

*Osher Lifelong Learning Institute, Spring 2019*  
**What Economists Know About Important  
 Policy Issues**

**Lecture 3: The Federal Debt  
 & Social Programs**

April 2, 2019

Jon Haveman, Ph.D.  
 National Economic Education Delegation

**National Economic Education Delegation**

• **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.

## **I am Available for Talks**

- **Do you live in a community with a speaker series?**
- **Volunteer with organizations that might enjoy a talk?**
- **Corporate Board meetings**
- **Rotary, Kiwanis, Lyons Club, or other social club**
- **Public Library**
- **Trade or other association**
- **Group of 8-10 in your home!**



## **Finishing off The Government Budget**



## Options for Eliminating the Soc Sec Deficits

### Problem is 1-1.5% of GDP

- **Raise the retirement age**
- **Increase the tax rate**
  - 4 percentage pt increase raises 0.6% of GDP
- **Raise the amount of income subject to tax**
  - Tax all wages raises 1.1% of GDP
- **Reduce benefits**

## What Does the U.S. Gov't Budget Look Like?

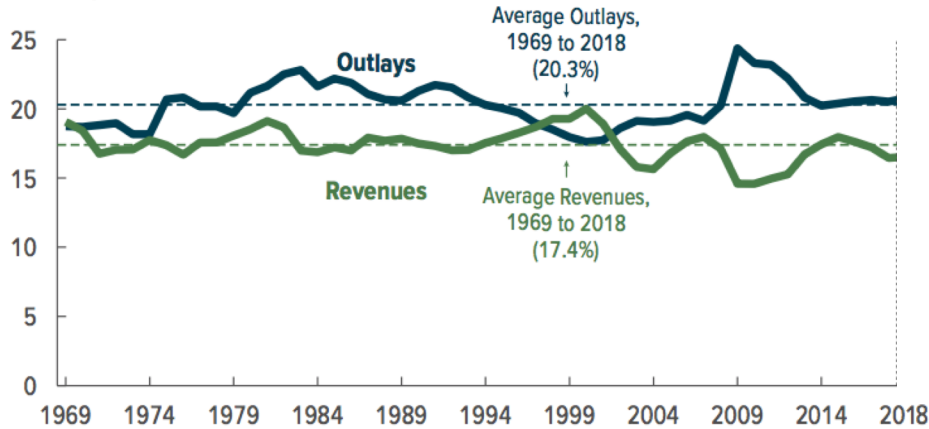
### 2018 Budget Summary

Revenue	billions		Expenditures	billions
Income Taxes	\$1,684		Mandatory	\$2,520
Payroll Taxes	\$1,171		Discretionary	\$1,263
Corporate Taxes	\$205		Interest	\$325
Other	\$270			
Total	\$3,329		Total	\$4,108

Budget Deficit **\$779 Billion**

## How has the Size of Government Changed?

Percentage of Gross Domestic Product



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## Budget Summary: Slide 1

- **Total Spending: \$4.1 Trillion in 2018**
- **There is remarkably little discretion in the budget:**
  - Mandatory: 69%
  - Discretionary 31%
- **Fastest growing parts of the budget: Health Care and Interest**
- **By 2048:**
  - Debt is forecast to grow to 150% of GDP, from 80% today
  - Interest payments are forecast to grow from 8% to 22% of budget



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## Budget Summary: Slide 2

- **Categories that get a lot of attention are relatively small...**
  - Foreign Aid: 1% of the budget
  - Income support/welfare: 8.7%
- **...or are not forecast to grow significantly**
  - Social security
  - Most other categories of spending



## Budget Summary Slide: Tax Expenditures

- **Are policy enacted through the tax code.**
- **Are not explicitly on the books.**
- **They add > 25% to actual government expenditures.**
- **Reduce the progressive nature of the tax code.**
- **Are larger than all of “Discretionary Spending”.**



# Government Debt



## How Does the U.S. Government Borrow?

- **It issues debt**

- Treasury marketable securities:
  - Treasury bills, notes, and bonds
  - TIPS: Treasury inflation-protected securities

- **Who buys the debt?**

- Other federal government agencies
- Individuals and businesses
- State and local governments
- People, businesses, and governments from other countries.



# Of Debt, Deficits, and Surpluses

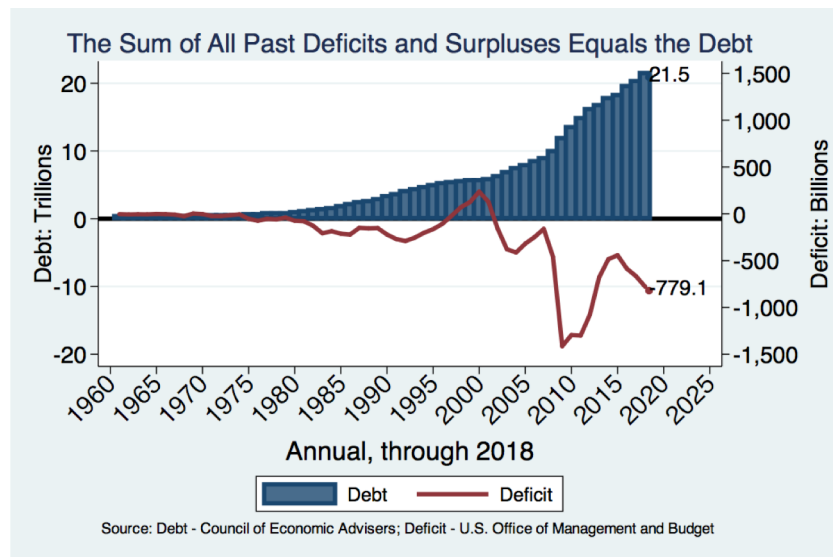
- **STOCK**

- **Debt:** The accumulation of debt over time.
  - The sum of all past deficits and surpluses.

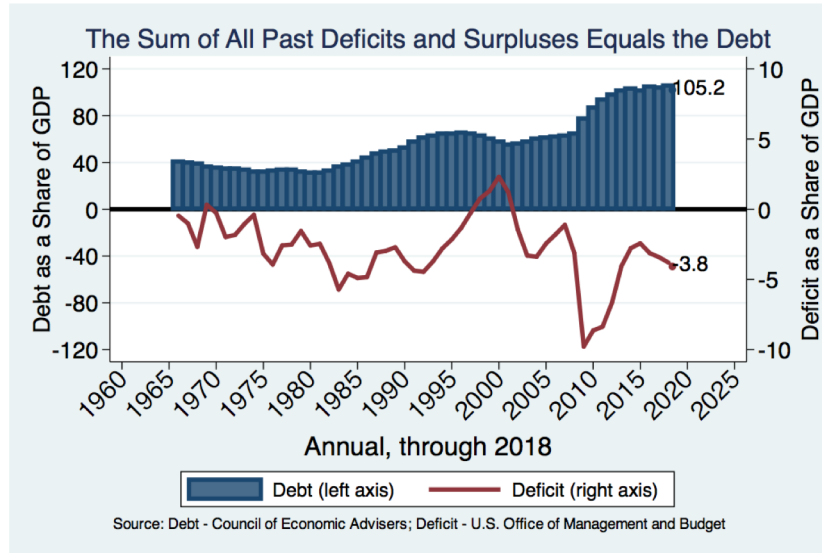
- **FLOW**

- **Deficit:** The amount of debt accrued in a single year.
- **Surplus:** The excess of revenues over expenses in a single year.

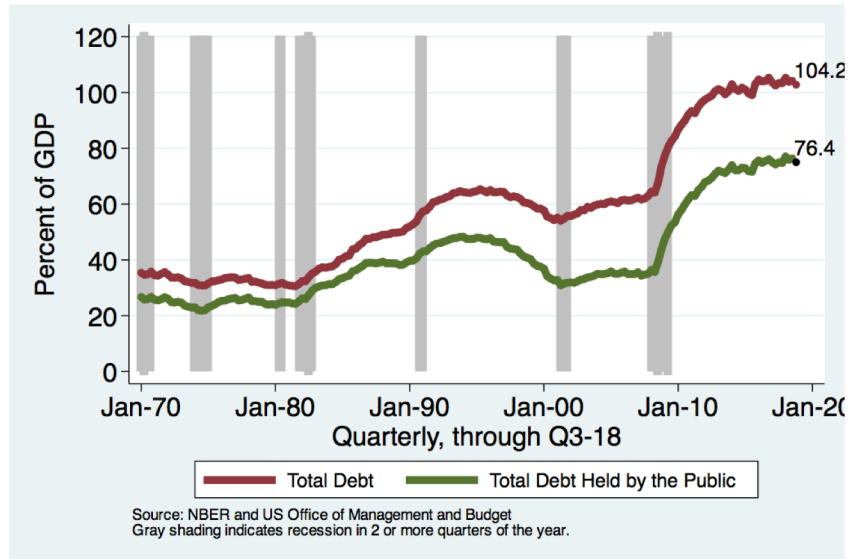
# Debt vs. Deficit



## Debt vs. Deficit: Share of GDP



## Two Measures of the Debt

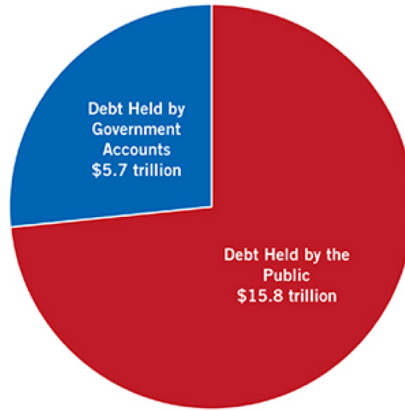






### What makes up gross federal debt?

Gross Federal Debt at the End of Fiscal Year 2018:  
\$21.5 Trillion

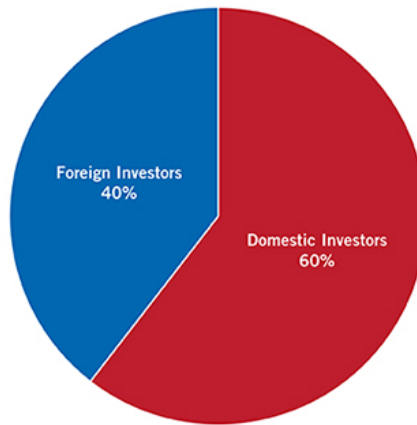


SOURCE: Department of Treasury, *Monthly Treasury Statement*, issue for September 2018. Compiled by PGPF.  
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### Foreign investors own over one-third of all U.S. public debt

