

# Poverty, the Social Safety Net and the Great Recession

Hilary Hoynes, University of California Berkeley

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# Overview

- The Great Recession led to massive increases in unemployment, and the recovery has been slow and weak
- The social safety net responded with Unemployment Benefit extensions to 99 weeks and 1 in 7 receiving Food Stamps
- Here I examine the performance of the social safety net in protecting the disadvantaged population in the Great Recession
- I use this “stress test” identify the *holes* in the safety net moving forward

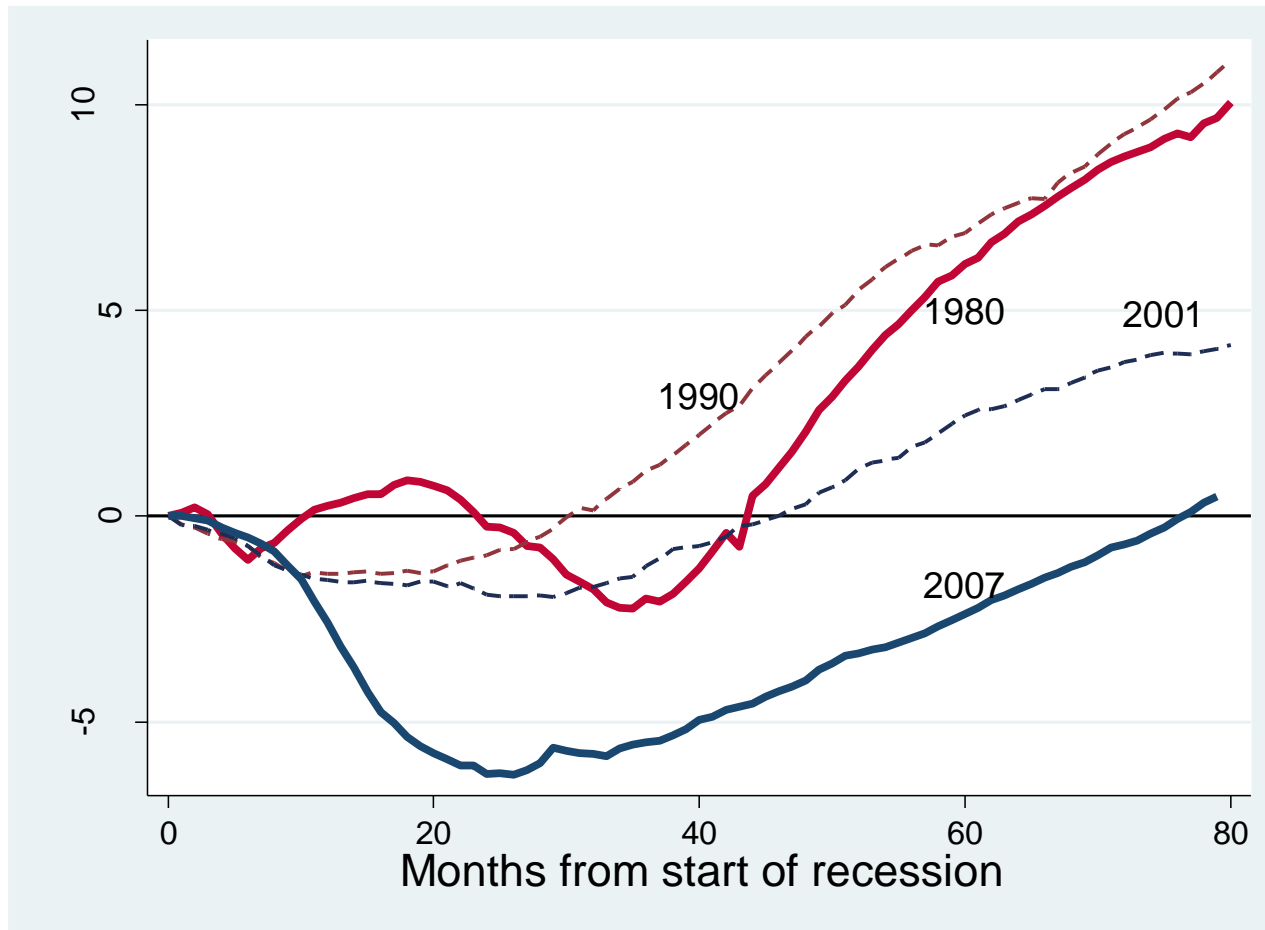
# Roadmap

1. The Great Recession in the U.S.
2. U.S. safety net programs and the stimulus
3. How did the safety net respond?
4. Effects of the GR on poverty and the most vulnerable
5. Lessons moving forward given the “stress test” of the Great Recession
6. Conclusion

# Roadmap

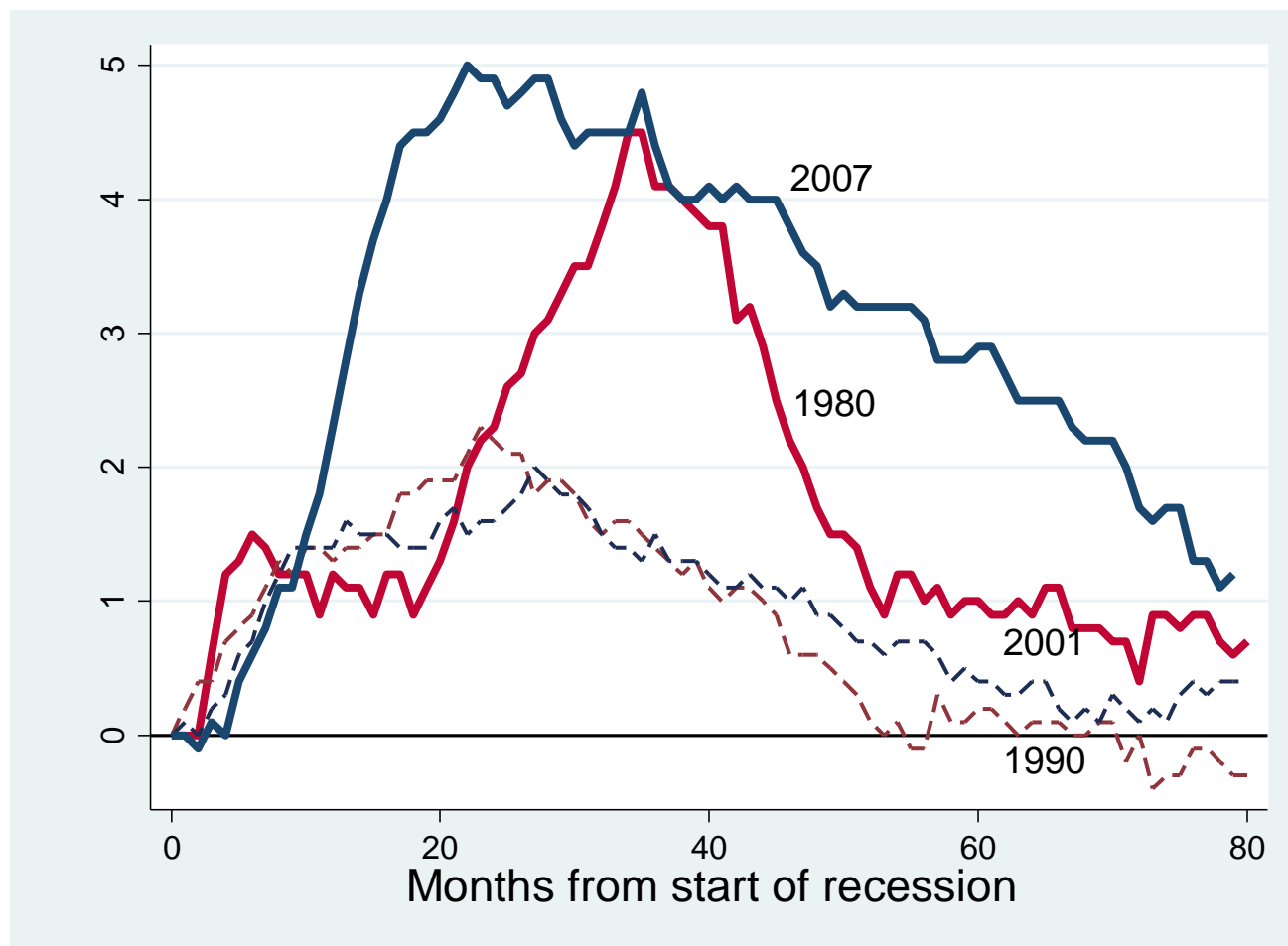
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# Employment (seasonally adjusted) since peak



Source: Hoynes, Miller and Schaller “Who Suffers in Recessions”, *Journal of Economic Perspectives* 2012 (updated with data through 2013)

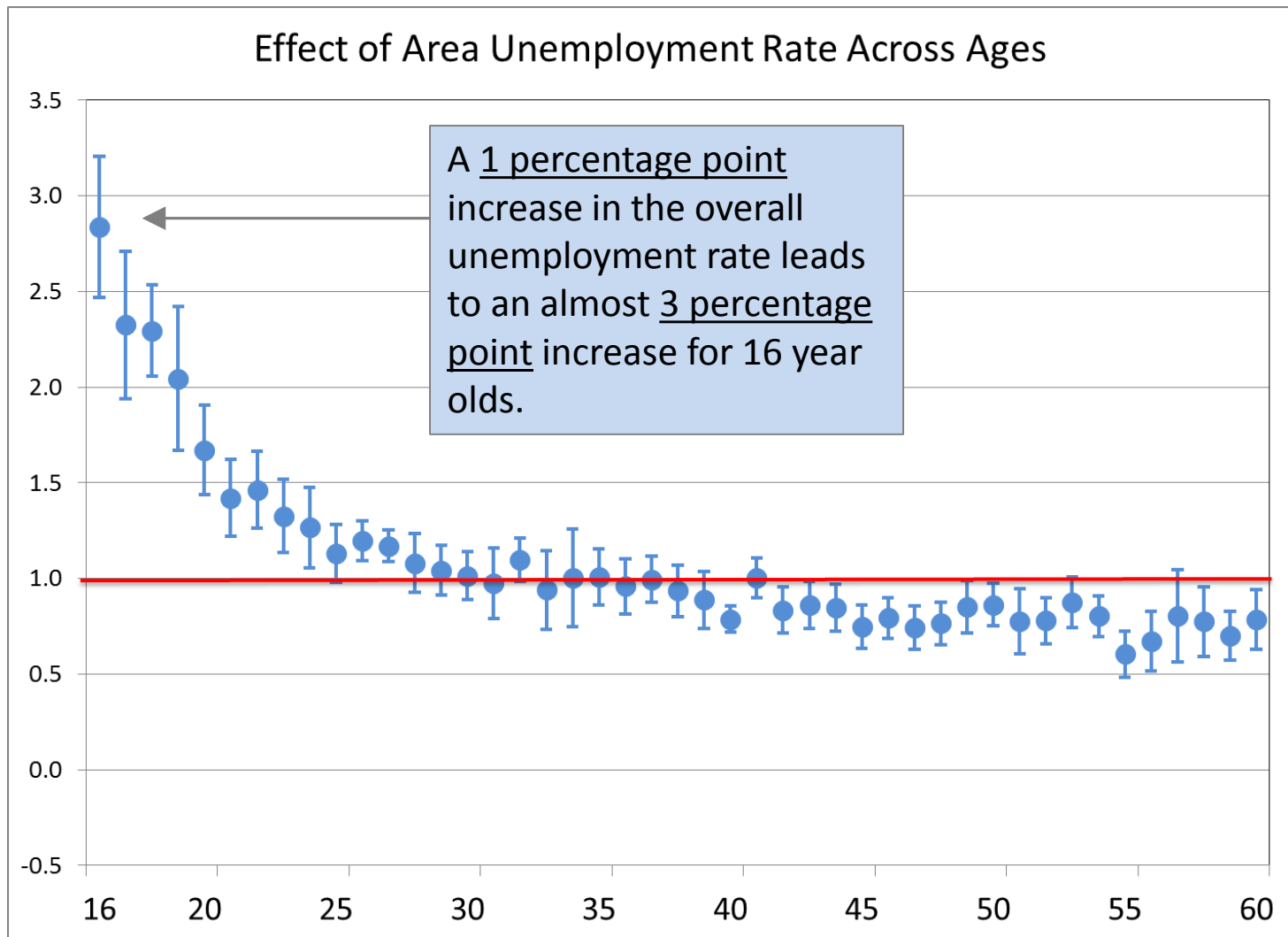
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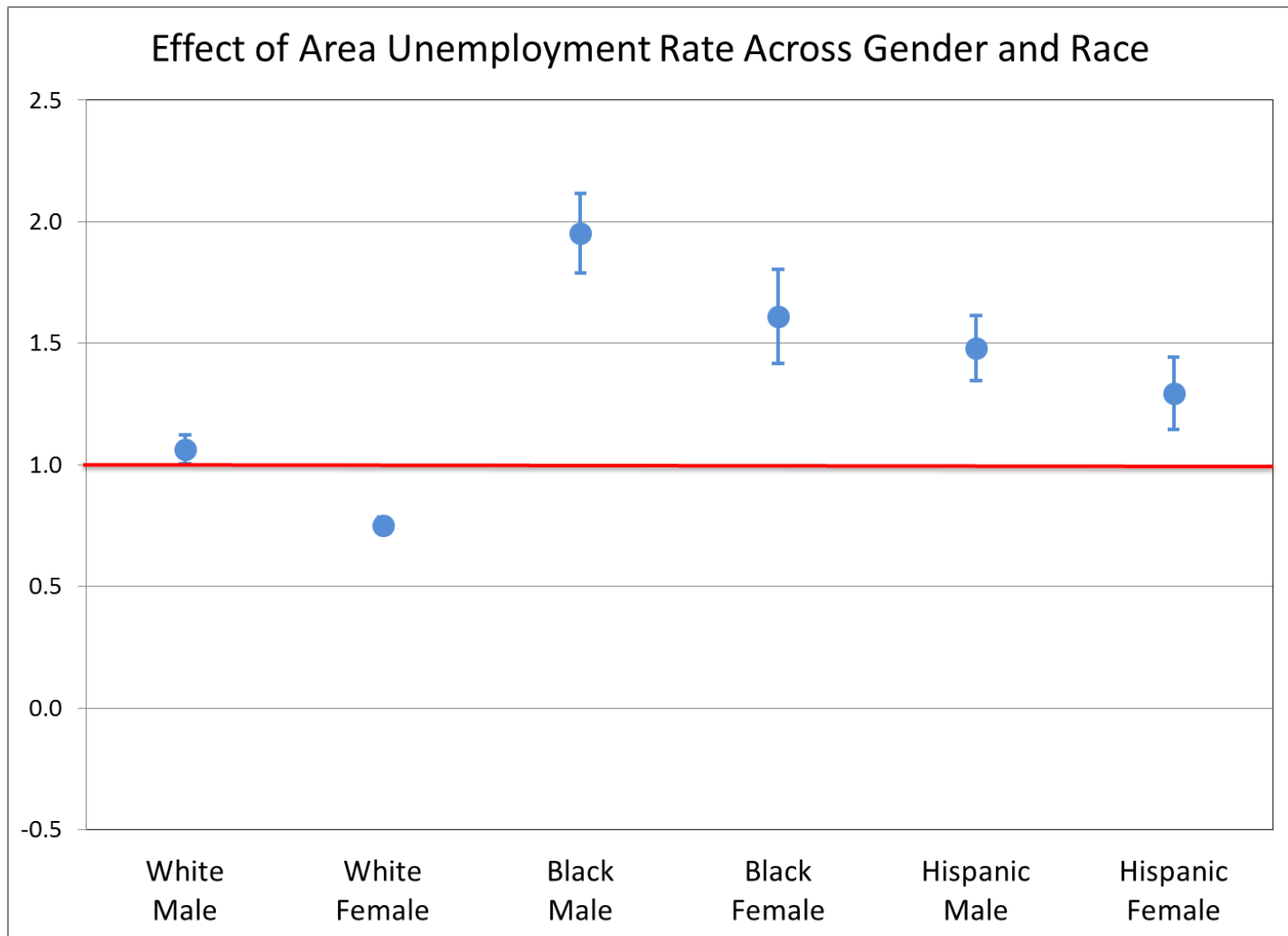
# Who was impacted by the Great Recession

