THE NELSON A. ROCKEFELLER INSTITUTE OF GOVERNMENT

UNIVERSITY AT ALBANY
State University of New York

Financing the Safety Net: Before, During, and After the Great Recession

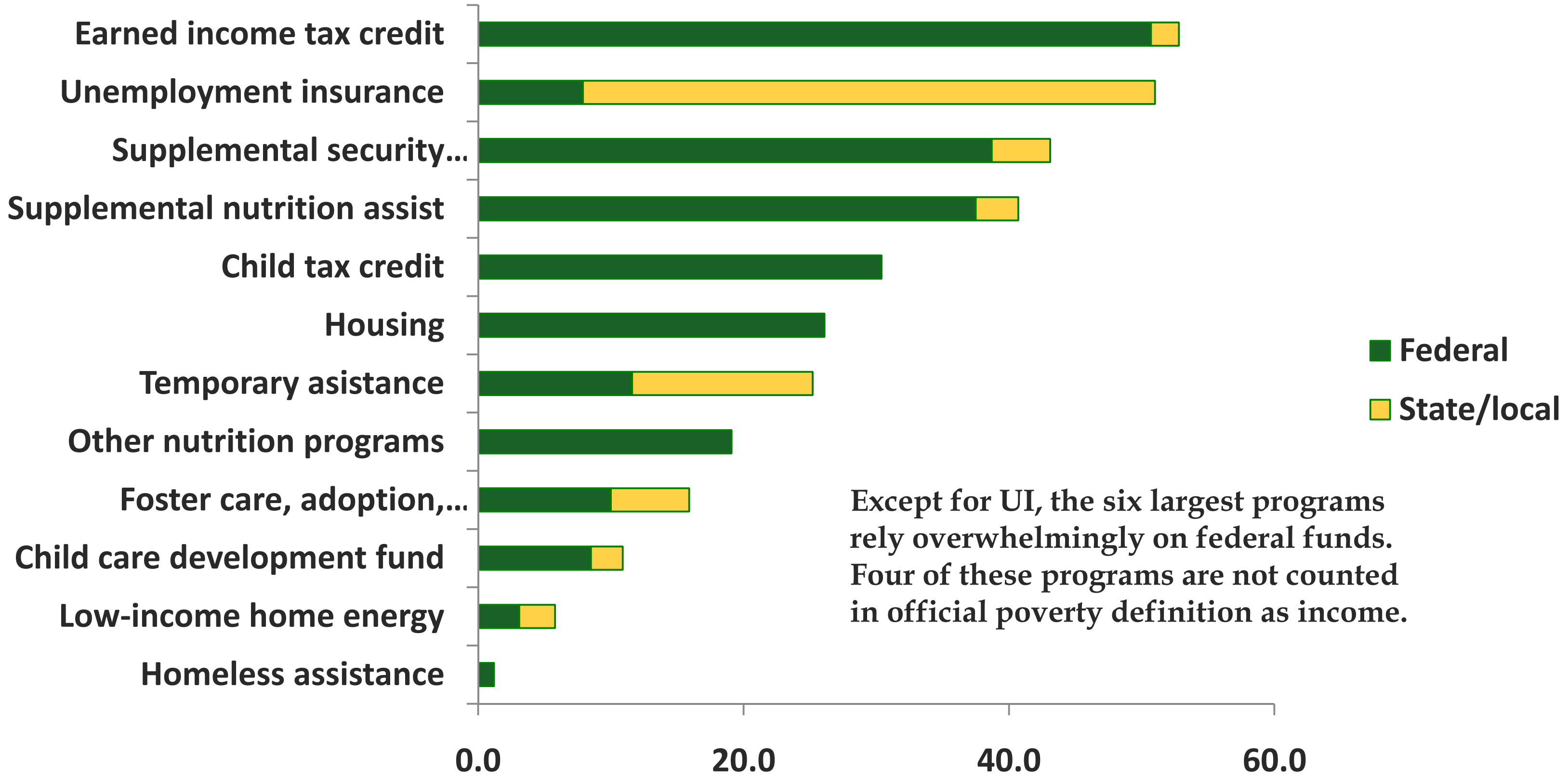
2011 Annual Workshop of the National Association for Welfare Research and Statistics

