



The Great Recession and the Social Safety Net

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The Questions

- How has the safety net performed in the Great Recession?
- Divide up into 4 questions:
 - (1) How much did aggregate safety net expenditures rise? Compared to past recessions?
 - (2) What were the most important programs responsible for the aggregate increase?
 - (3) Did the increase go to all demographic groups or disproportionately to some, since different programs serve different groups
 - (4) Did the increase go to all lower income groups (deep poverty, shallow poverty, near poverty) or not?

Means-Tested Programs in 2007 (Pre-Recession)


	No.Recips(000)	Expend(mil)
Medicaid	54,800	\$328,900
School Food	40,700	10,900
SNAP	26,500	30,400
EITC	24,600	48,500
WIC	8,300	5,400
SSI	7,400	41,200
Housing	5,100	39,400
TANF	4,100	11,600

Social Insurance Programs in 2007 (Pre-Recession)

	No.Recips(000)	Expend(mil)
Medicare	44,000	\$432,200
OASI	40,900	485,881
SSDI (DI)	8,920	99,100
UI	7,642	32,500
WC	NA	55,200

Expected Responses

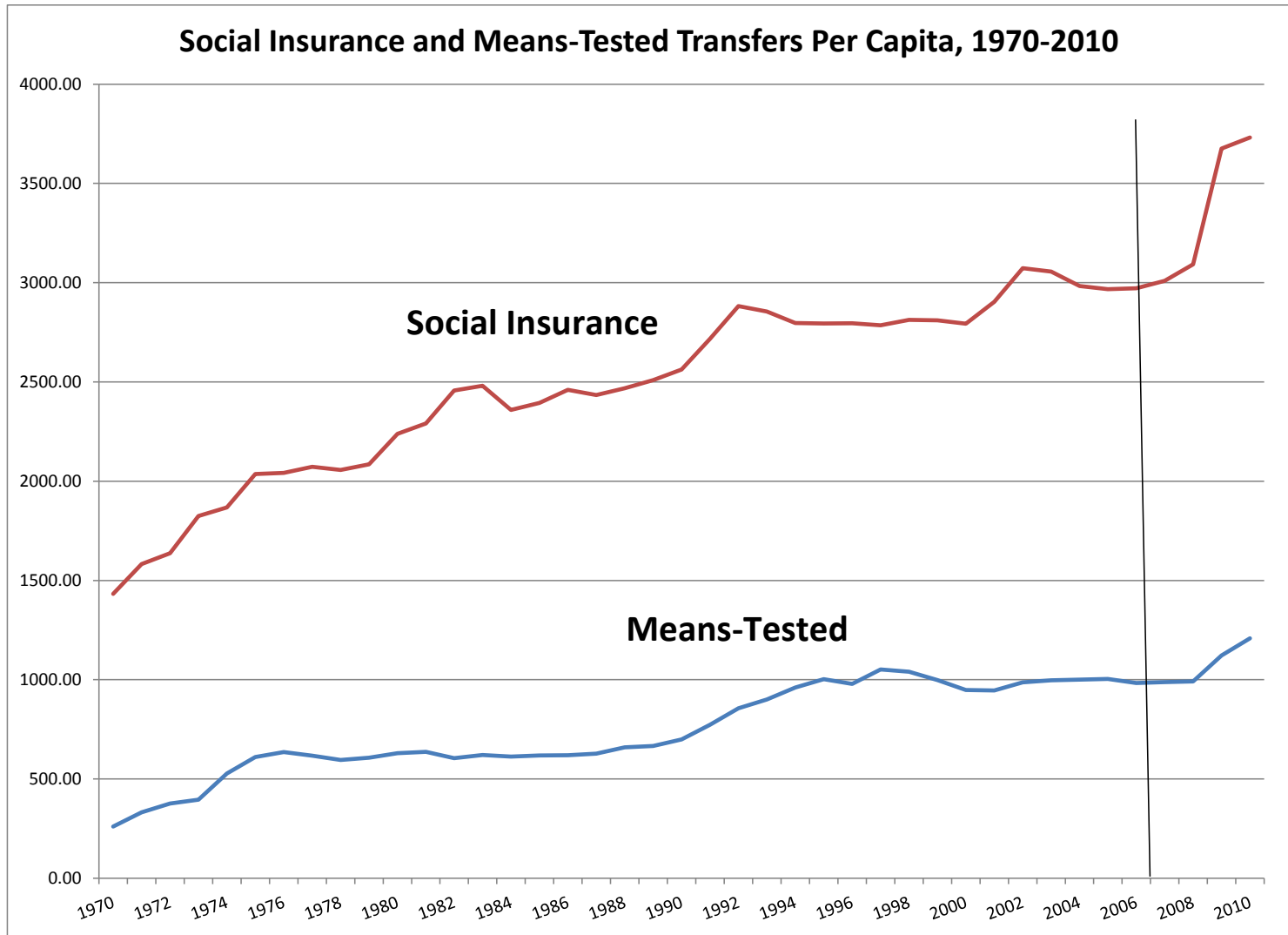
- First point: not all programs should be expected to respond to a recession
- Programs with major medical eligibility restrictions (SSI, DI) may not respond
- OASI may not respond
- Most obvious social insurance program that will: UI
- SNAP, Medicaid, SSI for aged: all have few eligibility conditions other than low income and assets, so they should respond

