September 2016 podcast transcript and edited interview

Featuring Tim Beatty, Associate Professor, Dept. of Agricultural and Resource Economics, Univ. of California, Davis

Hosted by Dave Chancellor

Do the Labels We Use for Public Benefit Programs Matter?

Chancellor Hello and thanks for joining us for the September 2016 episode of the Poverty Research and Policy Podcast from the Institute for Research on Poverty at the University of Wisconsin Madison. I'm Dave Chancellor.

For this episode, I interviewed Tim Beatty, an economist at the University of California Davis. Beatty was at IRP in April of 2016, and during his visit, we talked about an article in the American Journal of Agricultural Economics that he co-wrote with Charlotte Tuttle about the SNAP or food stamps program and what happened to people's spending when there was a sudden increase in the program benefit. The answer is interesting, because Beatty says it can tell us something about whether the labels we use for public benefit programs influence how people spend their money.

Beatty The idea on this and a lot of my work is governments often give descriptive titles to what are essentially cash transfers to people; these exist in a variety of different kind of schemes, so if you think about rental vouchers, that's a payment that's given to a household to help pay their rent. In a lot of European countries they have something called a child benefit which is exactly what it sounds like, it's a bit of money given to the parent, typically the mother, to spend on the needs of their child. There's a payment in the UK that was the subject of some earlier work which is called the Winter Fuel Payment. Which is, again, just a cash transfer to households in the United Kingdom, to elderly people to help them pay their bills. And it turns out, as an economist, we typically think of these labels as not being very useful. If I give you $100 and I call it "the winter fuel payment" or "food money" we typically don't think that that will influence the way you spend it. We think you'll just ignore that label.

Chancellor Beatty notes that economists apply this same line of thinking, that what we call a program doesn't influence spending patterns, also applies to SNAP or food stamps program.

Beatty The Supplemental Nutrition Assistance Program, or SNAP, or food stamps, has a very similar structure in the sense that people get some money to spend on food. Now, the difference between, say the winter fuel payment and SNAP is that you have to spend this money on food. But let's say every month you spend $500 on food, and someone hands you a card for $100 and says you have to spend this $100 on food, as an economist we typically just think what you'll do is take $100 that was your cash that you used to spend on food, slot in that card and not really change the amount—you might spend a little bit more on food because you're a little wealthier because you have $100 more that you didn't have before, but we don't typically think that you would take all $100 and now spend $600 on food.

Chancellor These descriptive labels and titles are common; politicians like to attach them to legislation because they can suggest a behavior that voters are more likely to see as positive. But the question is, contrary to what economists might traditionally think, do the labels work?

Beatty In the case of SNAP, this is something that people have worked on for a really long time. The first paper on this actually dates back to like 1945. And at that point, someone called Southworth in what was then the *Journal of Farm Economics* which is now the *American Journal of Agricultural Economics*, which I'm actually editing now—so it's like this full circle thing which is kind of enjoyable—sort of showed that if you give you people, sort of laid down the classical economist model which is that this shouldn't affect, above the effect of being a little wealthier (so if you're a little bit wealthier, you're going to buy a little bit more food because you have a little bit more money on food but you're not going to spend the full value of that transfer on food)… he laid out that basic model in 1945. And people have really worked on this question pretty continuously ever since. We actually did some other work and looked at how many people tried to answer this question and we got 60-odd studies, really on SNAP/Food Stamps and essentially how people spend it and whether it has a sort of outsized influence on spending.

Chancellor But a lot of this research was based on earlier versions of the Food Stamp program. Beatty and Tuttle set out to update this research in order to better inform current policy.

Beatty There had been a quite good and quite important paper by Hillary Hoynes and Diane Whitmore Schanzenbach that looked at the early roll out of the food stamp program to sort of try to tease out the effects of food stamps on spending but it was really an excellent piece of work but it looks at kind of a food stamp program that doesn't exist anymore, so it's informative about policy, but it's not informative about current policy. So we wanted to try to do something a little bit more modern that looked at sort of the modern food stamp program. The ideal thing to do would be to do an experiment and randomly give a bunch of food stamp recipients more food stamp money and we can't really do that because we don't have that kind of money. But what we were able to do is kind of leverage what's called the American Recovery and Reinvestment Act of 2009 which gave SNAP recipients, it increased SNAP benefits considerably. It was sort of the largest one time increase in the program. And so we were able to get data on individual households both before and after that increase and look at how they spent that increase. And what we found is that these labels actually ended up being much more effective than we had thought, than standard theory would suggest. So people spent a much larger share of the increase in benefits on food than we would have thought from basic economics.

