An Assessment of the Effectiveness of Anti-Poverty Programs in the United States

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ABSTRACT

We assess the effectiveness of means-tested and social insurance programs in the United States. We show that per capita expenditures on these programs as a whole have grown over time but expenditures on some programs have declined. The benefit system in the U.S. has a major impact on poverty rates, reducing the percent poor in 2004 from 29 percent to 13.5 percent, estimates which are robust to different measures of the poverty line. We find that, while there are significant behavioral side effects of many programs, their aggregate impact is very small and does not affect the magnitude of the aggregate poverty impact of the system. The system reduces poverty the most for the disabled and the elderly and least for several groups among the non-elderly and non-disabled. Over time, we find that expenditures have shifted toward the disabled and the elderly, and away from those with the lowest incomes and toward those with higher incomes, with the consequence that post-transfer rates of deep poverty for some groups have increased. We conclude that the U.S. benefit system is paternalistic and tilted toward the support of the employed and toward groups with special needs and perceived deservingness.

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Section 1: The U.S. Benefit System

We summarize the main features of each of the leading means-tested and social insurance programs in the U.S. More detailed summaries can be found in government documents and in scholarly publications (Krueger and Meyer, 2002; Moffitt, 2003a; U.S. Social Security Administration, 2010).

Means-Tested Programs

Social Insurance Programs

Expenditures, Recipients, and Benefits

Table 1 shows the expenditures, recipients, and monthly expenditures per recipient in the major U.S. benefit programs in 2007 (federal and state combined).[3] Among the means-tested programs, expenditures in the Medicaid program dominate the list. The SSI, EITC, and housing programs are clustered in the $40 to $50 billion range. Below them are the SNAP, TANF, and other programs, in decreasing order. Medicaid also has the largest number of recipients, though the relationship between expenditures and recipients differs across programs. School food programs, for example, have almost as many recipients (40 million) as Medicaid but have much smaller expenditure per recipient (last column of the table). The EITC and SNAP also have large caseloads, in the 25 million range, but also provide low expenditure per recipient. The relatively large expenditure in the housing programs is a result of large expenditures per recipient combined with a small caseload. The cash programs which are supposed to cover all consumption needs—SSI and TANF—have relatively high expenditure per recipient, as should be expected, but the caseloads are smaller than those in many of the other programs, and the TANF program is much smaller than SSI.

[3] For prior studies of trends in transfer program expenditure, see Burtless (1986, 1994), Scholz and Levine (2002), and Moffitt (2003a).

Table 1: Annual Expenditures and Caseloads in Social Insurance and Means-tested Programs, FY 2007

	Type of Transfer	Demographic Groups Covered	Expenditures (constant 2007 dollars, millions)[1]	Caseloads[2] (thousands)	Monthly Expenditures per Recipient[3]
Means Tested Programs					
Medicaid	In-Kind	Families with dependent children, disabled, elderly	328,875	56,821	482
SSI	Cash	Aged, blind, and disabled individuals and families	41,205	7,360	467
AFDC/TANF	Cash	Mostly single mother families	11,624	4,138	234
EITC	Cash	Individuals with positive earnings	48,540	24,584	165
SNAP	In-Kind	All individuals and families	30,373	26,316	96
Housing Aid	In-Kind	All individuals and families	39,436	5,087	646
School Food Programs	In-Kind	Children in school	10,916	40,720	22
WIC	In-Kind	Mother, infants, and children at nutritional risk	5,409	8,285	54
Head Start	In-Kind	All children	6,889	908	632
Social Insurance Programs					
OASI	Cash	Elderly 62 and over	485,881	40,945	989
Medicare	In-Kind	Elderly 65 and over and some SSDI recipients	432,169	44,010	818
UI	Cash	Unemployed individuals with sufficient earnings and employment histories	32,454	7,642	354
WC	Cash	Disabled invididuals with qualifying work histories	55,217	NA[4]	NA[4]
DI	Cash	Disabled individuals with qualifying work histories	99,086	8,920	926

[1]Expenditures include benefits and some non-benefit costs for Medicaid, AFDC/TANF, Housing, School Food Programs, WIC, Head Start, Medicare, and UI. For all other programs, expenditures are for benefits only.

[2]Caseload is unduplicated number of individual recipients, apart from the following programs:

AFDC/TANF: Average monthly number of recipients.

EITC: Total number of recipient families.

SNAP: Average monthly number of recipients.

Housing Aid: Total number of households receiving direct housing assistance (unduplicated for renters recieiving more than one subsidy).

School Food Programs: Average monthly number of breakfast and lunch recipients, based on 9-month average (includes duplicates and full price meals).

[3] Expenditures divided by 12 divided by caseloads

[4]NA = not available

Sources: available upon request from the authors.

The top line in Figure 1 provides a historical perspective on spending per capita since 1970, including the programs listed in Table 1. Expenditures rose over the entire period, including the last decade when many popular commentators have suggested that the U.S. has gone through a period of retrenchment. The figures for total social insurance and total means-tested programs show that the former have always been larger in magnitude but that both have risen over time. When aggregate spending growth is compared to growth in GDP (not shown), we find that spending grew faster than GDP through the early 1990s but grew at approximately the same rat since that time (for the social insurance and means-tested components as well). Therefore, social welfare spending growth has slowed. In addition, as has been documented extensively elsewhere, the U.S. spends less of its national product on social welfare programs than other developed countries. For example, in 2005 the U.S. expenditure relative to GDP was only 75 percent of the OECD 30-country average (Adema and Ladaique, 2009).