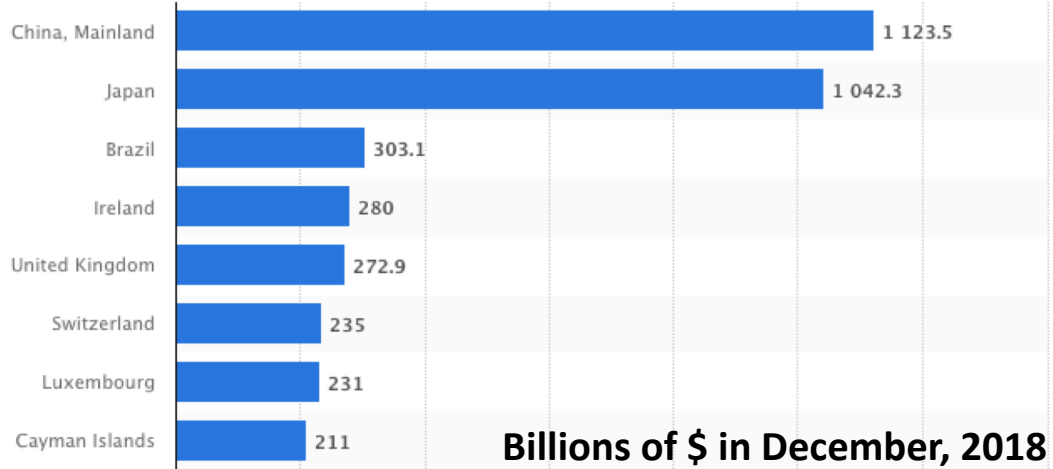


SOURCE: Department of the Treasury, *Monthly Treasury Statement*, issue for September 2018; and Department of Treasury, *Treasury Bulletin*, December 2018. Compiled by PGPF.  
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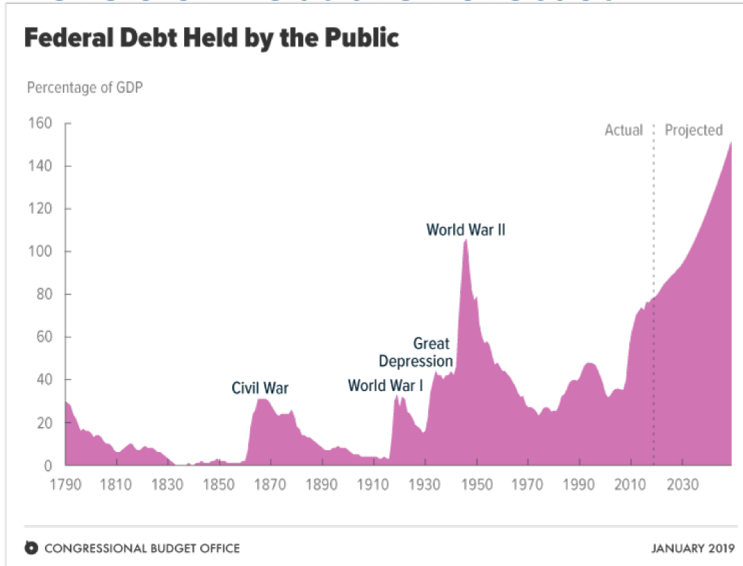
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## Who Holds Debt to Foreigners

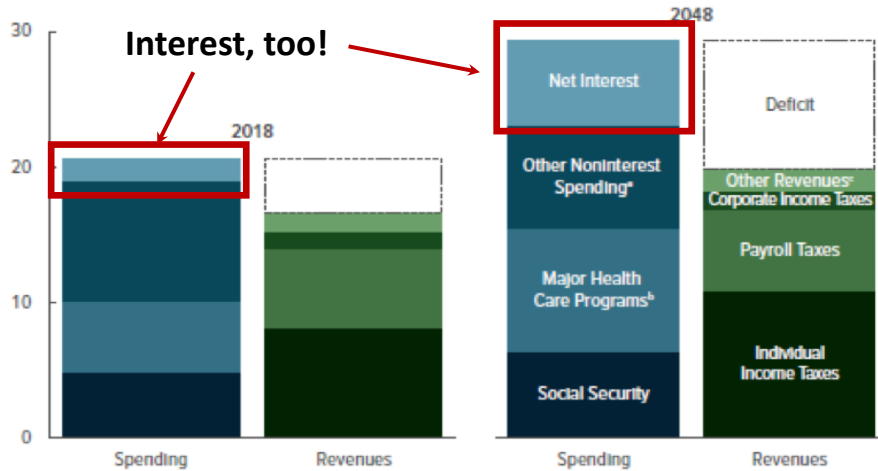


## Record Levels of Debt are Forecast



## Deficit to Grow Much Faster than Revenues

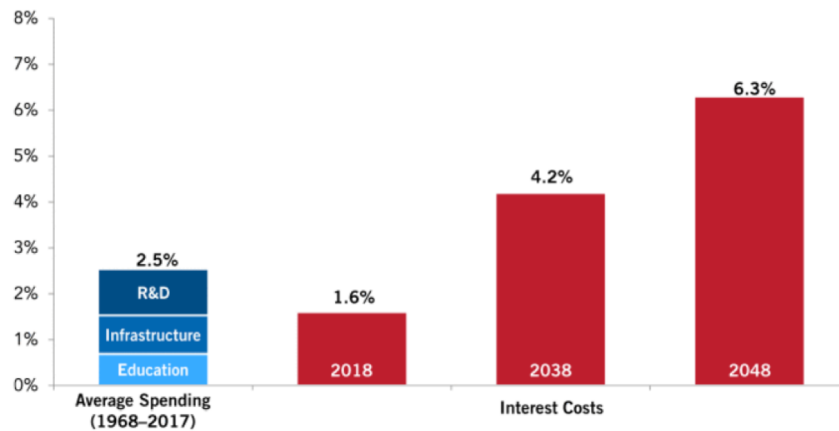
Percentage of Gross Domestic Product



Source: Congressional Budget Office.

## Interest Payments to Grow Significantly

FEDERAL SPENDING (% OF GDP)



SOURCE: Office of Management and Budget, Budget of the United States Government, Fiscal Year 2019, February 2018; Congressional Budget Office, The 2018 Long-Term Budget Outlook, June 2018. Compiled by PGPF.  
NOTE: Infrastructure excludes defense.

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## Perspectives on Increased Debt

- **Government borrowing “crowds out” private capital and investments.**
  - Weakened by ability to borrow from abroad.
- **Is it reasonable to borrow at low interest rates for investments?**
  - For example, infrastructure.
- **Does debt impose a burden on future generations?**
  - Does it inevitably have to be paid off?
- **In time, it may start to crowd out other government spending.**
  - Diminishing policy priorities in the budget.



## The Reason for Borrowing Matters

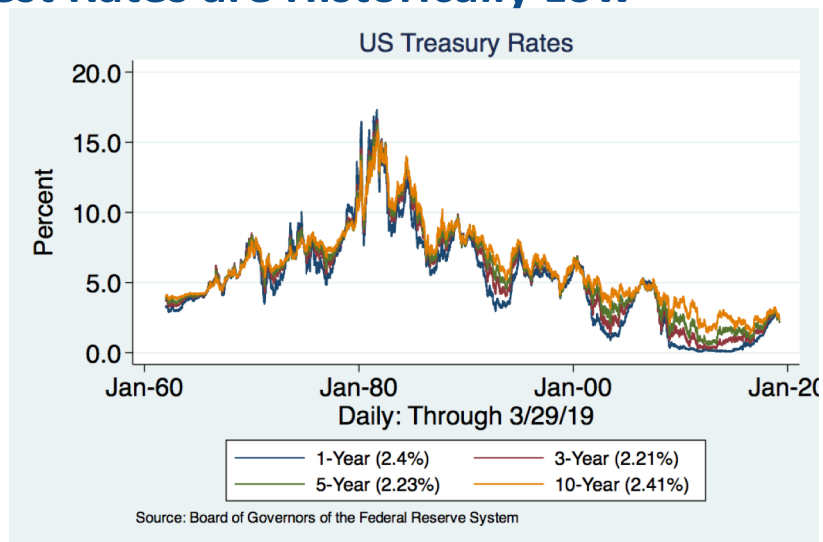
- **Two good reasons to borrow heavily:**
  - To support the economy during a recession – fiscal expansion.
  - Investments that will increase economic activity in the future.
- **Should not borrow for:**
  - Items consumed today
    - Government salaries
    - Retirement benefits
  - Tax breaks of uncertain benefit to the broader economy.



## Is the Debt a Problem Today?

- Currently borrow about \$100 million each month with little difficulty.
- Interest rates are very low, less than 3% on 10-year notes.
- Very little evidence of "crowding out".

## Interest Rates are Historically Low



## So, Why Worry About it?

### • If debt gets too high:

- There is the potential for investors to start questioning the creditworthiness of the U.S. Government.
  - o Problem: Nobody knows how high might be too high?
- It becomes more difficult to borrow in times of crisis.
  - o War, severe recession
  - o “Fiscal space” – impossible to measure how much we have, but clear that we have less now than back in 2007.
- Could start to crowd out investments by consumers and businesses.
  - o Not currently a problem. No idea if/when it might become one.
- Could be inflationary.



