

**The Social
Safety Net
in the Great
Recession**

**Success,
failure, or a
little of each?**

**BY ROBERT A.
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The Great Recession, which began in 2007, fully earned that descriptive adjective. It was the deepest downturn in postwar U.S. history, with GDP declining by over 3 percent from 2007 to 2009, followed by an excruciatingly long recovery.

The unemployment rate rocketed from 4.4 percent in March 2007 to 10 percent in October 2009 and has dawdled downward ever since.

Indeed, the rate remained above 8 percent through the first half of 2012. Particularly disturbing was the increase in long-term unemployment – joblessness of more than six months – which rose from 20 percent of the unemployed in 2007 to 41 percent in 2012, and had barely inched below 35 percent by July 2014.

No surprise, then, that the role of the social safety net in protecting hard-hit families has been in the public eye. Most notably, both food stamps (now called the Supplemental Nutrition Assistance Program, or SNAP) and unemployment insurance, to name just two leading sources of assistance, expanded dramatically. Food stamp spending more than doubled between 2007 and 2009, as the number of people receiving benefits grew from 30 million to 50 million. Meanwhile, outlays for unemployment insurance quadrupled between 2007 and 2009, reaching \$128 billion annually. (Although unemployment insurance is not a means-tested antipoverty program per se, many low-income households benefit from it.)

But raw numbers don't tell us all we need to know in order to judge the adequacy of the safety net or the merits of the programs that comprise it. How much of the increase in spending was automatic – that is, a straight-

forward consequence of layoffs and falling incomes – and how much was due to the expansion of government programs? Which groups among those affected by the recession benefited the most, and which the least? How much went to the poorest of the poor rather than families still managing to scrape by? How much did these programs discourage work, thereby reducing the effective size of the workforce?

We now more or less know the answers. But before plunging in, it's worth a look to see where the safety net stood just before the Great Recession began.

BEFORE THE FALL

The U.S. safety net is composed of dozens, if not hundreds, of programs, but just a handful of them drive total government spending and caseloads. The two classic welfare programs are Medicaid and food stamps, both of which require recipients to have very low incomes and meager assets to qualify. Of the two, Medicaid is the elephant, with 2007 spending of \$328 billion. Food stamp outlays totaled a “mere” \$41 billion. (Two other sizable programs, it should be noted, subsidize school breakfasts and lunches for children from poor families.)

The traditional source of “welfare,” which used to be large but, by 2007, had shrunk to a shadow of its former self, is called Temporary Assistance to Needy Families. You may re-

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member its predecessor, Aid to Families with Dependent Children, which died with the Clinton-led reform in 1996. Temporary Assistance to Needy Families spending totaled only \$11.6 billion in 2007.

Washington also underwrites housing assistance to low-income families. Plain-vanilla public housing is being phased out; many units have actually been demolished. But the government does subsidize rents for families who find apartments in the private housing market, spending in total a shade less than \$40 billion in 2007 – most of it on what is informally known as the Section 8 voucher program.

The last of the major welfare spending programs is Supplemental Security Income (SSI), which provided \$41 billion in cash in 2007 to the elderly and disabled who were ineligible for (or inadequately supported by) Social Security. Well, not quite the last. Although not usually viewed as welfare, the Earned Income Tax Credit provides refundable tax credits – that is, cash payments in ex-

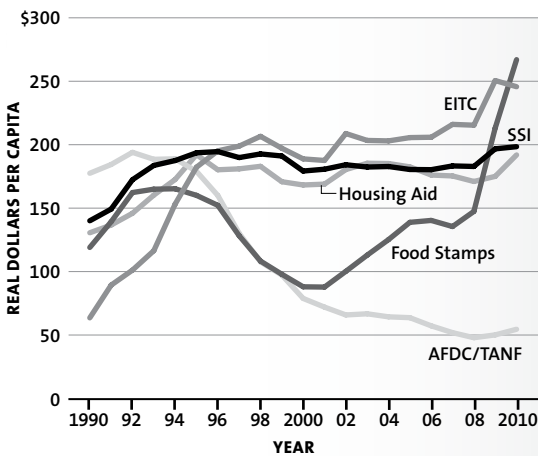
cess of other taxes owed – for working families with children. The maximum credit (as much as \$4,000 annually) goes to families with earnings between \$10,000 and \$20,000. The Earned Income Tax Credit grew from modest origins in the 1970s to a major program today, mostly as the result of expansions of benefits and eligibility enacted under presidents George H.W. Bush and Bill Clinton. Total spending in 2007 topped \$48 billion, making it the fourth-largest program benefiting low-income families.

