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**The Safety Net in the United States Narrative**

Date: Thursday, March 5, 2020

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NEED Presentation: The Safety Net in the United States

Ann Huff Stevens and Natalie Sweet

UC Davis

1. **Title Slide**

The United States provides a complex set of programs to assist low-income individuals and families. These programs act as a safety net—a protection against severe poverty. To understand the safety net and evaluate how well it is working, we have to understand its individual components. First, I’ll define what we mean and do not mean when we call it a safety net, and then I’ll go into some detail about the major components of the programs and their reach. These details will include what transfers or services are delivered by different programs, how much we spend on them, and who or how many people benefit.

1. DO NOT DELETE: National Economic Education Delegation
	1. Brief discussion of what NEED is and NEED does
	2. Use your judgement for what should be said.
2. Who we are?
	1. 45 honorary board – 3 Nobel prize winners, 6 former chairs of council, and 2 former Chairs of the Federal Reserve.
	2. 367 delegates, one in each state.
	3. 42 Global Partners
3. Where are we?
4. **Credits and Disclaimer**
5. **Overview of Major Safety Net Programs**

First, let’s be more specific about which programs we will discuss. The United States has a variety of programs that provide income or services directly to its citizens. Here, we’ll focus on a set of these programs that are what we call *means-tested*. In means-tested programs, individuals have to demonstrate a low level of income and assets (or “means”) to be eligible. I’ll also stick to federal programs—those in which the federal government either finances all or part of the program spending and sets at least some of the broad eligibility rules and requirements. This will include, as we will see, a variety of types of programs, from those providing simple cash transfers to those paying for medical care or providing food or housing benefits more directly.

1. **Major Safety Net Programs**

Our discussion of the safety net will thus leave out some large and important U.S. programs that provide cash payments to individuals but are not means-tested. Many of these programs are what are known as social insurance programs. Because they are not means-tested, participating in them does not require a recipient to have low income.

Social insurance programs also typically require individuals to contribute to the program at some point in their lives. Private insurance requires the payment of a premium on a regular basis in order to be insured against certain events. Social insurance has this feature also. For example, Social Security provides cash payments to the elderly, but only after they have paid into the system throughout their working lives. Similarly, unemployment insurance and disability insurance are financed through employer contributions through individuals’ working lives. While we will not focus explicitly on these types of non-means-tested social insurance programs, they can, of course, play important roles in raising the incomes of otherwise poor individuals (and of the non-poor). Social Security is the most notable example of this and is responsible for the dramatic reductions in poverty rates among the U.S. elderly over the course of the 20thcentury.

1. **Major Safety Net Programs**

This is a summary of the major federal means-tested safety net programs. These programs provide a variety of forms of assistance.

Medicaid provides medical insurance coverage to low-income adults and children. It also covers some long-term care expenses for the impoverished elderly. Supplemental Security Income, or SSI, provides cash assistance but specifically serves the poor who are disabled or elderly.

1. **Major Safety Net Programs: SSI, TANF, EITC**

Several programs provide cash transfers not related to medical needs or disability.

Temporary Assistance to Needy Families (TANF) provides cash assistance, primarily to single-parent families with children, along with job training and other work-related services. In 1996, TANF replaced a similar program, Aid to Families with Dependent Children, or AFDC, following major national welfare reform legislation.

The Earned Income Tax Credit (EITC) provides a refundable tax credit to low-income working families. By “refundable” we mean that if a family has zero tax liability, the EITC will provide them with a refund after they file their tax forms. The Child Tax Credit is also partially refundable and so may benefit even those families with relatively low income.

1. **Major Safety Net Programs: Nutrition**

Other programs, such as SNAP, school nutrition programs, and WIC, provide vouchers that can be used to purchase food, or allow access to low-cost or free meals.

1. **Major Safety Net Programs: Housing and Education**

Housing support for the poor is achieved in several different ways. Housing Choice Vouchers, also known as “Section 8” vouchers, provide a subsidy that can go toward rent paid to participating landlords. Project-based rental assistance and public housing provide directly subsidized rental units to the poor. In public housing, the tenants are generally expected to pay roughly 30% of their income toward rent and must have income that is below approximately 50% of their area’s median income level.

Finally, the Head Start program provides public preschool to poor children and offers parenting education to their parents.

1. **U.S. Safety Net Programs, Federal Expenditures 2014 or 2015 ($ Billions)**

All of these programs make up a fairly complex safety net, and they are joined by a variety of state and local government programs, as well as assistance provided by charities and non-profit organizations, such as food banks. Federal funds support emergency and transitional housing for the homeless, and also community health centers for low-income individuals.

To get a better sense of the relative size of each of these programs within the overall safety net, this figure shows the level of expenditures for each (based either on the year 2014 or 2015). Immediately, we see that spending on Medicaid swamps spending on all of the other programs. This primarily reflects the fact that medical care, especially for the subset of those with severe or chronic health problems, can be extremely expensive. In fact, in addition to qualifying for Medicaid on the basis of low income, some individuals qualify for Medicaid by virtue of having particular medical needs, known as being “medically needy.”