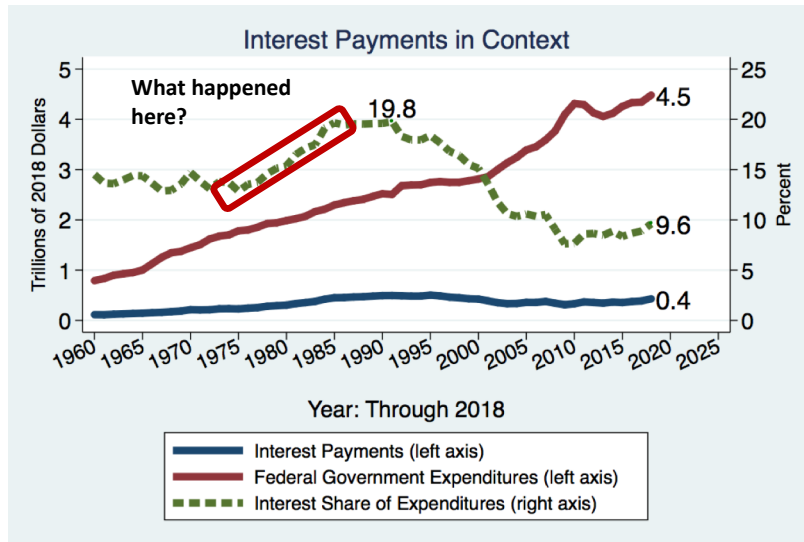
## So, Why Worry About it?

### • If debt continues to grow:

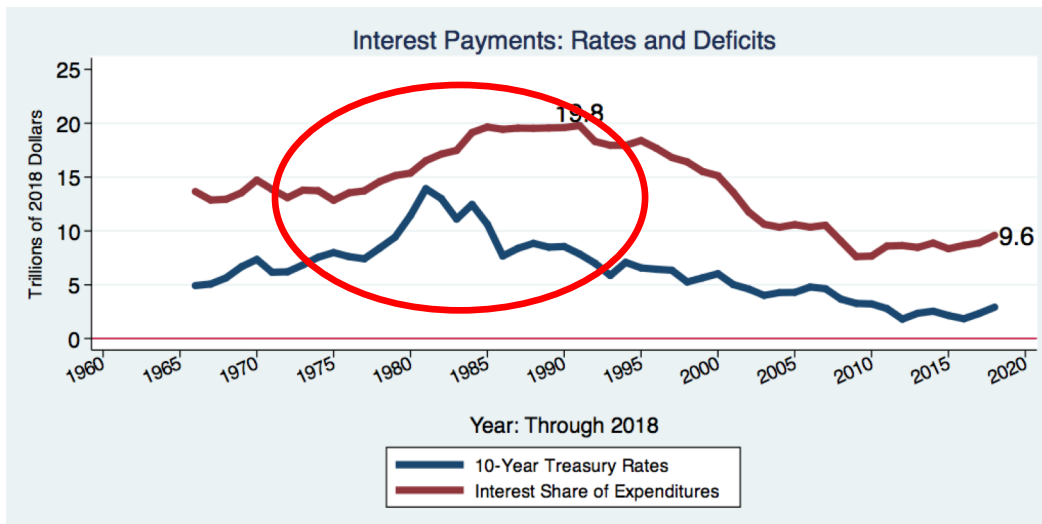
- Interest payments will grow with it.
  - o 8% of spending in 2018.
  - o 22% of spending in 2048.
  - o Less room for using the budget for policy priorities.
  - o 40% of payments go abroad.
- The longer we wait to address it, the harder and more disruptive it will be to address it.
- Interest RATES may increase.



## History: A Cautionary Tale?



## Interest Payments and Interest Rates



## Are There Reasons to Wait?

- **Very little evidence of:**
  - Crowding out
  - Inflationary impact
- **Uncertainty about the future**
  - Economic growth may render action today unnecessary.
- **There are a great many investments to be made by the gov't.**
  - Infrastructure
  - Education
  - Much, much more...



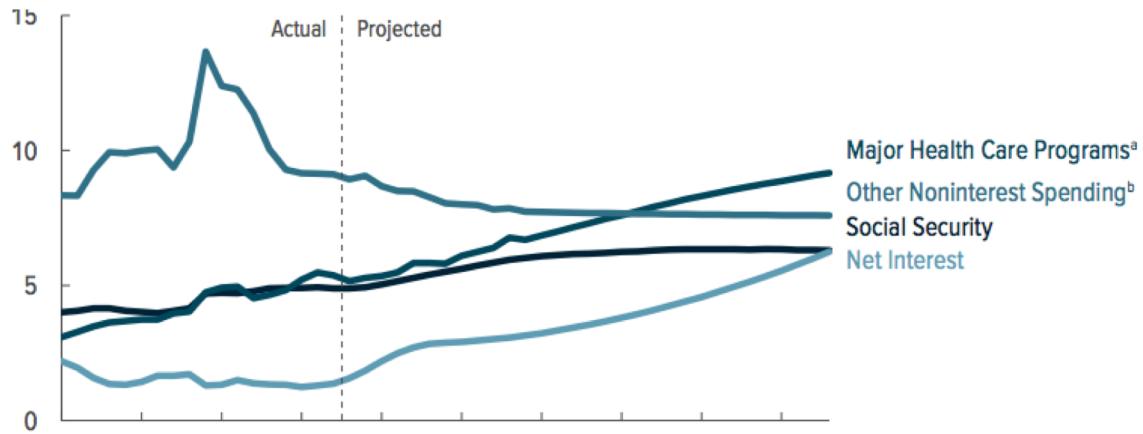
## Bottom Line

- Question is not **WHETHER** the U.S. will have to act...  
...but **WHEN**.
- Some combination of the following **WILL** be necessary:
  - **Raising taxes**
  - **Cutting spending**
  - **Reining in health care costs**



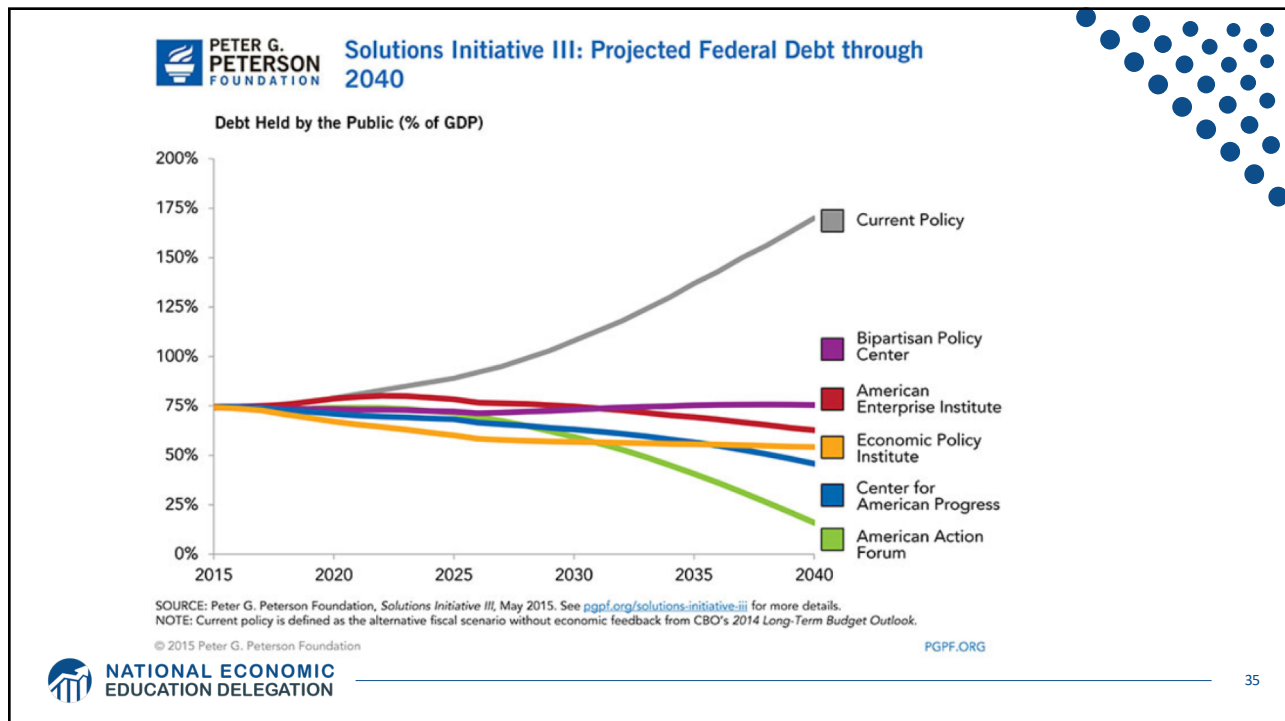


## What Are the Primary Drivers Going Forward?



## Proposals Do Exist

- **Simpson-Bowles**
- **Domenici-Rivlin Task Force**
- **Solutions Initiative – Peter G. Peterson Foundation**
  - American Action Forum
  - American Enterprise Institute
  - Bipartisan Policy Center
  - Center for American Progress
  - Economic Policy Institute



## Summary: The Debt

- The jury is (sort of) out on the debt.
- Conventional wisdom is being challenged:
  - Previously: inflationary and crowd out private investment
  - New assertion: these things don't matter for a country that can borrow in its own currency.
- Upshot?
  - This is a policy choice.
  - The cautious approach is to rein in the debt.
  - The cautious approach may lead to slower economic growth.