Finally, there are so-called social insurance programs that provide assistance to individuals and families who have worked in the past and, directly or indirectly, paid premiums to the insurance funds. Unemployment insurance fits this category – as does Social Security Disability Insurance, which provides cash to those who have substantial work histories when they become disabled. Of course, the largest of the social insurance programs comprise the Social Security retirement program

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and Medicare, which provide a substantial portion of the income of the aging. Although none of these is targeted at low-income families per se, millions of poor families do, in fact, receive assistance from them. Moreover, the formulas that determine the amount of benefits effectively redistribute substantial sums from the general population to the poor.

SOCIAL INSURANCE AND ANTI-POVERTY SPENDING BY PROGRAM, 1990–2010



SOURCE: The author

THE HAMMER FALLS

When unemployment rises, many safety-net programs kick in automatically. Thus as individuals lose their jobs, those who've worked long enough to qualify receive unemployment insurance benefits. And as household incomes fall, they become eligible for food stamps and Medicaid. Workers with dependent children who had been making \$30,000-plus before being laid off and are able to find part-time work or lower-paying full-time work earning between \$10,000 and \$20,000 automatically receive Earned Income Tax Credit benefits as cash or as credits that re-

duce or wipe out paycheck deductions for Social Security and Medicare taxes. These and other automatic expenditures serve a dual purpose, keeping financially stressed households above water and helping to stabilize the aggregate economy by injecting purchasing power.

But several important programs do not kick in automatically. Job loss does not directly create disability, so neither Supplemental Security Income nor Social Security Disability Income outlays would necessarily rise. Moreover, an important feature of two safety-net programs – housing assistance and Temporary Assistance to Needy Families – limit the degree to which they can be expected to buffer falling incomes. They are *not* entitlement programs.

That is, families are not guaranteed help from them even if they fall below the income thresholds for eligibility. That's because enrollment is limited by the funds available. Indeed, there are long waiting lists for housing vouchers, and Temporary Assistance to Needy Families expenditures are limited by the size of the block grants Congress allocates to the states.

That said, Congress did raise spending on most assistance programs during the worst of the recession. In a series of bills in 2008 and 2009, it added weeks of eligibility to unemployment insurance, ending up with a maximum of 99 weeks at the peak, compared to the 26 weeks normally available in good economic times. Moreover, between March 2009 and June 2010, Congress bumped up weekly unemployment benefits. Food stamp benefits were also temporarily raised, and additional funds provided for Temporary Assistance to Needy Families block grants to the states. The Earned Income Tax Credit, for its part, was increased for families with three or more children. One-time payments to Social Security





retirees were added, too. Some additional housing assistance funds were provided.

A SCORECARD

Spending on the 15 largest welfare, tax credit and social insurance programs rose from \$1.7 trillion in 2007 to \$2 trillion in 2009, a 17 percent increase. Excluding social insurance programs – that is, focusing only on programs targeted specifically to low-income families – spending over the same period rose from \$608 billion to \$681 billion, a 12 percent increase.

But were these increases different in scale than in past recessions? The closest thing to the Great Recession that the economy has experienced since World War II was the massive

1979–1982 recession, when Federal Reserve Chairman Paul Volker initiated a contractionary monetary policy to reduce the high inflation rates of the late 1970s. Unemployment rose from 5.8 percent in 1979 to 9.7 percent in 1982, only a slightly smaller increase than the one experienced from 2007 to 2009. Yet spending on unemployment insurance grew by only half as much as during the Great Recession.

