

The Social Safety Net and the Great Recession

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KEY FINDINGS

- Some of the larger means-tested programs, such as Supplemental Security Income and housing aid, didn't grow all that much during the Great Recession.
- The two main means-tested programs that, other than Medicaid, experienced substantial increases in expenditures between 2007 and 2010 were the Supplemental Nutrition Assistance Program (i.e., "food stamps"), which increased by 18%, and the Earned Income Tax Credit (EITC), which increased by 21%.
- Within the social insurance category, the Unemployment Insurance program increased substantially because of the higher unemployment rate and the federal benefit extensions. The substantial uptick in Social Security retirement expenditures is more surprising and suggests that the high unemployment rate induced some older workers to exit the labor force and take Social Security benefits.

As the economic downturn wears on, the debate about U.S. spending on the safety net has become increasingly rancorous. Indeed, former presidential candidate Newt Gingrich famously referred to Barack Obama as "the food stamp president" in the early-2012 campaign trail. The purpose of this recession brief is to step back from the rancor and describe in straightforward fashion how spending on the safety net has responded to the Great Recession.

The U.S. safety net is of course a complicated assemblage of programs, some aimed at assisting individuals and families specifically because of their low income, and others aimed at assisting individuals with particular types of need, such as a disability. Some programs provide benefits in the form of cash, while others assist families with specific consumption needs, such as food, medical care, and housing. Other programs—termed social insurance programs—are not provided to those with low income per se, but to those who experience an event requiring assistance, such as old age or unemployment.

In asking how this assemblage of programs has responded to the Great Recession, it should be recognized that only some programs should be expected to provide increased assistance during a recession. Although there presumably will be a substantial uptick in spending on programs for which eligibility depends on income or employment, there shouldn't necessarily be any increase in disability or Social Security retirement benefits (unless, for example, the recession

has a significant impact on retirement ages). In addition to expectations based on this "normal" performance of programs during a recession, federal legislation in 2008 and 2009 provided supplemental funds to many of the safety net programs specifically for the purpose of recession relief. This legislation increased expenditures beyond what would have been expected from the normal cyclical responsiveness of the programs.

This is all to suggest that the task of understanding how the safety net has responded to the downturn is not an easy one. The first objective of this brief, therefore, will be to lay out in more detail a set of expectations about what types of spending might be expected to increase and what types might be expected to stay stable or even decrease. These expectations will then be assessed against data that reach back to the 1990s. Although the focus of the brief is on the effects of the Great Recession, a useful way to calibrate those effects is by comparing them against what prevailed in other recessions.

A Primer on the U.S. Safety Net

But let's first set the stage by reviewing the structure of the safety net. Table 1 shows the levels of expenditure and reciprocity in the main programs of interest on the eve of the Great Recession. The table divides the programs into (a) those for which eligibility is directly based on having low income or assets ("means-tested" programs) and (b) and those which base eligibility instead on the individual's history of work and earnings ("social insurance" programs).

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This table makes it clear that by far the largest programs in terms of both expenditure and number of recipients are the medical programs, Medicaid and Medicare. The Medicaid program provides subsidized medical care to low-income families, primarily mothers and children whose income and assets fall below particular state-specific levels. The program also provides benefits to some of the low-income elderly and for long-term care. The Medicare program provides subsidized medical care to most of those over 65 and to recipients of disability benefits under age 65. The high levels of expenditure in both programs reflect the rapid growth in medical care prices, and expenditures in the Medicare program additionally reflect the aging of the population and the introduction of the Medicare Part D program in 2004.

Among means-tested programs, the Earned Income Tax Credit (EITC), Supplemental Security Income (SSI), subsidi-

dized housing, and the Supplemental Nutrition Assistance Program (SNAP, formerly known as Food Stamps) are the largest after Medicaid. The EITC provides tax credits to families and individuals with earned income below specified levels over the year. The magnitude of the credit increases as earnings increase, up to a point, and then declines and eventually falls to zero as earnings increase further. Enacted in 1975, the program grew rapidly after legislation in the late 1980s and early 1990s expanded eligibility and credit levels. The SSI program provides cash benefits to the low-income aged, and to low-income blind and disabled adults and children. Housing programs provide housing at subsidized rents through subsidies to private-market rentals and, to a decreasing degree, to public housing units. The SNAP program provides food coupons to all individuals with income and assets below specified levels. All these programs are federal in nature, although there is significant local variation for some of them, particularly for housing.