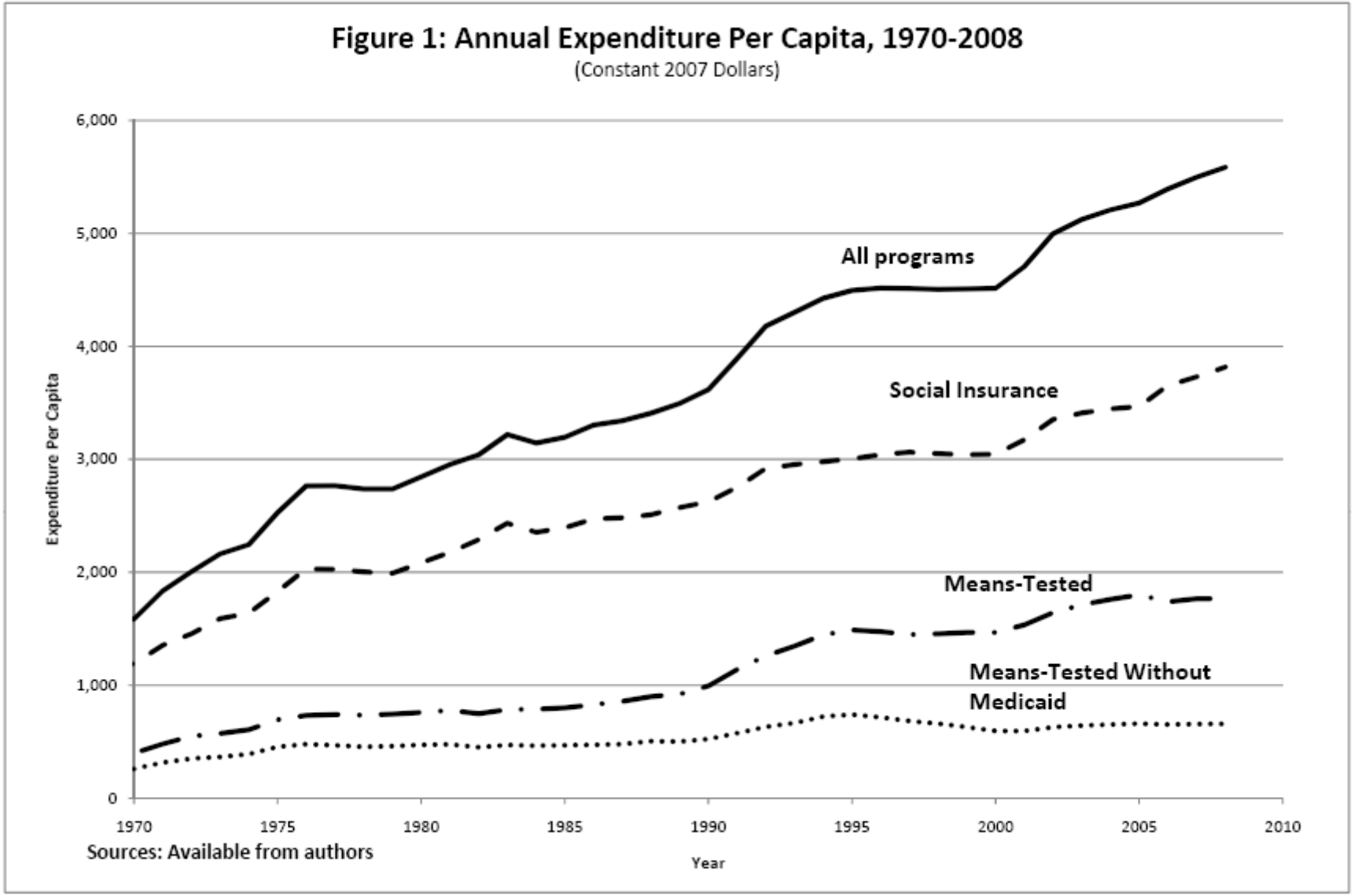
Figure 1: Annual Expenditure Per Capita, 1970-2008
(Constant 2007 Dollars)
6,000
5,000
4,000
3,000
2,000
1,000
0
Expenditure Per Capita
All programs
Social Insurance
Means-Tested
Means-Tested Without Medicaid
1970
1975
1980
1985
1990
1995
2000
2005
2010
Year
Sources: Available from authors

Among means-tested transfers programs, the Medicaid program grew much faster than the others. Although it is not visually obvious from Figure 1, per capita expenditures on means-tested transfers other than Medicaid also grew dramatically over the long run, almost tripling between 1970 and 1995 ($260 to $740). However, this growth was concentrated in the 1970-1975 and 1990-1995 periods, and spending has been essentially stable since 1995. Figure 2 shows how these trends are reflected in the growth of individual programs. From 1970 to 1995, expenditure on the AFDC program was relatively flat but there were strong increases in expenditure on SSI, the EITC, housing, and Food Stamps. Expenditure growth in the SSI and EITC programs was particularly strong in the 1990-1995 period, both a result of expansions in program benefits and eligibility (Burkhauser and Daly, 2003; Hotz and Scholz, 2003). The stable average growth in total spending (excluding social insurance) after 1995 has been a result of offsetting dramatic declines in the TANF program—a result of major contractionary reforms in that period (Moffitt, 2003b; Blank, 2002)—and dramatic increases in SNAP spending, a result of programmatic reforms during that period (Klerman and Danielson, 2009). Spending in the other programs was stable. Medicaid grew continually over all periods, as a result of growth in the price of medical care, extensions of program eligibility, and other reforms resulting in caseload growth (Gruber, 2003).[4]

[4] Figures showing how these expenditure trends break down into trends in recipients per capita and expenditures per recipient are available upon request from the authors. See Moffitt and Scholz (2010) for a discussion of such a decomposition.