Thus, Medicaid, unlike most of the other programs, provides very high levels of spending to some individuals—those with greater medical needs—and lower levels of expenditure to its relatively healthy recipients. Finally, total Medicaid spending also includes supports long-term nursing care for the elderly which has accounted for up to 30 percent of spending in recent years.

<click to show % of budget for Medicaid>

Medicaid is by far the largest program in the safety net. In 2015, it amounted to about 9% of the Federal Budget. This represents a significant increase over previous years because of the Affordable Care Act and states choosing to expand services to higher income individuals.

<click to show % of budget for SNAP, the largest of the other programs>

Other programs in the safety net are comparatively small. The largest of the rest, SNAP, makes up just 1.8% of the Federal budget, with most others being significantly smaller.

1. **U.S. Safety Net Expenditures ($ Billions) and Caseload (Millions)**

Another way to think of the relative size or importance of programs is by looking at the number of individuals they serve in a given year. That is shown by the red bars on this figure. While Medicaid does serve a larger number of individuals than other programs, its costs remain far higher than a proportional increase for its higher caseload would suggest.

1. **U.S. Safety Net Expenditures ($ Billions) and Caseload (Millions) – No Medicaid**

This figure drops Medicaid to focus on the relative scale of the other programs. The largest programs in terms of caseload (after Medicaid) are the nutrition programs—SNAP and the school lunch programs—followed by the EITC.

1. **MEDICAID & CHIP**

Let’s look at some details of the major safety net programs, including the number of people they serve, eligibility requirements, benefit levels, and the extent to which individuals receiving these benefits also work.

Medicaid, based on expenditures, is the largest safety net program by far. It serves a large number of individuals and can be expensive on a per person basis, particularly for individuals who are “medically needy,” or have substantial health care needs and costs. The Children’s Health Insurance Program (CHIP) is often considered alongside Medicaid, given its similar purpose and structure. CHIP provides medical coverage for children in families with incomes of up to 200% of the poverty line. Individuals who receive Supplemental Security Income because of a work-limiting disability are also eligible for Medicaid. In 2016, Medicaid and CHIP covered more than 74 million individuals.

Eligibility for Medicaid varies across states, largely due to provisions of the 2010 Affordable Care Act (ACA), which gave states the option to allow all individuals under the age of 65 and with incomes up to 133% of the federal poverty line (FPL) to participate in Medicaid. The ACA provided federal funding incentives, but these incentives were temporary. As of January 2018, most states were participating in this Medicaid expansion, but 19 states were not. In these “non-expansion states,” children with incomes up to 133% of the FPL are eligible, as are parents with incomes up to a lower cutoff (43% of the FPL in the median non-expansion state). CHIP covers children with family income between 133% and 200% of the FPL.

1. **Eligibility & Enrollment**

Medicaid and CHIP combined cover a staggeringly large number of children, approximately 50% of all children in the United States. Of the total population, it covers about 23%. The Medicaid expansions provided for in the ACA enrolled more than $15 million adults.

1. **Medicaid Plays a Key Role for Selected Populations**

Medicaid provides insurance for significant proportions of specific populations in the U.S. In particular, children, especially those living in poverty. Of births, Medicaid covers a staggering 49%.

1. **Medicare per enrollee Spending**

For most recipients, Medicaid is a very cost effective form of insurance. For the children that are covered by Medicaid, the cost averages just $2,500/year. For the adults, just $3,200. Naturally, for disabled and elderly populations the cost is higher.

1. **MEDICAID & WORK**

The figure here shows current facts about the relationship between Medicaid receipt and work. In 2016, roughly 60% of nonelderly and nondisabled Medicaid adult enrollees worked full or part time. If we include the work status of other family members (but still focusing on nondisabled adults), nearly 78% of Medicaid enrollees had at least one adult working.

1. **Supplemental Security Income (SSI)**

In addition to the programs that offer medical coverage, there are programs that provide cash payments to those who are disabled or chronically ill. Supplemental Security Income (SSI) provides income support to low-income disabled adults and children. In 2016, the program served approximately 4.8 million individuals. The much lower caseload of SSI as compared to Medicaid provides an example of how categorical eligibility restrictions—in this case having a certified disability—limit the number of individuals receiving some safety net programs. SSI recipients typically do not work since having a disability that limits work is a condition of eligibility.

1. **TANF: Temporary Assistance for Needy Families
Formerly AFDC: Aid to Families with Dependent Children**

Perhaps the component of the safety net that most closely fits the idea of “welfare” is the cash transfer program known as Temporary Assistance for Needy Families (TANF), which was formerly known as Aid to Families with Dependent Children (AFDC). The program continues to provide income support to needy families with children for up to five years over an eligible individual’s lifetime. States set specific eligibility rules for TANF receipt and most limit TANF resources to single-parent families. Most recipients are also required to engage in work, job searches, or work-related training to maintain eligibility.