- Examining labor market fluctuations between 1980-2013, we find that recessions are more likely to impact:
  - Young persons
  - Men
  - Racial and ethnic minorities
  - Those with lower education levels
- While the Great Recession led to larger overall job losses (compared to earlier recessions), the pattern across groups was little changed

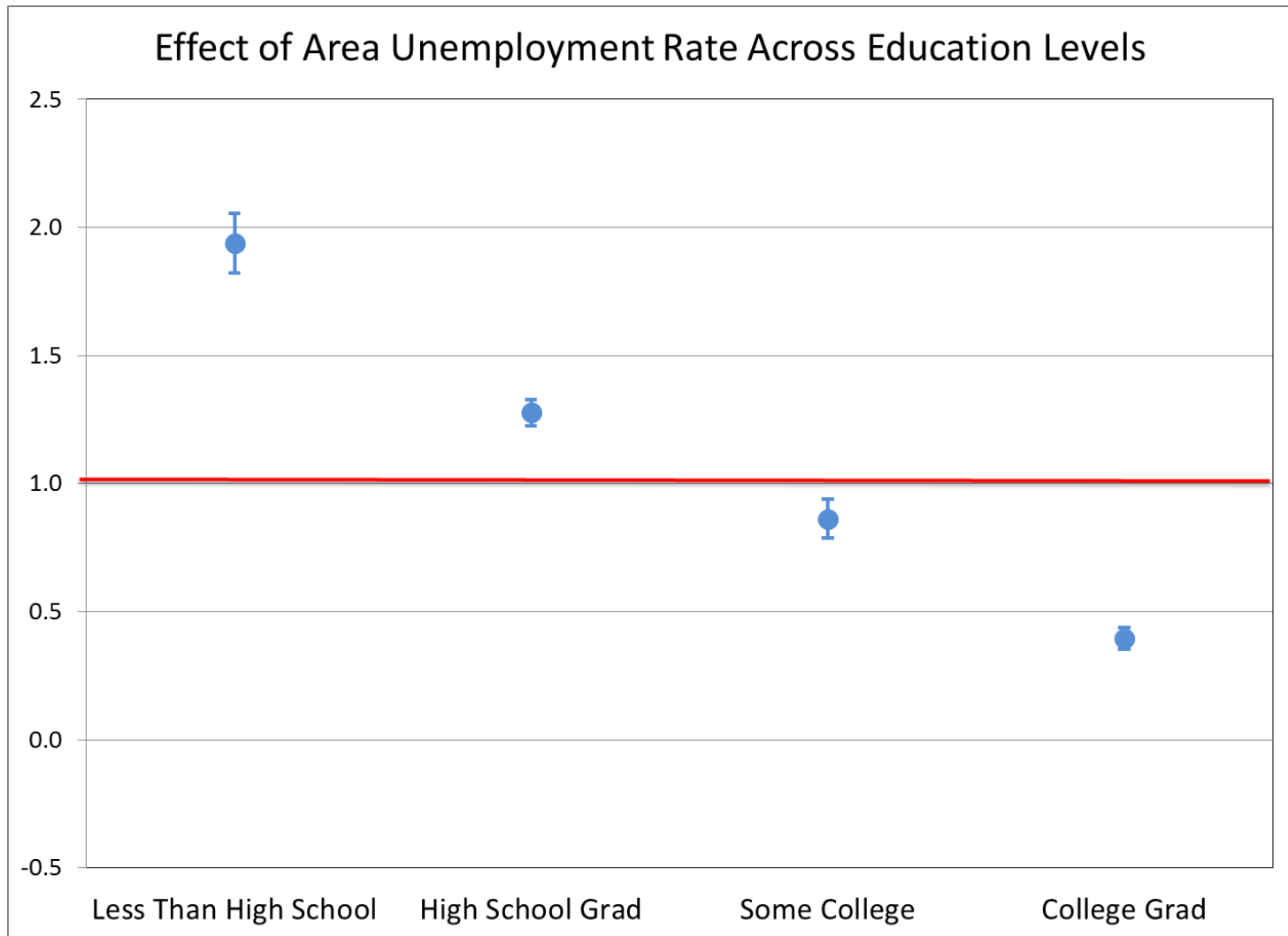


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# Evolution of Antipoverty programs in the U.S.

1930s

Social Security  
AFDC  
Unemployment  
Insurance

Great Society

1960s-1970s

Food Stamps  
Medicare  
Medicaid  
Disability  
Civil Rights  
Act

1990s

Welfare Reform  
Rise of the EITC

2010

Obamacare

# The safety net for nonelderly families

- Cash welfare AFDC/TANF [means tested]
- Food Stamps [means tested]
- The EITC [means tested, requires employment]
- Unemployment Compensation [social insurance]
- Disability benefits: DI [social insurance], SSI [means tested]

We identify these programs as the “safety net” – in that they may provide some protection in response to reductions in income/earnings.

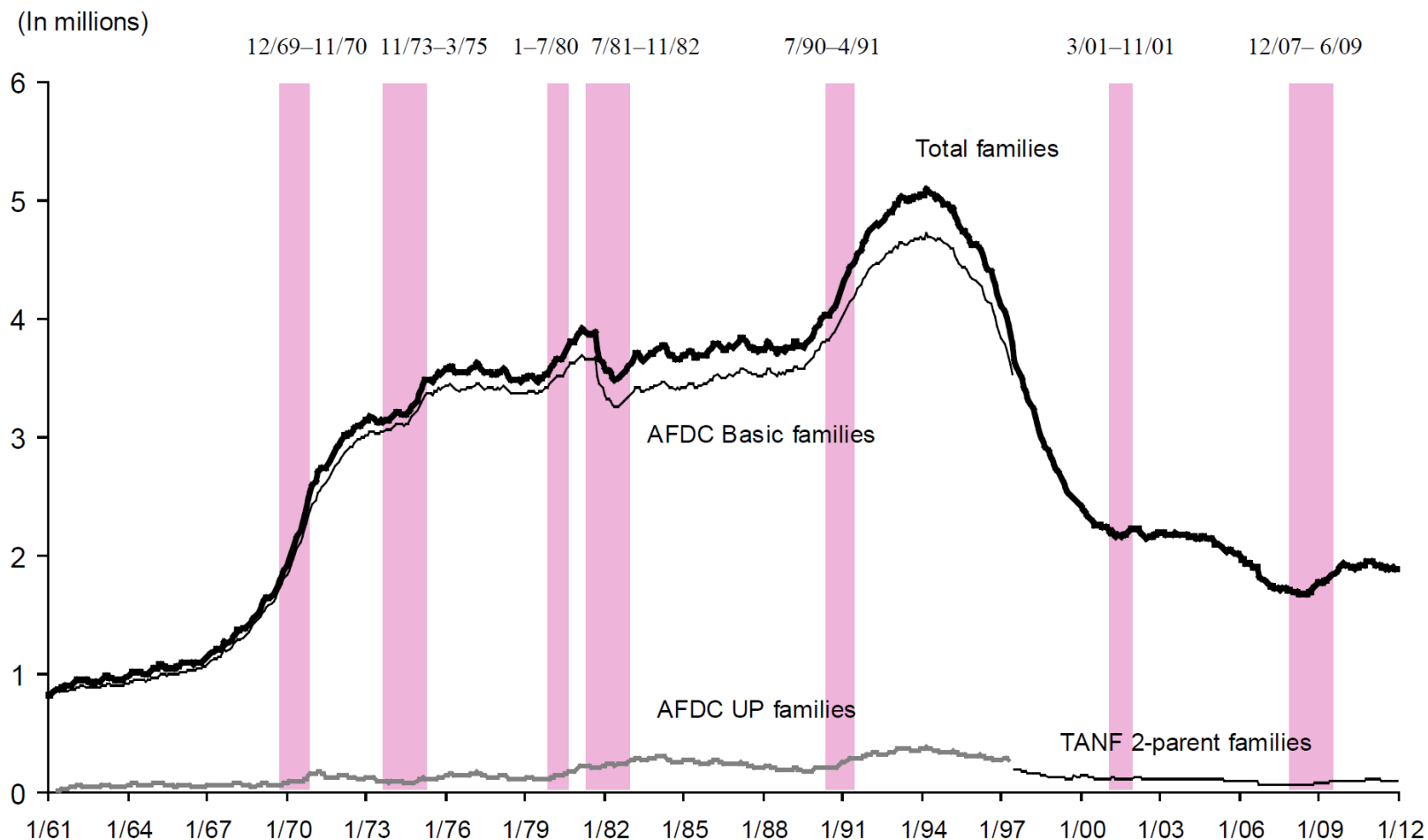
*Ignores public health insurance programs*

# Reforms in the safety net, prior to Great Recession

- *The decline of welfare*
  - Up until the early 1990s the U.S. relied primarily on traditional cash welfare, Aid to Families with Dependent Children
  - AFDC had a guaranteed income (never very high) and a high benefit reduction rate (~100%). Eligibility was limited to single mothers.
  - This led to a (longstanding) concern that AFDC discourages work and marriage, and causes long term dependence.
  - Welfare reform in 1996 → time limits, work requirements, lower tax rates → caseloads at historic low [Now TANF]
- *The rise of the EITC*
  - Transition from *out-of-work* assistance to *in-work* assistance
  - Refundable tax credit for low income families
  - Benefits focused on families with children
  - Requires earnings: strong incentives for employment