Vail, Colorado

Thomas L. Gais

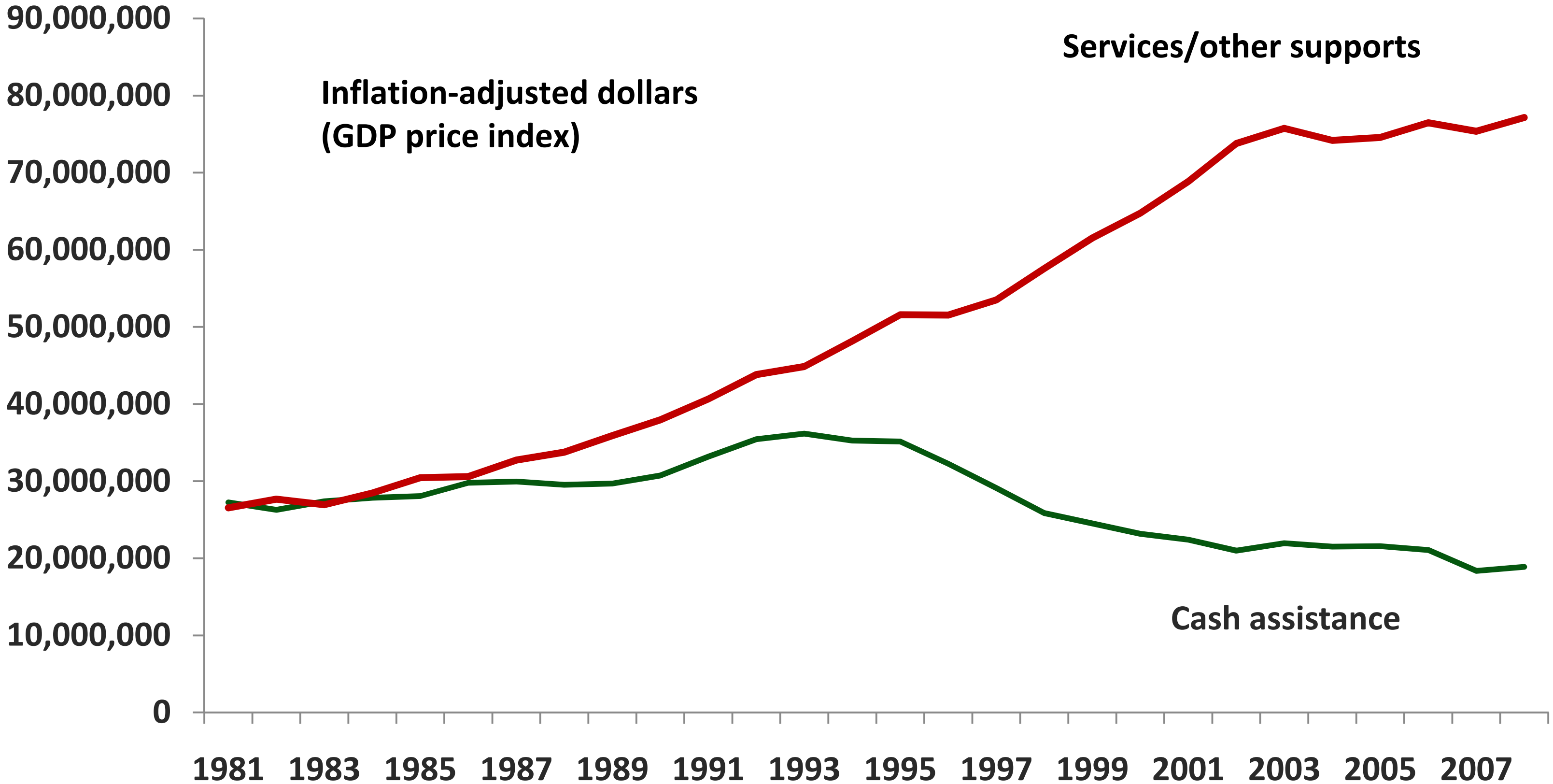
September 13, 2011

I. On the eve of the recession
The U.S. safety net (2008, in billions of dollars)



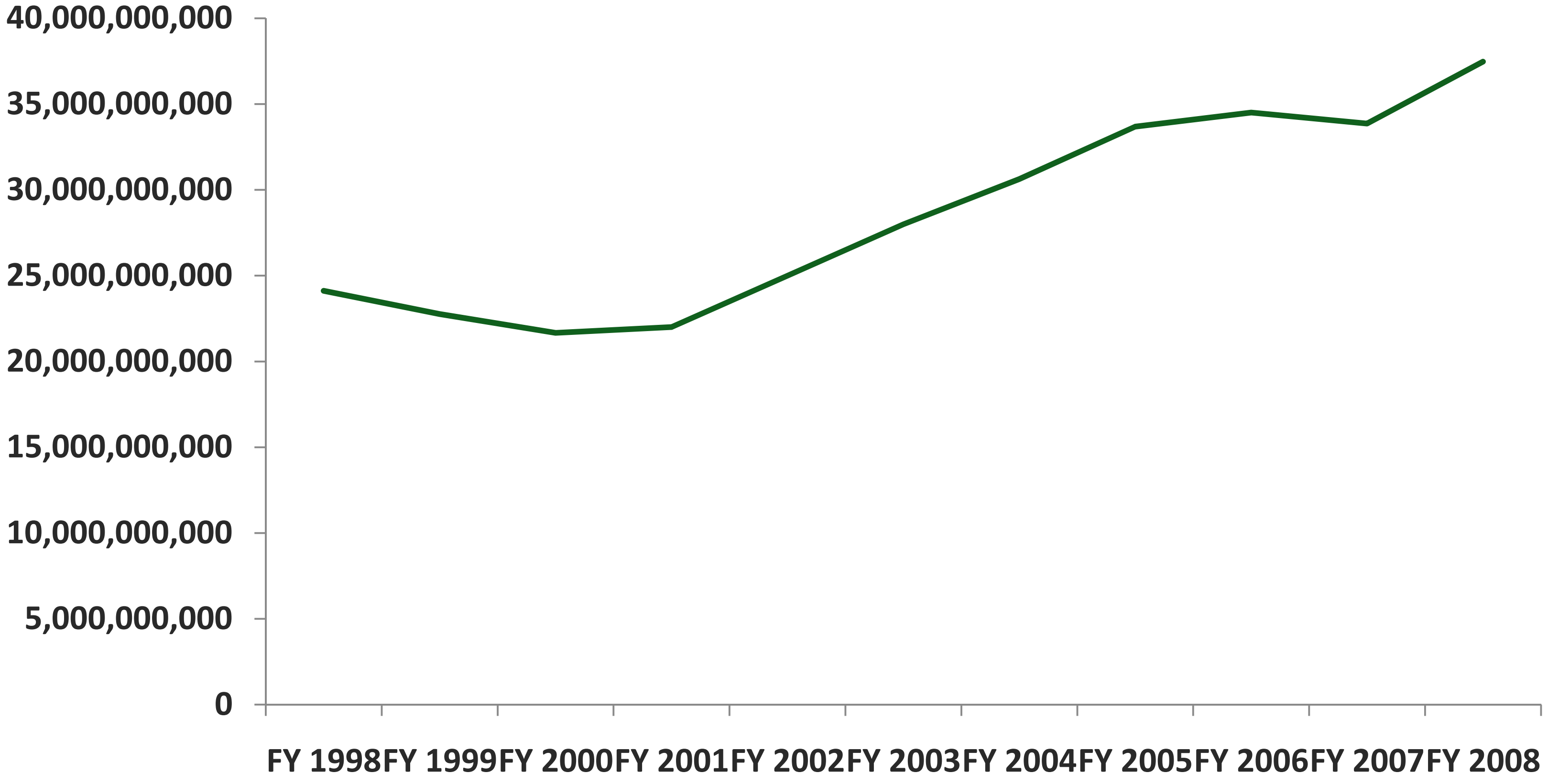
Sources: See Gais, T., D. Boyd, and L. Dadayan, "The Social Safety Net, Health Care, and the Great Recession," in *The Oxford Handbook of State and Local Government Finance*, edited by J. Petersen and R. Ebel (Oxford, forthcoming), Table 1.

State/local spending on cash assistance and social services fell or stalled after 2001 recession—ending growth of *total* s/l spending during 1990s