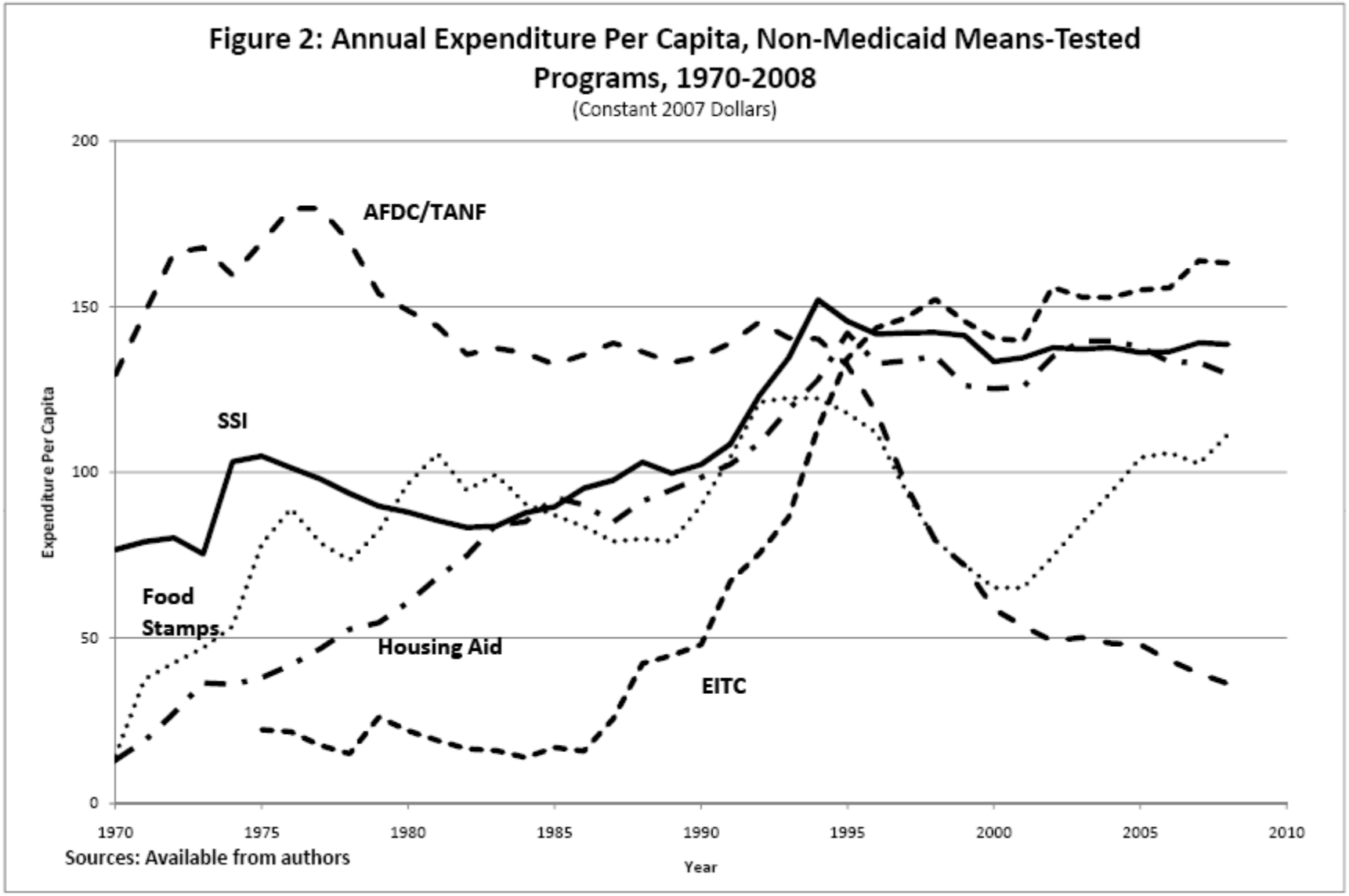
Figure 2: Annual Expenditure Per Capita, Non-Medicaid Means-Tested Programs, 1970-2008
(Constant 2007 Dollars)
AFDC/TANF
SSI
Food Stamps.
Housing Aid
EITC
Expenditure Per Capita
Year
200
150
100
50
0
1970
1975
1980
1985
1990
1995
2000
2005
2010
Sources: Available from authors

Figure 3 shows historical growth of expenditures in social insurance programs. The medical program for the elderly, Medicare, is responsible for the largest share of long term growth. The DI program has also grown strongly since 1990, a result of expansions in eligibility and other reforms (Krueger and Meyer, 2002).