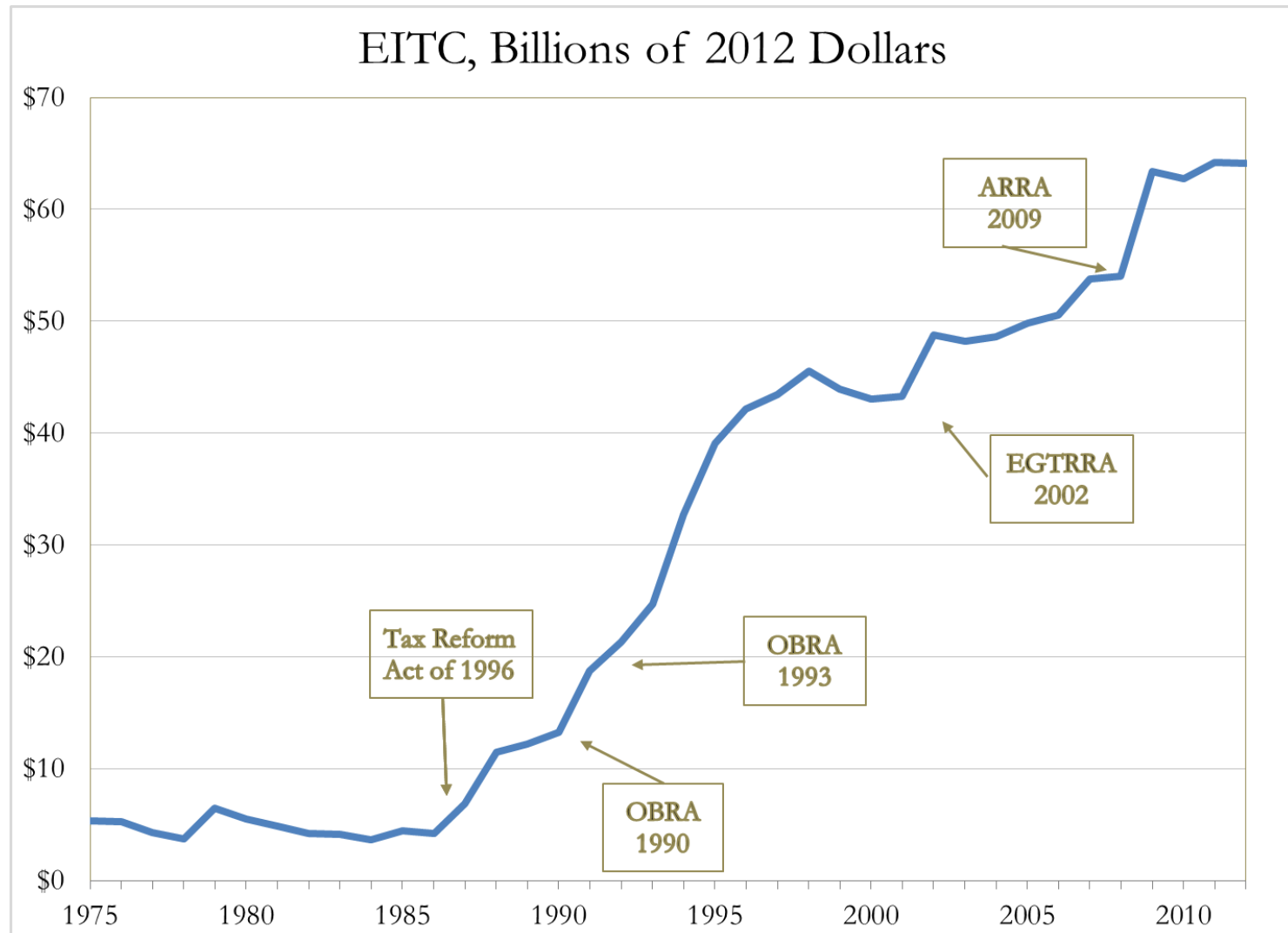
# The decline of welfare...

Figure TANF 1. AFDC/TANF Families Receiving Income Assistance



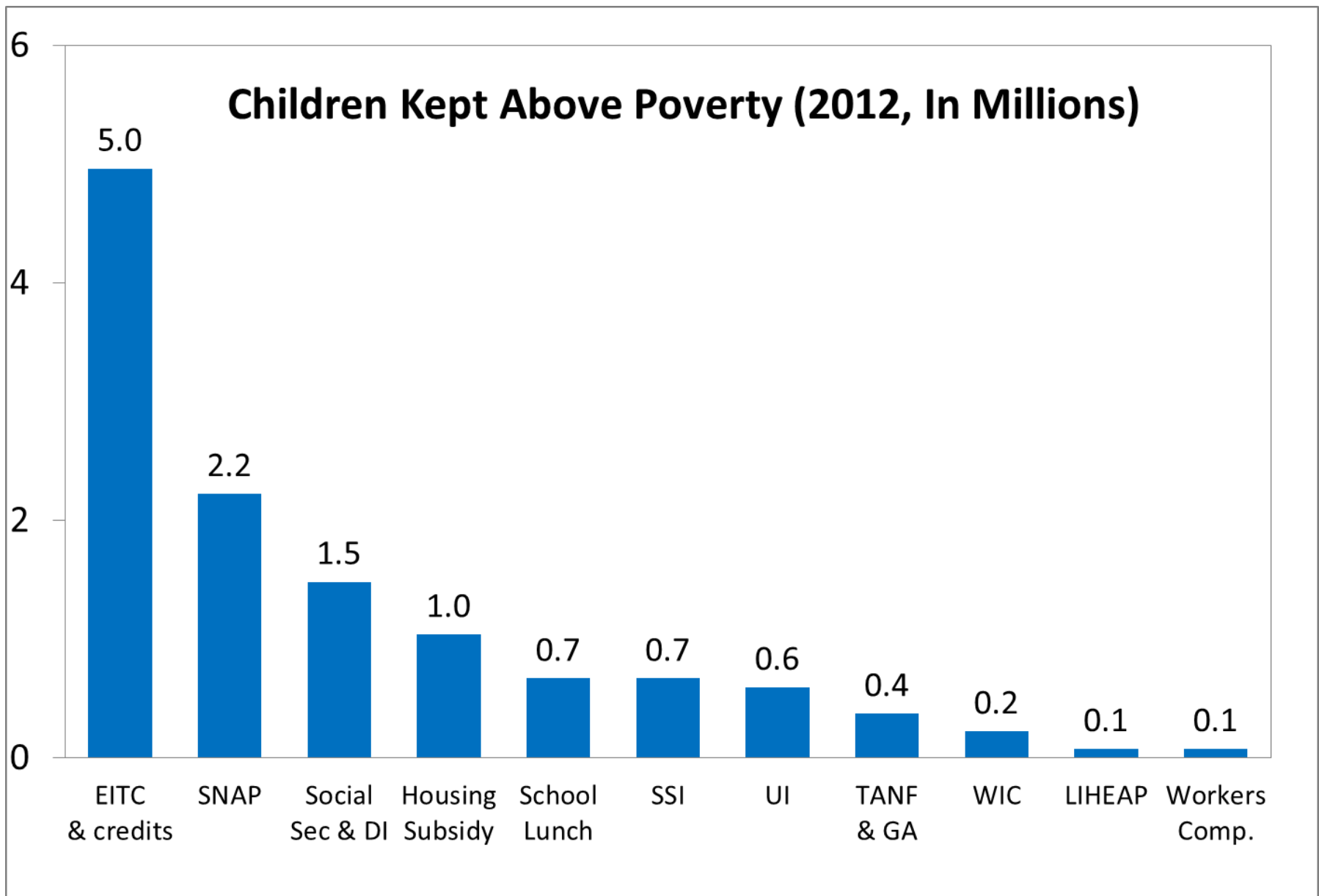
Source: U.S. Department of Health and Human Services *Indicators of Welfare Dependence*.  
2013

# *The rise of the EITC...*

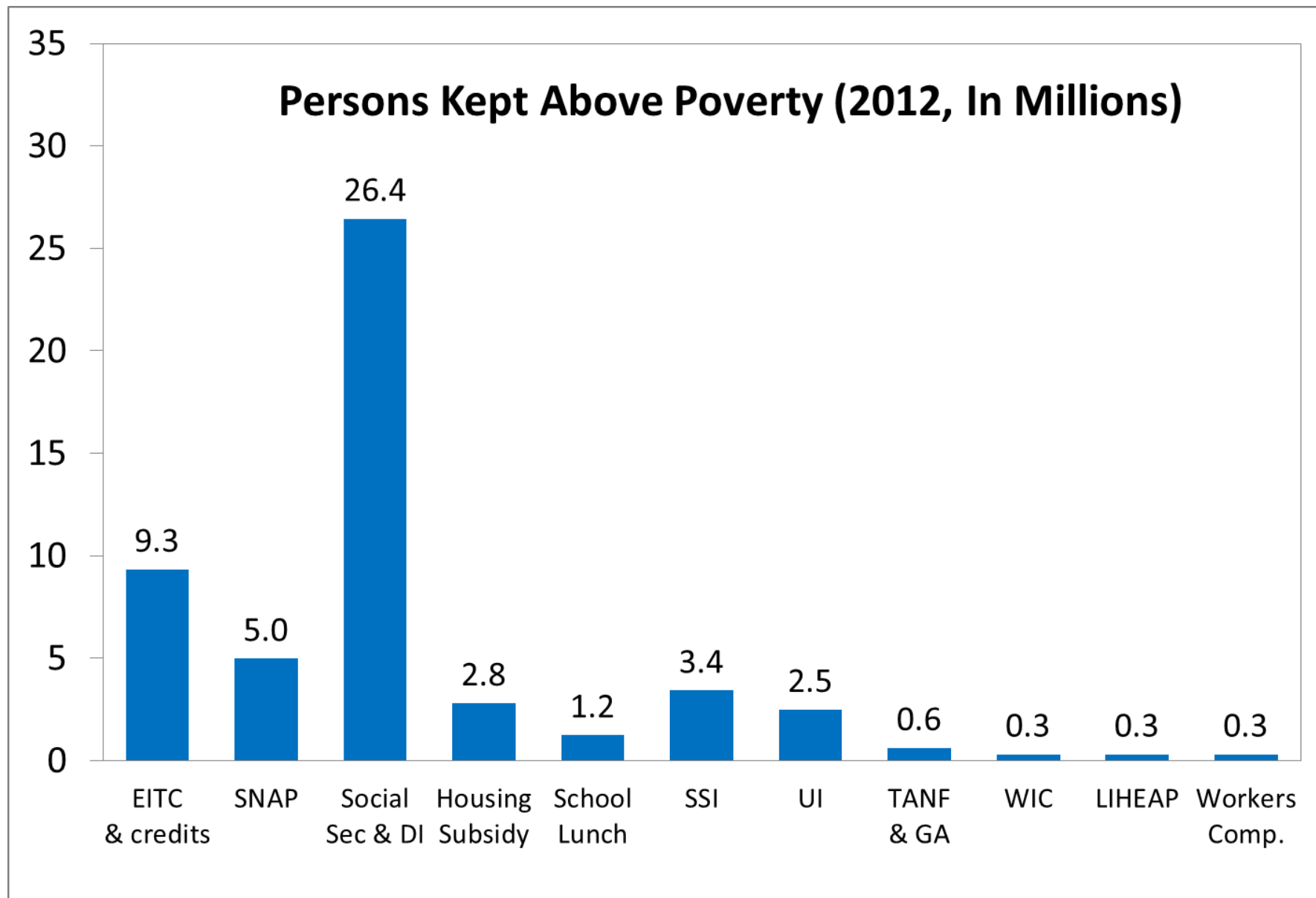


Source: Tax Policy Center.





Source: Calculations based on *Supplemental Poverty Measure, 2012* (Kathleen Short), U.S. Department of Census, Current Population Report P60-247.