Total TANF spending in 2017 was approximately $32 billion, which served approximately 2.5 million families.

1. **Maximum Monthly Earnings for TANF**

The income limits for TANF eligibility vary by state. In 2012, for example, for a single parent with two children, monthly income would need to be less than $1,258 to qualify for TANF assistance in California, and it would need to be less than $518 per month to qualify in Kansas.

In virtually all states, the income limits to qualify for TANF assistance are well below official poverty thresholds.

1. **How States Spent Federal and State TANF Funds**

A shrinking share of TANF spending goes to direct income support for needy families, with a growing share being redirected by states for other purposes. In 2015, for example, roughly 52% of TANF spending went toward cash payments, work-related activity and supports for eligible recipients, and child care for working recipients. The remainder was spent on other priorities included under the TANF program’s broader mission, such as refundable tax credits, or programs to promote marriage and reduce out-of-wedlock pregnancy. These services can be funded by TANF funds because the 1996 welfare reform legislation included these as part of TANF’s broad mission, giving states flexibility to spend TANF resources on these goals.

1. **Welfare Rolls Declined After Reforms**

TANF caseloads have fallen dramatically since welfare reform legislation imposed time limits and work requirements. In 1996, roughly 13 million Americans received welfare payments from AFDC. By 2012, just under 5 million were receiving payments under TANF. After 1996, many new requirements were imposed on TANF recipients, and this is thought to explain some of the decline in the caseload.

1. **EITC (Earned Income Tax Credit)**

The Earned Income Tax Credit (EITC) is a different type of safety net or income assistance program that operates entirely through the federal income tax system (and some state income tax systems for state-level EITCs). Rather than simply providing cash assistance, the EITC provides a tax credit that grows as work and earned income increase, up to a maximum credit amount. The amount of the credit and the earnings limit depend on a family’s marital status (or tax filing status) and number of children. By its nature, only working individuals and their families receive the EITC. The EITC is fully refundable. This means that if taxes owed without the EITC are less than the value of the EITC, individuals will receive a tax refund. In 2015, nearly 28 million households received the EITC, more than five times the number of families receiving cash welfare from TANF. The total cost of the EITC in 2015 was more than $68 billion.

Currently, individuals without children receive only very small EITC amounts, with the maximum credit for a single, childless individual of just $506 in 2017. In contrast, families with three or more children can receive up to a maximum credit of $6,269.

The EITC has become politically popular because, for some individuals, it provides an incentive to enter the workforce. This is because, starting from a position of no earnings, every additional hour in the workforce will increase the amount of the EITC a worker can receive, up to the maximum credit. This is in contrast with the negative effects of traditional welfare programs, which we’ll talk about in more detail below.

The EITC has other features that are unusual for a safety net program as well. In particular, in bad economic times, low-income workers who lose their jobs may lose not only their earnings, but their EITC as well. Thus the EITC raises take-home pay for low-income workers, but it may not be a strong buffer against bad economic times for individual workers.

1. **SNAP (Supplemental Nutrition Assistance Program)**

The Supplemental Nutrition Assistance Program, or SNAP, was formerly known as the Food Stamp Program. SNAP provides assistance for purchasing food, generally in the form of an electronic benefits payment that can be used only for food products (with some additional limitations). SNAP does not have categorical eligibility requirements (such as single parenthood for TANF, or disability for SSI). Because it is available to most individuals with incomes up to 130% (and in some cases up to 150%) of the poverty level, it serves a relatively large number of poor and near-poor Americans. In 2017, SNAP reached 42 million Americans at a cost of nearly $68 billion. Roughly 93% of that spending provided food assistance directly to individuals, with the balance going toward administrative and other program costs.

1. **SNAP (Supplemental Nutrition Assistance Program) – con’t**

Many individuals combine SNAP benefits with earnings from work. Among nondisabled adults who receive SNAP, about 58% were employed in the month they received SNAP benefits, and 82% were employed within a year of SNAP benefit receipt.

1. **School Food Programs**

There are other nutrition assistance programs that serve needy children. The National School Lunch Program provides free or low-cost school lunches to low-income children—children whose families have incomes below 185% of the poverty line. In 2016 the program served approximately 30 million children at a cost of $13.6 billion.

1. **WIC (Special Supplemental Nutrition Program for Women, Infants, and Children)**

An even more targeted nutrition program is the Special Supplemental Nutrition Program for Women, Infants, and Children, known as WIC. WIC targets pregnant women, infants, and children up to age 5 who are low-income or at nutritional risk. Current eligibility guidelines limit WIC to families with income up to 100 to 185 percent (depending on the local jurisdiction) of the poverty line. In 2016, WIC served close to 8 million women, infants, and children at a cost of $6.5 billion.

1. **HOUSING AID Housing Choice Voucher Program (Section 8)**

Housing programs serve a minority of needy families in the United States. For example, the Section 8 Voucher program served just 5.3 million individuals, or just over 2 million families in 2016. Expenditures on housing vouchers in that year were approximately $18 billion.