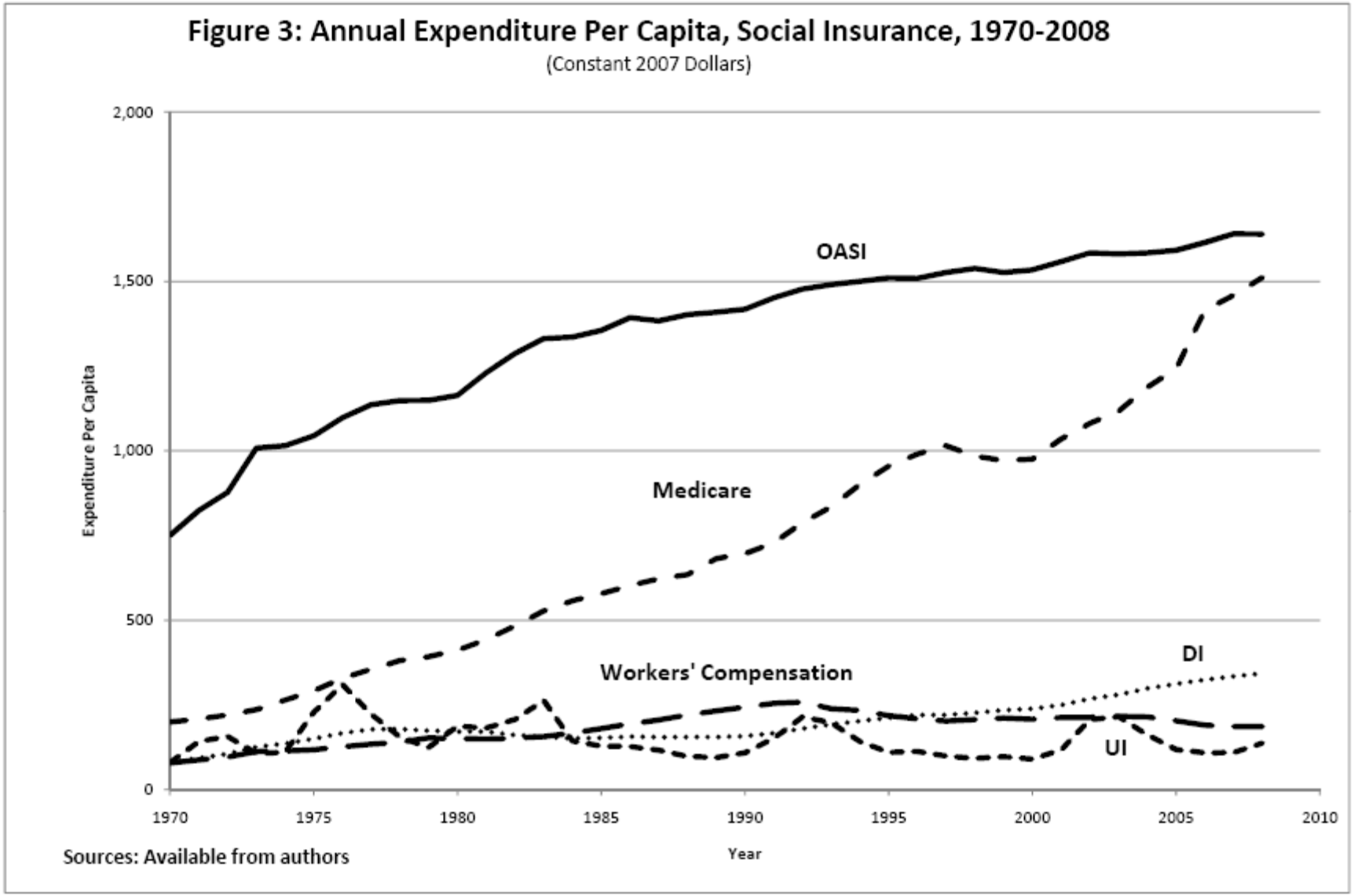
Figure 3: Annual Expenditure Per Capita, Social Insurance, 1970-2008
(Constant 2007 Dollars)
2,000
1,500
1,000
500
0
Expenditure Per Capita
OASI
Medicare
Workers' Compensation
DI
UI
1970
1975
1980
1985
1990
1995
2000
2005
2010
Year
Sources: Available from authors

The growth in overall social welfare spending in the U.S. may not accurately reflect the experience of all demographic groups since benefit growth rates and coverage vary across programs. Unfortunately, a time series of benefit receipt by demographic group is not available, but Scholz et al. (2009) computed figures from the nationally representative Survey of Income and Program Participation conducted in 1984, 1993, and 2004. As shown in Table 2, expenditures in 2004 were much greater for elderly and disabled than other families (see the footnote to the table for exact definitions of the groups). In contrast, expenditures on single parent families and the nonemployed fell. Expenditures on two parent families and the employed, while always smaller than for other groups, rose over time. Thus there has been a significant redistribution of expenditure despite the overall growth.[5]

[5] This table is an extension of Table 3 in Scholz et al., showing 1984 and 1993 results as well as more detail on benefit receipt. Several minor refinements were made in the tabulations as well.

Table 2: Average Monthly Expenditures per Family (excluding Medicare and Medicaid) for Different Family Types, 1984, 1993, and 2004 SIPP

	1984	1993	2004
Nonelderly, nondisabled			
Single-parent families	624	623	501
Two-parent families	199	224	322
Childless families and individuals	143	164	153
Employed families	130	156	210
Nonemployed families	693	718	544
Elderly families and individuals	1,177	1,304	1,324
Disabled families and individuals	1,247	1,305	1,445

Source: Authors' calculations from wave 1 of the 1984, 1993, and 2004 SIPP.

Notes: Elderly families and individuals are those families and unrelated individuals headed by an individual age 65 or older. Disabled families and individuals are those with anyone in the family who received SSI or DI, and this category has a small overlap with the disabled. The Nonelderly, nondisabled families and individuals are mutually exclusive from the Elderly and Disabled, however. Single-parent families are families with children under 18 in the household and with one parent present, while two-parent families are families with children under 18 in the household and two married parents present. Childless families and individuals are those without a child under 18 in the household, and include what Census definitions call unrelated individuals as well as families. Employed families are those with at least one person over 15 who worked in all four months prior to interview. Nonemployed families are those without any such person. The single-parent, two-parent, and childless groups overlap with the employed and nonemployed groups; they are not mutually exclusive.