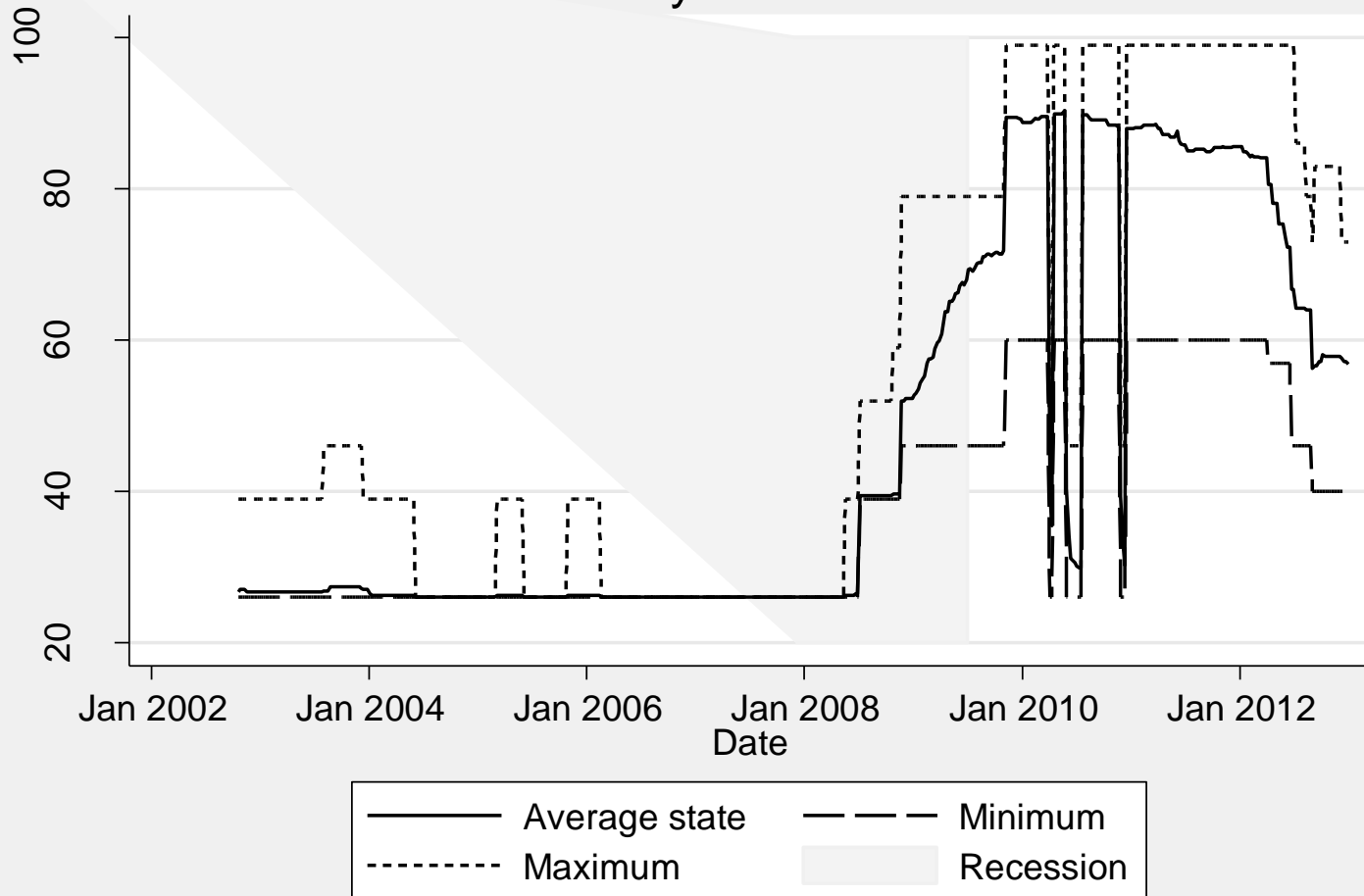


Source: Calculations based on *Supplemental Poverty Measure, 2012* (Kathleen Short), U.S. Department of Census, Current Population Report P60-247.

# The response to the Great Recession: The Stimulus and the Safety Net

- Unemployment Benefits: Emergency program raised UI benefit durations to as long as 99 weeks (usual maximum is 26 weeks); shifts costs from states to federal government
- Increase in unemployment benefits (\$25/week)
- Increase in Food Stamp benefits (13.6%, e.g. \$80/month for family of 4)
- Increase in EITC (for families with 3+ children)
- New tax credit (*Making Work Pay*), up to \$400 per worker/yr

## UI benefit availability over the Great Recession



Source: Mueller, Rothstein and von Wachter “Unemployment Insurance and Disability Insurance in the Great Recession,” Forthcoming *Journal of Labor Economics*.



# THE AMERICAN RECOVERY AND REINVESTMENT ACT

Recovery.gov is the U.S. government's official website that provides easy access to data related to Recovery Act spending and allows for the reporting of potential fraud, waste, and abuse.

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## Breakdown Of Funding By Category

Total Funds Allocated:

**\$840 BILLION**

Estimated American Recovery and Reinvestment Act tax, entitlement, and contract, grant, and loan expenditures have been increased from \$787B to \$840B to be consistent with the President's 2012 budget and with scoring changes made by the Congressional Budget Office<sup>®</sup> since the enactment of the Recovery Act in February 2009.

Tax Benefits

**\$290.7B**

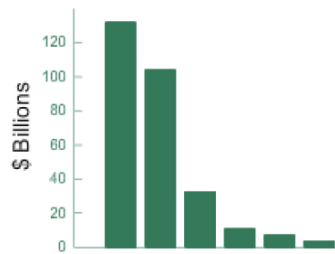
Contracts, Grants and Loans

**\$261.2B**

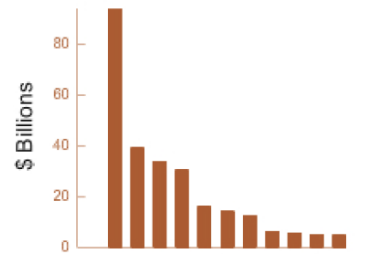
Entitlements

**\$264.4B**

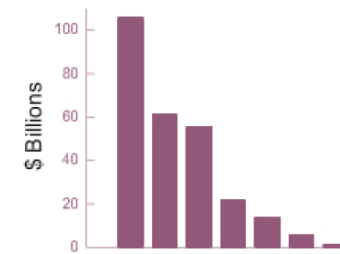
## Breakdown Of Funds Paid Out By Category



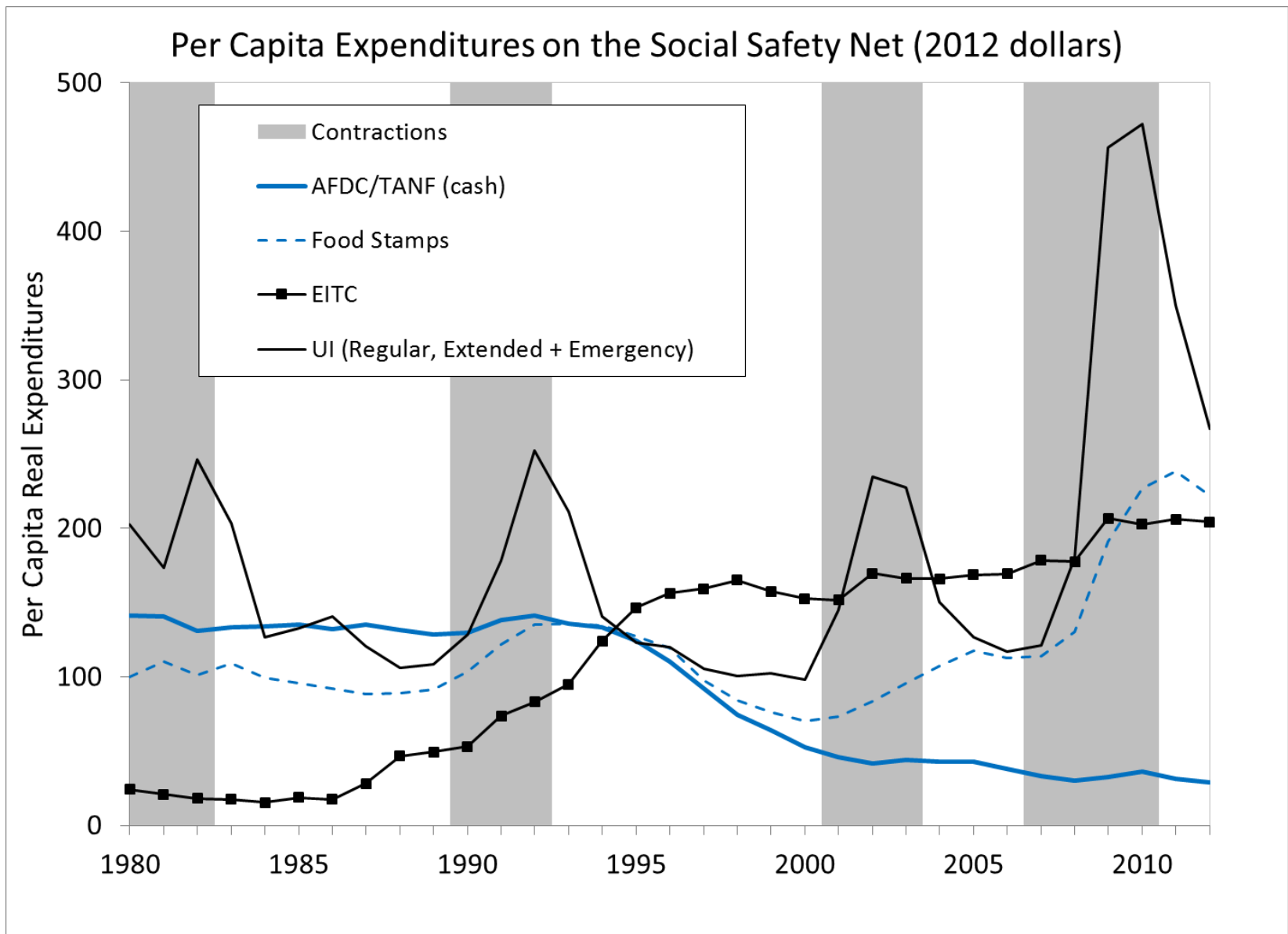
Total Tax Benefits\*



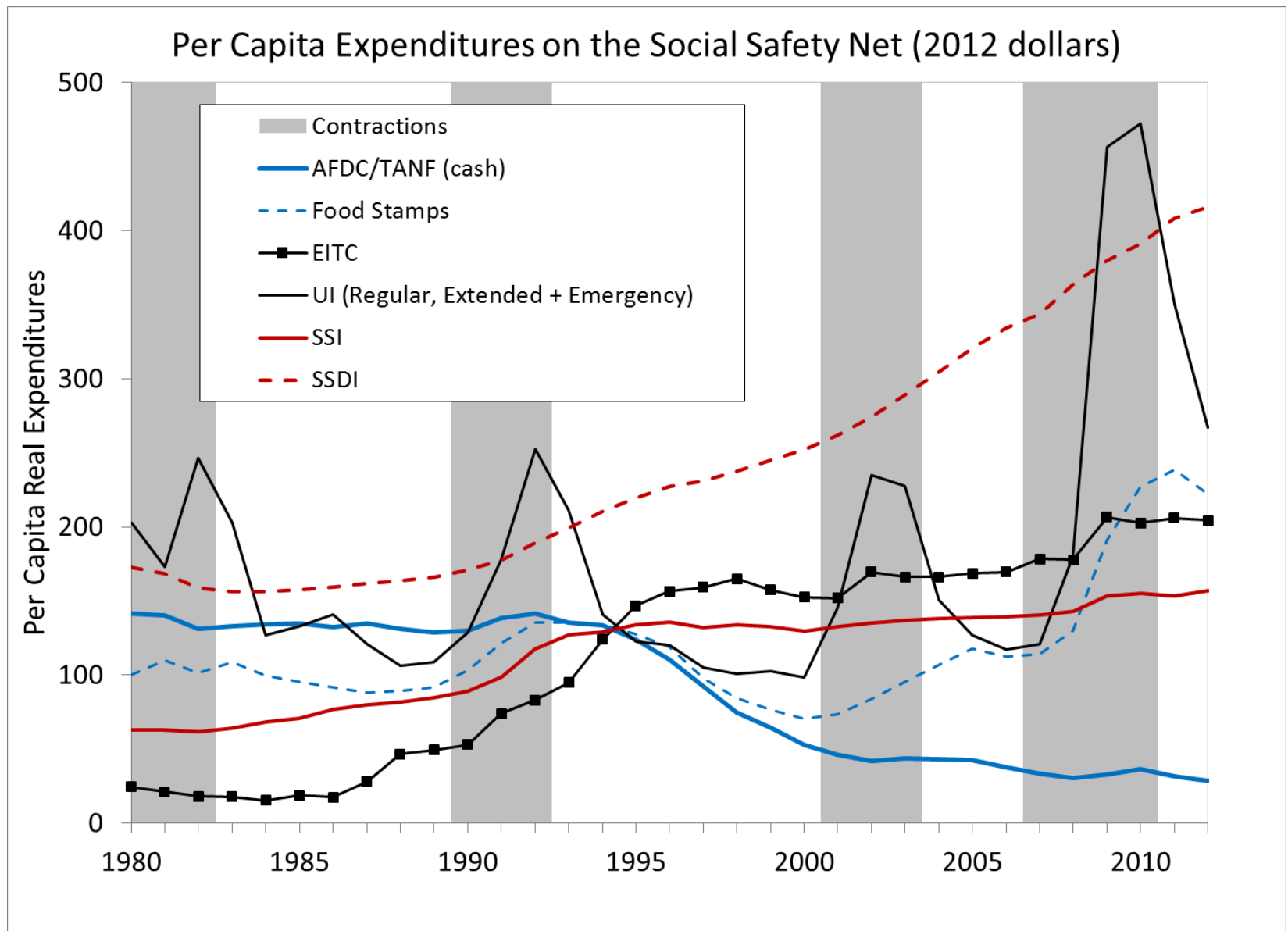
Total Contracts, Grants & Loans



Total Entitlements



Source: Bitler and Hoynes “The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession,” forthcoming, *Journal of Labor Economics*.