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- But TANF: Not an entitlement; block-grant
 - Housing: rationed
 - EITC: ambiguous a priori, because it is both procyclical and countercyclical (earnings loss can increase or decrease payments)

Stimulus Additions

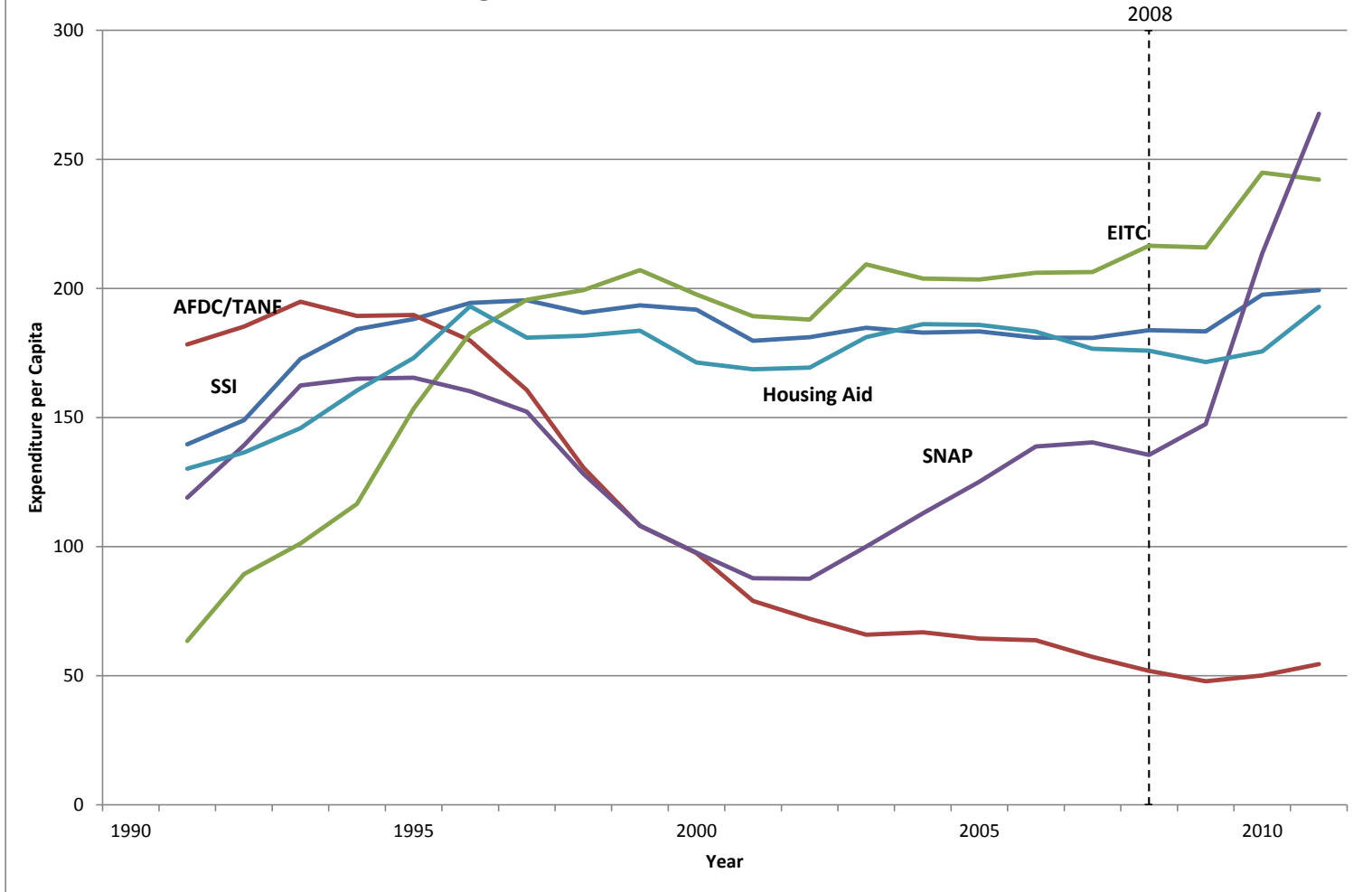
- (1) UI Extensions (started in 2008, expanded in 2009, renewed; up to 99 weeks). Also increased UI benefits, expanded eligibility, more part-time eligibles
- (2) ARRA: more for TANF, EITC, SNAP, OASI, SSI, Housing, Medicaid
- (3) SNAP: benefit increase and reduced asset restrictions
- (4) Making Work Pay, temporary reduction in payroll tax, extended Child Tax Credit