Among those receiving housing vouchers, nearly half were elderly or disabled, and another third were either employed or unemployed and actively searching for work.

1. **HEAD START**

Finally, the Head Start program provides another type of assistance, through preschool programs for low-income children, combined with educational benefits (on nutrition and parenting skills) for their parents. At least 90% of students enrolled in the Head Start program must be in foster care, from families with incomes below the poverty line, or from families receiving public assistance.

1. **Safety Net: A Collection of Separate Programs**

As you can see, the “safety-net” is really a collection of many separate programs with differing purposes, populations, and eligibility rules. Medicaid serves a large number of low-income children and many low-income adults. Because of its large caseload, and because some individuals require extensive medical assistance, Medicaid is the largest safety net program in terms of expenditures. Other programs provide cash payments or vouchers for food or housing. Many current safety net programs serve more targeted segments of the poor, such as children, single parents, or the disabled poor. These programs have both smaller caseloads and smaller total expenditures, but they are important sources of support for the populations they serve.

1. **Safety Net: A Collection of Separate Programs**

Different components of the safety net also have different eligibility requirements, and these requirements (as well as benefit levels) sometimes vary across states. TANF, in particular, has different eligibility levels, benefit levels, work requirements, and duration limits in different states. Finally, different parts of the safety net are administered by different parts of the federal government, often in collaboration with state and country governments.

1. **Social Insurance Programs: Not Means-Tested**

In addition to these means-tested components of the safety net, other programs that are not means-tested (i.e., eligibility does not depend on having low income) are sometimes thought of as part of the safety net. These are referred to as *social insurance* programs. These programs operate, in many ways, like the homeowner’s insurance or car insurance that most of us obtain privately. For example, employers and workers pay into the Unemployment Insurance system for their workers. Then, when a worker does become unemployed, he or she is able to receive payments from the UI system while unemployed. The major distinction of these social insurance programs is that they are typically mandatory—nearly all workers and employers (with some industry and other exceptions) are required to pay into UI and Social Security, which provides income during retirement.

Similarly, Medicare provides health insurance for those age 65 and over, and disability insurance for workers who become disabled and can no longer work. These programs are available regardless of an individual’s current income level and are paid for by contributions from workers and employers.

1. **Expenditures on Means-Tested Transfers over Time**

Returning to means-tested safety net programs, we can see that spending on safety net programs tends to grow, in real terms, over time. One reason for this growth, of course, is that as the population grows, covering the same fraction of the population will require more dollars. A second reason for growth in expenditures is simply that the price level rises over time. Both of these issues can be easily corrected for, and it is important to make these corrections if we want to focus on the true trend in safety net spending and not the trends driven by the overall evolution of our economy and country. In particular, we often look at spending that is in “real” dollars (adjusted for inflation over time) and “per capita”(divided by the number of individuals in the population). Another method that adjusts for growth in the economy (including population growth) over time is to express expenditures as a percentage of Gross Domestic Product, or GDP. The figure shown here illustrates such inflation adjusted spending on a variety of safety net programs from 1972 through the early 2012. Viewed either in dollars spent (in the top panel), or as a fraction of GDP (in the lower panel), expenditures have increased over time. The most rapid expansion has been in the health care category, reflecting rapid increases in health care costs for all individuals over time.

1. **Expenditures on Means-Tested Transfers over Time – Recent Trends**

These graphs extend the time frame of the previous slide. Since 2012, it is clear that means-tested spending has been on the rise. It is also clear that most of this increase is due to Medicaid spending – a natural outgrowth of the Affordable Care Act extending benefits to those with incomes above the poverty line.

1. **Per Capita Real Expenditures on Specific Means-tested Programs**

Going beyond the broad categories, of health, cash, and other spending, the next figure makes clear that different programs have had very different trends in real per capita spending over time. This often reflects changes in caseloads or the number of people participating in a particular program. In the past 20 years, AFDC and TANF, for example, have declined while the EITC has increased. Not shown here are expenditures on Medicaid which have grown substantially over time, largely driven by broader trends in health care expenditures, as well as by some expansions of eligibility over time.

1. **Spending on TANF**

One program that has experienced relatively slow growth in spending over the past two decades is the TANF program. The program funding comes through a block grant with a total amount set by legislation. This means that program expenses do not necessarily grow in years with higher demand for program benefits; that is, it is not an “entitlement program.” Welfare reform in 1996 set total federal expenditures for the TANF program. Recall that caseloads in the TANF program have fallen dramatically since 1996; thus, spending per recipient has been maintained despite a little decline in total spending.

1. **Participation in other Means Tested….**

Although it is useful to consider safety net programs one at a time to understand their unique features, many individuals receive benefits from multiple programs. It is challenging to track multiple program participation, but several studies have done that. The typical approach here begins with one specific program, and then examines whether individuals receiving benefits under the original program also receive assistance from other parts of the safety net.