Section 2: Impacts on Poverty

The effectiveness of anti-poverty programs depends, at least in part, on whether the programs do, in fact, reduce poverty or, more generally, raise the incomes of the low-income population. On one level, it is obvious that they must do so to some extent, since they provide positive benefits and hence they have to raise incomes holding everything else constant. However, the magnitudes of their effects are not so obvious. For example, social insurance programs are not targeted on the poor population per se and hence it is possible that most of their benefits go to non-poor families. In addition, many of the means-tested programs have income eligibility levels above the poverty line and some non-poor families therefore receive benefits. Even for benefits provided to those below the poverty line, an important question concerns their distributional impact and whether they affect primarily those at the very bottom of the income distribution or those just below the poverty line, for example. Another distributional question is whether the programs lower poverty disproportionately among some demographic groups, leaving others relatively underserved.

Poverty Impacts

In Table 3, we provide statistics on the pre- and post-transfer distribution of income and poverty making use of SIPP data.[7] The pre-transfer entries for 2004 show that 29 percent of U.S. families were below the poverty line before transfers.[8] The monthly poverty gap, defined as the aggregate dollar amount needed to raise all families below the poverty line up to the poverty line, was $28 billion in 2004. Twenty-one percent of families were below 50 percent of the poverty line—commonly called "deep poverty"—and almost 40 percent were below 150 percent of the poverty line, which includes what are sometimes called the "near poor" (those between 100 percent and 150 percent of the poverty line). The post-transfer columns in the second half of the table show the same poverty statistics after transfers are included in income, although Medicaid and Medicare are excluded because the data did not provide sufficient information on total medical expenses for each family and because these programs are far from being equivalent to cash.

[7] Table 3 is a modified and updated version of some of the elements of Table 1 in Scholz et al. (2009). It does not match that Table exactly because of several minor refinements. Pre-transfer income was defined as the sum of earnings and non-transfer nonlabor income minus income and payroll taxes. Federal and state income taxes were computed from the NBER TAXSIM program (Feenberg and Coutts, 1993) and payroll taxes were directly calculated using official tax rates. In the computation of income taxes, the EITC and the child tax credit were excluded since those credits were counted as transfers.

[8] The study used the poverty thresholds in the SIPP, which are very close to the official U.S. Bureau of the Census thresholds but differ slightly because the SIPP thresholds use month-to-month household composition.

The results indicate that the benefit system reduces the poverty rate to 13.5 percent, almost a 16 percentage point reduction, and reduces the poverty gap by about two–thirds. The benefit system reduces deep poverty by slightly less (15 percentage points) but also reduces the percent poor and near-poor combined by over 14 percentage points. Thus a high portion of transfers go to families above the poverty line. Overall, the benefit system clearly has a major impact on poor and near-poor families.

Table 3: Pre- and Post-Transfers Income Distributions (excluding Medicare and Medicaid), 1984, 1993, and 2004

	Pre-Transfer				Post-Transfer			
	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
2004	29.0	28,334	21.3	39.6	13.5	9,690	6.6	25.3
1993	30.3	25,303	20.8	43.7	13.1	6,530	4.5	29.4
1984	32.1	21,339	20.4	49.7	15.3	6,105	4.5	36.3

Source: Authors' calculations from the 1984, 1993, and 2004 SIPP (waves 1). Dollar amounts are in 2007 dollars, using the CPI-U.

The table also shows the impact of the system in 1984 and 1993 for comparison. Pre-transfer poverty has declined slightly but pre-transfer deep poverty increased somewhat, a result of growing family inequality in the U.S. and declines in real private income at the bottom of the distribution. The increase in deep poverty rates also appears after transfers are included and, in fact, the post-transfer increase from 1984 to 2004 is greater than the pre-transfer increase. This reflects the fact that the impact of the system on those in deep poverty has declined over time. The impact of the system on the poverty rate, for example, was higher in 1984 and 1993, and almost three-quarters of the poverty gap was eliminated instead of two thirds (a sign that the system in 2004 moved more families just below the poverty line to above it than previously). The percentage point reduction in deep poverty was also greater in the prior years, but the percentage point reduction of those below 150 percent of the poverty line is greater in 2004, a sign that relatively more funds are going to the near-poor rather than the poor (see below for more detail).[9]

[9] See Sherman (2009) for an analysis using the Current Population Survey which also shows a declining impact of the means-tested transfer system over time.

For the purposes of this chapter, we recomputed the Scholz et al. 2009 poverty statistics with these modifications, with the results shown in Table 4 (see Appendix A for details). The exclusion of additional expenses from income raises the pre-transfer poverty rate, as expected, from 29.0 percent to 33.8 percent. The use of the expenditure threshold raises it further to over 37 percent, a sign that the expenditure threshold is higher than the official government poverty threshold. Using a poverty measure that includes out-of-pocket medical expenses in the threshold instead of subtracting it from resources, an alternative suggested by the Census Bureau (Short, 2001; Garner and Short, 2008), has only a small effect, reducing poverty slightly. More notable is that the NAS measures imply that the benefit system has a slightly greater impact on those with the lowest incomes and a slightly lesser impact on those with the highest incomes (i.e., the near-poor).