TABLE 1. Annual Expenditures and Caseloads in Means-Tested and Social Insurance Programs, Fiscal Year 2007

	Expenditures (millions)	Caseloads (thousands)
Means Tested Programs		
Medicaid	328,875	56,821
EITC	48,540	24,584
SSI	41,205	7,360
Housing Aid	39,436	5,087
SNAP	30,373	26,316
TANF	11,624	4,138
School Food Programs	10,916	40,720
Head Start	6,889	908
WIC	5,409	8,285
Social Insurance Programs		
OASI	485,881	40,945
Medicare	432,169	44,010
DI	99,086	8,920
WC	55,217	NA
UI	32,454	7,642

Note: EITC (Earned Income Tax Credit); SSI (Supplemental Security Income); SNAP (Supplemental Nutrition Assistance Program); TANF (Temporary Assistance to Needy Families); WIC (Special Supplemental Nutrition Program for Women, Infants and Children); OASI (Old-Age and Survivors Insurance); DI (Social Security Disability Insurance Program); WC (Workers' Compensation); UI (Unemployment Insurance)

Source: Author's tabulations based on various administrative data sources.

Among the remaining means-tested programs, the Temporary Assistance to Needy Families program (TANF) is the largest but far smaller than the others just mentioned. The TANF program provides cash benefits mostly to single parents and their children who have low income and assets and who can meet work and other eligibility requirements. The program is also time-limited. The size of the program declined drastically after 1996 reforms.

Although Medicare is, as noted earlier, a very large program, it's not the only large social insurance program. The other social insurance programs in table 1 are also generally larger than any of the means-tested programs. These are larger in part because benefits for these programs often go to middle and higher-income families rather than just to those with low income. The Social Security retirement program (OASI), for example, is the largest by virtue of paying cash benefits to all retirees with sufficient lifetime earnings histories. It has of course grown because of the aging of the population. The Social Security Disability Insurance program (DI), which provides cash benefits to individuals under 65 with severe disabilities, has also grown in recent decades. Workers' Compensation (WC), a state-based program, provides cash for less severe, usually temporary, work-based injuries. The Unemployment Insurance (UI) program, which was modest in size just before the Great Recession, provides cash benefits to those who become involuntarily unemployed and have a

history of work and earnings sufficient to make them eligible for a benefit.

Expectations About Trend

Which of these programs should be expected to provide increased assistance in an economic downturn? Among social insurance programs, clearly UI should be expected to increase in expenditure and recipients, given the increase in unemployment as well as the increase in the number of weeks for which benefits are now available. Among means-tested transfer programs, one should expect the SNAP program to increase in size because it is the only program that has open-ended eligibility based solely on low income and assets and with no other eligibility restriction. This differentiates it from programs that have some other additional eligibility requirement, such as the TANF program, which has a work requirement, and the SSI program, which requires a disability for some of its beneficiaries.

The TANF and subsidized housing programs are also different from the other means-tested programs because they are not entitlements and their caseloads are limited by fixed budgets. Indeed, housing authorities form waiting lists for units, lists that can be several years long. As a consequence, expenditures and caseloads in these two programs should not necessarily be expected to increase in recessionary times, at least not unless their budgets are expanded.

The EITC is another special case. On one hand, reductions in earnings resulting from an economic downturn will increase eligibility to those who newly fall below the maximum earnings level for eligibility, and they will also increase benefits for those who were already eligible but whose earnings reductions increase the size of their tax credit. On the other hand, those who lose employment completely or whose earnings fall to very low levels will experience a decline in EITC payments or even a complete cessation of eligibility. Consequently, it is unclear, a priori, if caseloads and expenditures in the EITC will rise or fall during a recession.

Federal government stimulus legislation in 2008 and 2009 should be expected to increase expenditure in many of these programs beyond their normal recessionary response. The main programs of interest here are the Emergency Unemployment Compensation (EUC) program of June 2008, the American Recovery and Reinvestment Act (ARRA) of February 2009, and their follow-ups. Increased tax credits in the EITC and a child tax credit were enacted for 2009 and 2010 and have been extended through 2012. Increased funds were provided for the SNAP and TANF programs, and one-time extra

payments were provided for recipients of the Social Security retirement program and SSI. Some additional subsidized housing funds were provided as well. Particularly important were federal funds for extensions of UI payments, providing, in some states for some workers, up to 99 weeks of benefits.