This figure shows participation in other parts of the safety net by individuals receiving cash assistance through TANF. Note, first, that nearly 100% of these individuals also receive health care assistance, since TANF recipients are automatically eligible for Medicaid. More than 80% of TANF recipients receive food stamps, and many also receive assistance from other nutrition programs. Recall that TANF serves a fairly small segment of the population and has narrow eligibility criteria. This means that the fraction of SNAP recipients who also receive TANF (the opposite of what is shown here) is likely much smaller, since most SNAP recipients are not categorically eligible for TANF.

1. **Effects of Safety Net Programs**

Are safety net programs successful in combating poverty? To answer this question, we should consider both their intended effects (reducing poverty) and a variety of unintended consequences. The intended effects of safety-net spending are generally to reduce poverty or to assist families with short-term income, nutrition, or housing shortfalls. Even when looking at intended effects, we can consider two different ways of viewing the effects of the safety net, and we need to be aware of some features (and flaws) of how we measure poverty in the United States.

1. **Challenge: Measuring Effects of Safety Net on Poverty**

The simplest way of looking at the effects of safety net programs on reducing poverty is to see how the poverty rate would be different if various sources of support from the safety net were taken away. This represents a mechanical approach to the question; it ignores the likelihood of behavioral changes that may accompany the use of safety net programs and interactions between different programs. If there are large behavioral changes, this strict mechanical approach can give the wrong impression of how the safety net affects poverty or other outcomes.

One challenge with the simple approach is that the official U.S. poverty rate is calculated considering only a very narrow definition of resources available to support the family. Specifically, it looks at pre-tax cash income. This can pose a problem if we want to capture the effects of after-tax programs (such as the EITC) or in-kind benefits (such as SNAP benefits or subsidized housing) on poverty rates. For example, if a family’s cash income is below the poverty line, but the value of SNAP benefits move them to above the poverty line, our official poverty measure would show that SNAP has no effect on measured poverty.

1. **Effect of Individual Elements on SPM Rates: 2015**

To account for these issues, as well as other known shortcomings of the official poverty measure, the U.S. Census Bureau now regularly publishes a Supplemental Poverty Measure (SPM) that considers after-tax income measures, includes many in-kind benefits such as SNAP assistance, and adjusts for regional differences in the cost of living. To get the best picture of how safety net programs affect poverty, we should use the SPM.

This table shows that, TANF, for example, barely changed the poverty rate in 2015, lowering it by a mere .2 of a percentage point. Because it only serves a relatively small fraction of the poor, it has a negligible effect; moreover, its low benefit levels mean that recipient families may not be lifted above the poverty line.

<click through to get ovals highlighting EITC and refundable tax credits>

The EITC and other refundable child-tax credits, had a larger effect in 2015, reducing poverty by nearly 3 percentage points, and reducing poverty among children by more than 6 percentage points.

<click through to get ovals highlighting Social security>

Other programs also play a large role in reducing poverty. Notably, Social Security—which we have not discussed in detail because it is not a means-tested program that only low-income individuals receive—reduced poverty in 2015 by 8 percentage points, and it reduced poverty among the elderly by more than 36 percentage points. Nutrition programs and tax credits reduced poverty by smaller, but measurable, amounts.

1. **Safety Net’s Effectiveness at Reducing Poverty**

Using a measure similar to the SPM to measure poverty and taking into account all of the various types of benefits, we can see that the safety net has played a substantial role in reducing poverty over time. This figure shows, for each year since the beginning of the War on Poverty and the growth in safety net programs, the percent reduction in poverty that comes by including safety net programs in our poverty measures. In recent years, the safety net has reduced poverty by more than 40% in a typical year, relative to what poverty would be with no safety net (and no behavioral changes due to the safety net).

1. **Total Effects are Complicated: TANF**

Note that these measured effects of the safety net on poverty do not consider the possibility that an individual’s behavior may change as a result of the safety net, and this may have additional effects on their income (and on poverty). For example, one of the main behavioral changes thought to be related to welfare programs (discussed in more detail a bit later) is that individuals may work less in the presence of a generous welfare system.

If TANF leads individuals to work less, the estimated effect of TANF on measured poverty could be overstated. Such estimates assume the TANF dollars are added to families’ budgets without reducing other sources, such as earned income. To get the full effect of TANF on poverty, we need to consider the sum of the decrease in poverty from providing additional resources and the (probable) increase in poverty that comes from reduced work as an unintended effect of TANF.

1. **Total Effects are Complicated: EITC**

Another example, with opposite implications, is the EITC. The EITC may reduce poverty by even more than the estimates shown in the last slide by encouraging more parents to enter the workforce and have positive earnings. In this case, the measured effect of the EITC on poverty will miss part of the true effect. The actual magnitudes of these behavioral changes and how they translate into income changes are key to understanding how far off these initial, mechanical estimates of safety-net effects on poverty are.