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- Look at aggregate expenditure trends first




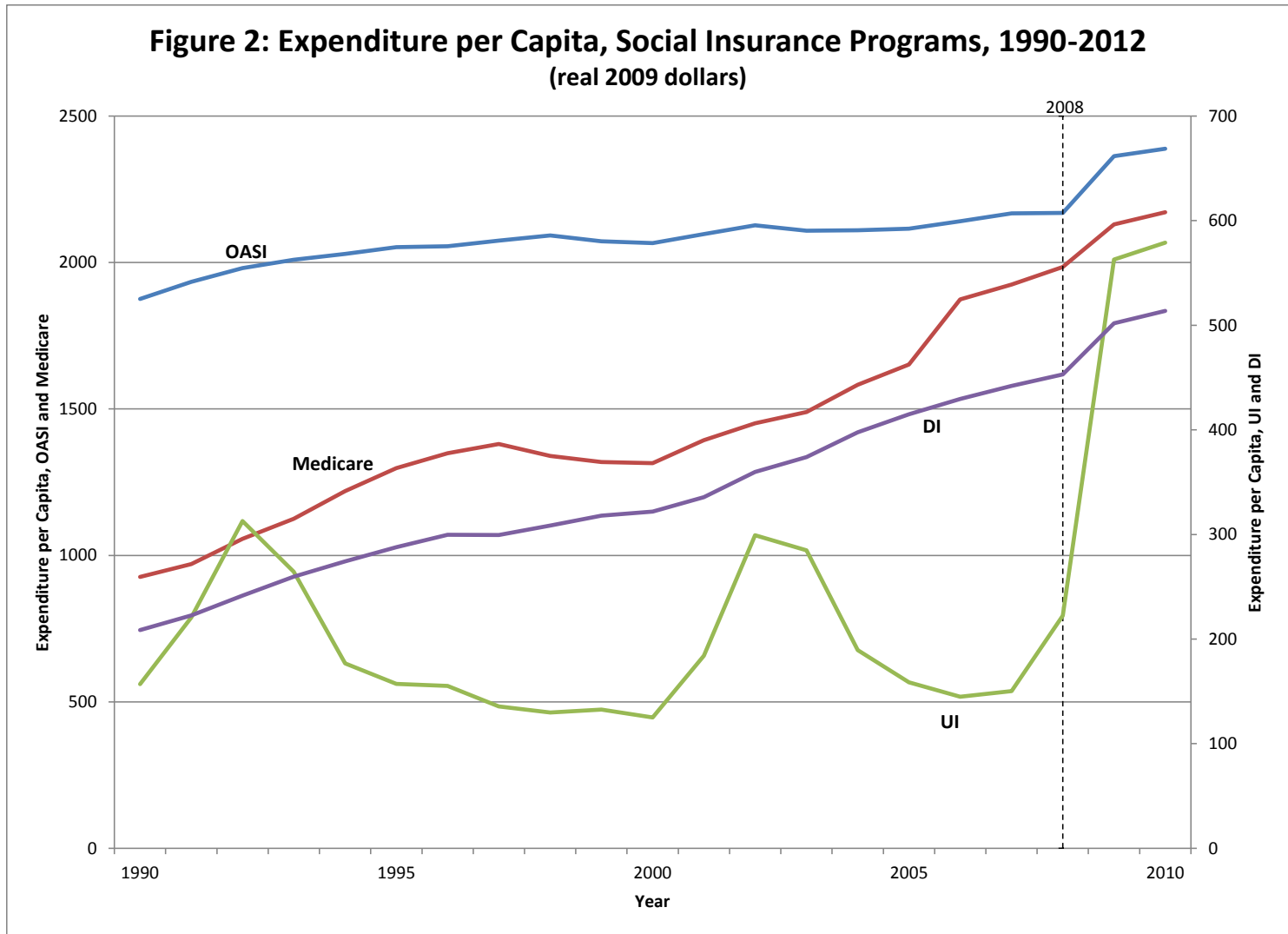
Looks like a sizable response in both, especially Social Insurance

