

EconoFact Chats: Gauging the Costs of Cuts to the U.S. Social Safety Net
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I'm Michael Klein, executive editor of Econofact, a non-partisan web-based publication of the Fletcher School at Tufts University. At Econofact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

The recent negotiation on lifting the debt ceiling included Republican demands for cutting funding for the social safety net programs of Medicaid, the Supplemental Nutrition Assistance Program, known by the acronym SNAP, and the Temporary Assistance for Needy Families Program, which has the acronym TANF. How much would cuts to these programs reduce government spending and lower the budget deficit? And at what cost to its beneficiaries, who tend to be among the most vulnerable in society? Melissa Kearney has analyzed these questions in a recent Econofact memo with her colleague in the Aspen Economic Strategy Group, Luke Pardue. Melissa is the director of that group, as well as a professor in the economics department of the University of Maryland. Among other professional affiliations, she served as a senior editor of the Future of Children, served as director of the Hamilton Project at Brookings from 2013 to 2015, and is a co-chair of the J-PAL State and Local Innovation Initiative from 2015 to 2018. Melissa, welcome back to Econofact Chats.

Melissa Kearney

Thanks, Michael.

Michael Klein

To begin with, can you please describe the three programs I mentioned, SNAP, TANF, and the Medicaid for adults and children?

Melissa Kearney

Sure. These are all sort of sprawling programs, but I'll try and hit the main elements of them. So SNAP, as you mentioned, is the Supplemental Nutritional Assistance Program, and it provides monthly vouchers to low-income households to purchase food. This is the program that used to be referred to as food stamps back when people got stamps, little stamps that they could give to grocery stores as payments for qualifying food purchases. So now people who receive SNAP benefits use electronic benefit transfer cards. They look like credit cards or debit cards, and they have a certain amount of money put on them from the government each month, and they can use them to purchase food at participating vendors. It's important to realize that eligibility for SNAP is restricted based on income level, so generally a household will qualify for SNAP benefits if their income is below 130% of the federal poverty line. So like, what does that mean? For example, a household of three people could qualify for SNAP benefits if their annual

household income is less than about \$30,000 a year. Just to give a sense of how this translates into benefits for individuals, before the pandemic expansions in 2019 and 2020, the typical household receiving SNAP benefits was awarded about \$121 per month per person, which comes to about \$4 a day per person.

Michael Klein

What about the TANF, the Temporary Assistance to Needy Families Program?

Melissa Kearney

Okay, this program replaced the AFDC program in 1986. So AFDC provided cash assistance to single mothers and their children. That was our cash welfare program in this country. And then welfare reform got rid of AFDC and replaced it with TANF, which is a federal block grant. And so this is a set amount of funding given to states for the stated purpose of assisting families with low levels of income. That money both has a lot of restrictions and a lot of flexibility so it's run differently across states.

Michael Klein

And Medicaid? Most people know what Medicaid is, but can you describe it a little bit?

Melissa Kearney

Sure. It's our country's public health insurance program for low-income children and adults. It's funded jointly by the federal government and state governments. Its beneficiaries include children, low-income non-elderly adults, low-income adults above the age of 65, patients in long-term care facilities, and disabled individuals. So it's a really important public health insurance program in our country. Interestingly, it was created in 1965 with the social security amendments, and it was originally linked to cash welfare low-income families. But it's been expanded a lot since then, including as part of the healthcare reform, the Affordable Care Act in 2010.

Michael Klein

So you mentioned that Medicaid was created in the 1960s. This was part of President Johnson's war on poverty, and these programs form an important part of what we call the social safety net. What's the evidence, Melissa, on the efficacy of these programs?

Melissa Kearney

That is a big question, Michael. Researchers have looked into the way these programs affect a range of outcomes – health, nutrition, labor force participation, both in the short-term and long-term. So the nature of the evidence really depends on the population we're talking about and the outcome that we're focused on.

Michael Klein

Okay, so let's start with Medicaid then. What about the overall benefits and the efficacy of Medicaid for its target population?

Melissa Kearney

Okay, so it is the largest means-tested transfer program in the U.S. in terms of both caseloads and costs. I want to start by emphasizing it's a really important source of health insurance in the U.S. In each month last year, an average of 37 million children, 39 million non-elderly adults, and 17 million disabled or elderly adults received Medicaid benefits. That came to \$789 billion in expenditures for federal and state governments. 60% of those costs are borne by the federal government. So a few things we know about the effects of Medicaid. Let's start with evidence we have from the expansions in Medicaid eligibility that took place in the 1990s, when it was expanded beyond AFDC welfare recipients to more low-income parents and children.