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# The U.S. Safety Net

An Overview of United States Safety Net Programs



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  - Ann Stevens, University of California - Davis
- **This slide deck was reviewed by:**
  - Diane Whitmore Schanzenbach, Northwestern University
  - Ron Haskins, Brookings Institution
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## Overview of Major Safety Net Programs

- **What programs are included in the “safety net”?**
  - **Means-tested** (must have low income to receive)
  - **Federal programs** (often with state partnership in financing & running programs)
  - **Provision** of cash, services or in-kind benefits, tax credits/refunds
  
- **What programs are not included?**
  - Social Insurance: non-means tested, participants pay in to system
    - Example: Unemployment Insurance, Social Security, Disability Insurance
    - (Though these programs also assist the poor)



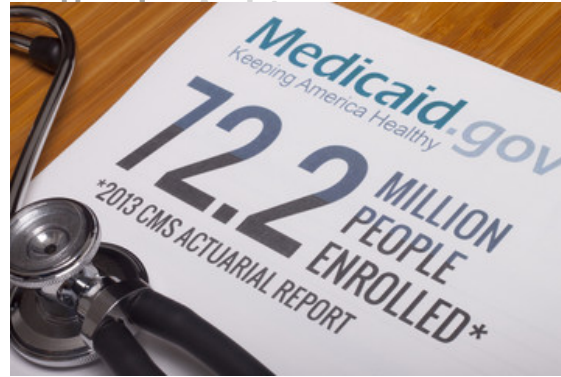
## Major Safety Net Programs

- **Medicaid**
- **Supplemental Security Income (SSI)**
- **Temporary Assistance to Needy Families (TANF)**
  - (formerly AFDC)
- **Earned Income Tax Credit (EITC)**
- **Supplemental Nutrition Assistance Program (SNAP)**
  - (formerly food stamps)
- **School nutrition programs**
- **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**
- **Housing Assistance**
  - Vouchers
  - Rental Assistance
  - Public Housing
- **Head Start**



## Major Safety Net Programs

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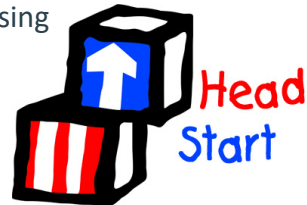
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  - Rental Assistance
  - Public Housing
- **Headstart**

## Major Safety Net Programs

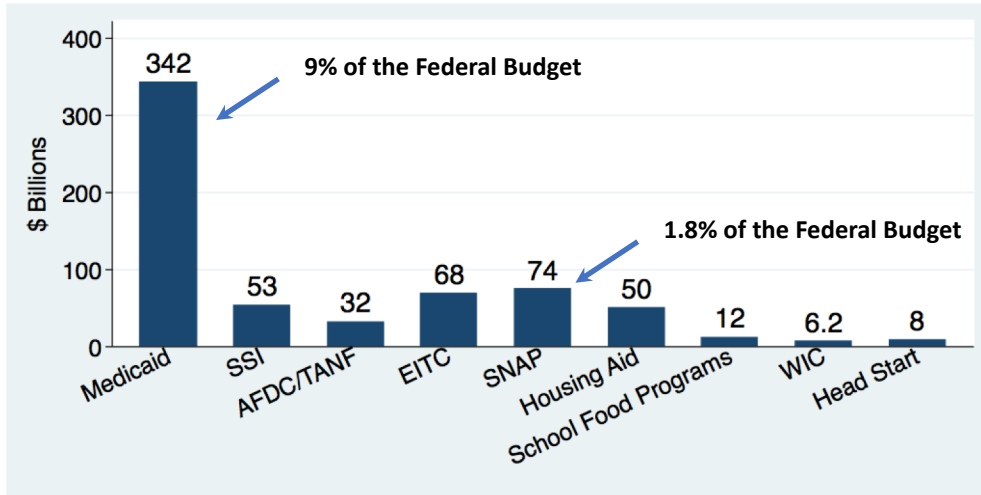
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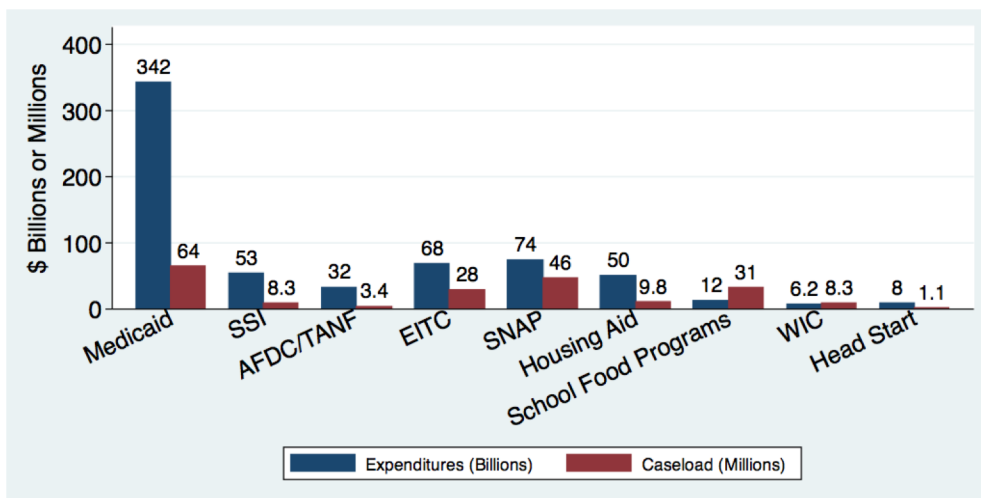
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  - Rental Assistance
  - Public Housing
- **Head Start**



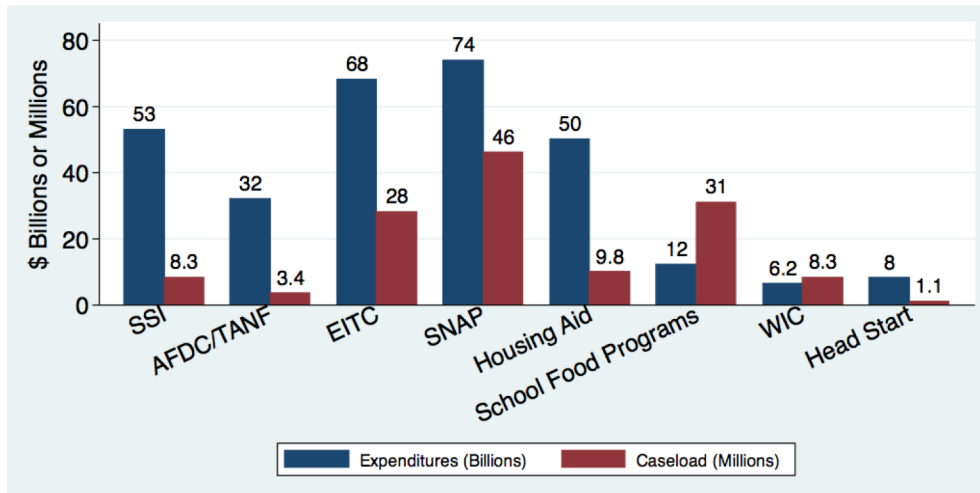
## U.S. Safety Net Programs, Federal Expenditures 2014 or 2015



## U.S. Safety Net Expenditures (\$ Billions) and Caseload (Millions), 2014 or 2015



## U.S. Safety Net Expenditures (\$ Billions) and Caseload (Millions) – No Medicaid, 2014 or 2015



## MEDICAID & CHIP

### • Eligibility

- **Expansion states:** most under age of 65 with incomes < 133% of poverty line
- **Non-expansion states:** children with income < 133% of poverty line; parents up to lower income cutoffs, ~43% of poverty line.
- CHIP: children up to 200% of poverty line (46 states)

### • Participants

- 74.9 million people in 2017 on Medicaid (including CHIP)

### • Spending

- Total spending in 2016 was \$565.5 billion (63% federal)



# Eligibility & Enrollment

- Children
- Pregnant women
- Very low-income adults
- People with disabilities
- Elderly, poor adults