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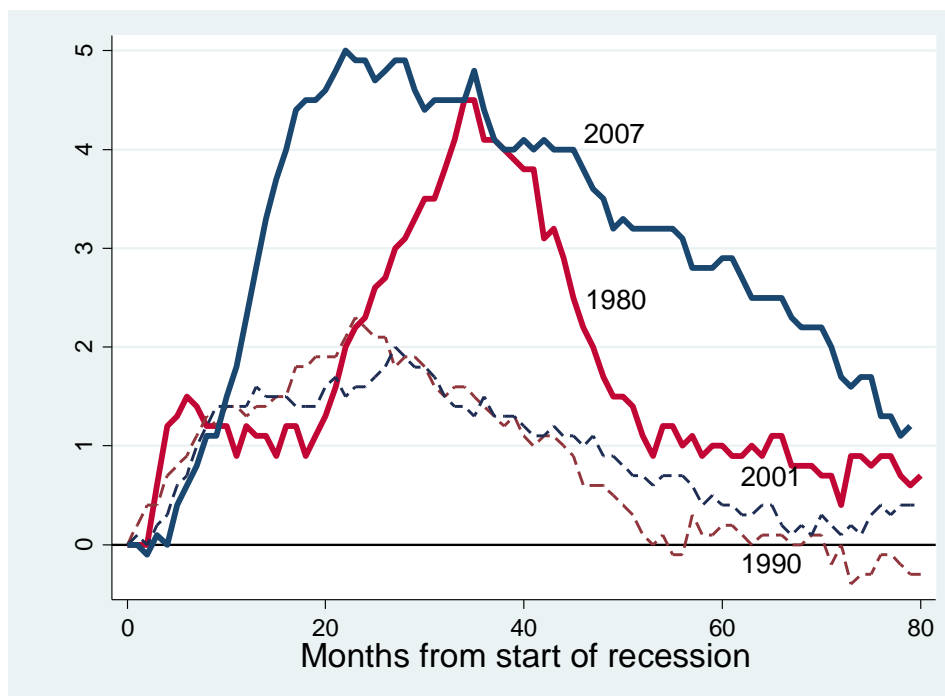
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# How did the safety net respond to the Great Recession?

- *Compared to what?* We take a historical perspective
- We compare the experience in the Great Recession to the experience in earlier recessions (in particular the early 1980s recession)
- Test if the response of the safety net is different in the GR



# How did the safety net respond to the Great Recession?

## *Modeling approach*

- We take advantage of the variation across U.S. states in the timing and severity of cycles
- Estimate a state-year panel data model with participants/population as a function of the unemployment rate, allowing for different effects in the 1980s and the GR.

States with lowest incr in UR		States with highest incr in UR	
North Dakota	+0.2pp	Nevada	+8.3pp
Alaska	+1.0pp	Florida	+6.4pp
Nebraska	+1.1pp	California	+6.3pp

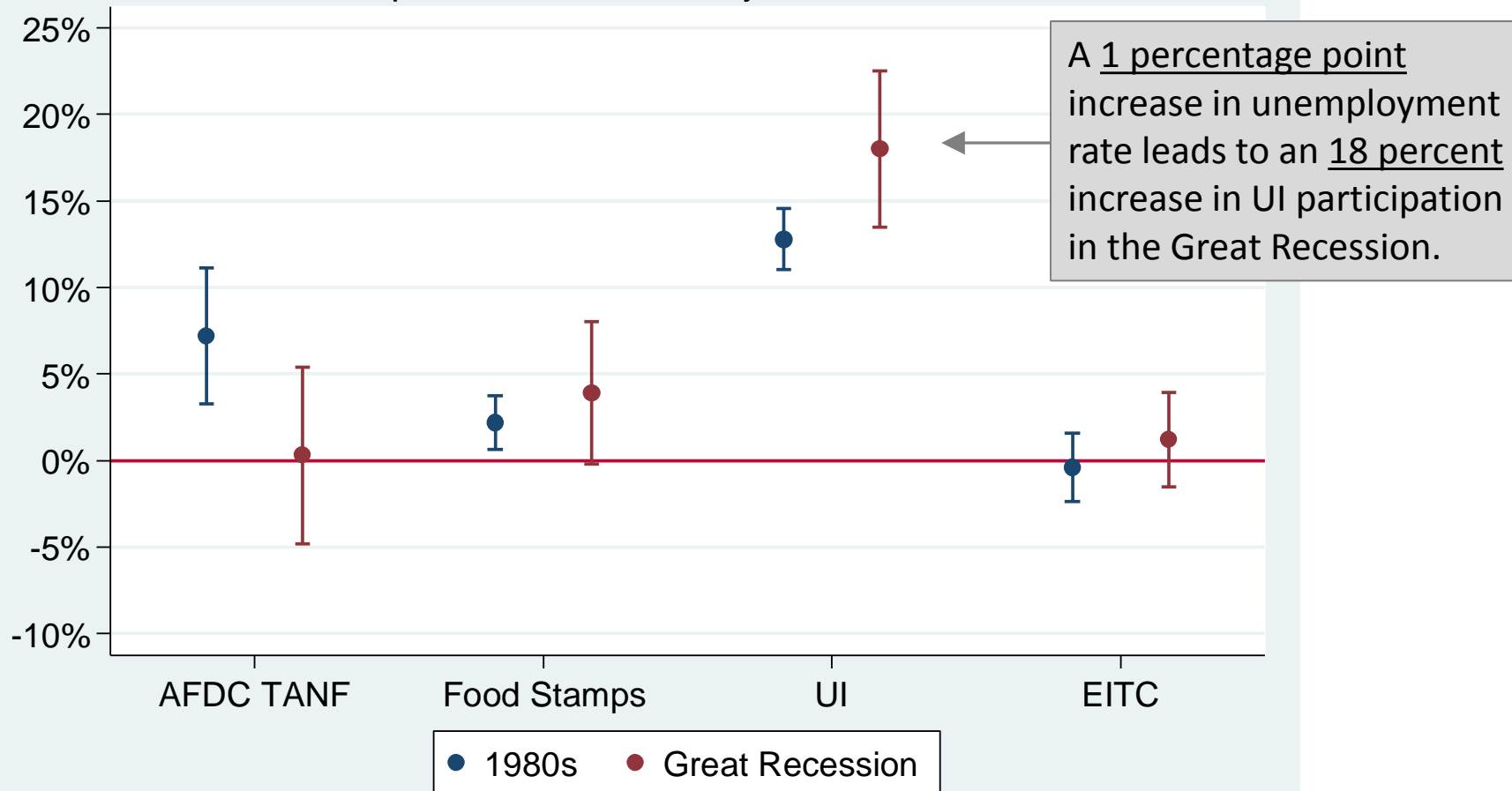
# What do we expect given policy landscape?

- Decline of welfare and rise of EITC → major transformation of safety net from *out-of-work* aid to *in-work* aid → less protection in GR
- Long UI benefit durations → more protection in GR
- Food stamp benefits expanded leading up to and during the GR → more protection in GR

We investigate this by estimating the effect of state-year unemployment rates on state-year safety net participants (per capita).

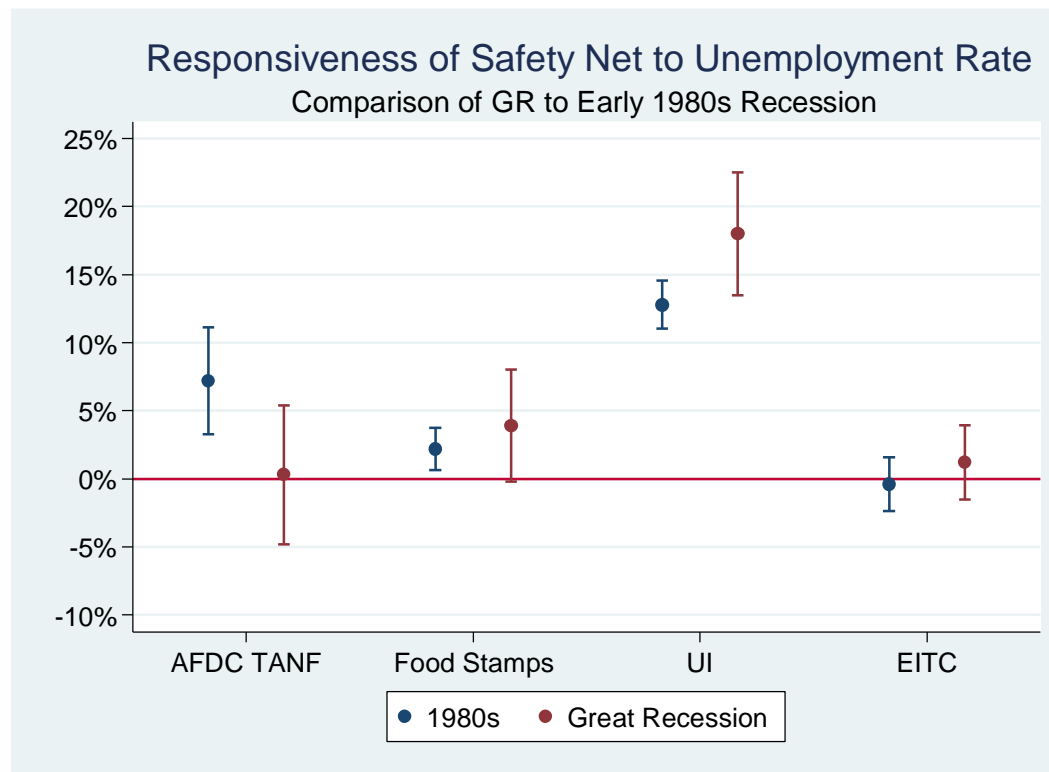
# Responsiveness of Safety Net to Unemployment Rate

## Comparison of GR to Early 1980s Recession



Source: Bitler and Hoynes “The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession,”

*Note coefficient on “rest of period” omitted here.*



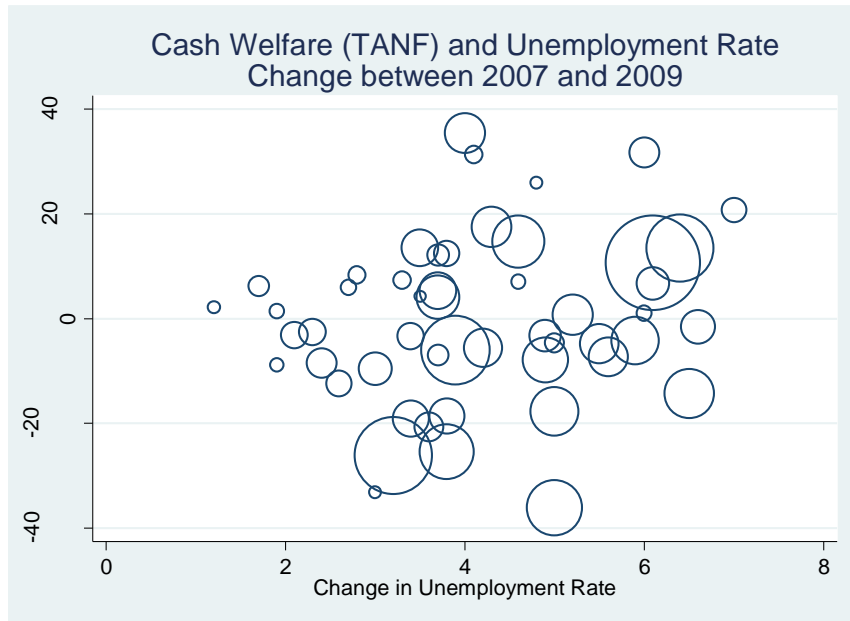
## Findings:

- Less protection in GR for cash welfare (TANF)
- More protection in GR for UI and (not significantly) food stamps
- EITC not responsive to cycles (more on this below)

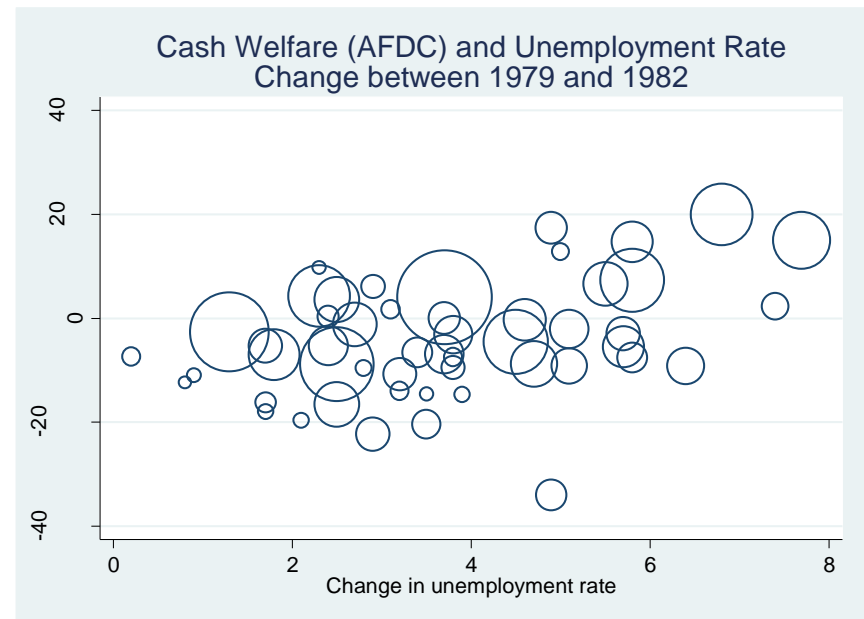
# Illustration of these results for TANF