1. **Full Effect of Safety Net: Includes Behavioral Changes**

The unintended consequences of safety net spending can include negative effects on labor supply, effects on marriage or childbearing, or other results stemming from behavioral changes. To understand the potential negative effects of typical cash welfare programs on labor supply, we need to think carefully about how these programs affect both income and the amount of take-home pay associated with an additional hour of work.

Many safety net programs that provide cash or near-cash, in-kind benefits (such as TANF or SNAP) provide a level of assistance that varies with the amount of other income, including earnings, in the household. As earnings rise, the benefits are slowly reduced to keep the means-tested feature of the program. Once earnings are above a certain level, the benefits are reduced to zero—or the household is no longer eligible for the benefit. This feature, which is important if the program is designed to target low-income households and keep program costs low, contributes to the potential for negative labor supply effects.

1. **Two Effects of Welfare Payments on Work**

To better understand the effects of welfare programs on work incentives, think of welfare programs as doing two things. First, they provide income to households in the form of benefits. Economic theory (as well as our own experience) tells us that additional income typically results in consumers buying more goods—even if individuals do not spend all of the additional income, on average they will spend some of it. The key to understanding effects of additional income through welfare on work effort is to recognize that leisure time—or time spent not working—is another form of consumption for consumers. Leisure is something that provides enjoyment, or utility, to individuals, and that they must give up income to obtain. Thought of in this way, leisure is not much different than other types of consumer goods. This leads us to the first way in which welfare programs can discourage work. By providing additional income, welfare can encourage consumers to work less, or take more hours of leisure. The idea that additional income results in less consumption, including less consumption of leisure, is known as the “income effect.”

There is a second avenue through which typical welfare programs discourage work, and that is through their effect on the relative gain, or relative earnings, that come with an hour of work. Recall that most welfare programs offer a benefit that is reduced as earnings rise, often referred to as a benefit reduction rate. This rate can be as high as 100%—every dollar of additional earnings results in a dollar reduction in the welfare benefit. More commonly, benefit reduction rates are lower, so that, for example, an additional dollar in earnings may reduce the benefit amount by 30 cents or 50 cents (i.e., benefit reduction rates of .30 or .50). This means that, for a welfare recipient who faces a reduction in their benefit with every hour of work, the relative earnings from that work are reduced by the benefit reduction rate. If work brings in a smaller net amount, individuals may be less likely to work (referred to as a “substitution effect” in economics). For both of these reasons, there is a strong theoretical prediction that welfare programs will lead to reductions in work among welfare recipients.

1. **What do we know about magnitude of work disincentives from welfare?**

Any welfare program that assists low-income individuals might also reduce participants’ work effort, and the work reductions may be amplified when programs attempt to stay focused on the needy and limit program costs.

For any of this to inform policy, however, we need to understand the magnitude of these effects on work effort. We might decide that small effects on work are acceptable in return for the ability to support poor families. On the other hand, large work disincentives could lead us to look for other ways to support the poor.

1. **Perfect (but Impossible) Approach to Research**

Here, we need to understand a bit more about how economists, and other social scientists, do research to measure the effects of welfare programs on work and other behaviors. The challenge, similar to the challenge for much research in social science, is that we cannot do this study in a controlled laboratory setting. Conceptually, we’d like to be able to randomly assign poor individuals to two different groups. One group could be offered welfare support, the other group nothing. Then, we could compare how much the two groups work. If they had been *randomly* assigned to these two groups, with large enough samples, there would be no other ways in which they differed. Ideally, we would have observed these groups before any welfare benefits were offered to them as well. And the results of our experiment would tell us how much welfare changed work choices.

Unfortunately, this is impossible to do. We can’t randomly deny welfare benefits to eligible individuals, and since most safety net programs are long-standing, it is not usually possible to observe behavior before they existed. As an alternative, social scientists use a variety of approaches and statistical methods to try to approximate this type of experimental evidence.

1. **Challenges to Empirical Studies**

While the inability to conduct laboratory-type experiments is a broad challenge for social science research, there is a more specific major challenge when trying to untangle the relationship between work and welfare availability. Ultimately, we are trying to understand whether (and to what extent) welfare causes low or reduced work effort. A starting point would be to observe the correlation between those receiving welfare and their work status and effort. Unfortunately, the interpretation of such a correlation in this case is challenging.

What we’d really like to know is whether (and to what extent) welfare use *causes* low work effort. Using available data, imagine that we see that those using welfare also tend to have relatively low observed hours of work. Unfortunately, it’s challenging to say whether welfare causes low work effort, or if low work effort leads to welfare use.

In fact, we know that low work effort and low income are *required* to be eligible for means-tested welfare programs. This makes it clear that we have to go beyond simply observing work and welfare use to reach meaningful conclusions.

1. **How can we separate correlation (no direction implied) from cause and effec**

In the face of this challenge, social science researchers have come up with a number of different approaches that are more convincing than simple comparisons. First, some studies compare states to see if welfare recipients in states with higher benefits (or other relatively generous aspects to their welfare programs, such as high earnings disregards or low benefit reduction rates) work less than those in less generous states.