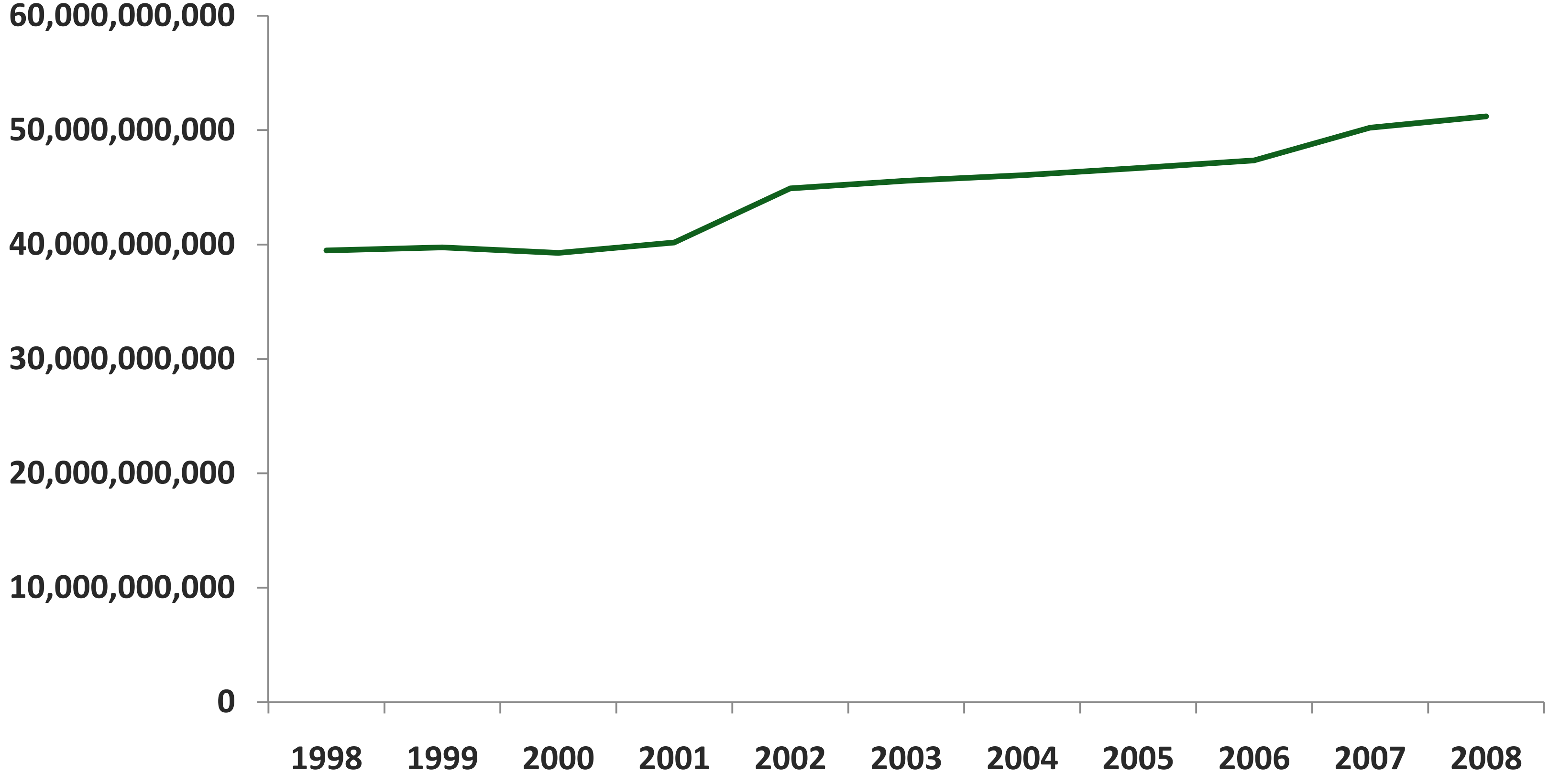
Sources: Census Bureau and Bureau of Economic Analysis (GDP price index)

But federally funded programs grew:
Food Stamp/SNAP benefits (inflation-adjusted dollars)



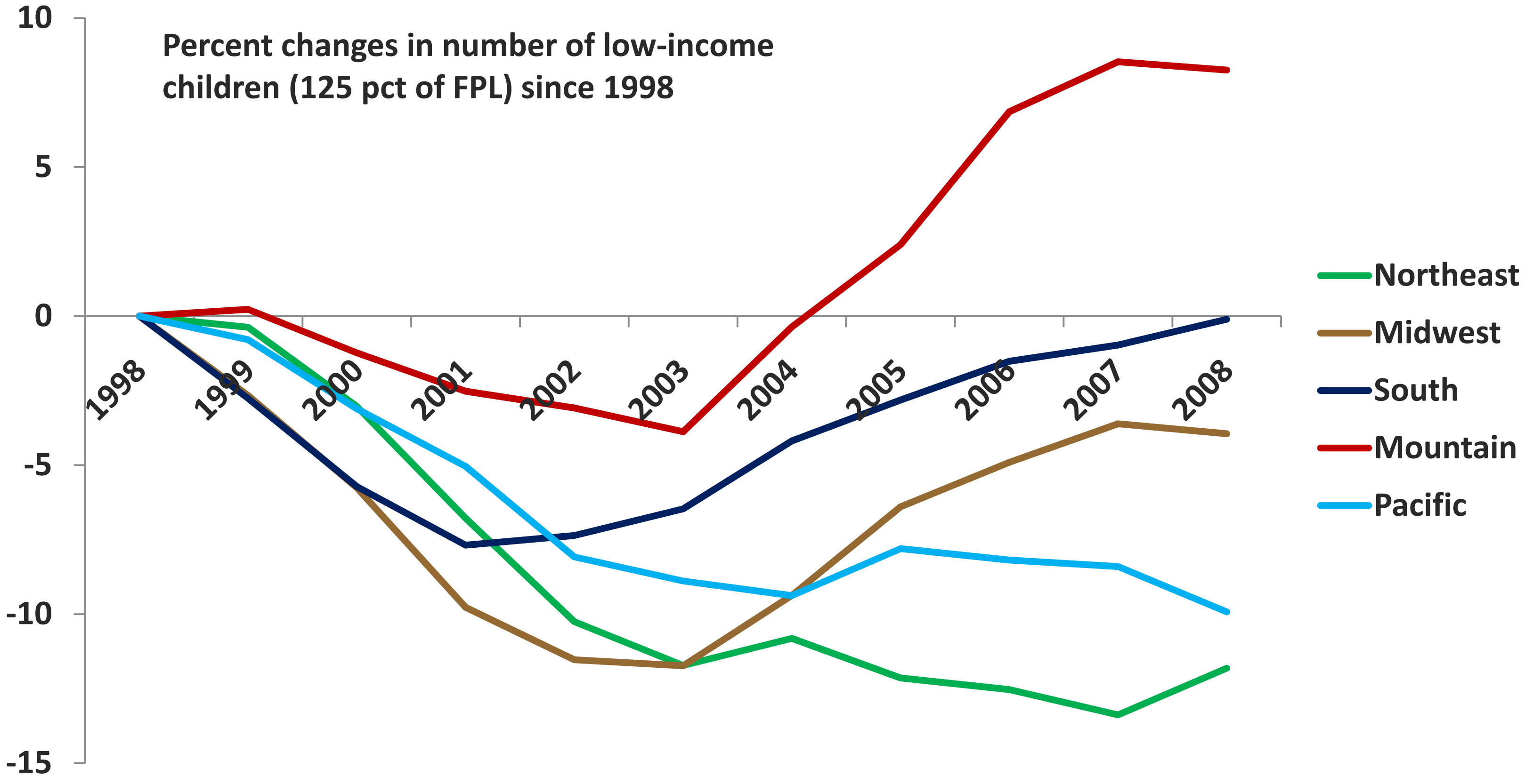
Sources: U.S. Department of Agriculture and BEA (GDP)

Federal earned income tax credits also increased, though more slowly (inflation-adjusted dollars)



Sources: U.S. Department of Treasury and BEA (GDP)