State Scatterplot of  $\Delta UR$  against  $\% \Delta \text{TANF caseload/pop}$

2007-2009



1979-1982

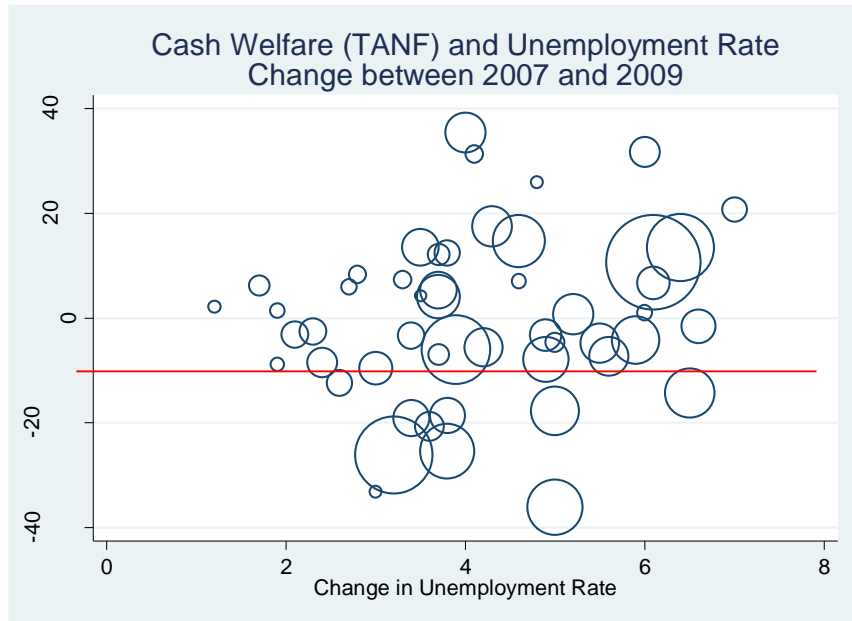


Little relationship between changes in state labor market conditions and TANF in GR

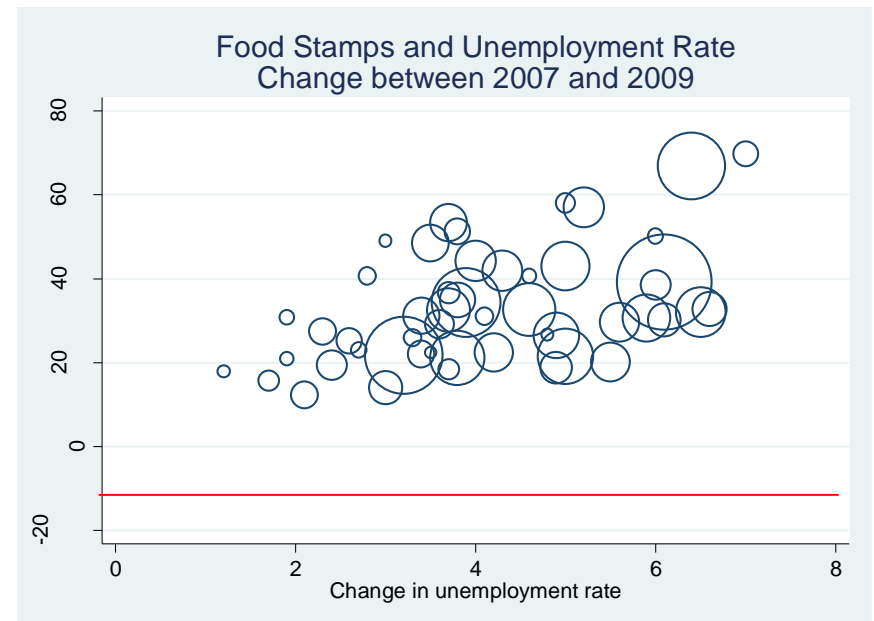
# Comparison of Food Stamps and TANF in GR

## State Scatterplot of $\Delta UR$ against $\% \Delta \text{caseload/pop}$

### 2007-2009 TANF



### 2007-2009 Food Stamps



# Safety nets and the Great Recession: Bottom Line

- Cash welfare (TANF) provided no protection in the Great Recession
- Unemployment Insurance and Food Stamps provided more protection in the Great Recession (compared to a similar shock to UR in earlier recessions)
- But how does this translate to family wellbeing?

We can use similar models to explore the effects of the Great Recession on poverty.



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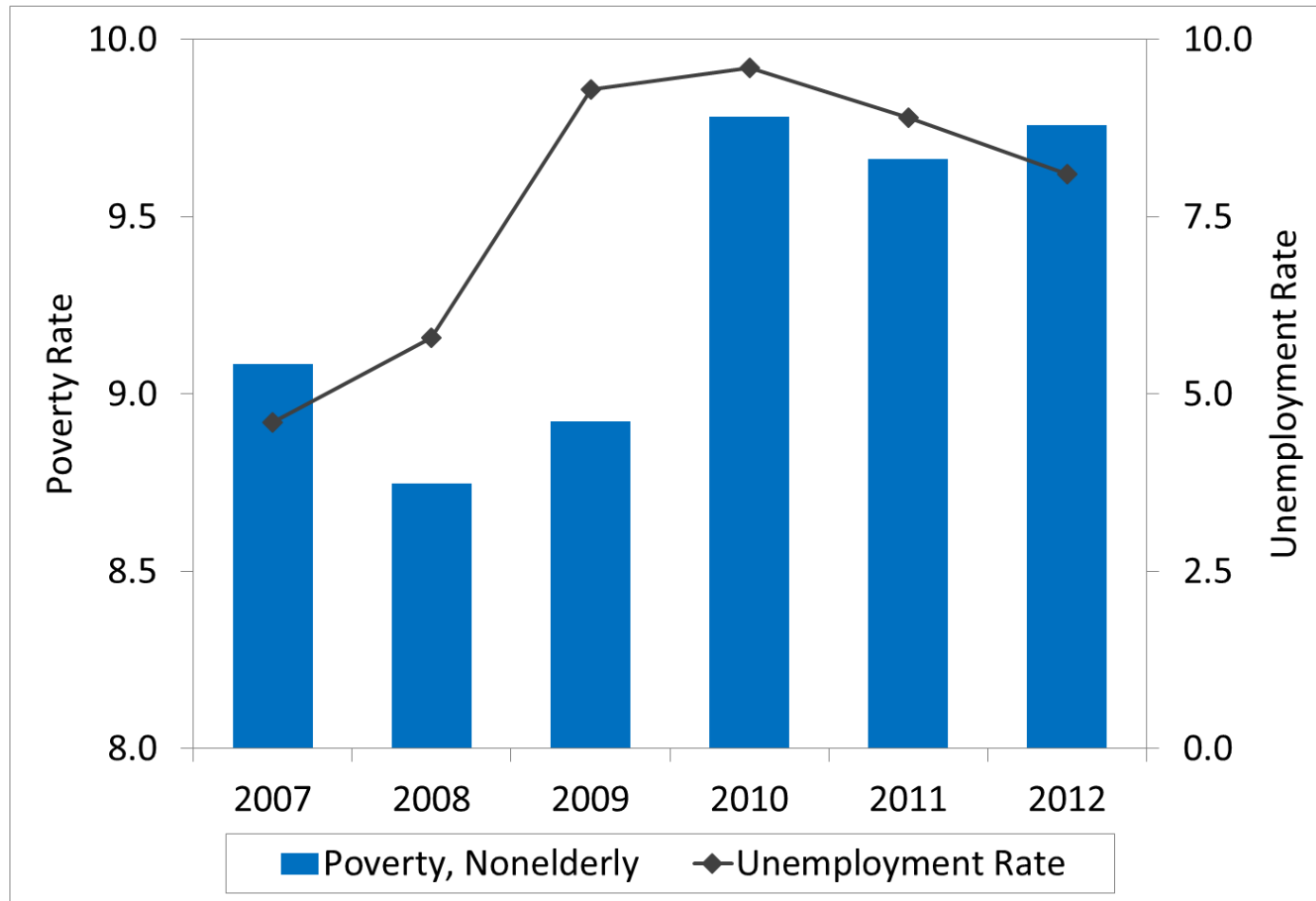
# Poverty measurement in the U.S.

- U.S. defines poverty as an absolute measure
- A family is poor if their resources are less than the federal poverty threshold
  - Poverty lines vary by family size and are adjusted for changes in prices each year
- We measure family resources comprehensively as after tax and transfer income, including the value of in-kind transfers (e.g. food stamps, housing benefits) [*U.S. official poverty uses only cash resources.*]

Poverty Thresholds by Family Type, 2013	
1 parent, 1 child	\$16,057
1 parent, 2 children	\$18,769
2 parents, 2 children	\$23,624

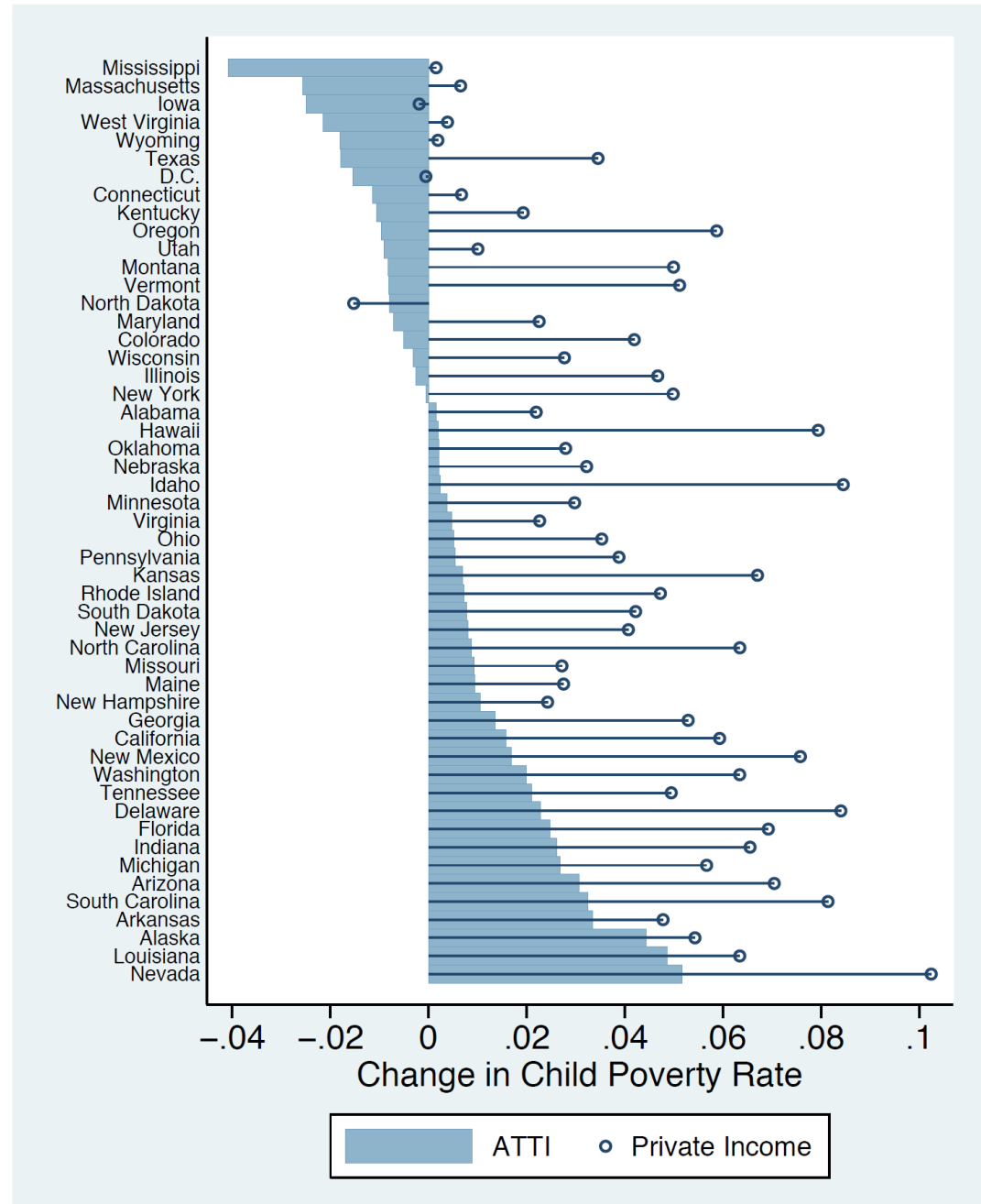
By comparison, median family income in 2013 was \$51,017.