Chancellor Beatty says their key finding, that for each additional dollar of benefit, people spent about an additional 50 cents on their overall food budget, was surprising because it was such a large increase. As he was saying before, they expected that people would spend a little bit more on food because they had a little bit more money, so maybe something more like 10 or 15 cents on the dollar instead of 50 cents.

Beatty At the outset, honestly, we didn't think we would find such large numbers so we really subject the results to pretty destructive testing. We did a number of what are known as falsification analyses, the idea being that there are a number of things that you wouldn't expect to respond. So, for example, SNAP can't be spent on food away from home, so what we did was we looked at spending on food away from home instead of food at home and we found that there was no real change in spending on food away from home. So, if our results were being driven by other things, by other confounding factors, maybe you would expect the food away from home—something that affects food spending—you might expect to see something in food away from home, but really didn't see that the ARRA benefits changed spending on food away from home. We also looked at periods before and after, periods in which there wasn't actually a benefit change and we found that there was no change in the level of spending in food when we looked at two periods before the benefit increase or periods after the benefit increase. It was really only when there was the benefit increase that we saw this effect. So we have good reason to believe that is was caused by this increase in SNAP benefits as opposed to other unobservable factors.

Chancellor Professor Beatty was quick to point out here that a possible limitation of the study is that it took place in the aftermath of the Great Recession when the economy and a lot of people were struggling and it's not completely clear if or how things would have been different in a more stable time. But, he says, the study does suggest that people do respond to these kinds of labels. As for why that might be the case, Beatty says that the behavioral economics literature gives us some ideas.

Beatty Thaler proposed this notion of mental accounts. If I put a descriptive label on a transfer, you may place it in your mental account for food and you can substitute money in your mental accounts, but that comes at some cost. Economists call it fungibility which is the ability to split money up to various purposes without much cost — and so that may interfere with fungibility, so it may be psychologically costly to you to put money you had in your food account and spend it on something else. You do it to some extent. We didn't find that an additional dollar in SNAP benefits translated to an additional dollar in food spending. It was closer to 50 cents, which is very high relative to the previous literature. But, sort of this theory of mental accounting might explain part of it, that people don't sort of evenly substitute between mental accounts without some cost so that explains why people might sort of treat these kinds of payments a little differently.

Chancellor Beatty says other research looking at these increases in SNAP benefits that came as part of the American Recovery and Reinvestment Act align with the story he's telling here.

Beatty There's work by Mark Nord at ERS at USDA who found that this increase translated to a decrease in food insecurity at the time of the recession. People have found that diet quality went up after these benefits so in some sense, the work we did explains or provides the mechanism by which those other findings can be rationalized. If we see people spending more on food, that translates to better food, typically, that translates to higher dietary quality food which, again, some other ERS researchers found. And if you spend more on food, you're less likely to be food insecure and so that explains some of Mark Nord's findings. There's now sort of a body of evidence that these ARRA benefits were very important in helping households through the Great Recession. And so we're one paper that sort of finds the mechanism by which some of the other responses can be explained.

Chancellor This finding that giving labels to public transfers can influence people's spending may offer both good and bad news, Beatty says.

Beatty It's a good news story in the sense that it give policymakers another lever to influence behavior, which is a nudge in the truest sense of the nudge in that it doesn't require you to behave in a certain way, but it sort tries to induce you to behave in a certain way. But I think it also has potential negative implication which is that if you are giving a payment a name for political expediency, you may end up nudging people in a direction that you didn't intend. If you give a payment a name simply to get it through Congress, or simply to get it approved, but you were hoping people will ignore the descriptive label because economists have told you they're going to ignore the descriptive label, you might sort of want to proceed a little bit more cautiously. That these labels can have an effect. We don't really know, there's still a lot of work to be done. We really looked at reasonably short time around the payment increase so, maybe three periods later, you've learned how to manage your higher benefits so it's possible it reverts back to some predetermined level. We didn't see any evidence of that as far out as we could track people, but just given the nature of the data we used, you couldn't track people for a terribly long period. You couldn't say, two years later that people had sustained higher food spending. But we could say, a couple months later people did have sustained higher food spending.

Chancellor Thanks to Tim Beatty for sharing his work with us.

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