Researchers have shown that this led to an increase in health insurance coverage among parents and children and correspondingly to improvements in health outcomes for kids. One really notable finding in studies shows that the expansions of Medicaid led to a reduction in infant mortality in the U.S. There's also good evidence that happened after the 2010 Affordable Care Act expansions of Medicaid. It was expanded in a majority of states and we saw that about 20 million new Medicaid recipients joined the caseloads at that time and this dramatically reduced the number of people in the U.S. without health insurance, probably by about 10 million.

Michael Klein

So one idea that people have put out there is by having Medicaid people weren't as obliged to find jobs for health insurance. Is there any evidence of employment effects of Medicaid?

Melissa Kearney

That's a good question and it makes the important point that in the U.S. so many people get their health insurance through their employer, and so part of the motivation for expanding Medicaid to more low-income people was to make sure that people who were out of work could still have access to basic health insurance. Now overall there does not appear to have been a substantial reduction in labor force participation but looking across studies there's some evidence that some people increase their rates of work, and others decrease their rates of work.

Michael Klein

I know that there have been some studies that focused on the state of Oregon because of changes in the program there. What did those studies find?

Melissa Kearney

Yeah this was really a fascinating opportunity for health care researchers because in Oregon they only had enough money to expand Medicaid to some subset of people who qualified and so that set up a natural study design for researchers. People who were randomly assigned to have access to Medicaid as compared to people who were very similar and also applied but didn't get access they were in the next couple years more likely to utilize health care services, and importantly they were less likely to experience financial distress. So you know I will note that these studies don't find much evidence of immediate improvements in health for covered adults but the findings are very consistent with the way economists think about insurance which is that it protects people from out-of-pocket medical expenditures and that's exactly what this

expansion did. But I don't want to I don't want to overstate that case. The researchers did find that newly covered adults were more likely to utilize many preventative services and so we can expect that over time that will lead to positive health effects.

Michael Klein

Melissa I know you're particularly focused on the economic welfare of children, especially children who grow up in poor households. What are the effects of Medicaid for children that research has found?

Melissa Kearney

The evidence is really overwhelming here Michael. The evidence from academic research shows that Medicaid spending on children in particular early in life improves their long-term health and economic outcomes. For example there's evidence that children who obtained access to Medicaid in their early years of life due to program expansions, ultimately experienced lower rates of chronic conditions as adults, and fewer hospitalizations related to diabetes and obesity. There's also evidence that they were more likely to complete more years of schooling. There's some studies that connect the exposure to Medicaid expansions during childhood to adult earnings and tax payments and that research shows that Medicaid spending on kids ultimately saves the government money because these kids grow up to be more productive and pay more in taxes and, rely on safety net programs less.

Michael Klein

So in effect Medicaid is a positive net sum investment for the government.

Melissa Kearney

Especially when it's providing health insurance to young kids.

Michael Klein

Okay so what about SNAP, the program that used to be called food stamps as you noted?

Melissa Kearney

SNAP is a really critical safety net program because it's one of the only programs in this country that provides a consumption floor to people who have low income, or fall on hard times. So much of our safety net has moved to be conditioned on work, and SNAP I mean I'll mention this, it does have some work requirements but it really you know, it's the one program where people can get access to income assistance in the form of a voucher to buy food. So it provided benefits again before the pandemic to about 36 million people in a typical month. Researchers have shown that the SNAP caseload grows when the labor market or economy is weak, and it shrinks when the labor market improves. That's exactly how we would expect a means tested safety net program to work in terms of responding to business cycles. There's no categorical eligibility for SNAP, so again it's a rare program where someone can obtain SNAP benefits even if they're not disabled or have a dependent child. Though, the overwhelming majority of SNAP beneficiaries do fall into one of those vulnerable categories in the sense that they're either elderly, disabled, or have a child living in their home. What does research show? It leads to a

reduction in food insecurity. It essentially acts like an increase in household budgets and unsurprisingly people use this additional income to buy more food and other things. There's some evidence of a small reduction in work effort among some food stamp recipients in particular it looks like perhaps single moms with kids. This would be predicted by the standard economic model of how work effort responds to income receipt, and in particular a transfer program that is more generous for those with low levels of earnings as SNAP is. One more thing on this again when we think about kids research has documented very convincingly that low-income children who gain access to this kind of food assistance, I mean the research comes from food stamps, as compared to similar children who do not, they experience long-term improvements in health and economic self-sufficiency. So again helping families buy food for children is a cost-effective investment for the U.S. government.