Figure 2: Expenditure per Capita, Non-Medicaid Means Tested Programs, 1990-2010 (real 2009 dollars)





Biggest response: EITC and SNAP. Smallest: TANF.

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- Medicaid: aggregate expenditure rose from \$327 billion in 2007 to \$401 billion in 2010
 - So: big response



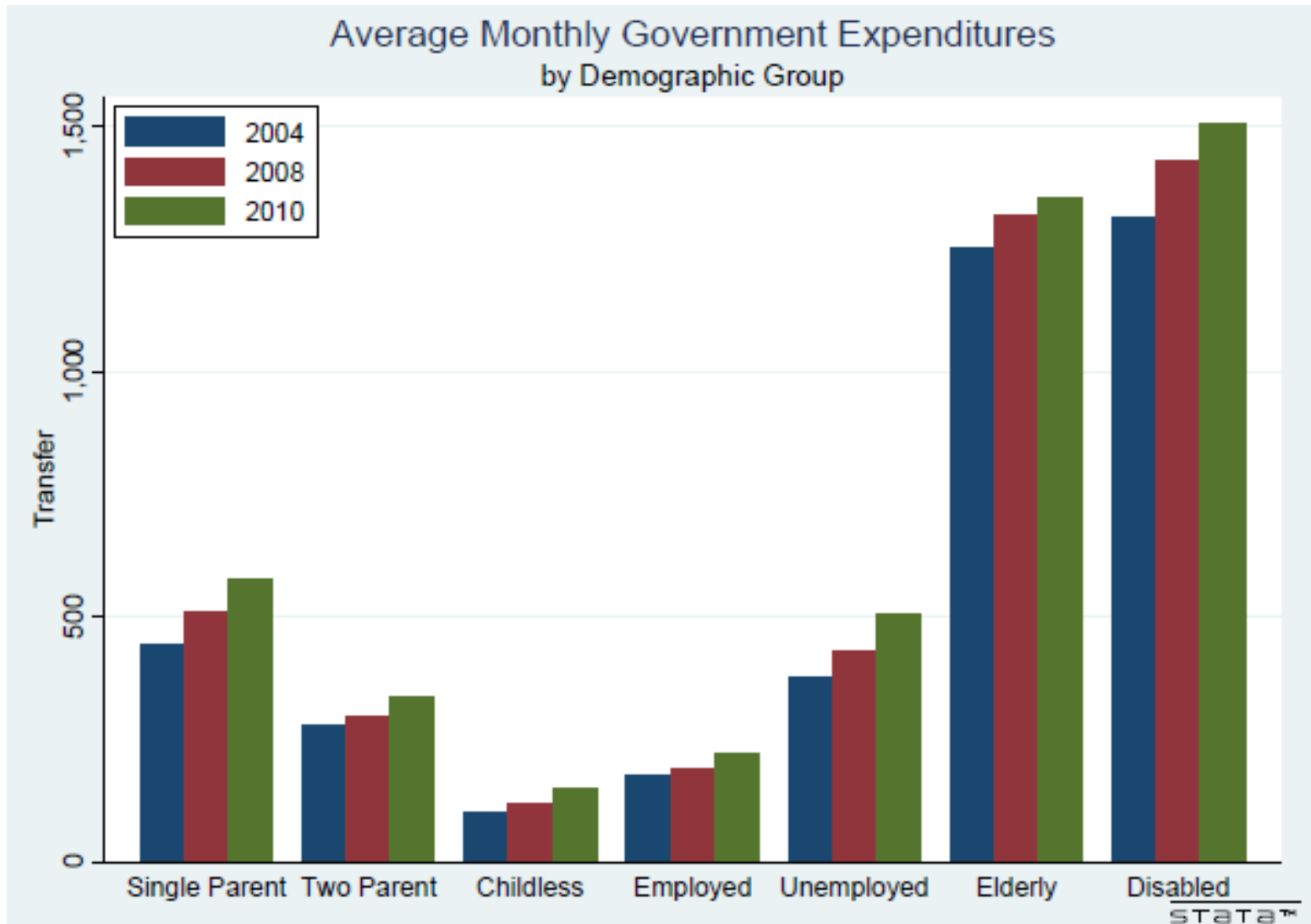
Clearly UI mostly responsible. But DI and OASI responded, too.

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- So: aggregate response very strong, although concentrated more in some programs than others
 - Compared to past recessions? Great Recession had much larger increase in safety net expenditures than early 1990s recession
 - But percent increase from 1979-1982 was only slightly smaller (14%) to that of the Great Recession (18%. 2007-2010)