For example, the Scholz et al. measure indicates a 14.7 percentage point reduction in deep poverty compared to a 16-to-17 percentage point reduction for the NAS measures; and the Scholz et al. measure indicates a 14.3 percentage-point reduction in the percentage below 150 percent of the poverty line compared to an 10-to-14 percentage point reduction for the NAS measures. The former difference likely arises because many of those with significant child care and work-related expenses had pre-transfer incomes between 50 percent and 100 percent of the poverty line according to the Scholz et al. measure, but are pulled down just below the 50 percent threshold after those expenses are deducted from income. Government benefits then push them out of deep poverty. Likewise, many of those with pre-transfer incomes above 150 percent of the poverty line according to the Scholz et al. measure are pulled below that threshold when child care and work-related expenses are deducted. They receive few, if any, government benefits and therefore their poverty status is largely unaffected by transfers.

Table 4: Pre- and Post-Transfers Income Distributions under Different Poverty Measures (excluding Medicare and Medicaid), 2004

	Pre-Transfer				Post-Transfer			
	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
2004 Scholz et al. Measure	29.0	28,334	21.3	39.6	13.5	9,690	6.6	25.3
2004 Scholz et al. Measure Minus NAS Expenses[a]	33.8	33,451	24.7	46.2	16.5	11,572	7.7	31.7
2004 NAS FCSU[b]	37.4	40,924	25.9	51.1	20.0	14,923	8.5	39.0
2004 NAS FCSUM[c]	37.2	43,134	24.8	51.9	21.0	16,248	8.4	41.3

Source: Authors' calculations from the 2004 SIPP (waves 1). Dollar amounts are in 2007 dollars, using the CPI-U.

[a]Childcare, work-related expenses, and medical out-of-pocket (MOOP) expenses subtracted from income.

[b]Poverty threshold based on out-of-pocket expenditures on Food, Shelter, Clothing, and Utilities (FCSU) (including repayment of mortgage principal for owned housing). Childcare, work-related, and MOOP expenses are subtracted from resources.

[c]Poverty threshold based on out-of-pocket expenditures on Food, Shelter, Clothing, Utilities, and MOOP (FCSUM) (including repayment of mortgage principal for owned housing). Childcare and work-related expenses are subtracted from resources.

Another issue explored by Scholz et al. was the poverty impact of different benefit programs, allowing a determination of which programs were most responsible for the reduction in poverty rates. As shown in Table 5, OASI, Medicaid, and Medicare have the largest impact at all poverty levels (pre-transfer levels are shown in Table 4, row 1).[11] The fact that two of these programs are less valuable than cash must temper this conclusion. In addition, these programs were not included in Table 3, so they are not responsible for the reduction in poverty shown there. The first column of Table 5 shows that OASI was the most important program, reducing the poverty rate from 29 percent to 21 percent, a full 8 percentage point reduction, more than half the reduction from 29 percent to 13.5 percent shown in Table 3. Other programs contributed modest amounts to the reduction in poverty: the DI program reduced the poverty rate by almost 2 percentage points and the EITC reduced it by about 1 percentage point, as did the UI program. Other programs contributed fractions of a percentage point. While these figures are small, they roughly add up to the total reduction shown in Table 3.[12]

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[11] The valuation of Medicaid is based on that of HMO plans and the valuation of Medicare is based on fee-for-service plans. See Scholz et al. (2009) and Moffitt and Scholz (2010) for details.

[12] There is some overlap in the recipiency groups of the programs, so the poverty reductions for each program alone should not be expected to add up exactly to the aggregate reduction.

Table 5: Effect of Transfers on Poverty based on Scholz et al. Poverty Measures, 2004 SIPP – All Families and Individuals

	Post-Transfer			
	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
Means-tested transfers				
Medicaid	25.2	18,992	14.7	35.3
SSI	28.6	25,962	19.5	39.3
TANF	28.9	27,617	21.0	39.6
EITC	28.1	27,479	20.9	38.6
Child tax credit	28.9	28,288	21.3	38.9
General Assistance	29.0	28,289	21.3	39.6
Other welfare	29.0	28,270	21.3	39.6
Foster child payments	29.0	28,328	21.3	39.6
Food stamps	28.6	26,590	20.8	39.4
Housing Assistance	28.4	26,340	19.7	39.3
WIC	28.9	28,123	21.3	39.5
Social Insurance				
Social Security (OASI)	21.0	20,129	13.8	32.3
Disability Insurance	27.2	24,824	18.5	38.4
Medicare	19.9	18,115	12.0	32.7
Unemployment Comp	28.1	26,417	20.2	39.0
Workers Comp	28.7	27,992	21.1	39.3
Veterans Benefits	28.6	27,821	20.9	39.3

Source: Authors' calculations from wave 1 of the 2004 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

While the impact of most individual programs on overall poverty is not large, they are often targeted on specific demographic groups and have more impact there. Table 6 shows the impact of the benefit system on some such groups. The system has the largest impacts on the disabled and elderly, whose poverty rates in 2004 were reduced by 53 and 46 percentage points, respectively. Those programs were particularly effective in reducing deep poverty and the poverty gap, reducing them almost to zero among these groups. The OASI, DI, and SSI programs are mostly responsible for these effects.[13] There were also significant reductions in poverty for single parent families, arising from TANF, Food Stamps, housing assistance, and the EITC. On the other hand, two-parent families and childless families and individuals, who have lower poverty rates to begin with and are generally not targeted by most programs, saw the smallest poverty reductions. Interestingly, however, the nonemployed had the highest pre-transfer poverty rates (over 80 percent) but benefits reduced their poverty rates by about 14 percentage points, close to the reduction for single-parent families. Consequently, the post-transfer poverty rate for the nonemployed was a very high 67 percent.