Michael Klein

Melissa you mentioned that during the pandemic the number of recipients of SNAP benefits increased. Does that offer any lessons about the importance of SNAP? Do we learn from that experience anything?

Melissa Kearney

So during the pandemic the number of people on SNAP increased both because need was increased but also as is typical, Congress typically authorizes sort of a relaxation of restrictions, and in the pandemic case there was explicit increases in the generosity of SNAP benefits. I mean Congress was really you know I think this was a very good thing they realized, 'gosh there's going to be a lot of immediate need in the pandemic recession,' and they increased the generosity and eligibility for this program as a result. What happened? What happened was during one of the worst economic shocks to the U.S. economy, food insecurity actually fell. So this is amazing. It shows us that fighting hunger in this country is something we can do. We have a program and a distribution network in place that's well designed to assist people with food purchases. So the lesson I take away from that is that if we have the political will and inclination to eliminate hunger and food insecurity in this country, we can make the SNAP program more generous, and achieve that.

Michael Klein

Yeah that's really amazing as you say, that it was a demonstration that we can in fact do a lot more for the most vulnerable in the country. So finally, we have the Temporary Assistance for Needy Families, the TANF program. What do we know about that?

Melissa Kearney

As I said, TANF was implemented as part of the 1996 welfare reform legislation that effectively 'ended welfare as we know it.' And that's the quote that's what people were saying at the time. You know this shift from cash welfare to a program that's time limited, and imposes work requirements on beneficiaries, it definitely succeeded in reducing welfare caseloads, and it also appears to have succeeded in getting more single mothers with children to work. Now what happened at the same time is EITC expansions and a strong economy. So just how much of

that increase was due to TANF is something that people debate. But it did sort of fundamentally change the nature of dependency among single mothers and children.

Michael Klein

EITC is the Earned Income Tax Credit program.

Melissa Kearney

Right, thank you. On the flip side you know these changes have made TANF, it's much less effective as an anti-poverty program in the U.S., than a more expansive cash assistance program might be. In fact given the way TANF is now paid out to states as a block grant, and given the way states have a lot of flexibility in what to do with TANF spending, only like 23 percent of all TANF spending is now paid out in cash benefits, and so it's much less of an income support program to low-income families with children than the previous AFDC program, or you know a more kind of basic income program would be. What are states doing with that money if they're not spending it in cash benefits? Overall 17 percent was spent on child care, 10 percent was spent on education and training programs, the remainder spent on other things like pre-K programs, refundable tax credits. How much these kinds of programs are helping families get out of poverty, or meet their needs is really a bit inconclusive and it's very dependent on the particular nature of a program which is going to vary state to state.

Michael Klein

Melissa, one of the big topics during the debate over the debt ceiling was work requirements. Some people argued that we should not just hand over money, but make sure that there's an incentive in place to get people to work so they'll eventually not need these programs, and the Earned Income Tax Credit is an example of a program where you're not penalized for working. Well there are two assumptions here, one is that the programs that do not have work requirements don't work very well, and another is that working people already make enough not to need assistance. Can you discuss the validity of these two assumptions?

Melissa Kearney

Yes but let me start by saying the fact that we have this conversation every so often just makes me scratch my head and wonder if people do not remember that we had this conversation in 1996, and we already completely remade our safety net to be largely conditioned on work. So as I said TANF and SNAP already have work requirements. So TANF you can't get cash benefits for more than five years, and if you're able-bodied and seem able to work you can't get TANF cash assistance unless you're already working or in a training program. SNAP, if you're an able-bodied adult without a kid in the house you can only get it for three months in a three-year period unless you're working 20 hours a week. So there's already work requirements on able-bodied adults in both of those programs. Medicaid is not conditioned on work, and I would argue that's a good thing. As you know you and I mentioned earlier, part of the issue with why the government felt the need to expand Medicaid as part of the 2010 Affordable Care Act was because so many people who are unemployed, they don't have access to health insurance. So making Medicaid also conditional on work will throw us back into a situation where we have many many millions of U.S. adults without health insurance and there's all sorts of social