# Poverty rates rose with unemployment



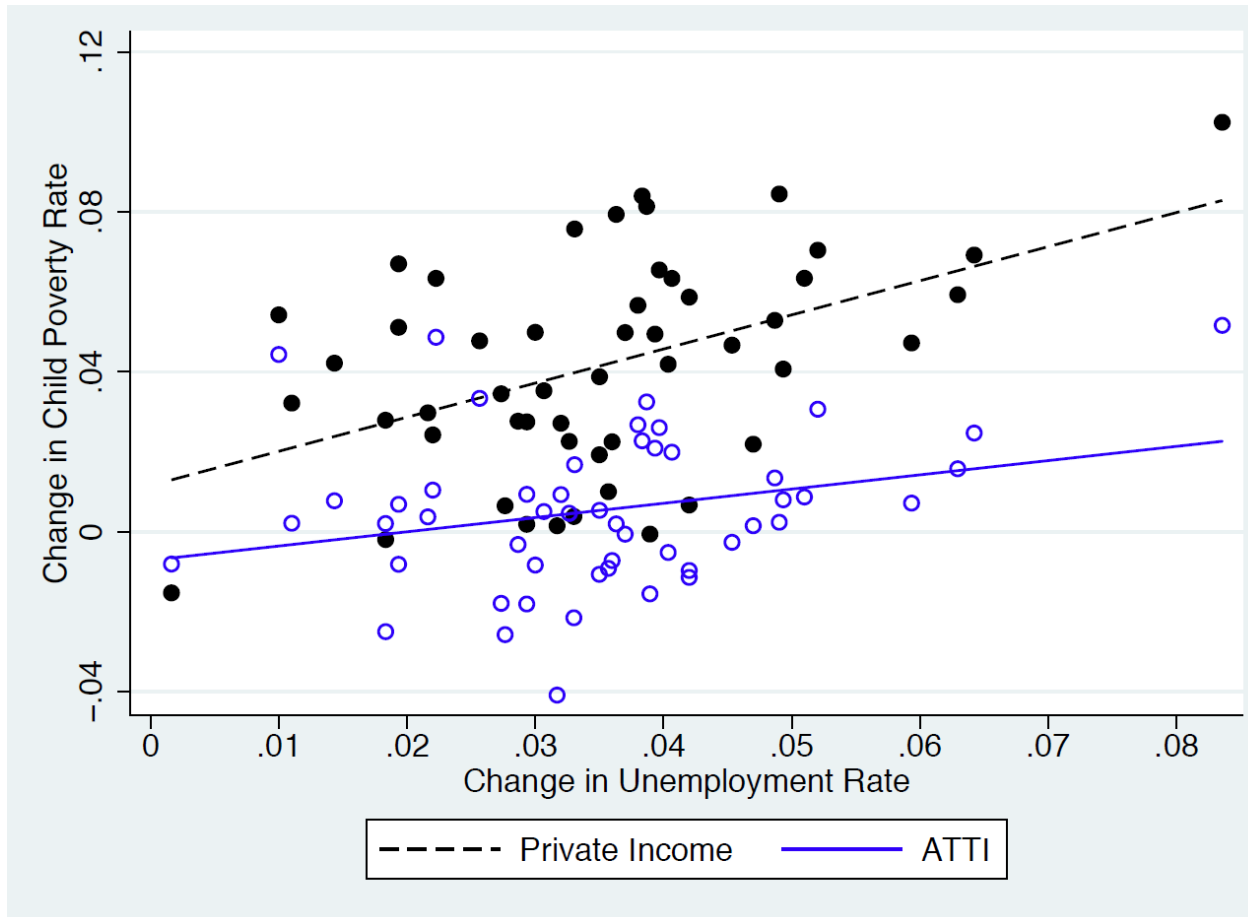
Source: Bitler and Hoynes “The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession,” forthcoming, *Journal of Labor Economics*.

... but the social  
safety net provided  
tremendous  
protection



Source: Bitler, Hoynes and Kuka “Child Poverty in the Great Recession.”

# State Scatterplot of Change in UR against Change in Child Poverty, 2005-2007 to 2010-2012



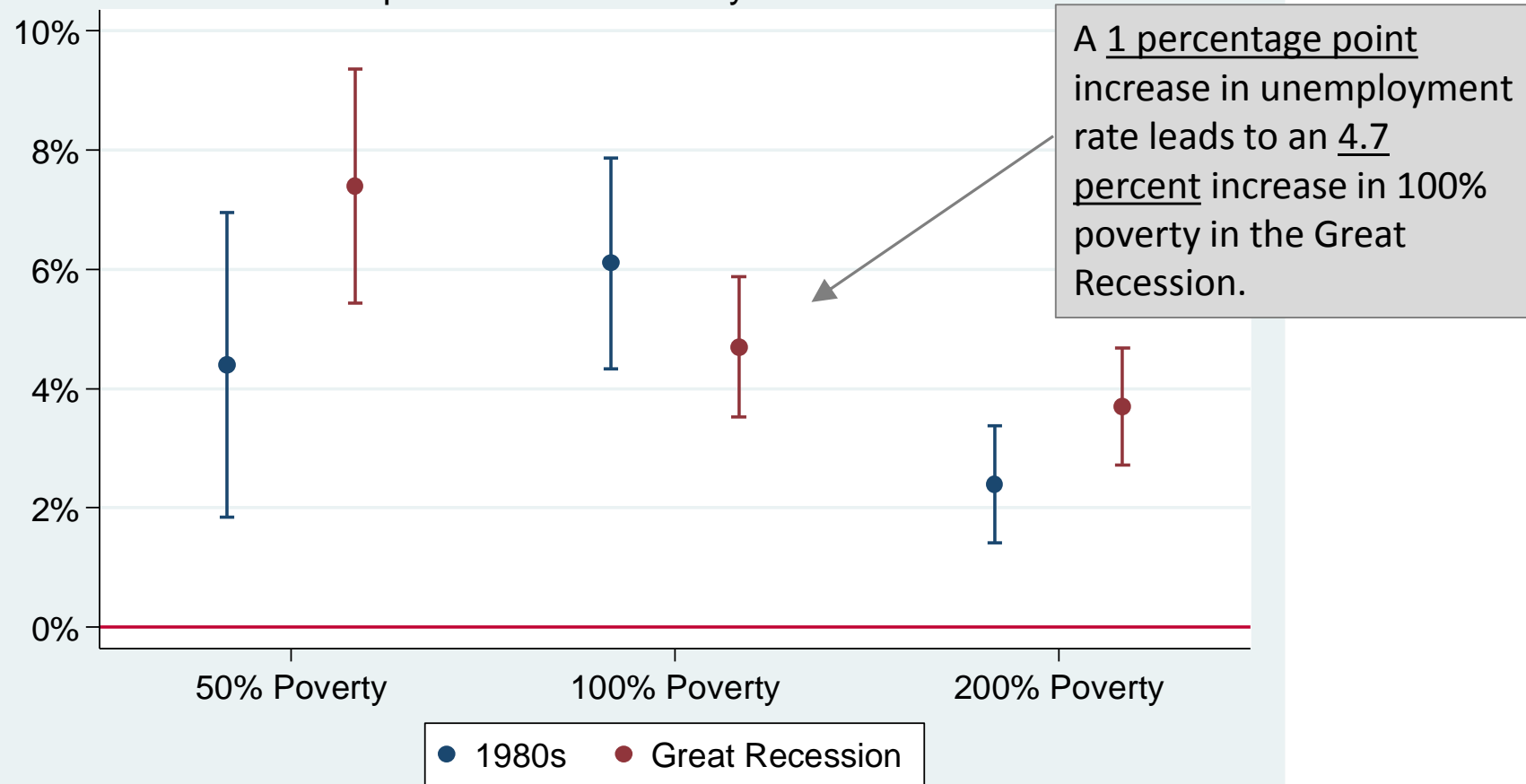
Source: Bitler, Hoynes and Kuka “Child Poverty in the Great Recession.”

# But how do we gauge the degree to which the most vulnerable were protected in the Great Recession?

- Again, *we take a historical perspective*
- We compare the experience of poverty in the Great Recession to the experience in earlier recessions (in particular the early 1980s recession)
- Test if the response of the safety net is different in the GR
- As before, we do this by estimating a state panel data model, using variation in the timing and severity of cycles across states.

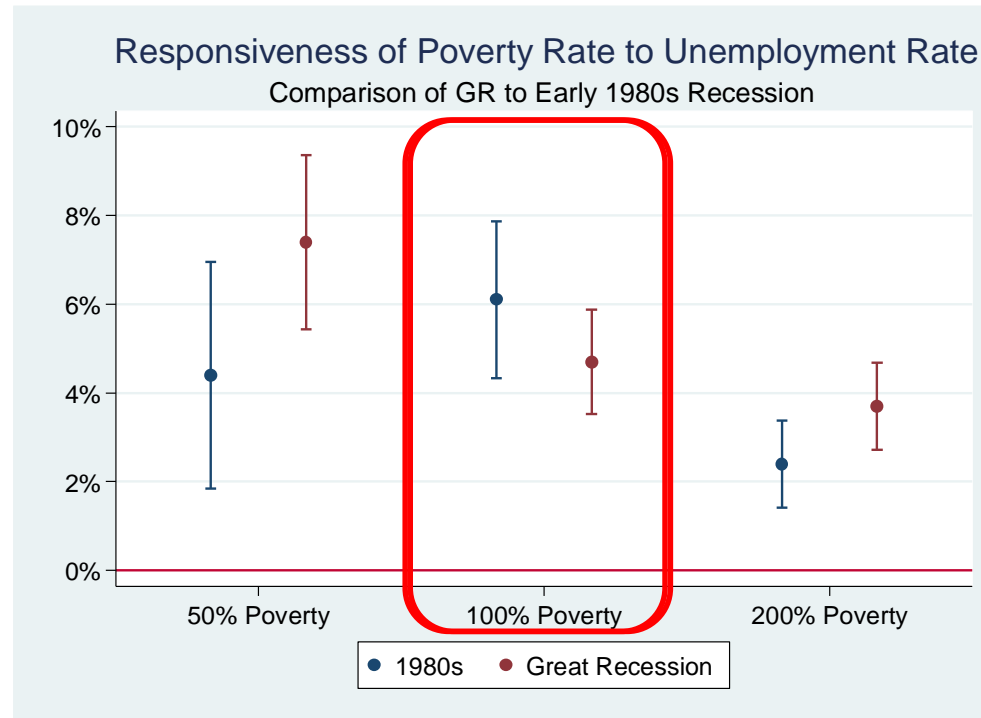
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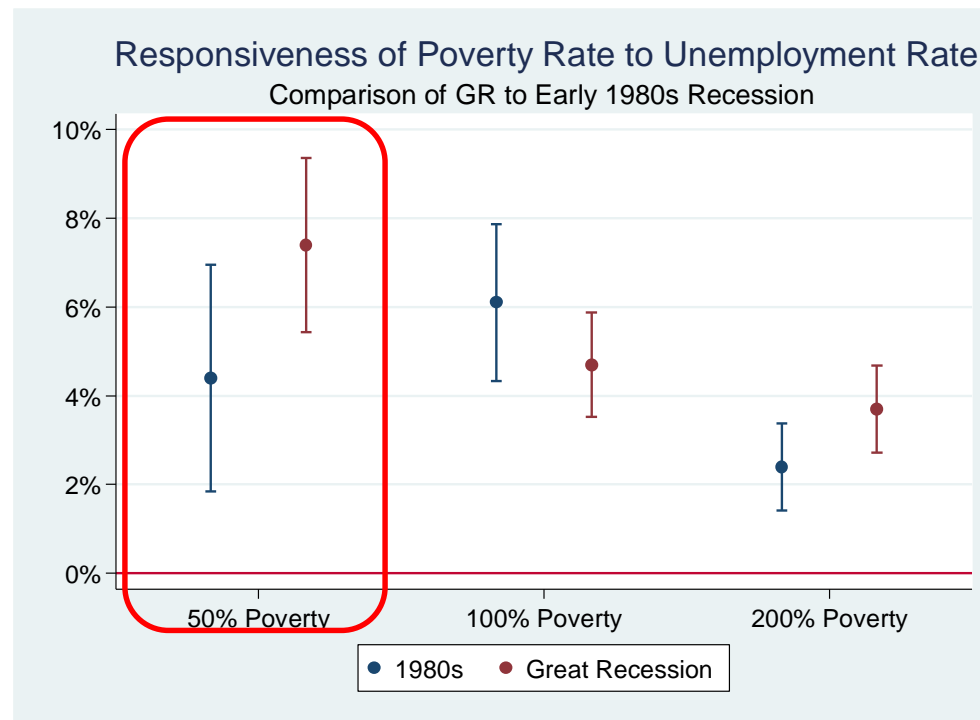
*Note coefficient on “rest of period” omitted here.*



## THE GOOD NEWS

- The share of families falling below 100% poverty is less affected than we would have expected from prior cycles
  - 1 one percentage point increase in the unemployment rate in the Great Recession led to a 4.7% increase in poverty, compared to a 6.2% increase in the early 1980s recession