The growth in outlays for means-tested welfare programs was also much smaller under the Reagan administration. That's in large part due to the fact that the Earned Income Tax Credit had not been expanded and the food stamp program was still relatively small (though Aid to Families with Depen-

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dent Children was much larger than today's Temporary Assistance to Needy Families program). All told, means-tested spending grew by only 6 percent in the early-1980s recession, compared to the aforementioned 12 percent jump during the Great Recession.

Why the bigger bang this last time around? No thanks to Temporary Assistance to Needy Families, which exhibited virtually no response to the latest downturn. In fact, a more detailed look shows that spending and caseloads actually fell in some states. Spending on Temporary Assistance to Needy Families block grants has been fixed in nominal dollars since 1996, and the special supplements provided by Congress during the Great Recession were quite modest. In my view, the fact that there is no provision in the law to allow the TANF block grants to increase in a recession of the magnitude the country faced after 2007 signifies a major failure in public policy.

By contrast, the food stamp program (which is backed by farm lobbies as well as liberals) grew robustly. While some of the expansion was simply the consequence of rising eligibility as household incomes fell, the growth stemmed from more than that. In the 2000s, the Department of Agriculture, realizing that only about two-thirds of families formally eligible for food stamps were actually drawing benefits, encouraged state efforts to increase participation. Most states reduced the paperwork needed to prove eligibility, increased the length of time in which recipients would not have to resubmit evidence of eligibility, reduced the stringency of maximum-

asset tests and conducted media campaigns to recruit eligible households. These changes led to an increase in the food stamp program caseload and set the stage for rapid spending expansion when the Great Recession hit.

WHO BENEFITED?


The aggregate sum spent on safety-net programs says a lot about their countercyclical macro impact, but not nearly as much about the degree to which they buffered the effect of the recession on individual households. Consider the Earned Income Tax Credit, which provides support mainly to those with annual earnings in the \$10,000 to \$20,000 range. An individual who has been laid off from his job and earns nothing or very little is not touched by the credit. It did help those who were earning above \$20,000 prior to the recession and were pushed back into the \$10,000 to \$20,000 range. But these were not the poorest of the poor. Further, childless households benefit only marginally from the EITC because the credits go almost exclusively to those with dependents.

Temporary Assistance to Needy Families is another case in point. It is the only remaining program that provides cash assistance to families with children, primarily single mothers, where the adults have no earnings. (TANF has work requirements, but still allows payments to those searching for jobs.) Yet outlays from it were almost completely unresponsive to the recession because Congress chose not



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to provide the funds. Note, too, that unemployment insurance provides assistance only to those with solid earnings histories over the previous year. Very low-income families with adults with spotty work histories – which is typical of low-skilled, last-hired, first-fired workers – are not eligible for unemployment insurance.



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Nonetheless, the extra social safety-net spending was apparently spread widely. Data are available on spending for different groups from 2004 (rather than 2007) to 2010. But the earlier date serves as a reasonable proxy since unemployment was quite low. Families with the smallest amounts of earned income – those earning less than half of the poverty line – on average received 23 percent more government assistance in 2010 than in 2004. Families with higher levels of earned income who were still poor had increases of 17 percent. Families with income just above the government poverty line had increases of 24 percent.

There were some differences by family structure, however. Low-income childless households received about the same increase in assistance whether they were very poor or had slightly higher private incomes (a 50–54 percent increase), as did married-couple families with children. However, the very poorest single-mother households received a 25 per-

cent increase in aid from 2004 to 2010, compared to 54 percent for those with slightly higher incomes. The major reason for the difference is, once again, the failure of TANF to respond to the recession. But those families did get significant additional support, mainly in the form of food stamps.

THE DOWNSIDE

The large increases in total safety-net spending and the broad base of those helped should be viewed as an accomplishment befitting an affluent civil society. But the programs that made the difference – food subsidies, Medicaid, social insurance and (in some cases) tax credits – share the flaw of discouraging work because the gradual withdrawal of benefits as earned income rises acts much like an income tax. And, one might presume, the expansion of these programs to serve a broader swath of households presumably eroded work incentives further.