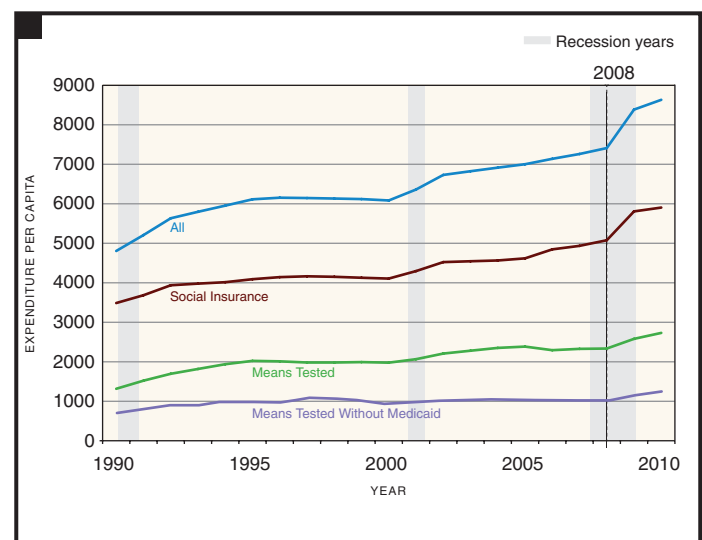
We are left, then, with the hypothesis that, among the various means-tested programs, SNAP spending stands out as most likely to have taken off substantially, given increased need and open-ended eligibility. Because EITC spending is, by contrast, a more complicated product of potentially countervailing forces, the extent of the takeoff is more difficult to predict. Among the social insurance programs, one expects UI spending to have increased the most, given rising unemployment as well as new federal funding for extensions of UI payments.

Overall Expenditures

How do these expectations measure up? We begin by tracking overall spending and its social insurance and means-tested components.

As figure 1 shows, there has been growth in real aggregate per capita spending in means-tested and social insurance programs and their total, both prior to the Great Recession and for the three years from 2008 to 2010. It is notable that total spending was steadily growing prior to 2008 and, in fact, that growth accelerated after 2000 largely because of the growth of Medicaid and Medicare (and, as will be seen

FIGURE 1. Annual Expenditure Per Capita, 1990–2010 (real 2009 dollars)



Source: Author's tabulations based on various administrative data sources.

below, of disability insurance). At the same time, spending also accelerated after 2008, reflecting an acceleration in both means-tested and social insurance expenditure.

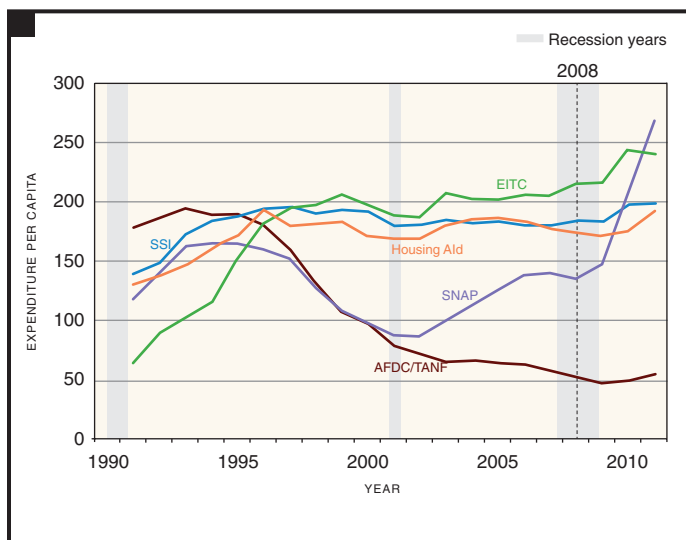
The safety net therefore did respond positively to the Great Recession. That is hardly a surprise. It may, however, be a surprise to some that the takeoff in means-tested expenditures did not occur for all means-tested programs but, rather, only for some of them. Aside from Medicaid expenditures, the performance of means-tested programs was rather mixed.