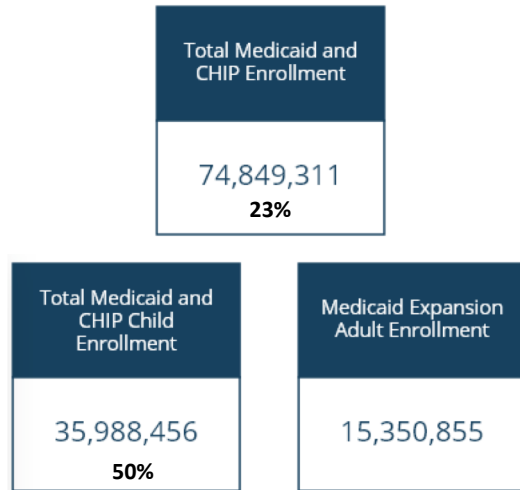
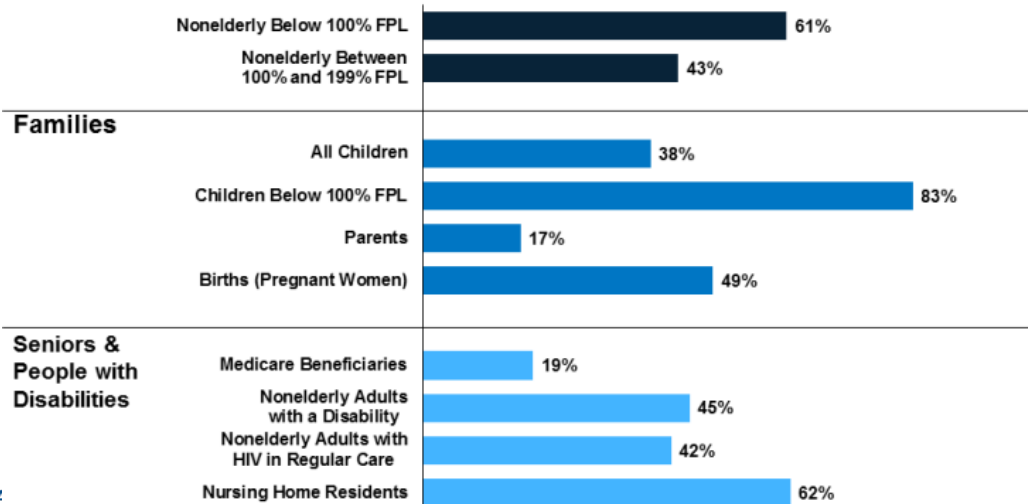
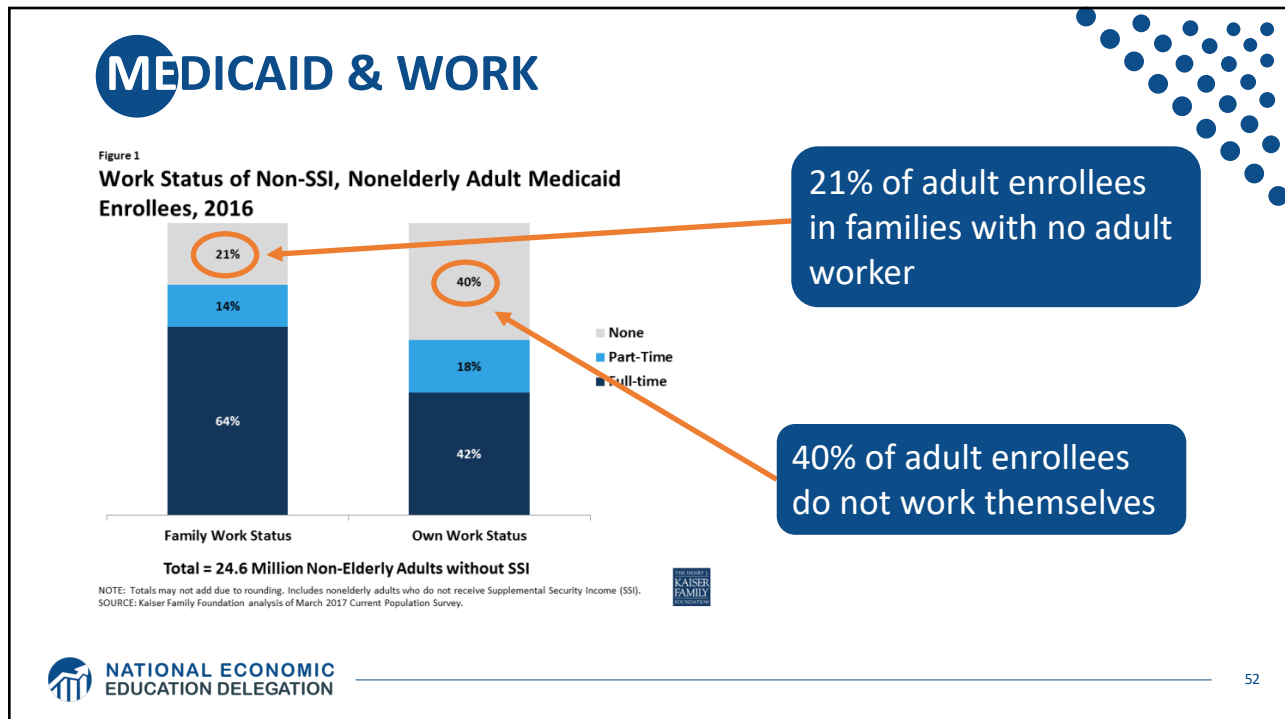
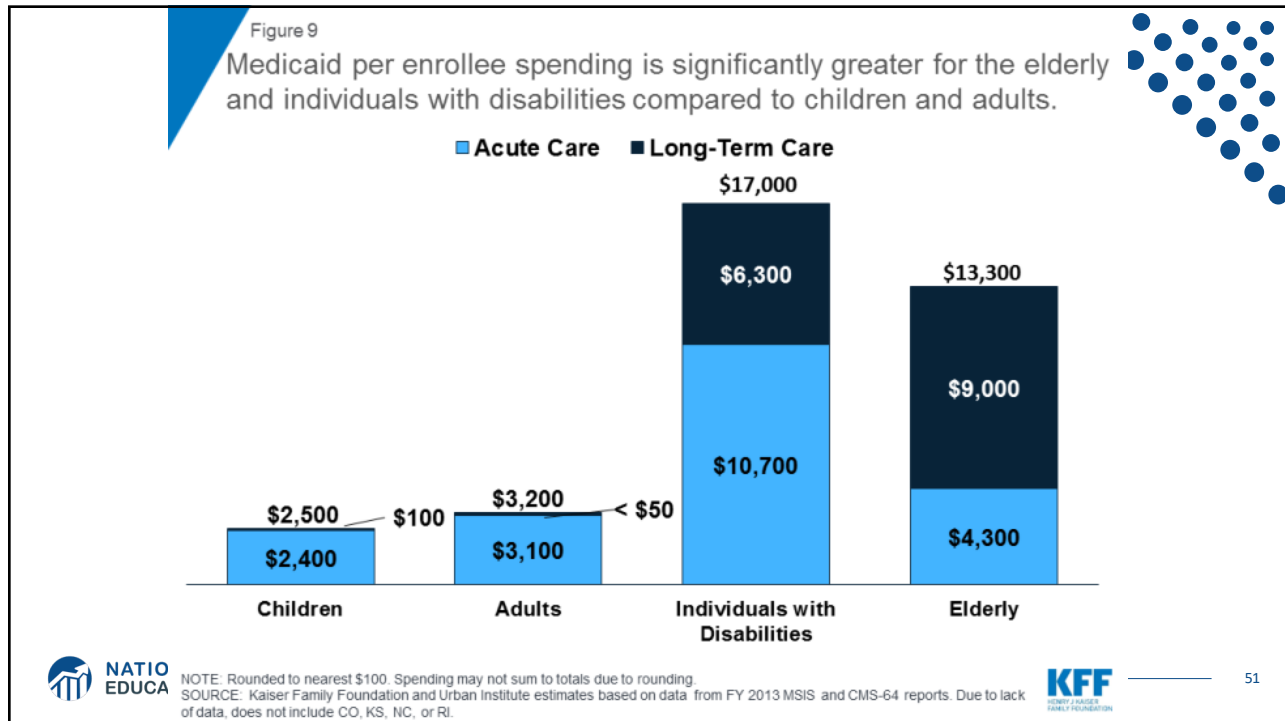


Figure 4  
Medicaid plays a key role for selected populations.

Percent with Medicaid Coverage:



NOTE: FPL—Federal Poverty Level. The U.S. Census Bureau's poverty threshold for a family with two adults and one child was \$20,420 in 2017.



## Supplemental Security Income (SSI)

- **Eligibility:** Disabled/blind adults and children with low income; people 65 and older with low income.
- **Participants:** In 2016, **4.8 million** people received SSI.
- **Spending:** Total spending from June 2015-June 2016 was roughly **\$53 billion**.

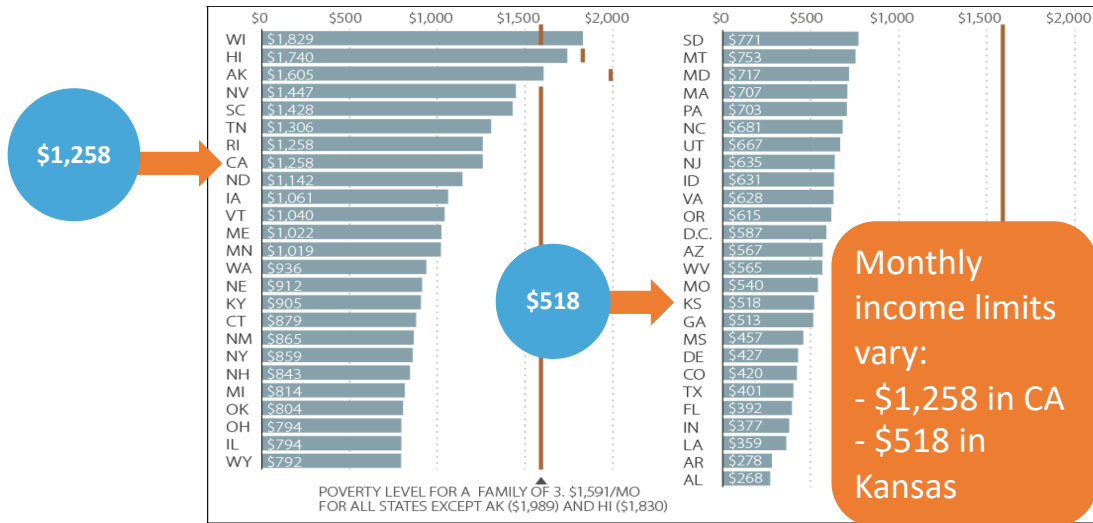


## TANF: Temporary Assistance for Needy Families Formerly AFDC: Aid to Families with Dependent Children

- **Eligibility:** Poor families with children, primarily single mothers
- **Federal limit of 60 months of lifetime benefits**
  - Some states have shorter limits
  - Work, job search, or training requirements
- **Participants:** In 2017, **2.5 million families**
- **Spending:** In 2017, total spending of **\$31.7 billion**  
(**\$17.3 billion federal**)

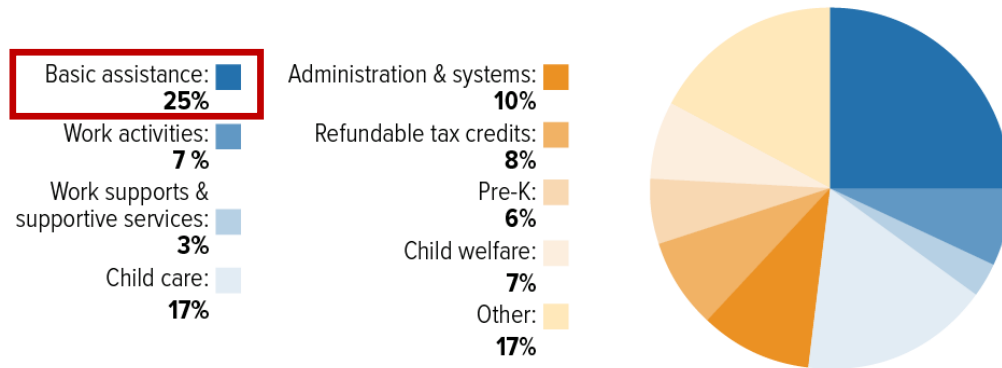


**Figure 1. Maximum Monthly Earnings An Applicant Family May Have and Be Eligible for TANF Cash Assistance: Single Parent Caring for Two Children: July 2012**