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[13] There are some important issues regarding comparisons of poverty measurement for the elderly vs the non-elderly, which we do not address. See Deaton and Paxson (1998).

Table 6: Effect of Transfers on Poverty based on Scholz et al. Poverty Measures, 2004 and 1984 SIPP – By Family Types

	Pre-Transfer				Post-Transfer			
	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
2004								
Nonelderly, nondisabled								
Single-parent families	36.9	3,580	25.3	53.4	21.9	1,642	11.8	36.8
Two-parent families	10.0	2,725	5.4	20.6	5.9	1,373	2.9	13.3
Childless families and individuals	19.5	7,615	13.6	29.2	16.3	5,558	10.1	26.0
Employed families	13.7	8,053	7.3	24.8	9.7	4,850	4.7	19.4
Nonemployed families	80.7	5,866	77.4	85.1	66.9	3,723	52.5	76.9
Elderly families and individuals	55.1	8,824	42.3	66.2	9.3	587	1.5	25.4
Disabled families and individuals	71.9	7,485	62.3	80.1	19.1	638	1.8	43.4
1984								
Nonelderly, nondisabled								
Single-parent families	58.5	3,689	38.2	82.3	33.3	1,033	7.9	71.1
Two-parent families	16.8	3,289	6.1	42.0	10.2	1,348	2.2	37.2
Childless families and individuals	20.3	4,341	10.9	34.6	16.2	2,933	7.3	30.2
Employed families	13.6	4,013	3.5	34.3	9.5	2,283	2.1	30.3
Nonemployed families	78.9	7,305	63.5	87.4	54.5	3,031	27.3	75.1
Elderly families and individuals	59.9	7,142	44.9	72.7	12.1	492	1.2	32.7
Disabled families and individuals	74.0	4,580	63.3	84.2	23.6	406	1.3	51.3

Source: Authors' calculations from wave 1 of the 2004 and 1984 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

Notes: Medicare and Medicaid excluded. For definitions of family types, see notes to Table 2.

The major difference in the impacts of the benefit system across demographic groups between 1984 and 2004 is that the system reduced poverty rates of single-parent families and the unemployed by much more in 1984. Poverty rates for the former group were reduced by over 25 percentage points in 1984 and those for the latter group were reduced by 24 percentage points. These results reflect a redistribution of expenditure across demographic groups, as we noted in Table 2 above. We can now, however, examine in more detail how expenditures vary across groups. Table 7 shows the distribution of expenditure per family by poverty level in 1984 and 2004 for the groups. For those in pre-transfer deep poverty, expenditures have fallen not only for single-parent families and the nonemployed, but also for two-parent families and the employed. Indeed, in 2004, families with pre-transfer incomes between half the poverty line and the poverty line received more transfers than those in deep poverty. Only elderly and disabled families in deep poverty have seen an increase in expenditure. In addition, all groups, even single parents and the nonemployed, have experienced increases in expenditure if their pre-transfer income put them between 50 percent and 100 percent, or between 100 percent and 150 percent, of the poverty line. In fact, the very largest increases occurred for the highest income groups. This shows clearly that there has been a double redistribution of expenditure in the U.S. over time: within groups, expenditure has been redistributed from the very poor to the less poor and near poor and, across groups, expenditure has been redistributed from the nonelderly, nondisabled to the elderly and disabled

Table 7: Average Monthly Expenditure per Family by Income Level and Family Type, 1984 and 2004 SIPP

Income Level	Under 50% of Poverty Line		50%-100% of Poverty Line		100% - 150% of Poverty Line	
Year	1984	2004	1984	2004	1984	2004
Nonelderly, nondisabled						
Single-parent families	1,231	766	448	832	192	563
Two-parent families	1,118	814	509	872	197	539
Childless families and individuals	346	300	260	291	189	197
Employed families	516	426	350	493	175	338
Nonemployed families	833	495	497	1,052	470	678
Elderly families and individuals	1,106	1,254	1,264	1,388	1,255	1,386
Disabled families and individuals	1,333	1,447	1,292	1,590	1,063	1,534

Source: Authors' calculations from wave 1 of the 2004 and 1984 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

Notes: Medicare and Medicaid excluded. For definitions of family types, see notes to Table 2.

Section 3: Behavioral Incentive Effects

As noted previously, estimates of the effect of a benefit program on poverty can be misleading if it generates significant behavioral effects that lead to changes in income. In that case, the income of a recipient family in the data is not the same as the income the family would have had in the absence of the program. In the language of causal analysis, what is needed is the counterfactual income that the family would have had if it had not received benefits. If that income could be determined, the difference between it and post-transfer income would be the correct measure of the impact of a program on income and therefore on poverty.

