty Level
1984 & 2004
Pre-Transfer Income Less than 50% of Poverty Level

Average Monthly Government Expenditures

1984  2004

Single Parents
Two Parents
Employed
Nonemployed
Elderly
Disabled
Average Monthly Government Expenditures:
By Demographic Group & Poverty Level
1984 & 2004
Pre-Transfer Income Greater than 50% of Poverty Level and Less than Poverty Line
Average Monthly Government Expenditures:
By Demographic Group & Poverty Level
1984 & 2004
Pre-Transfer Income Less than 150% of Poverty Level

Average Monthly Government Expenditures

<table>
<thead>
<tr>
<th>Demographic Group</th>
<th>1984</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Parents</td>
<td>$300</td>
<td>$500</td>
</tr>
<tr>
<td>Two Parents</td>
<td>$400</td>
<td>$600</td>
</tr>
<tr>
<td>Employed</td>
<td>$200</td>
<td>$300</td>
</tr>
<tr>
<td>Nonemployed</td>
<td>$400</td>
<td>$600</td>
</tr>
<tr>
<td>Elderly</td>
<td>$1,000</td>
<td>$1,400</td>
</tr>
<tr>
<td>Disabled</td>
<td>$1,200</td>
<td>$1,600</td>
</tr>
</tbody>
</table>
Answer to third question:

Yes, there has been a redistribution of expenditure within the overall increase in total expenditure, and poverty impact for different groups has changed over time.

Redistribution from non-elderly, non-disabled to elderly and disabled.

Within groups, redistribution from lowest-income families to higher-income families.
One parent, deep poverty: almost entirely due to reduction in AFDC/TANF and FSP

Two parent: similar

Both showed increase in FSP participation at higher income levels (and EITC)

Nonemployed, deep poverty: really reflecting the same two programs (and small reduction in housing)
- Elderly: increases at all levels, probably a result of higher lifetime earnings
- Disabled: increase for deep poverty families a result of increased participation rate in SSDI
- Disabled, higher income families: big increase in SSI participation rate, small increases in EITC, Food Stamps (remember the definition)
Important to note that it has not been just a relative redistribution, i.e., working families and higher-income groups have gotten relatively more than lower-income groups.

On the contrary, transfers to lower-income groups have fallen in absolute (real) terms.
Behavioral Responses

- 2011 paper has a long section on work disincentives
- Should be expected to lead to an overstatement of poverty impacts
- Quantitative estimates in the paper show: almost no impact on the large aggregates examined in this paper
Footnote on the EITC: since it should increase work, above estimates should overstate, not understate, its impact

But EITC incentive effects, though they have occurred, are trivial relative to the redistributional impact of the EITC

In fact, policy-makers were always motivated by the redistributional impact, not the incentive effects, of the EITC
V. Great Recession

- Poverty rate up for all families
- Questions:
  1. Which programs should be expected to be more cyclically sensitive, a priori?
  2. Have there been any other structural reforms?
  3. What, in fact, have been the expenditure trends?
Cyclically Sensitive

- Classic: UI
- Means-Tested Entitlements: Food Stamps
- Other programs: not so obvious
- TANF: Not an entitlement; block-grant
- EITC: is both procyclical and countercyclical (earnings loss can increase or decrease payments)
Structural Reforms

(1) UI Extensions (most recent extension will probably be the last)

(2) ARRA: TANF, EITC, SNAP, et al. (most have now gone away; EITC ARRA was extended to 2010 and 2011 tax years)

Not structural in sense of permanent; but should cause a deviation from normal cyclical expectations
Expenditure Per Capita, Means-Tested Programs

- AFDC/TANF
- SSI
- EITC
- Food Stamps
TANF: probably the most important needed reform is in the block grant system (before time limits, work requirements, etc.)
Expenditure per capita, UI and DI
Poverty

- Do not have SIPP numbers yet
- CPS: Ziliak (forthcoming)
On a priori grounds, should one expect a transfer system to become more or less effective during a recession?

Answer: if no structural reforms and if no change in the shape of the income distribution below the PL, the percent of pre-transfer poor moved out of poverty should be unchanged but the percentage point reduction should increase.
<table>
<thead>
<tr>
<th>Year</th>
<th>Pre-tax and transfer</th>
<th>Official</th>
<th>After tax and in-kind transfers</th>
<th>Percent Reduction (%)</th>
<th>Percent Reduction (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>54.8</td>
<td>32.3</td>
<td>26.7</td>
<td>-41</td>
<td>-17</td>
</tr>
<tr>
<td>2000</td>
<td>54.5</td>
<td>31.6</td>
<td>27.0</td>
<td>-42</td>
<td>-14</td>
</tr>
<tr>
<td>2001</td>
<td>56.4</td>
<td>32.9</td>
<td>27.8</td>
<td>-42</td>
<td>-15</td>
</tr>
<tr>
<td>2002</td>
<td>59.9</td>
<td>34.6</td>
<td>29.0</td>
<td>-42</td>
<td>-16</td>
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<tr>
<td>2003</td>
<td>61.3</td>
<td>35.9</td>
<td>30.2</td>
<td>-41</td>
<td>-16</td>
</tr>
<tr>
<td>2004</td>
<td>62.8</td>
<td>37.0</td>
<td>31.1</td>
<td>-41</td>
<td>-16</td>
</tr>
<tr>
<td>2005</td>
<td>61.9</td>
<td>36.9</td>
<td>30.9</td>
<td>-40</td>
<td>-16</td>
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<tr>
<td>2006</td>
<td>61.1</td>
<td>36.5</td>
<td>30.5</td>
<td>-40</td>
<td>-16</td>
</tr>
<tr>
<td>2007</td>
<td>62.4</td>
<td>37.3</td>
<td>31.0</td>
<td>-40</td>
<td>-17</td>
</tr>
<tr>
<td>2008</td>
<td>66.9</td>
<td>39.8</td>
<td>33.8</td>
<td>-40</td>
<td>-15</td>
</tr>
<tr>
<td>2009</td>
<td>74.8</td>
<td>43.5</td>
<td>35.1</td>
<td>-42</td>
<td>-19</td>
</tr>
</tbody>
</table>
Up through 2008, confirmation: percent reduction stable, percentage point reduction variable

2009: much bigger percent reduction; probably structural reforms
- Problem: treatment of Medicare and Medicaid
- Ziliak adopts Census “fungible value” methodology
- Greatly understates value of Medicaid to lowest income families: assigns them a zero value of Medicaid
- Burtless working on; I will pull on some of his work
My conclusion on Great Recession:

- All indications are that, in aggregate (again), safety net has done reasonably well, especially with ARRA and UI extensions
- But (once again), distribution....
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