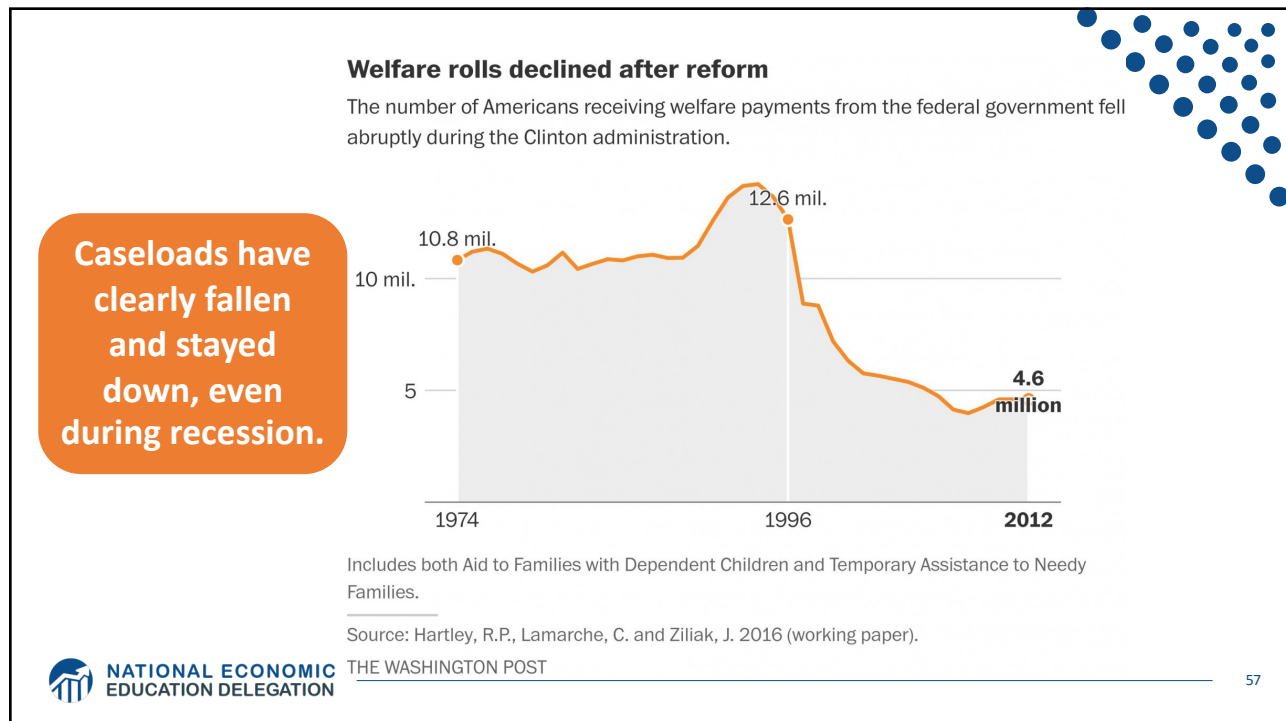
Source: Congressional Research Service (CRS), based on data from the Urban Institute's Welfare Rules Database

**How States Spent Federal and State TANF Funds in 2015**



Note: TANF = Temporary Assistance for Needy Families.  
 Source: CBPP analysis of Department of Health and Human Services 2015 TANF financial data

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**EITC: Earned Income Tax Credit**

- **Federal tax credit designed for low and mid-income working people**
- **Eligibility-** Working families with children that have annual incomes below a range of \$39,000 to \$53,000
  - Small credit for working individuals with no children & low incomes
- **Participants** - In 2015, **28 million** working families and individuals received EITC
- **Spending-** In the 2015, the cost of EITC was **\$68.5 billion**

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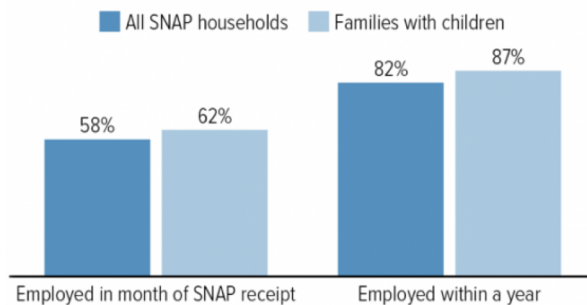
## SNAP: Supplemental Nutrition Assistance Program

- **Nutrition assistance to low-income individuals and families**
- **Eligibility:** Monthly income no higher than 130% of the poverty level for their household size.
  - Some people who receive SSI are automatically eligible for SNAP, dependent on state laws.
- **Participants:** In 2017, an average of **42.1 million** receiving SNAP.
- **Spending:** In 2017, **\$68 billion** was spent to fund SNAP.

## SNAP: Supplemental Nutrition Assistance Program

### SNAP Households with Working-Age Non-Disabled Adults Have High Work Rates

Work participation during the previous and following year for households that received SNAP in a typical month



Most SNAP recipients are employed

Source: CBPP calculations based on 2004 Survey of Income and Program Participation Panel data.

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## SCHOOL FOOD PROGRAMS (National School Lunch Program)



- **The school lunch program serves nutritionally balanced low-cost or free lunches to children in school each day.**
- **Eligibility:** Students who attend public and non-profit private schools, as well as residential child care institutions, are potentially eligible.
- **Participants:** Over **30.4 million** children every day were served by the program in the 2016 year.
- **Spending:** In 2016, the program cost was **\$13.6 billion**.



## WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)

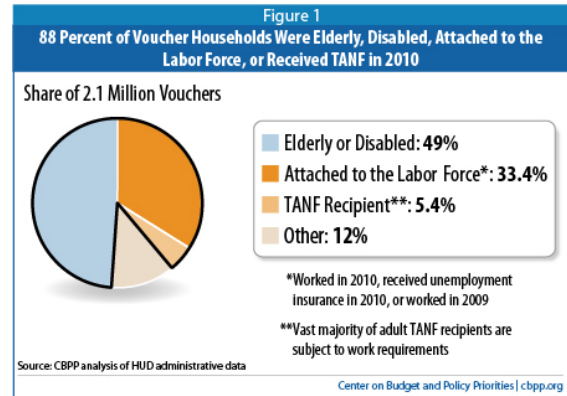
- **Eligibility:** Low income women, infants, and children up to the age of 5 who are at nutritional risk.
- **Participants:** During 2016, WIC served **8 million people**.
  - 3.98 million participants were children,
  - 1.88 million were infants, and
  - 1.84 million were *pregnant* women.
- **Spending:** In 2017, the WIC program cost **\$6.5 billion**.



## HOUSING AID

### Housing Choice Voucher Program (Section 8)

- **Eligibility:** Low income families, the elderly, and the disabled are eligible to receive the vouchers. Family income must be less than **50% of local median income**.
- **Participants:** Just over **5.3 million individuals**, or 2.2 million low income families utilize the vouchers.
- **Spending:** During the 2016 year, the amount spent was **\$17.5 billion**.



## HEAD START

- **Eligibility:** Primarily low-income children (0-5).
- **Participants:** In 2016, **1.1 million children** were served by the program.
- **Spending:** In the 2016 year, **\$9.16 billion** was spent on Head Start.





## Safety Net: A Collection of Separate Programs

- **Medical Assistance**
- **Cash Assistance**
- **Nutritional Assistance**
- **Housing Programs**



## Safety Net: A Collection of Separate Programs

- **Different forms of assistance**
  - Medical Assistance
  - Cash Assistance
  - Nutritional Assistance
  - Housing Programs
- **Different eligibility (income & categorical)**
- **Different work rules and limits**
- **Different agencies and funding streams**

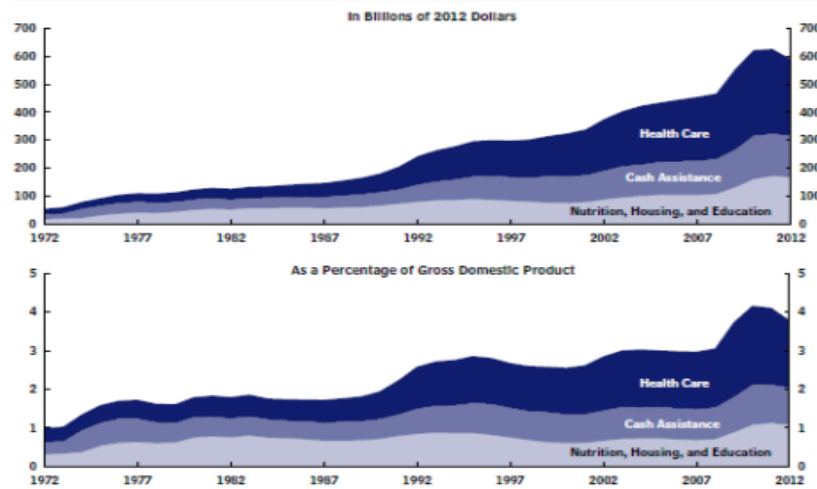
## Social Insurance Programs: Not Means-Tested

- Social Security (Old Age and Survivors Insurance Program)
- Medicare
- Unemployment Insurance
- Disability Insurance
- Workers' Compensation