Means-Tested Expenditures

Of particular interest, then, is how the means-tested transfer programs other than Medicaid responded. Figure 2 breaks down these means-tested expenditures into the component programs and shows their growth after 1990.

This figure shows clearly that the most dramatic response occurred in the SNAP program. While ARRA spending assisted this growth to some extent, the SNAP program had already experienced several important changes in the 1990s, including liberalization of asset tests, simplified application and eligibility procedures, outreach efforts, restoration of eligibility for several immigrant groups, and the phasing in of electronic benefit transfers. Together, these reforms led to substantial growth in the program prior to 2008 and made establishment and retention of eligibility easier once the Great Recession began.

FIGURE 2. Expenditure per Capita, Non-Medicaid Means-Tested Programs, 1990–2010 (real 2009 dollars)



Source: Author's tabulations based on various administrative data sources.

The EITC was also a source of major expenditure growth during the Recession. While spending grew only slowly, if at all, during the first part of the 2000s, it jumped by 21 percent from 2007 to 2010. The ARRA supplements contributed to this spending but most of the increase is undoubtedly a result of a larger number of workers who have dropped into the higher-credit range of the program than workers who had been receiving benefits and lost their jobs entirely. Although we stressed these countervailing forces for EITC expenditures, figure 2 establishes that their net effect was to greatly increase expenditures.

There were also increases in expenditure in the Supplemental Security Income (SSI) and housing programs, but as expected the increases here are somewhat more modest. Expenditure on SSI increased by 17 percent from 2007 to 2010, with virtually all of this increase occurring in the portion of the program providing support for the disabled. Expenditure on subsidized housing programs grew modestly, although its level in 2010 was not much greater than its level in 2005. The recent increase in SSI spending likewise raised it only slightly above what prevailed approximately 15 years ago.

The TANF program, which contracted drastically after 1996 reforms, experienced only small spending growth during the recession, growth that was probably a result of increased ARRA spending. More important than the work requirements in the program is that state spending on TANF is constrained by the size of the block grant that states receive by the federal government, block grants that have not been increased in nominal terms since 1996 and have prevented states from being able to help many families who are financially eligible.

Why, then, was the takeoff in means-tested expenditures (aside from Medicaid) so mixed? The simple answer: Some of the larger means-tested programs, such as SSI and housing aid, haven't increased all that much in the Great Recession, even though federal stimulus legislation did provide some additional funds for them. The growth that did occur in the means-tested sector is mainly attributable to growth in EITC and SNAP.

Social Insurance Expenditures

Figure 3 shows spending in the Social Security retirement and Medicare programs. Both programs experienced growth prior to 2008 for the reasons noted previously, but both increased spending during the Great Recession. The post-2008 increase in Medicare spending is roughly consistent with the rate of increase prior to the recession; and hence there's no evidence here of a true recession effect. For Social Security retirement expenditures, there is a discernible post-

recession uptick, which may be partly a result of employment declines among the elderly and accelerated retirement. In the recession brief on older workers and retirement, it was indeed suggested that high unemployment in the Great Recession discouraged many older unemployed workers, inducing them to retire early and take Social Security retirement benefits. The resulting post-recession increase in OASI expenditures, which not everyone had anticipated, is quite striking.

The growth in spending in the UI and DI programs appears in figure 4. After typical countercyclical patterns prior to 2008, spending in the UI program increased dramatically after 2008, just as many anticipated. The greater increase relative to past recessions is partly the result of the higher unemployment rate during the Great Recession but is primarily the result of federal benefit extensions.

The trends in disability insurance spending are perhaps more surprising. The growth of spending in the DI program was large prior to 2008, but that growth also accelerated somewhat after 2008. This is probably a sign that there were significant numbers of individuals whose disabilities made them medically eligible for DI prior to the recession but who were capable of working and had been able to find employment, possibly with employer accommodation. The job losses associated with the recession no doubt led large numbers of such individuals to apply for, and to receive, DI benefits. A similar phenomenon was probably at work for the SSI pro-