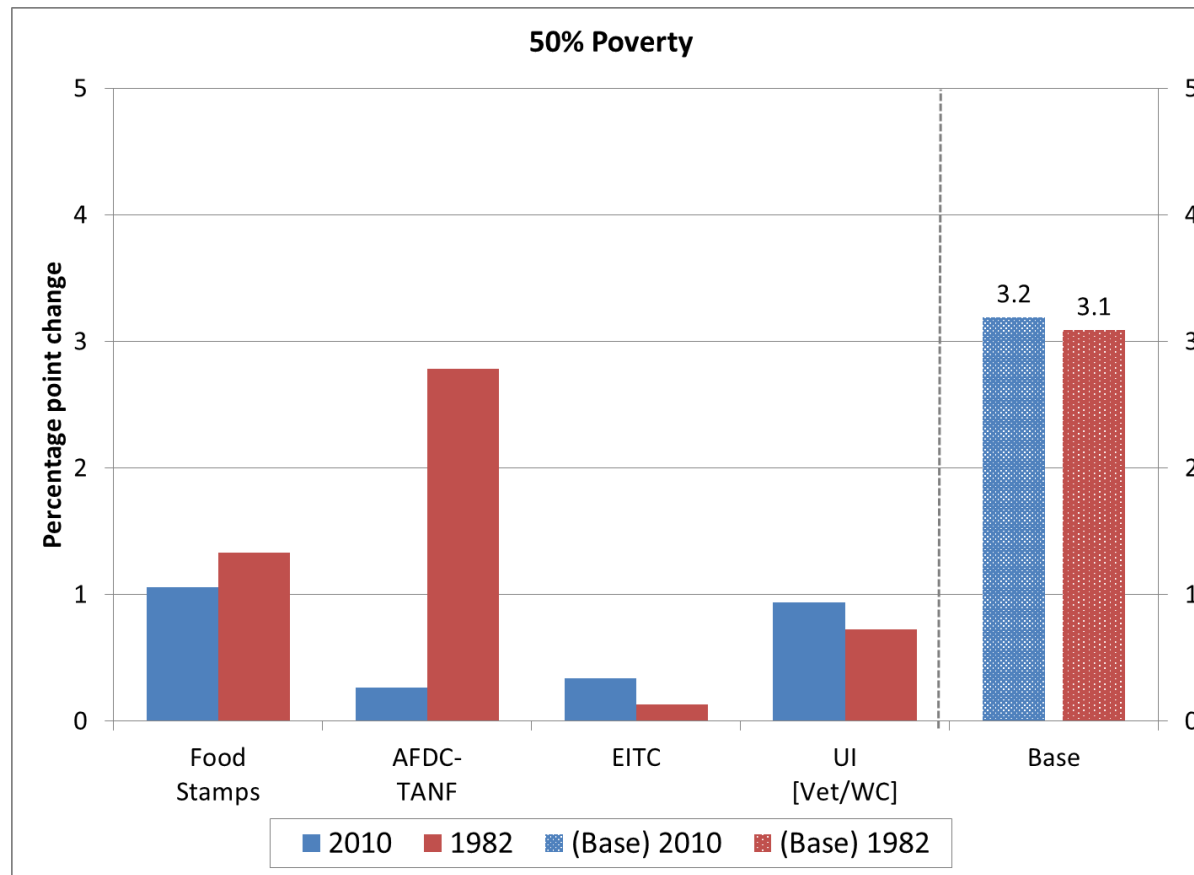




## THE BAD NEWS

- The share of families falling below 50% poverty (*extreme poverty*) is more affected than we would have expected from prior cycles
  - 1 one percentage point increase in the unemployment rate in the Great Recession led to a 7.4% increase in extreme poverty, compared to a 4.4% increase in the early 1980s recession

# Extreme poverty: What is responsible for the decline in protection in the Great Recession? **Welfare Reform**



Source: Bitler and Hoynes “The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession,” forthcoming *Journal of Labor Economics*.

# Poverty and the Great Recession: Bottom Line

- More families fell into extreme poverty than we would have expected from historical experience; this is directly tied to the dismantling of cash welfare
- Fewer families fell below (100%) poverty than we would have expected from historical experience; this is linked to the success of the food stamp program

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# Lesson #1:

## U.S. lacks a safety net for extreme poverty

- Welfare reform has removed the protection for the most vulnerable
- For some, disability benefits have filled this hole

## Lesson #2:

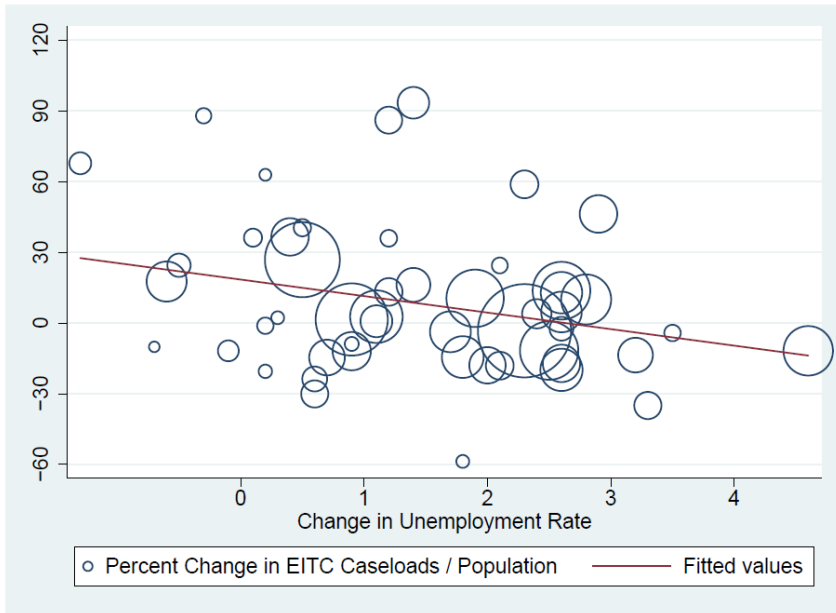
A large and targeted stimulus can make a difference

- Extensions to unemployment benefits and accessibility of food stamps

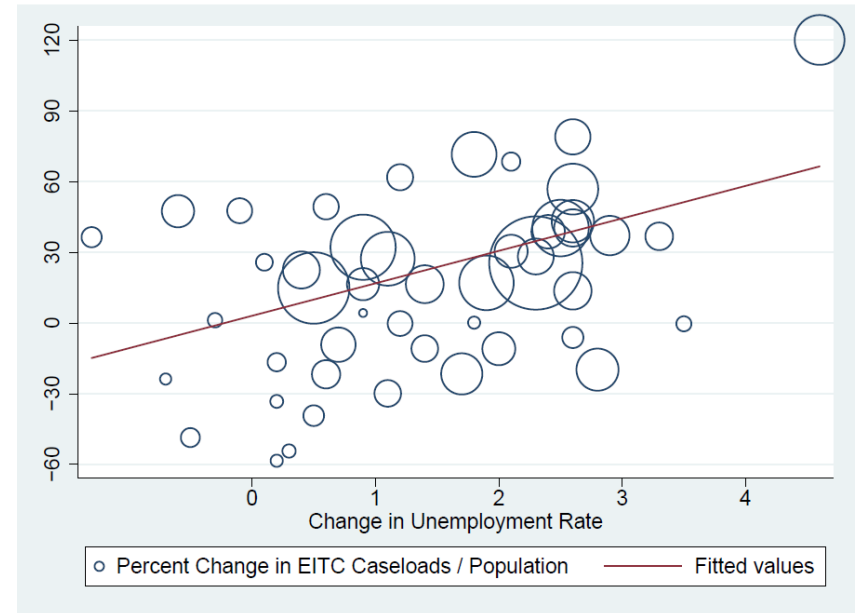
## Lesson #3: In-work benefits are not well suited to providing protection against job loss

- The Earned Income Tax Credit is the most important antipoverty program for families in the U.S.
- Research shows that the EITC leads to large increases in employment, as well as improving health and child cognitive outcomes
- But, because it requires earned income, it does not work well in times of high unemployment. It is not designed to provide insurance against income losses.

(c) Single with Children



(d) Married with Children



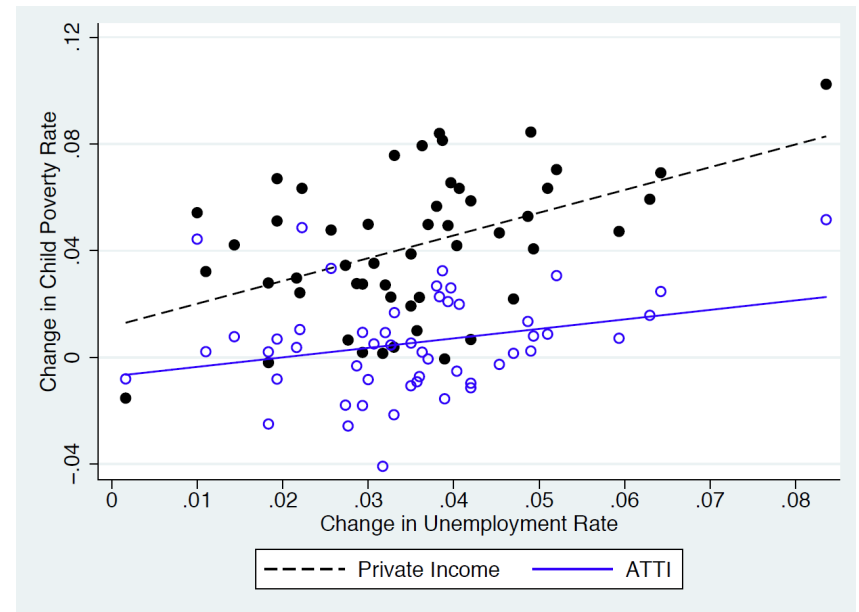
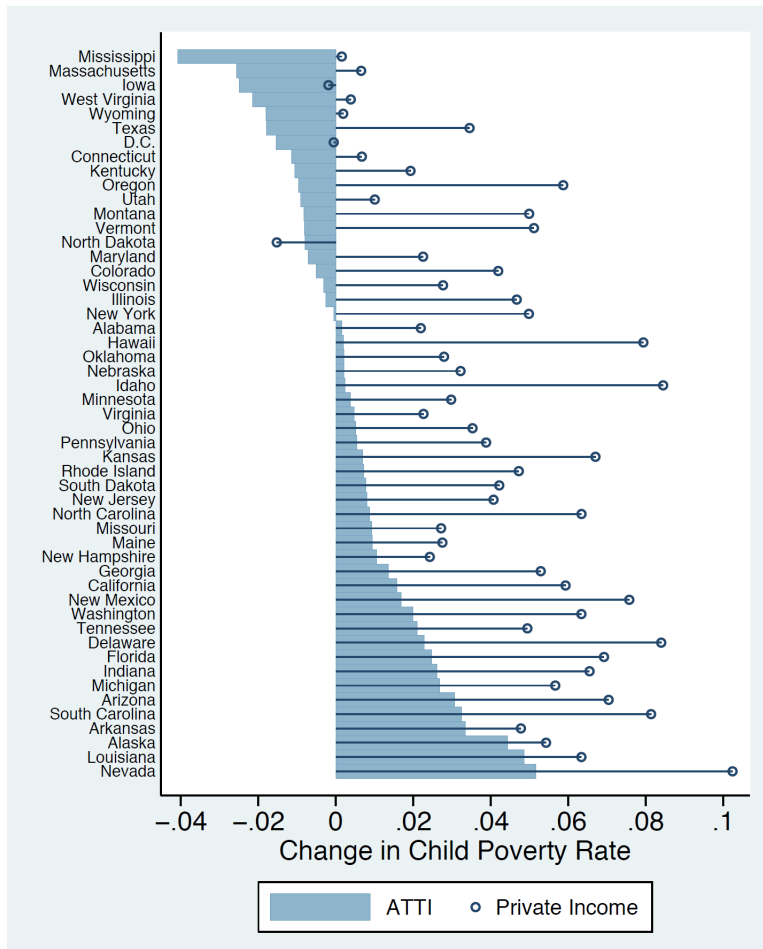
- For single parent families, the EITC is weakly pro-cyclical; it provides no additional assistance in times of “need”
- For married couples, the EITC has some countercyclical response, reflecting possibility that a earnings shock will move people in to eligibility range

Source: Bitler, Hoynes and Kuka “Do In-Work Tax Credits Serve as a Safety Net?”



- With the decline of *out-of-work* assistance (e.g., welfare reform) accompanying the increase in *in-work* assistance, the net effect is less protection against job and income losses

# Lesson #4: The social safety net is essential to reducing the effect of economic shocks



# Conclusions

- The Great Recession led to the largest increase in unemployment in the post-war period
- One of the important roles for government is to design programs to effectively insure against losses to income; provide protection in times of need
- The evidence from the Great Recession, in terms of the response of the social safety net and the incidence of poverty, is of great importance for learning about what is working and what is not