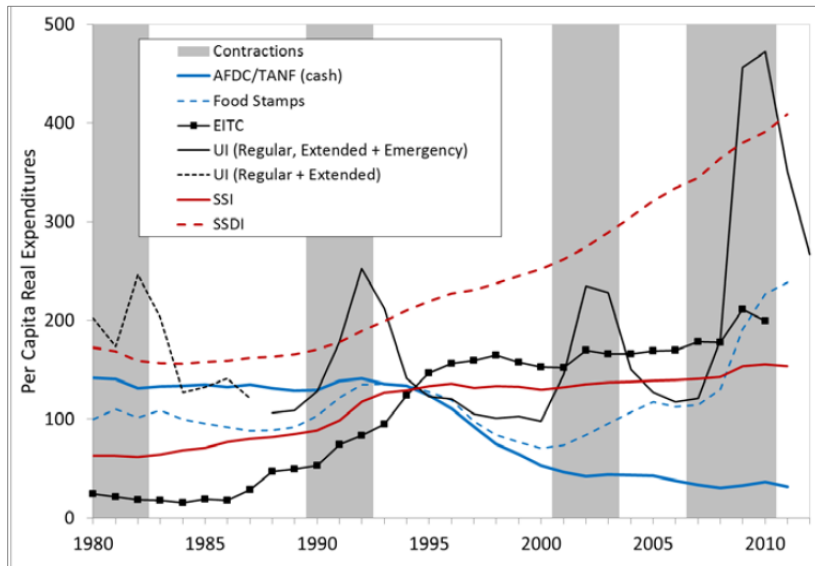


## Expenditures on Means-Tested Transfers over Time

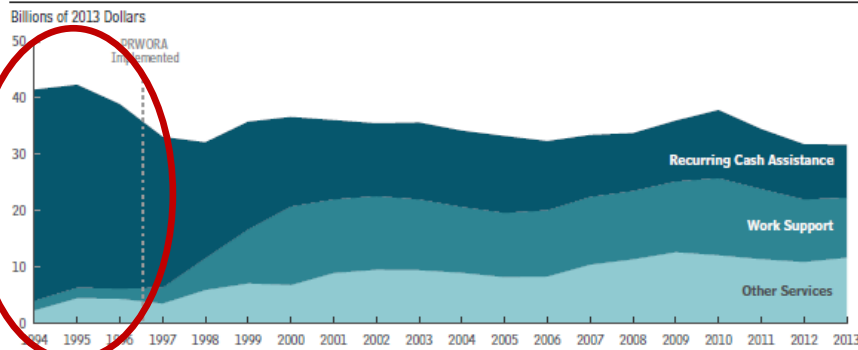
Federal Spending on Various Categories of Means-Tested Programs and Tax Credits, 1972 to 2012



## Expenditures on Specific Means-Tested Programs



**Figure 4.**  
**Spending on TANF and the Programs That Preceded It, by Type of Assistance, 1994 to 2013**



Source: Congressional Budget Office based on data from the Department of Health and Human Services.

Notes: Before PRWORA, Aid to Families With Dependent Children distributed recurring cash assistance, while the Job Opportunities and Basic Skills Training program provided work support and the Emergency Assistance program supplied other services for low-income families. Administration and systems costs are distributed proportionally among the three types of assistance.

This figure includes TANF funding that states transferred to the Child Care and Development Block Grant and to the Social Services Block Grant.

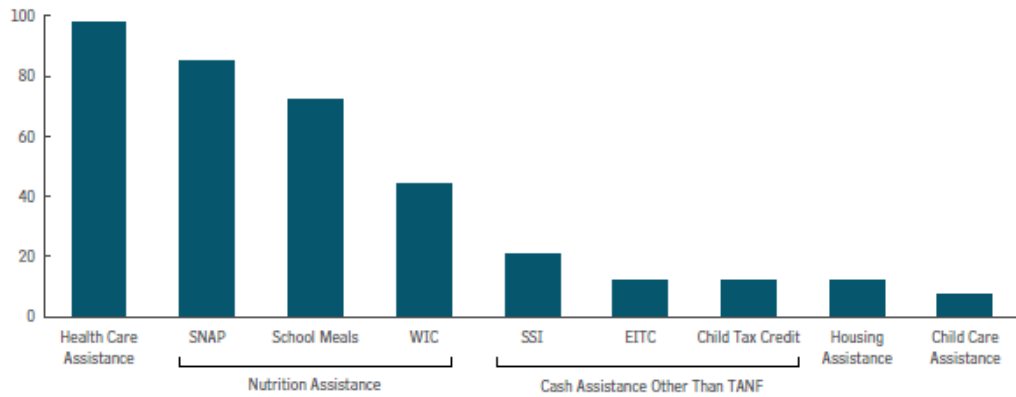
Because the available data are limited, the figure does not include three of the smaller federal funding mechanisms for TANF. In every year, those mechanisms have provided less than \$0.3 billion in total.

TANF = Temporary Assistance for Needy Families; PRWORA = Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

**Figure 12.**

**Participation in Other Means-Tested Programs by Families Receiving Recurring Cash Assistance Through TANF**

Percentage of Families



Source: Congressional Budget Office based on data from the Department of Health and Human Services and from the Census Bureau.

Notes: Most of the percentages are based on data from 2012, but for school meals, WIC, and SSI, the most recent readily available data cover 2009.

**Positive**  
 Reduced Poverty  
 Improved Health  
 Increased Mobility

**Negative**  
 Reduced Work Hours  
 Single Parenthood  
 "Dependency"

**Effects  
 of Safety Net  
 Programs**

**Intended  
 Effects**

**Unintended  
 Effects**

# Challenge: Measuring Effects of Safety Net on Poverty

- **Official Poverty Measures: Includes only cash income**
  - Excludes: SNAP, EITC, Housing Assistance
- **Supplemental Poverty Measure (SPM):**
  - Includes in-kind & after tax benefits.
- **SPM is a more inclusive measure of what the safety net does.**

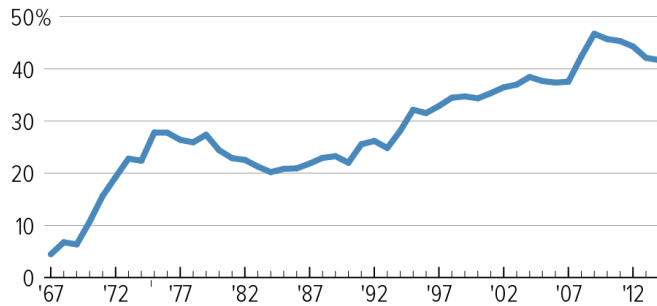
Table 5a.  
**Effect of Individual Elements on SPM Rates: 2015**  
 (Margin of error in percentage points. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see [www2.census.gov/programs-surveys/cps/techdocs/cpsmar16.pdf](http://www2.census.gov/programs-surveys/cps/techdocs/cpsmar16.pdf))

Element	All people		Under 18 years		18 to 64 years		65 years and over	
	Estimate	Margin of error <sup>1</sup> (±)	Estimate	Margin of error <sup>1</sup> (±)	Estimate	Margin of error <sup>1</sup> (±)	Estimate	Margin of error <sup>1</sup> (±)
<b>All people</b> . . . . .	<b>14.32</b>	<b>0.28</b>	<b>16.11</b>	<b>0.50</b>	<b>13.80</b>	<b>0.30</b>	<b>13.67</b>	<b>0.50</b>
<b>ADDITIONS</b>								
Social Security . . . . .	-8.34	0.19	-2.12	0.18	-3.99	0.16	-36.04	0.79
Refundable tax credits . . . . .	-2.88	0.13	-6.52	0.34	-2.16	0.10	-0.19	0.05
SNAP . . . . .	-1.44	0.09	-2.70	0.21	-1.13	0.08	-0.77	0.11
SSI . . . . .	-1.04	0.08	-0.79	0.12	-1.07	0.09	-1.30	0.16
Housing subsidies . . . . .	-0.80	0.06	-1.16	0.14	-0.61	0.06	-0.99	0.14
Child support received . . . . .	-0.43	0.05	-1.07	0.13	-0.29	0.04	-0.03	0.02
School lunch . . . . .	-0.10	0.05	-0.96	0.14	-0.27	0.03	-0.03	0.02
TANF/general assistance . . . . .	-0.21	0.04	-0.47	0.10	-0.15	0.03	-0.02	0.02
Unemployment insurance . . . . .	-0.20	0.03	-0.26	0.06	-0.23	0.04	-0.02	0.01
LIHEAP . . . . .	-0.08	0.02	-0.10	0.04	-0.06	0.02	-0.10	0.04
Workers' compensation . . . . .	-0.12	0.03	-0.15	0.07	-0.13	0.03	-0.03	0.02
WIC . . . . .	-0.12	0.04	-0.29	0.09	-0.08	0.02	Z	Z
<b>SUBTRACTIONS</b>								
Child support paid . . . . .	0.08	0.02	0.07	0.03	0.10	0.02	0.02	0.02
Federal income tax . . . . .	0.44	0.05	0.37	0.07	0.54	0.06	0.11	0.05
FICA . . . . .	1.52	0.10	2.07	0.19	1.58	0.10	0.41	0.09
Work expenses . . . . .	1.75	0.10	2.44	0.22	1.80	0.10	0.47	0.09
MOOP . . . . .	3.52	0.14	3.41	0.21	3.05	0.16	5.65	0.30

<sup>1</sup> The margin of error (MOE) is a measure of an estimate's variability. The larger the MOE in relation to the size of the estimate, the less reliable the estimate. The MOE is the estimated 90 percent confidence interval. The MOEs shown in this table are based on standard errors calculated using replicate weights. For more information, see "Standard Errors and Their Use" at [www2.census.gov/library/publications/2016/demo/p60-256sa.pdf](http://www2.census.gov/library/publications/2016/demo/p60-256sa.pdf).  
 Z Represents or rounds to zero.  
 Source: U.S. Census Bureau, Current Population Survey, 2016 Annual Social and Economic Supplement.

### Safety Net's Effectiveness at Reducing Poverty Has Grown Nearly Ten-Fold Since 1967

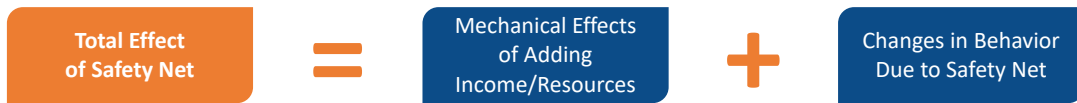
Percent of otherwise poor lifted above the poverty line by the safety net



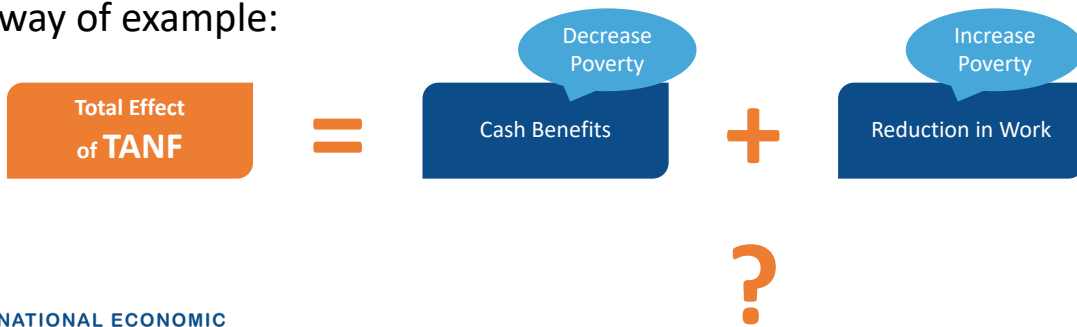
Note: For each year, figures show the percent reduction in the number of people in poverty from when government benefits and taxes are not counted to when they are counted. Calculations use Supplemental Poverty Measure (SPM) and 2012 SPM poverty line adjusted for inflation.