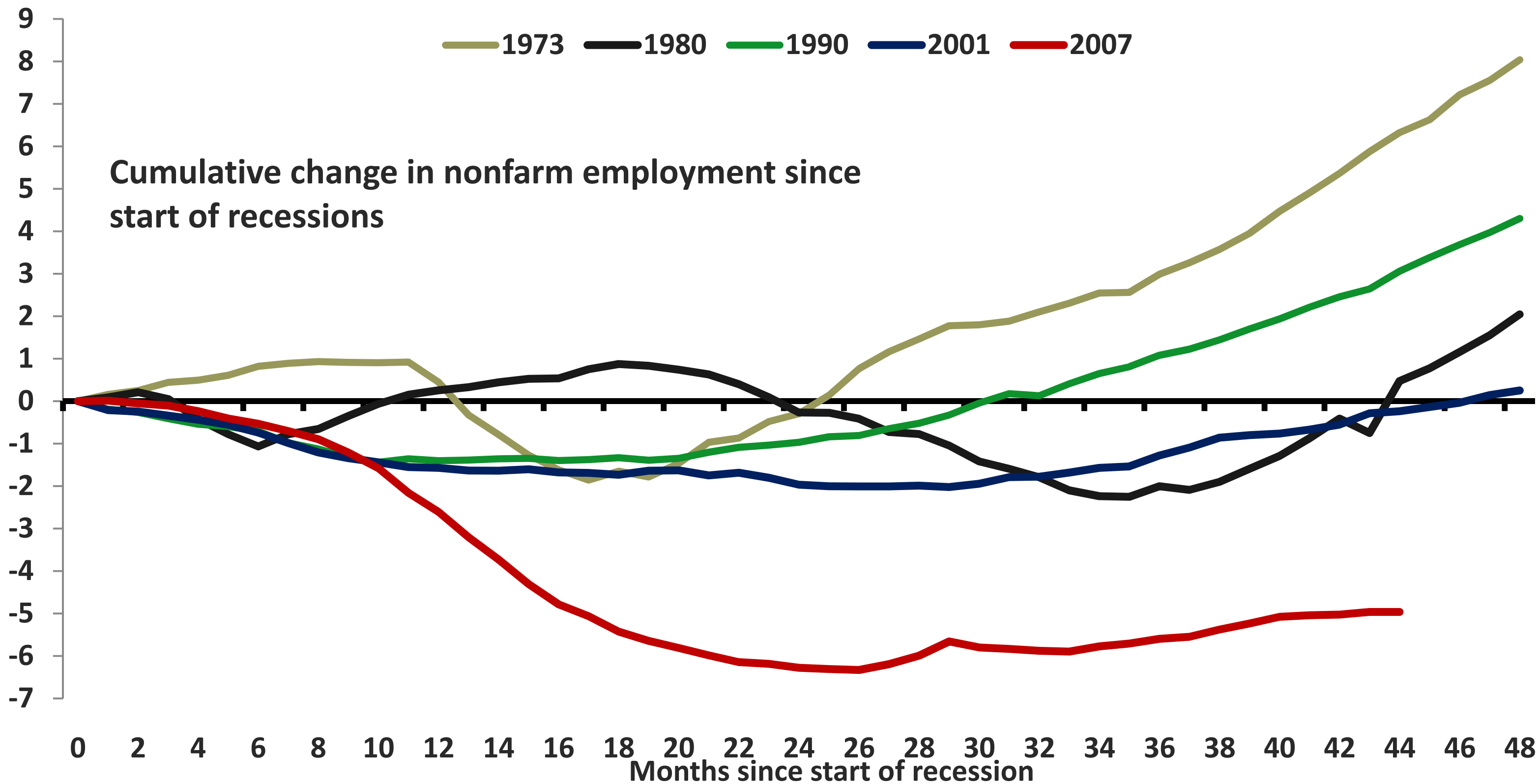
Federalization of safety net became more important in relieving poverty in U.S., as more low-income children live in states with smaller social safety nets



Sources: Census Bureau.

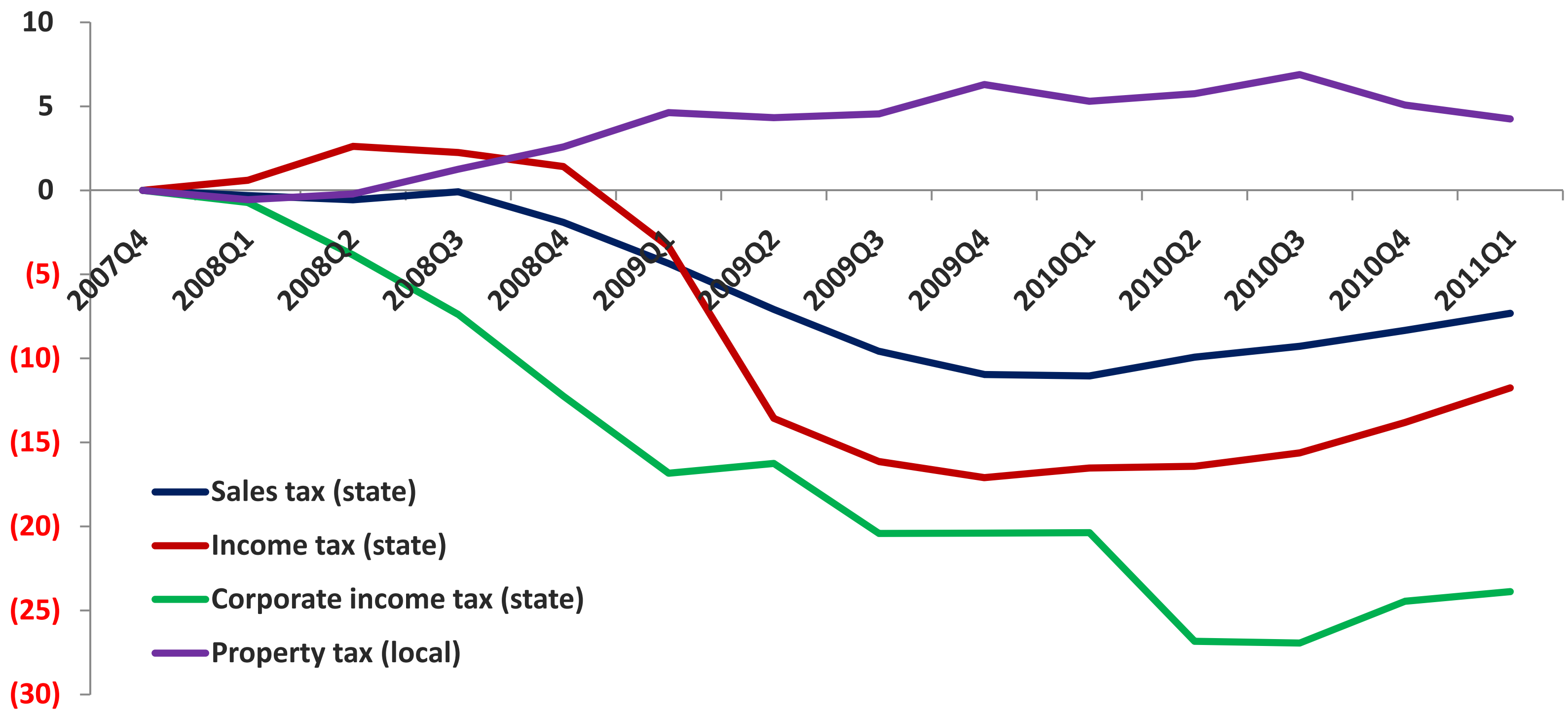
II. The Great Recession

Severe, sustained drop in jobs compared to prior recessions



Source: Bureau of Labor Statistics (CES).