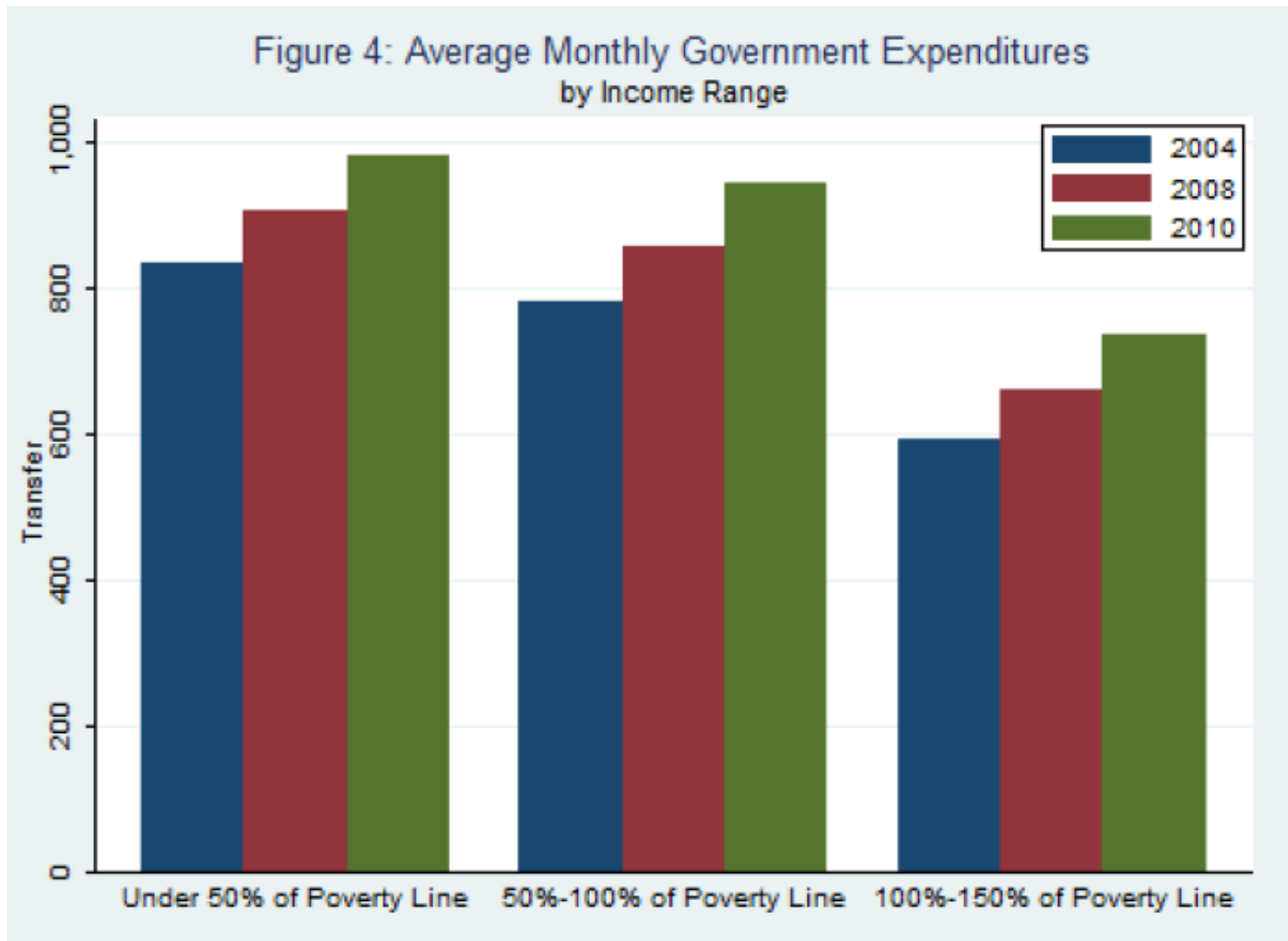
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- Major reason for greater growth in 2007-2010 is not social insurance, but means-tested programs, which grew by 17% 2007-2010 but only by 2% 1979-1982
 - Most of our means-tested programs are much larger today than they were then

Distributional Effects


- Use data from the Survey of Income and Program Participation (SIPP) to count where the expenditures went to (1) different demographic groups and (2) different income groups




Pattern across groups is familiar; but all experienced an increase, 16%-20% from 2004 to 2008 and again 2008-2010



Transfers up for all groups (8%-10% deep-shallow, 11% near); but increase for those in deep poverty not much greater than for those in shallow poverty. System is not that progressive.

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- What programs were responsible?
 - Deep poverty: UI and SNAP
 - Shallow and near poverty: EITC
 - So: SNAP and UI to the bottom, EITC to those higher up


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- An issue with UI: distributional effect a little misleading because pre-unemployment earnings might put the family into shallow or near poverty or above
 - So the distribution is probably somewhat even less progressive than shown here

Work Disincentives

- SNAP: rarely do studies show large effects (Currie: 1 hour/week); recent Hoynes-Schanzenbach an exception but only single mothers there
- One should expect smaller work disincentives during a major recession
- EITC: also small effects (Hotz-Scholz)
- UI: at least during recessions, small effects (Schmieder et al., Rothstein)

Conclusions

- Safety net exhibited pretty good performance (TANF the exception)
- Large aggregate increase
- Increases in benefits were widespread across almost all demographic groups
- Increases went more to those below the poverty line than those above it, but about the same distribution within poverty
- The lion's share of the increases were in UI, SNAP, and EITC

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- My prediction: progressivity of the system will fall as the economy recovers as UI and, to a lesser extent, SNAP receipt, falls
 - EITC receipt may not change much



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