Happily, the impact of the disincentive is apparently modest. While the evidence unquestionably shows that work disincentives exist, they don't merit the dark diagnosis offered by conservatives. Among the three programs most responsible for the safety-net expansion in the Great Recession – unemployment insurance, food stamps and the EITC – the one with the strongest evidence of work disincentives is unemployment insurance. Increases in the amount of benefits typically increase the length of time an individual spends unemployed, as do increases in the length of the entitlement period. But estimates for the impact of the latter – the source of most of the higher impact of unemployment insurance during this last recession – are relatively small, with most estimates showing that adding an extra week of unemployment insurance benefits lengthens the time spent unemployed by about half a day.

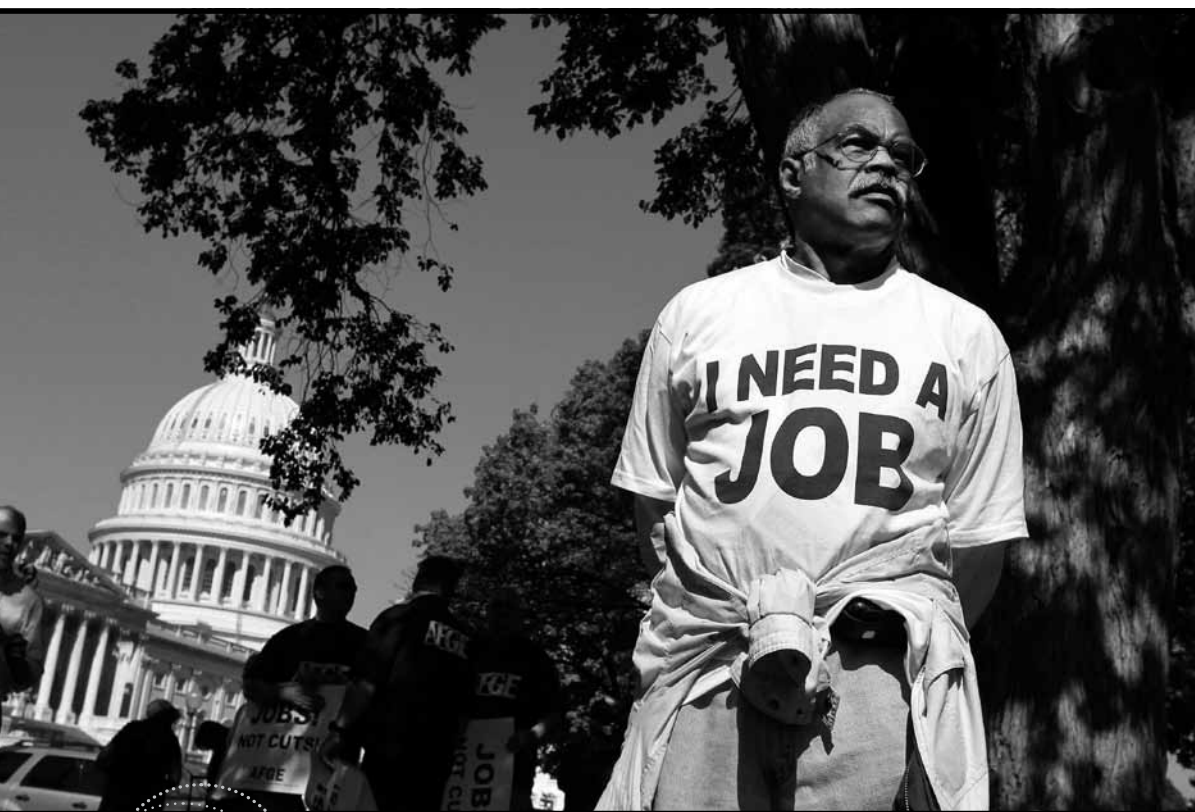


Evidence for food stamps also suggests small effects: Studies typically show that the program reduces work by about an hour a week. This certainly meshes with common sense, since the average benefit is only about \$5 per day per person, and can only be used to buy food.

The Earned Income Tax Credit is a different sort of animal, since it serves as a work disincentive for some and an incentive for others. Critically, it is a strong incentive to work for those earning \$10,000 to \$20,000 per year, with especially positive effects on em-

ployment for working single mothers.