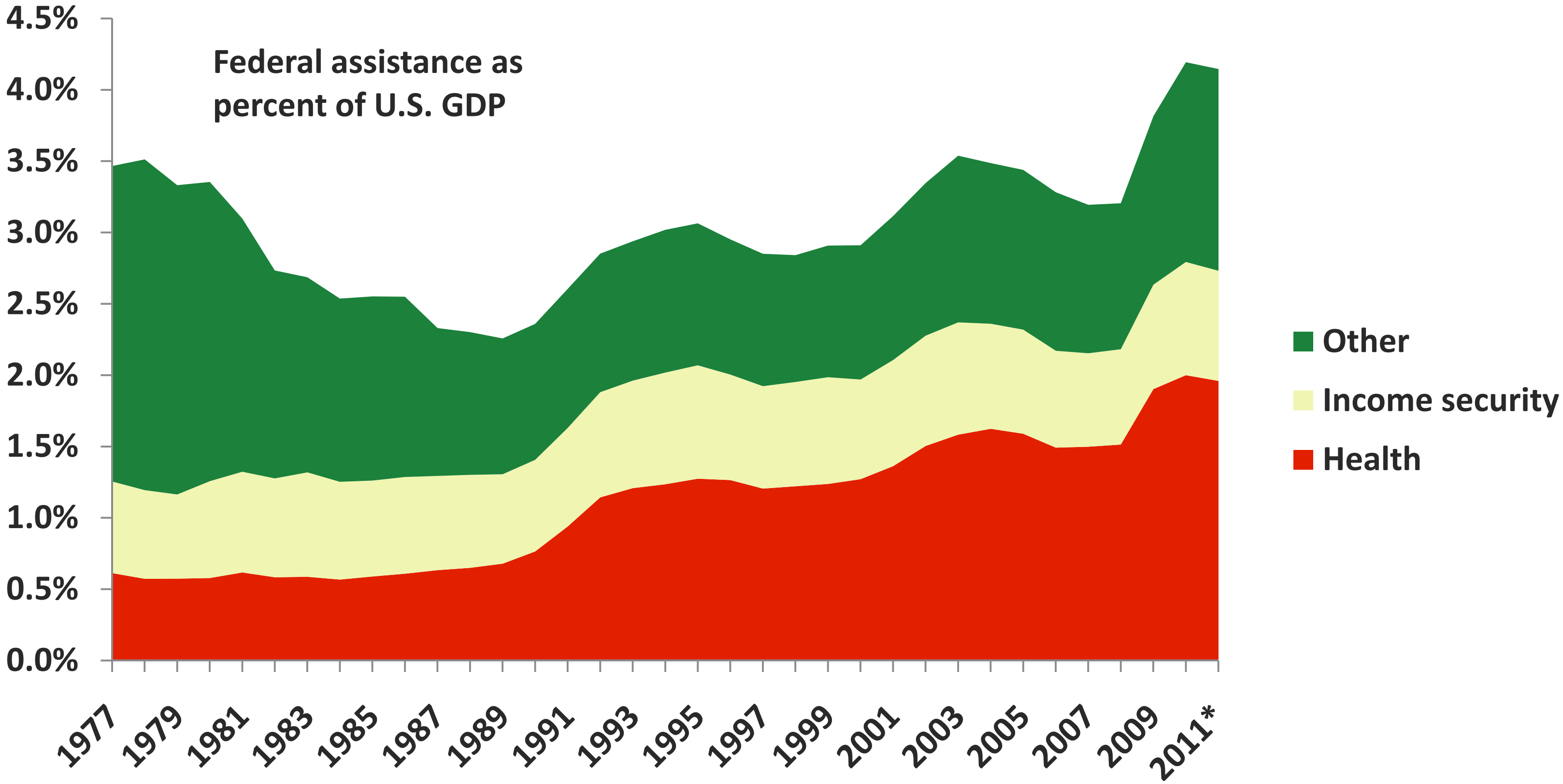
State/local resources to meet needs also fell: tax revenues remain lower than pre-recession levels (cumulative percent changes, inflation-adjusted dollars)



Note: Income, sales, and corporate taxes for state governments, property taxes for local governments

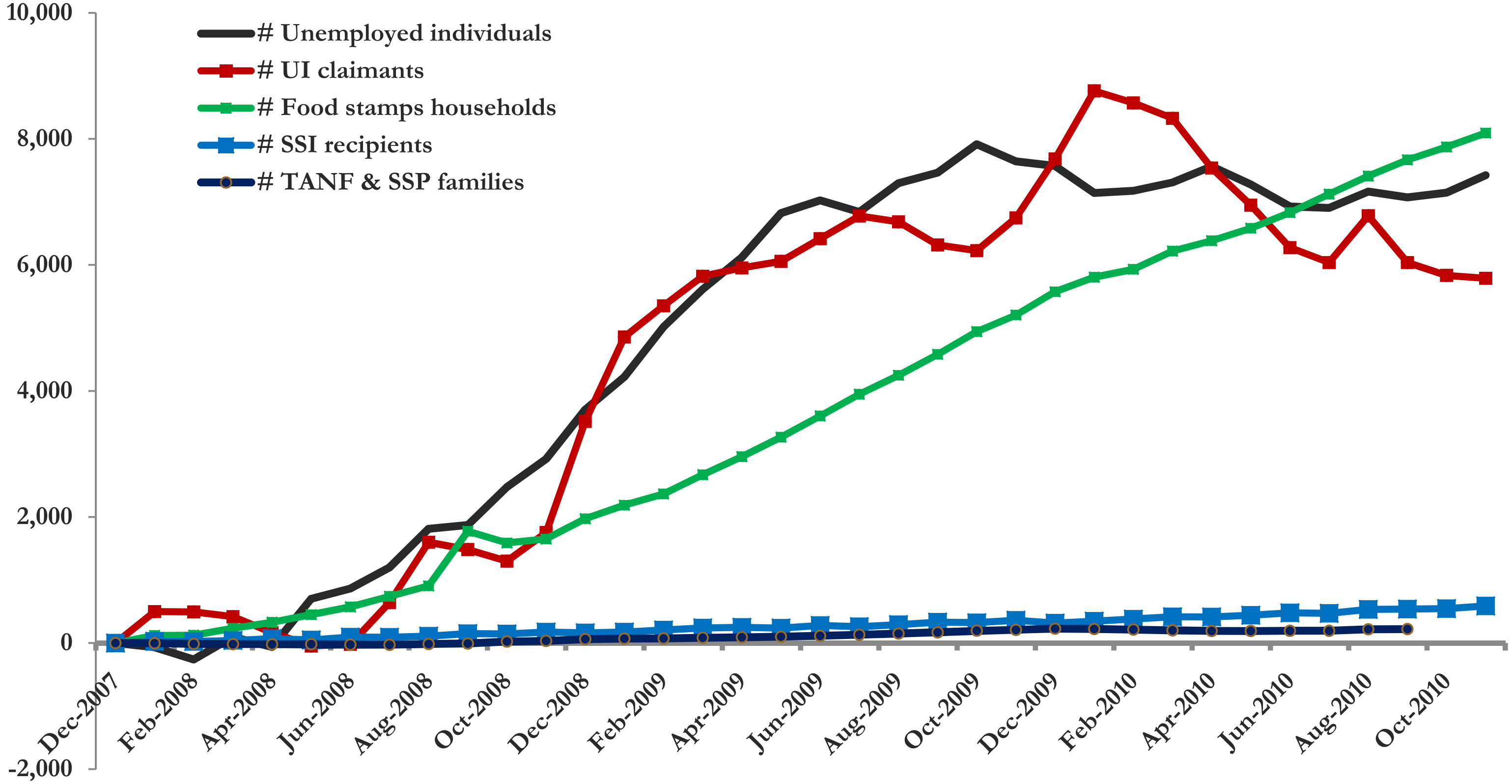
Sources: Census Bureau; Rockefeller Institute.