Source: 1967-2012 data are from Christopher Wimer et al., "Trends in Poverty with an Anchored Supplemental Poverty Measure," Columbia Population Research Center, December 2013. (Plot points generously shared by the authors.) For 2013-2014, CBPP analysis of Census Bureau data from the March Current Population Survey and SPM public use files.

### Total Effects are Complicated



By way of example:



## Total Effects are Complicated: EITC

**Total Effect of Safety Net** = Mechanical Effects of Adding Income/Resources + Changes in Behavior Due to Safety Net

**Total Effect of EITC** = Cash Benefits + Increase in Work

Decrease Poverty (associated with Cash Benefits)

Decrease Poverty (associated with Increase in Work)

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## Full Effect of Safety Net: Includes Behavioral Changes

- **Focus on work effects of safety net**
  - one of several possible unintended consequences)
- **What does economics tell us about safety net programs and work?**

Provides benefits

TANF maximum grant

Grant amount falls with earnings

Reduces benefits with earnings

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## Two Effects of Welfare Payment on Work

### Welfare Provides Income

- More income increases consumption
- One form of consumption is leisure
- More income reduces work (by encouraging leisure)

### Work Reduces Welfare Payments

- Rising earnings reduce benefit level
- Wage for working is effectively reduced
- Welfare discourages work (due to benefit reduction)



## What do we know about magnitude of work disincentives from welfare?

- **Many studies**
- **Basic approach is important**





## Perfect (but Impossible) Approach to Research

- Randomly divide population into two groups
- Offer some individuals welfare, others no welfare
- Compare how much the two groups work
- Challenge of social science:  
no controlled experiments



## Challenges to Empirical Studies

Does welfare use cause low work effort?



But we know low earnings (low work)  
result in eligibility for welfare



HARD to  
distinguish  
between  
these two  
different  
scenarios



## How can we separate correlation (no direction implied) from cause and effect?

- **Can compare work behavior among welfare recipients**

- Across states with different rules/benefit levels
- Before-after policy changes within states

## Compare Work Effort in States With Different Benefit Levels



**Benefits Year 1**  
**Benefits Year 2**

**Work Year 1**  
**Work Year 2**



## How can we separate correlation (no direction implied) from cause and effect?

- **Can compare work behavior among welfare recipients**

- Across states with different rules/benefit levels
- Before-after policy changes within states
- Challenge: state policies may differ in multiple ways
- Rare to implement NEW safety net programs to study

## What evidence do we have? What does it say?

“ Studies across states, or across states over time of policy changes  
~ Robert Moffitt (1983)

- **AFDC program as a whole reduced hours of work by participating single parents by:**

10% to 50%, 546 hours per year

## What evidence do we have? What does it say?

- Study of food stamp program (FSP) introduction
- Work hours per year fall by 183 (20%) among single-parent families in counties introducing FSP (relative to counties that did not)
- About 32% of single parents received food stamps



## What evidence do we have? What does it say?

Overall effect = 183 hours =  
fraction receiving food  
stamps \* (effect for  
recipients) +  
fraction not receiving \*  
(effect for non-recipients)

OR

183 = .32 (effect among  
recipients) + .68 (0)  
Effect among recipients =  
183/.32 or 571 hours per  
year

**Food Stamp Program as a whole reduced work by recipients by  
571 hours per year**



## Welfare (TANF) today

- Adds explicit work requirements to welfare program.
- Increase in employment with welfare reform suggests TANF may have smaller work disincentives than prior programs.

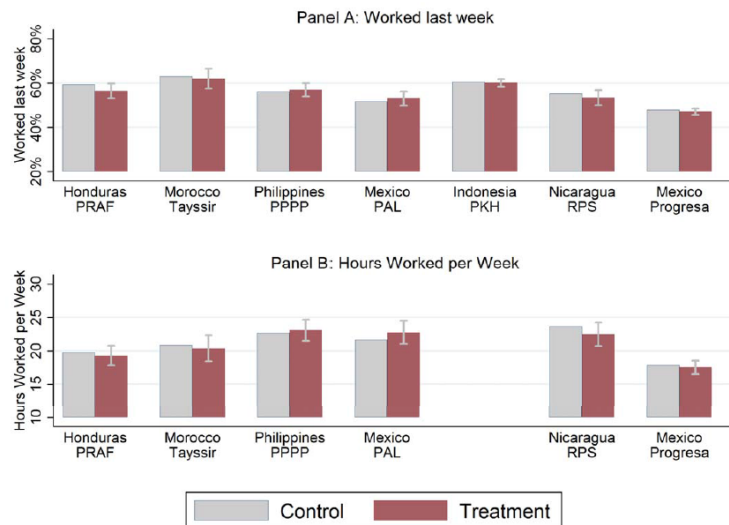


## International Evidence (Developing Countries)

- Abhijit Banerjee & co-authors look across many randomized experiments with cash transfers in developing countries.
- Most programs were cash transfers *with no benefit reduction for work*.
  - This is DIFFERENT than typical U.S. transfer programs.
- Treatment groups received cash transfers; control groups did not.



Figure 3: Experimental Estimates of Cash Transfers on Work Outcomes



Little systematic evidence that cash transfers cause major reductions in work among the poor

## How large are welfare/work disincentives?

- **United States: old-style AFDC/Food Stamp programs reduced work by around 500 hours per year among recipients.**
- **TANF likely has smaller effects on work (designed to encourage/require work).**
- **International evidence suggests fairly small effects of cash assistance on work.**

## Alternative to multi-part safety net: Universal Basic Income (UBI)

- UBI is an unconditional cash transfer that is regularly and equally distributed to everyone over 18, regardless of income or need.
- It is a significant departure from U.S.-style welfare system.

## Examples of UBI or similar programs:

- **Alaska Permanent Fund:**
  - Alaskan residents have been receiving a percentage of the Alaskan natural extraction revenue.
  - Showed no effect on employment
  - Similar to a small UBI
- **Native American Casinos:**
  - 2010 study showed that some Native American groups received a percentage of revenue from casinos.
  - Showed that recipients didn't decrease hours worked.

## Universal Basic Income (UBI)

### ✓ PROS

- **Provides basic income to everyone**
- **Will help supplement income in face of job loss or low wages**
- **Less disincentive for work**
  - No benefit phase out
  - (based on findings from the Alaskan Permanent Fund where Alaskan residents receive a percent of natural resource extraction profits)

## Universal Basic Income (UBI)

### ✗ CONS

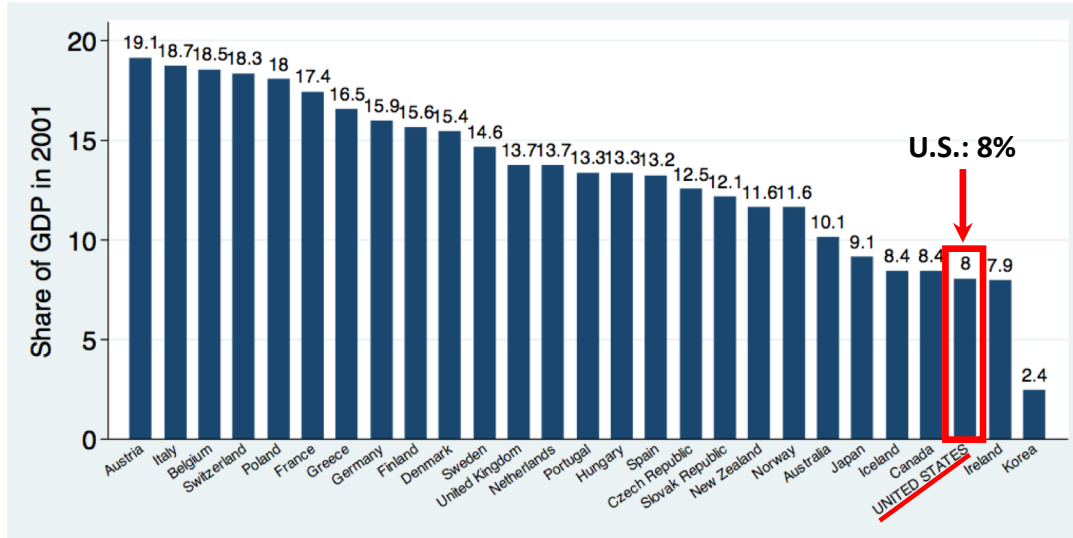
- **Unaffordable: expensive because of universal nature**
- **Does not address inequality: replaces safety net programs which would provide everyone with transfer incomes, not simply those in need**
- **Negative Incentives on work possible: people wont be as inclined to join the workforce**
- **Delays Discussion of Job Creation: may crowd out discussion of job creation or growth for poverty reduction**



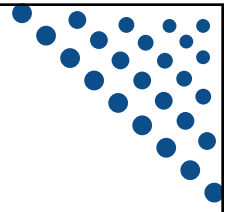
## Summary: U.S. Safety Net

- **The U.S. safety net is a complex set of programs to aid the poor.**
  - Medical, nutrition, education, housing, cash
  - Different benefit amounts, eligibility rules, duration of assistance, administration
- **There are unintended consequences on the labor supply, and possibly on marriage and childbearing as well.**
- **There are substantial direct effects on measured poverty under measures that fully account for benefits.**

## Safety Net Spending Across the OECD



**Thank you!**



## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Jon Haveman, Ph.D.

[Jon@NEEDelegation.org](mailto:Jon@NEEDelegation.org)

Contact NEED: [info@needelegation.org](mailto:info@needelegation.org)

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