1. **Compare Work Effort in States With Different Benefit Levels**

Comparing behavior across states is appealing because we do not think that individual work decisions are likely to influence the policy decision of how many benefits to offer.

This approach can be even stronger if we combine cross-state comparisons with changes in policy at the state level.

In this case, imagine two states with identical welfare programs, and then assume that one of them chooses to raise benefits. We could then focus on whether the increase caused individuals to *change* their level of work effort, and perhaps come even closer to isolating the causal relationship between welfare and work.

1. **How can we separate correlation (no direction implied) from cause and effect?**

One drawback to this type of approach is that often states may change multiple aspects of their policies all at once. Following welfare reform in 1996, states were encouraged to experiment and modify their TANF programs to find the best mix of rules. Unfortunately, this means that a before-after state-level research design may have difficulty discerning what *specific* feature of the welfare program is driving any observed changes in work or other behavior.

1. **What evidence do we have on effects of welfare on work?**

What do we know about the magnitude of work responses to cash welfare? Prior to welfare reform in 1996, there were many studies of AFDC, and many of these studies used a combination of state-level comparisons and policy changes within states over time as the basis for their analyses. Economist Robert Moffitt has conducted such studies and summarized much of the related literature. He finds that the AFDC program, taken as a whole, reduced hours worked by single-parent welfare recipients by approximately 30%. Because poor single parents do not work very much, this is equivalent to around 5.4 hours per week or about 300 hours per year.

1. **What evidence do we have? Food Stamps**

A more recent study used data from several decades ago when a welfare program was first introduced to better identify how the program affects work behavior. Economists Hilary Hoynes and Diane Schanzenbach look at how the introduction of the food stamp program county-by-county in the late 1960s and early 1970s affected rates and hours of employment.

When the food stamp program began, it was introduced in specific counties over a period of several years. By looking at counties before and after food stamps were offered, they had an effectively random division of individuals: those who were exposed to the food stamp program and those who were not. Then, they looked at how levels of employment compared across counties and over time. Specifically, they could look at counties where the Food Stamp Program did not yet exist and compare work levels in those counties with similar counties that offered the new Food Stamp Program.

1. **What evidence do we have? What does it say?**

When Hoynes and Schanzenbach did this, they found that introduction of the Food Stamp Program in a county resulted in hours of work falling by 183 hours per year, or by about 20%, among single-parent families. They found no clear change in hours of work among two-parent families. With this approach, that effect of 183 hours reflects the likely effects on individuals who participated in the Food Stamp Program (roughly 32% of single-parent households), but also averages their response with the (probably zero) response of those who did not receive food stamps.

Fortunately, we can take this overall effect and the program participation rate of 32% and use it to recover the likely effect on hours of work among those who received food stamps, to isolate the negative work incentive effects for a typical recipient.

To do this, simply note that the overall effect of 183 hours of less work can be expressed as the fraction of those receiving food stamps, multiplied by the effect on labor supply for recipients PLUS the fraction not receiving food stamps, multiplied by the effect on labor supply for non-recipients, likely to be zero.

This allows us, through some simple arithmetic, to estimate that the existence of the Food Stamp Program causes those who receive benefits to reduce their hours of work by roughly 571 hours per year, fairly similar to the estimated reduction in work from the AFDC studies.

1. **Welfare (TANF) today**

Whether these numbers are large or small is certainly a matter of judgement. They do make clear that there are negative work incentive effects, but safety net programs also clearly do not cause all participants to stop working entirely.

For today’s welfare system in general, and TANF specifically, we should remember that in addition to the basic program features of benefits with a benefit reduction rate, we also have certain work requirements. For many recipients, benefits are essentially unavailable if they do not work or participate in some work preparation activity. Thus, the estimates of welfare’s effect on work effort from earlier periods are likely to overstate the effect of the modern TANF program on work.

1. **International Evidence (Developing Countries)**

Finally, there is one other source of information on how cash transfers affect work that comes from a variety of settings in the developing world. In recent decades, there have been a number of programs that provide cash supports in very poor countries, where no such programs have existed in the past. Because there is no history of official support for the poor in these settings, it has been possible to run randomized experiments in which some of the poor are given cash transfers and some are not. This has allowed for some additional evidence on how welfare programs may affect work.

It is important to note that most of these programs were simple cash transfers, with no benefit reduction rates for increased work, and so they acted like the simplest of our welfare programs, producing a simple shift out in the budget constraint for the treatment groups that received the transfers. For the control group (randomly selected *not* to receive the cash transfer), there was no change in income.

1. **Experimental Estimates**

The results from a number of such studies are illustrated here. If providing cash assistance reduces work effort, we would expect the treatment groups in this figure to show a smaller probability of working in the past week and a smaller number of hours worked, relative to the control groups.

In fact, we do not see any evidence of that pattern. If anything, the treated groups worked slightly more, and in most cases the differences were very small.