Federal assistance to state/local governments zoomed upwards under ARRA—by nearly 1 percent of GDP



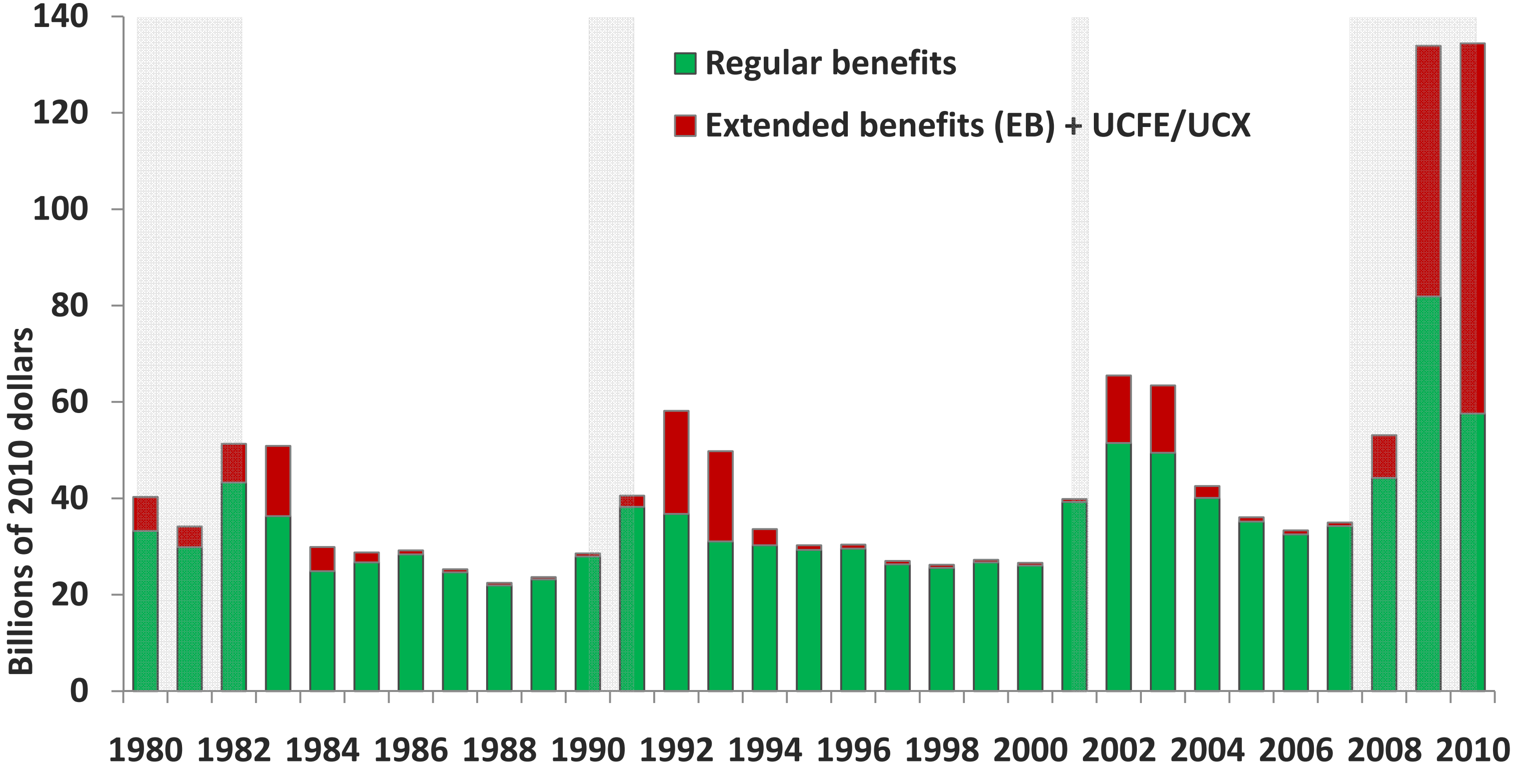
Source: U.S. Office of Management and Budget.

Changes in selected program enrollments since start of recession (Dec 2007), in thousands of persons



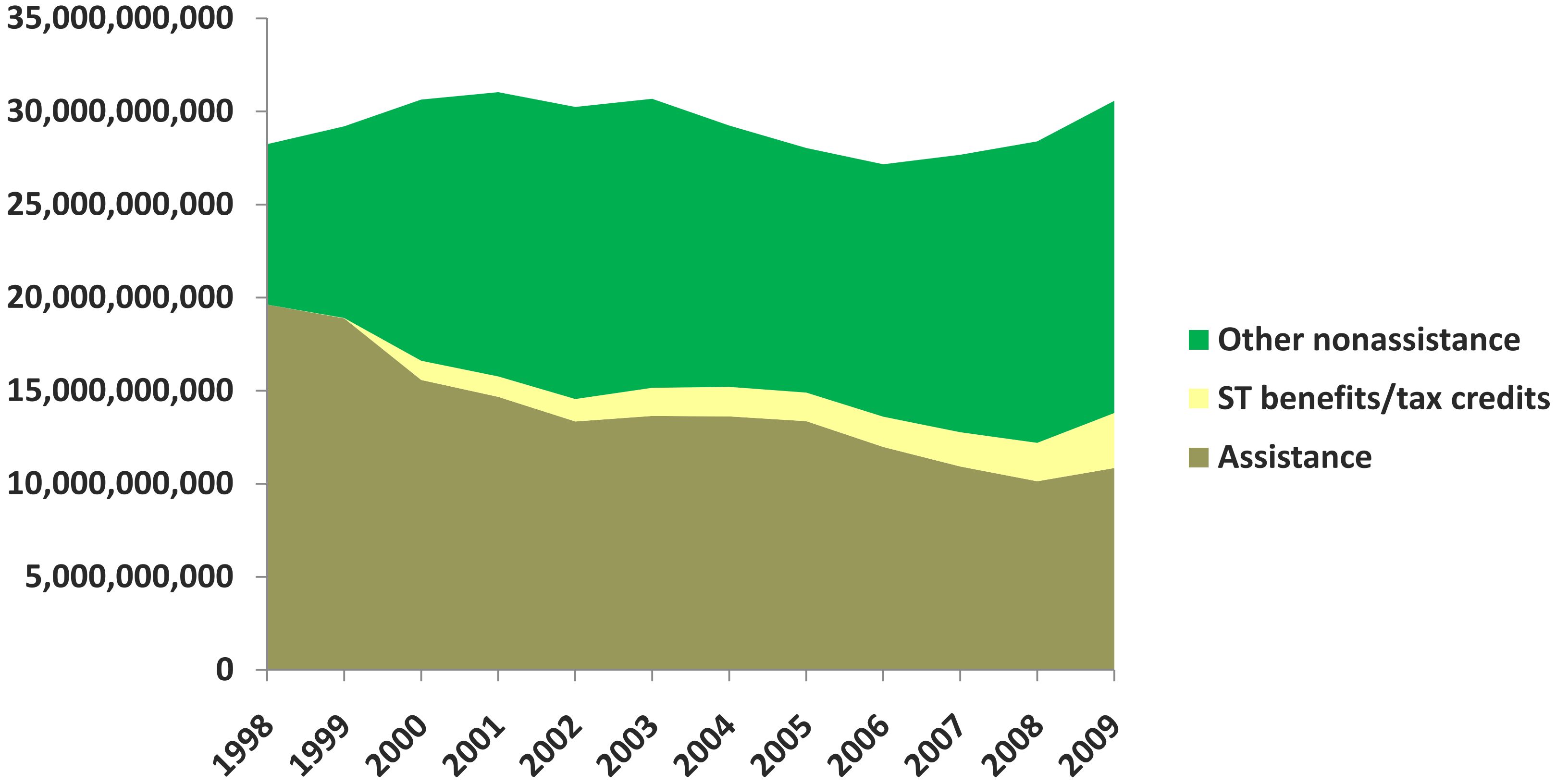
Sources: Bureau of Labor Statistics (Unemployed individuals), Department of Labor (UI claimants), Department of Agriculture (Food stamps), Social Security Administration (SSI recipients), Department of Health & Human Services(TANF & SSP families.)