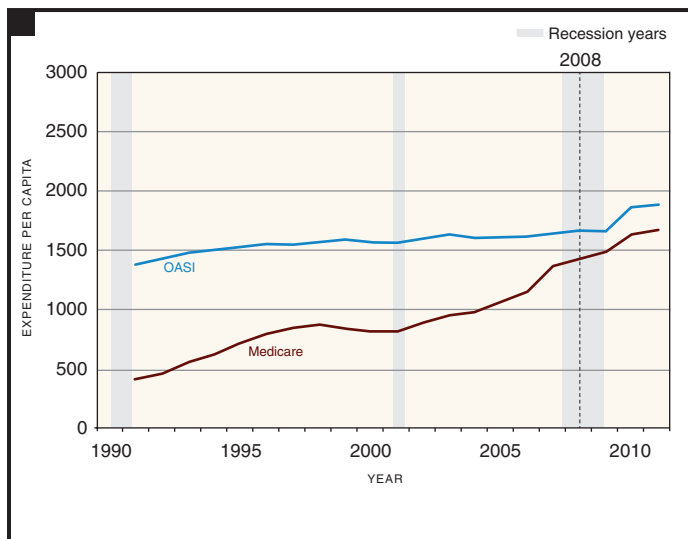
gram whose disability portion also increased, as noted above. Thus the DI program has also played an important role in the response of the safety net to the recession.

Conclusions

The U.S. safety net has experienced substantial growth with the Great Recession. However, the growth in some of the programs was merely a continuation of prior trends; hence it's not suggestive of a recession effect per se. It will come as no surprise to most that Medicare, for example, continued to grow after the recession at roughly the same rate as before.

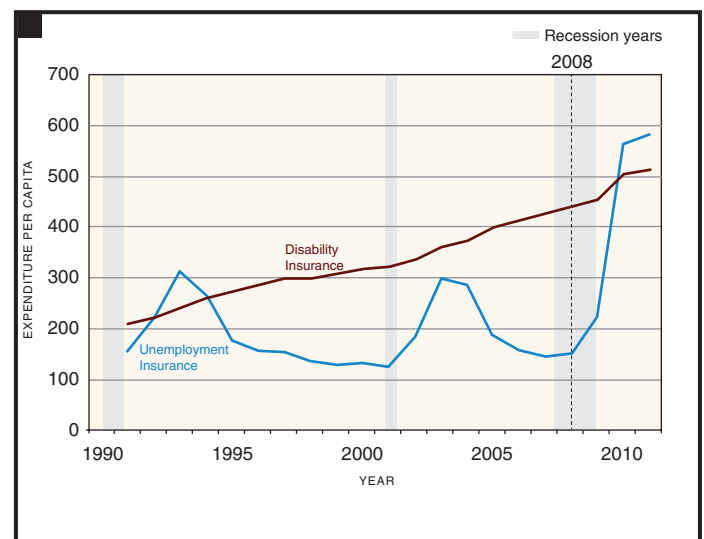
There is of course also evidence of true recession-induced changes in expenditures. But the extent of these increases varied substantially from program to program. The increases in many of the means-tested programs, such as TANF, SSI, and housing aid, were quite modest. By contrast, expenditures on SNAP increased substantially, a takeoff that built on important changes to the SNAP program in the 1990s that had already led to increases in expenditures prior to the recession. For the EITC, the recession trend was more difficult to predict, as benefits can increase for those whose incomes have declined but can be eliminated or decline for those whose earnings fall to very low levels or lose their jobs altogether. The net effect shown in figure 2 reveals that the EITC-increasing forces far outweighed the EITC-decreasing forces. The UI program also of course took off with the recession.

FIGURE 3. Expenditure per Capita, Social Insurance Programs, 1990–2010 (real 2009 dollars)



Source: Author's tabulations based on various administrative data sources.

FIGURE 4. Expenditure per Capita, Unemployment and Disability Insurance, 1990–2010 (real 2009 dollars)



Source: Author's tabulations based on various administrative data sources.

The most surprising finding is perhaps the post-recession uptick in Social Security retirement expenditures. Although one might not imagine that the recession would greatly affect such expenditures, the high unemployment rate in the Great Recession appears to have induced some older workers to exit the labor force and take Social Security benefits. The acceleration in disability insurance spending is also somewhat surprising. This increase may have arisen because eligible individuals tend to work and forego benefits in a

strong economy but then turn to DI benefits when they lose their jobs in a weakened economy.

It follows that many programs, albeit clearly not all, have increased their levels of assistance significantly. While this increase in assistance has not been sufficient to keep the poverty rate from rising, it has provided additional billions of dollars to those in temporary need.

ADDITIONAL RESOURCES

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