reasons why we don't want to go back to that situation. So like I said you know these programs, cash assistance is already in this country generally conditioned on work. Medicaid I would argue shouldn't be conditioned on work. And the other important thing to remember is that while work is certainly protective and people who work, especially full-time, are much less likely to be poor or near poor than others, plenty of people who do work still have trouble making ends meet. Ann Stevens had a very nice EconoFact memo on this a few years ago, and it shows how many people you know are who are working still find themselves living in poverty, or near poverty, and a lot of that is driven by the fact that there are people who just don't command high wages, or have trouble securing full-time full-year work.

Michael Klein

So Melissa I started out this interview by mentioning that the move to cut these programs or to reduce the number of beneficiaries was said to be an effort to save the government money and to reduce the federal budget deficit. You have a very nice EconoFact memo on this point. Could you put this claim in context? How much do these programs cost, and how does that compare to other categories of federal government spending?

Melissa Kearney

The short answer is that spending on SNAP and TANF comprise very small shares of the federal budget. Combined they account for less than 3 percent of annual federal outlays. Medicaid spending also accounts for a relatively small share of the federal budget as compared to say social security and Medicare. So in 2022 the federal government had outlays of \$6.2 trillion. In that same year the federal government spent \$149 billion on SNAP reaching 41 million individuals a month. Federal TANF spending was a drop in the bucket compared to that \$20 billion reaching an average of 1.9 million beneficiaries a month. Medicaid had outlays of \$592 billion which comprised 9.4 percent of all federal outlays that year. It's noteworthy that a little less than half of that was on children and non-disabled non-elderly adults. I think it's worth pointing out that these shares stand in sharp contrast with the budget shares devoted to social security and Medicare, which is why it was so striking that those programs were taken off the table of debt ceiling negotiations. Social security outlays comprise 17 percent of the federal budget, and Medicare spending comprises another 14 percent of the federal budget. And spending on both of those programs is projected to rise in the coming decades given the aging of the population, and rising health care costs. So we're just really not going to make much of a difference in federal spending if we only focus on these smaller cash assistance or near cash assistance programs serving low-income individuals.

Michael Klein

So as you said social security was 17 percent of the federal budget, Medicare was 14 percent. I'll leave it as a homework assignment for our listeners to figure out what percentage of 6.2 trillion is the \$149 billion on SNAP and the \$20 billion on TANF and we'll have the answers online. On the other side of the ledger Melissa, what are the benefits of these programs especially for children. And as I mentioned I know childhood poverty is a particular focus of your research interests.

Melissa Kearney

Yeah thanks for giving me the chance to highlight this. As I alluded to earlier in this conversation, spending on children from poor and low-income homes in the form of income assistance and through Medicaid health insurance we just have really strong evidence that this yields sizable improvements in children's health and educational outcomes, and yields long-term benefits. So really we should think about cutting these programs as a counterproductive move against the need to build a healthy productive workforce for our future. I mean that you know puts it in just hard, cold-hearted economic terms. But I think that's worth emphasizing that even if you don't feel the or we don't feel a moral imperative to take better care of kids in this country, the economic case for doing so is quite strong.

Michael Klein

There is a book by the famous economist Alan Blinder that was titled 'Hard Heads and Soft Hearts' and that's a really important idea that we can still be very hard-headed about these things, but have a sense of empathy and a sense of community for the country in the context of thinking about the efficacy of programs, and we could still come up with a much stronger safety net than we have. In fact, how does the safety net compare with that of other countries? How generous is the United States in its provision for the most vulnerable of its citizens compared to other advanced economies?

Melissa Kearney

Other high income countries tend to have much more expansive welfare programs. You know the U.S. is a rare exception in not having any sort of unconditional child allowance, or child benefit, not having publicly funded child care, among other state-provided benefits, so I don't think it'll surprise any of your listeners to know that the U.S. does less as a state, when it comes to the government and taking care of our vulnerable populations.

Michael Klein

So these are really important points Melissa and I appreciate all the research that you've done. You're really one of the leading people in this area, and I especially appreciate you coming on to EconoFact Chats again to talk about these important issues so thanks for joining me today.

Melissa Kearney

Thanks so much for having me.

Michael Klein

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