Expansion of UI with federal as well as state support



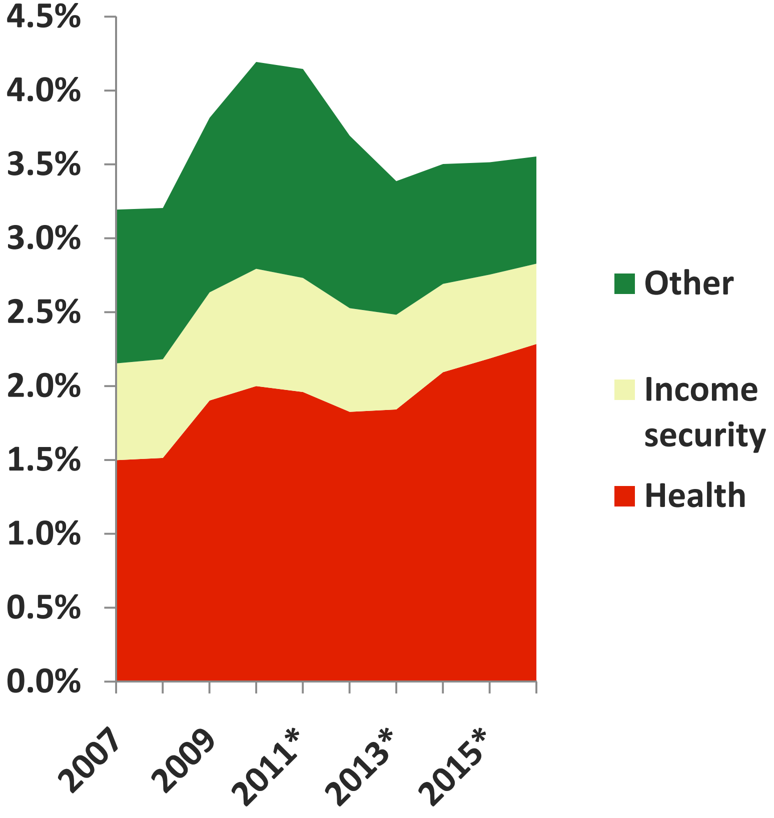
Sources: U.S. Department of Labor; BEA (GDP price index).

Shift toward cash benefits in TANF/MOE/SSP spending (inflation-adjusted)—but not much



Source: U.S. Department of Health and Human Services.

III. Post-recession
The big drop and shift in federal assistance: ARRA phases out, Medicaid expands



ARRA phase outs

UI extended benefits (Dec 2011)

SNAP benefit increase (Nov 2013; benefit increase already trimmed)

Enhanced FMAP for Medicaid, child welfare (Dec 2010; was extended through June 2011 at lower level)

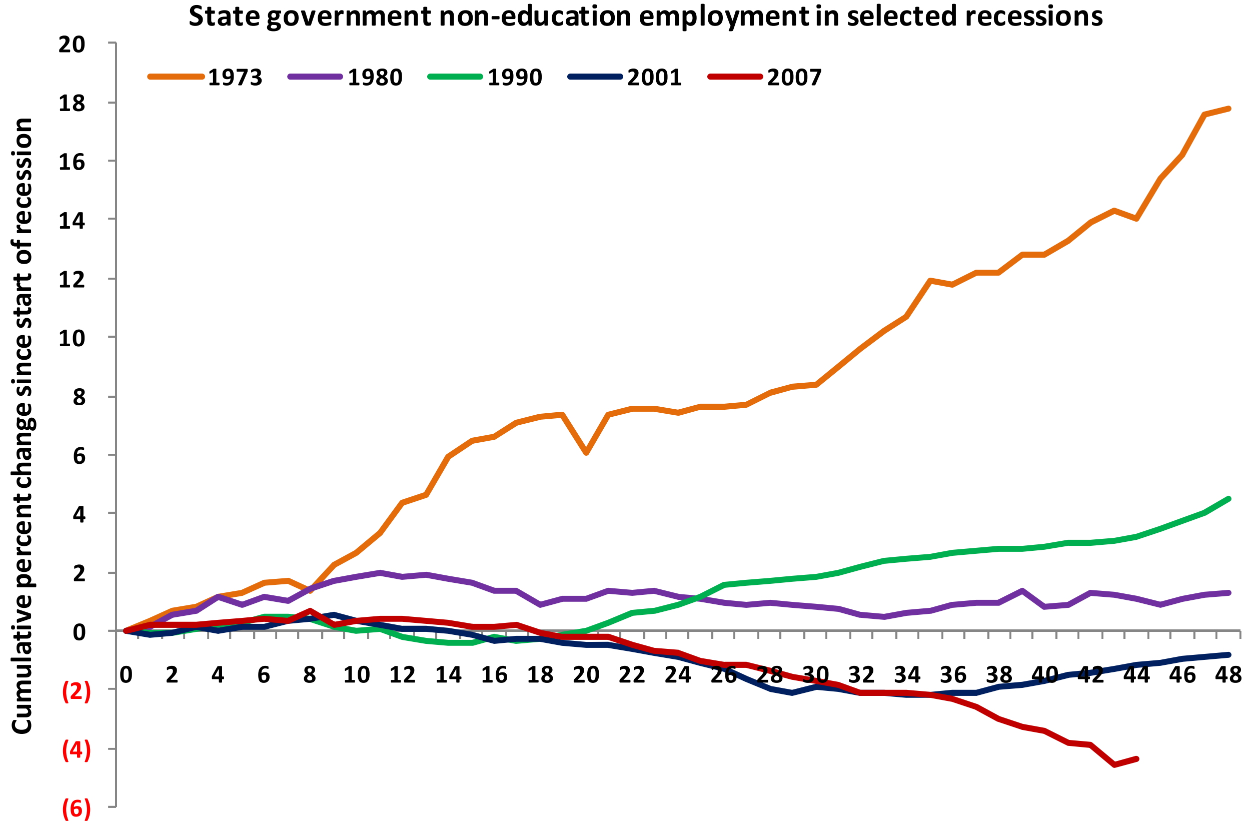
TANF ECF (Sept 2010)

Homelessness prevention (Sept 2011)

Weatherization (much unspent; cut)

Sources: U.S. OMB; various sources for phase outs.