Indeed, the passage and expansion of the Earned Income Tax Credit is strongly linked to a greater awareness among policymakers that traditional welfare benefits – more specifically, the formulas for their withdrawal – had a punishing impact on work incentives and served to trap some households in a cycle of poverty. Effective tax rates of 100 percent used to be common in welfare programs and, in some cases, effective rates remain confiscatory – for example, for those with higher earnings who are facing the phase-out of benefits from



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several programs at the same time. But the EITC has changed that for many households with some earned income. With EITC subsidy rates up to 40 percent for those in the “sweet spot” of the earned-income ladder, the net tax rates for poor working families are typically very low. For example, at 30 percent, the effective tax rate on food stamp benefits is in the same range as the Earned Income Tax Credit subsidy rate, so the net tax rate on earnings for a working family receiving both benefits is about zero.

One important caveat: Most of the evidence on safety-net incentives is based on studies of the programs during normal eco-

nomic times, not during major recessions. But while work disincentives could prove larger during recessions, they could be smaller as well. On the one hand, if jobs are very hard to find and require a great deal of effort to acquire, individuals receiving food stamps or unemployment insurance arguably may decide not to look for work in spite of the carrot of the tax credit. On the other hand, the lack of job opportunities means that even a great deal of extra looking may not result in much of an increase in work.

This implies that the effect of, say, an increase in the generosity of a welfare program may have smaller effects on employment dur-

ing a recession than in normal times. Indeed, the only program for which incentive effects have been carefully studied during recessions is unemployment insurance. And here, the evidence suggests that the impact on labor supply is smaller, not larger, in hard times. Further, those who seem to stay unemployed longer because of the extensions of unemployment insurance benefits are mainly the long-term unemployed. And for a large fraction of these individuals, extensions merely postpone the day they drop out of the labor force altogether. Benefit eligibility thus isn't likely to have much impact on the decision to work because the long-term unemployed simply don't have much chance of finding jobs in the first place.

LOOKING AHEAD

Most of the safety-net expansions from the Great Recession have been phased out, and Congress apparently is in no mood to be generous. The unemployment rate has fallen to a more palatable level (6.2 percent as this is being written), though the numbers are a bit misleading because many among the long-term unemployed have stopped looking and are thus no longer counted as part of the labor force. Going forward, public scrutiny is likely to focus on just two safety-net programs: food stamps and the EITC.

The caseloads and expenditures in the former have declined much more slowly than one would expect from a recovery at this stage. That's probably because reforms of the 2000s, along with measures during the recession that broadened eligibility, remain in place. And once households accept subsidies, they are often disinclined to stop doing so voluntarily. There is thus a legitimate concern that large numbers of recipients may stay on food stamps for extended periods.

As for the Earned Income Tax Credit, it is

more popular than ever, pleasing policy wonks drawn to its positive work incentives and finding a place in the hearts of conservatives because only those who work are eligible. There may even be broad support for increasing benefits going to childless households, who currently receive very little from the credit. There is also some recognition that the program's formula discriminates unfairly against single-child families in favor of those with large broods.

Optimists can make a case that the safety net works – that tens of millions of Americans who suffered during the recession were buffered against the worst of it. Moreover, they can argue that the growing role of the EITC in both good times and bad reflects progress in finding a middle ground between allowing markets to decide who is poor and undermining private incentives to escape poverty.

But there is also a case to be made that this glass is half empty. Washington has no plans for helping those permanently injured by this recession, the millions of long-term unemployed who are not likely to work again either because their skills are marginal or their résumés have been tainted by years of joblessness. There's good reason to believe, moreover, that future recessions will be no easier to manage because unemployment will linger long after GDP recovers. More generally, as the recession recedes, we will be left to deal with the chronic problems of high school dropouts and others with very low skills who are becoming road kill in the winner-take-all economy. And we will have to face the reality that many poor families must deal with barriers to work, including inadequate child care, poor health and, in most places, wretched mass transit.

Truth is, managing a safety net that minimizes costs and encourages work without allowing millions to slip through has never been easy. And it is not getting any easier. 