1. **Summing up: how large are welfare/work disincentives?**

Thus, for a population from developing countries, we have very little systematic evidence that cash transfers cause major reductions in work among the poor. This is a stronger statement than made by the conclusions of U.S.-based studies of AFDC, food stamps, and TANF, and may be less relevant in the U.S., a developed and relatively wealthy country.

Evidence from the experience of the U.S. safety net confirms that providing cash and other forms of assistance to the poor does cause some individuals to reduce their work effort. Recent evidence suggests that availability of a safety net program without specific work requirements may reduce hours of work in a year by 500 to 600 hours per year. Individuals do not seem to reduce their labor market involvement to zero. Evidence from randomized experiments in developing countries seem to suggest even smaller labor supply responses to cash assistance. Estimating the magnitude of responses to incentives produced by changes to individuals’ budget constraints is an important addition to simply understanding the theoretical prediction of such responses.

1. **How Big Are Work Disincentives**

Quite a bit is made of the work disincentives in the safety net. Namely that additional work is taxed very highly. This graph makes clear that that can be true, but is only true for a very small number of recipients. Marginal tax rates are quite low, in the low thirties for those above the poverty line and substantially less for those below. The financial reward to working is clearly significant, especially when the group that we are talking about are cash poor.

The work disincentive effect on this population is very likely to be less than it is for populations with higher incomes at the same marginal tax rate. This is so because the value of additional income is almost certainly much higher for low income households than for high income households.

1. **Alternative to multi-part safety net: Universal Basic Income (UBI)**

Recently, there have been a number of discussions, in the U.S. and elsewhere, of a particular type of alternative to our piecemeal safety net. A Universal Basic Income program (UBI) involves a cash transfer of a set amount given to all individuals over the age of 18. This cash transfer is unconditional, meaning that it is not a means-tested program. Everyone receives the grant, not just those who are low income. In its purest form, it would not depend on family structure, presence of children, or other factors.

1. **Examples of UBI or similar programs:**

There are examples of local policies that mimic a UBI that have been implemented in the United States and around the world. It is informative to learn a little about these experiments.

The Alaska Permanent Fund is one example of a UBI for citizens of Alaska. Since 1976, Alaskan residents have been receiving payments from Alaskan natural resource revenues. This cash transfer can be compared to a UBI since it is unconditional—everyone receives it regardless of need. With cash payments of only about a couple of thousand dollars a year, there was no reduction in employment observed.

Native American casinos also provide an example of UBI type program. Certain Native American groups receive a percentage of revenue from gaming operations within casinos. This situation is similar to UBI because it is not a means-tested program. A 2010 study by Randall Akee and co-authors showed no reduction in work among Native American parents who received payments under this program.

1. **Universal Basic Income (UBI) PROS**

UBI would be a dramatic departure from our current safety net system. In its purest form, it would likely reach a much larger number of low-income (and higher-income) individuals than our current safety net. It has often been mentioned as beneficial in light of fears that job losses or low wages due to trade or automation are inevitable. Because there is typically not a phase-out of UBI benefits as income rises, there may be a weaker work disincentive under these systems.

1. **Universal Basic Income (UBI) CONS**

The flip side of the lack of a phase-out of UBI benefits as income rises, however, is also one of its biggest disadvantages: UBI programs are likely to be quite expensive since they cover most or all of the population, including high-income earners. UBI does not address inequality—everybody receives assistance, not just those at the bottom. A UBI could also lead to less policy emphasis on providing employment opportunities that might have more permanent positive effects on poverty or economic growth.

1. **Summary: U.S. Safety Net**

The U.S. safety net is a complex set of individual programs. Here, we have covered the major federal programs that are means-tested, or available only to those with low incomes or other concrete needs. The safety net programs differ in the types of assistance they provide (medical, cash, nutrition), their eligibility requirements, benefit levels, and many administrative details. This makes it difficult to study and understand the “safety net” as a whole.

Across many of these programs, however, there are both direct and indirect effects. Indirect effects are often unintended, and can include reduced work incentives, or changes in family structure or childbearing. These are often unavoidable if we wish to provide resources to those most in need, phasing out benefits at higher income levels or when need is diminished. Research that aims to quantify these unintended consequences is challenging, but many studies exist that find creative ways to isolate the effects of specific programs.

Finally, aside from understanding the unintended effects, we now have evidence that safety net programs do reduce poverty in the United States, and for some programs the reductions are substantial. Our official poverty measures do not fully capture these positive effects, but a new supplementary measure of poverty allows us to track these benefits more systematically and shows that the safety net reduces poverty by as much as 40 percent.

1. **Safety Net Spending Across the OECD**

As a final note, we’ll take a look at the generosity of safety net programs in OECD countries, largely developed nations. At one extreme is Austria, which devotes nearly 20%, or one-fifth, of its GDP to safety net programs. At the other extreme is S. Korea, which devotes just 2.4% of GDP to the safety net.

The United States is on the lower end, spending just 8% of GDP. This compares favorably with Canada and Ireland, but is well below the vast majority of developed countries.

1. **Thank you!**