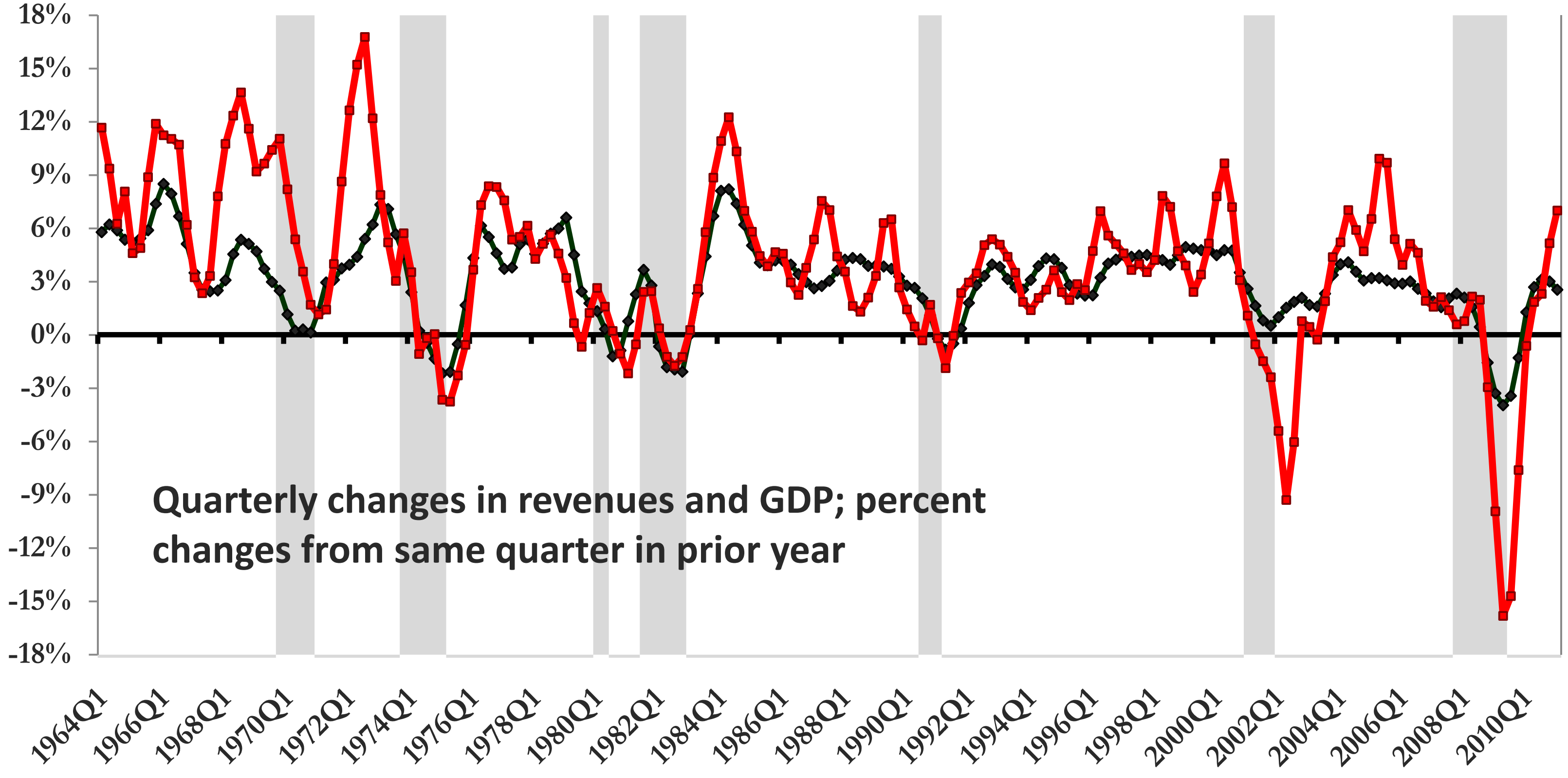
Losses in state workforce (percent change in state workforces in months after start of recession) in last two recessions—effects on administrative style?



Source: U.S. Bureau of Labor Statistics (CES, seasonally adjusted).

Growing volatility in state tax revenues—challenges for state fiscal management of safety net

(Red = state taxes; green = GDP; shading = recessions)



What will the "supercommittee" do? For clues, how have other deficit-cutting plans treated the safety net?

(Pink = vulnerable to major cuts; white = constrained or not targeted; blue = possible increase in spending)

	Rivlin-Domenici	Bowles-Simpson	Ryan
Entitlements (e.g., SNAP, SSI, TANF*)	Cannot be expanded without offsets; and subject to long-term budget targets	Not directly targeted.	Subject to aggressive effort to reduce deficits by $5.8 trillion relative to current-policy baseline within next decade
EITC/refundable CTC	Replaces EITC & CTC with child credit + earnings credit, provided via adjustments in withholding	EITC and CTC retained (though many other tax credits/deductions are eliminated)	Simplifies tax code and lowers rates; EITC and refundable CTC are not exempt from changes or elimination
Discretionary programs (e.g., housing, child care)	Subject to automatic PAYGO sequester mechanism (if revenues decline or mandatory spending is increased)	Cut and cap discretionary spending to 2008 levels by 2013; after that, cap spending growth to half of the rate of inflation	Same as entitlements; also, subject to goal of returning non-defense discretionary spending to below 2008 levels.

*TANF is not an entitlement but is treated as one for budgetary purposes by U.S. OMB.

Summary

- Rapid and large increase in federal funding of safety net through ARRA was unprecedented—perhaps critical in reducing poverty during recession
- Accelerated prior trend toward federalization of safety net and its funding
- Discretionary programs may be under pressure in nearly all future scenarios, while tax credits may be less vulnerable—most vulnerable are services that depend in part on state funding
- State-funded services are also increasingly exposed to large cyclical budget squeezes—and may thus be even less able to meet economic needs in recessions
- Movement toward administrative "light touch" as state/local bureaucracies are downsized—e.g., greater reliance on tax system, and perhaps less case management?
- U.S. may have entered ***post-devolution era***, though states remain important in linking people to federal benefits

THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT

Rockefeller Institute

The Public Policy Institute of the State University of New York

411 State Street
Albany, NY 12203-1003
www.rockinst.org

Thomas L. Gais
Director
gaist@rockinst.org
(518) 443-5831