Work Effort

Reviews of that literature by Danziger et al. (1981) and Moffitt (1992) indicated that econometric estimates showed that recipients would work between 1 hour and 10 hours more per week if the program did not exist (recipients worked 9 hours per week on average, so this implies that they would work 10 to 19 hours per week in the absence of the program). The wide dispersion in estimates was a result of disagreements across studies, which is likely to have partly arisen because the exercise required extrapolating the effects of marginal variations in benefits down to zero. A possibly more accurate estimate comes from the negative income experiments of the 1970s which, though testing a somewhat different program, nevertheless provided direct estimates of the effect of introducing a new program de novo. Burtless (1987) not only provided a comprehensive review of the results of the experiments but he also used

them to estimate the income "leakage" in the program, which is the object of interest here. If the income of a recipient is written as $Y=E+B$, where E stands for earnings and B is the program benefit received, then the actual income change from the introduction of the program is $\Delta Y=\Delta E+\Delta B$, which is smaller than the $\Delta Y=\Delta B$ we have used in our poverty-impact calculations, if $\Delta E<0$. Burtless used the experimental estimates to calculate $\Delta Y/\Delta B$ for single mothers, which is the factor by which the observed difference in income should be reduced to arrive at the true increase in income. His maximum estimate was .80 for a program with a guarantee level much higher than that for the AFDC program.[20] In summary, the literature suggests that our estimates of poverty reduction for TANF recipients in the last section should be reduced.

[20] See Burtless (1987, p.44). He finds the estimates to be very sensitive to the simulation model used.

Other Outcomes

Simulations

Table 8 shows the pre-transfer poverty measures for the programs in question, to be compared to those in the pre-transfer columns of the first row of Table 3. The comparison indicates that behavioral effects have only a tiny effect on pre-transfer poverty and, a fortiori, on poverty impacts of the programs. However, the small size of these impacts is largely a result of the small recipiency rates for these programs in the entire U.S. population, for generally these rates are quite small and below 10 percent or even below 5 percent (the two exceptions are OASI and Medicare, for which 23 percent of all U.S. families are recipients). Consequently, while these calculations answer the question of how important behavioral impacts are to the aggregate poverty-reducing impact of the U.S. benefit system—basically, zero—it does not answer a different and also interesting question: how important are behavioral responses to the poverty-reducing impact of the system on the recipient population alone? Table 9 provides the answer to that question and shows larger impacts. For example, for the SSI program, while a no-behavioral-impact analysis would imply that the program reduces the poverty rate of its recipients from 80 percent to 72 percent, we estimate that the true reduction would be from 79 percent to 72 percent since the pre-transfer poverty rate of SSI recipients would be 1 percentage point lower in the absence of the program. Thus, the poverty-reducing impact of the program is about seven-eighths of what it might otherwise have been thought to be.

Table 8: Pre-Transfer Poverty Measures After Adjustment for Work Disincentives, 2004 SIPP

	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
Means-tested transfers				
SSI	28.91	27,758	21.18	39.52
TANF	28.99	28,199	21.29	39.60
Housing Assistance	28.73	28,014	21.06	39.35
Social Insurance				
Social Security (OASI)	28.88	28,223	21.22	39.46
Disability Insurance	28.84	27,464	21.13	39.48
Medicare	28.95	28,293	21.28	39.55
Unemployment Comp	28.96	27,982	21.22	39.60
Workers Comp	28.98	28,252	21.30	39.61

Source: Authors' calculations from wave 1 of the 2004 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

Table 9: Pre-Transfer and Post-Transfer Poverty Measures with and without Work Disincentive Adjustment, Recipients Only, 2004 SIPP

	Pre-Transfer (No Behavioral Changes)				Pre-Transfer (Simulation of Behavioral Changes)				Post-Transfer			
	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line	Percent Poor (below the Poverty Line)	Poverty Gap ($ million)	Percent of Families under 50% of the Poverty Line	Percent of Families under 150% of the Poverty Line
Means-tested transfers												
SSI	80.2	5,314	73.0	87.0	78.6	4,738	70.5	85.4	72.2	2,943	39.2	81.0
TANF	81.1	2,148	66.4	90.9	80.6	2,012	64.8	90.5	74.1	1,431	48.9	87.9
Housing Assistance	80.9	3,464	67.7	91.2	74.2	3,143	61.1	84.5	66.0	1,470	25.5	82.9
Social Insurance												
Social Security (OASI)	49.2	9,352	36.8	61.1	48.6	9,241	36.4	60.4	12.5	1,147	2.4	27.6
Disability Insurance	70.5	4,828	60.0	78.7	67.8	3,958	56.9	76.6	40.7	1,318	12.8	59.2
Medicare	54.2	10,978	41.6	65.3	54.0	10,936	41.5	65.0	14.0	757	0.4	34.7
Unemployment Comp	53.1	4,012	35.2	69.1	52.6	3,660	33.8	68.9	40.1	2,095	17.6	59.1
Workers Comp	53.9	353	42.3	64.3	51.5	270	40.1	63.7	4.6	10	0.7	12.1

Source: Authors' calculations from wave 1 of the 2004 SIPP. Dollar amounts are in 2007 dollars, using the CPI-U.

The estimates for the other programs in the table usually show smaller impacts than for SSI. The poverty-reducing impact of the TANF program is very little affected by behavioral response.[28] Further, while the five social insurance programs increase pre-transfer poverty by as much as 2 or 3 percentage points, this increase is trivial relative to the impact of the programs on post-transfer poverty. This is a reflection of the generally low employment rates of the populations served by these programs even in the programs' absence. The program with the largest relative behavioral impact is housing, where the estimate of the true impact of the program on the poverty rate is about half what the no-behavioral-effect estimates imply. The housing programs have a large number of working recipients, whose earnings effects are estimated by Jacob and Ludwig (forthcoming) to be non-trivial.

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[28] It is unclear whether this small impact is consistent with the impact of 1996 welfare reform on poverty. That reform did force many women off TANF altogether. While the experimental evidence suggests that the types of reforms actually enacted had little effect on poverty, the nonexperimental evidence indicates a larger effect (Grogger and Karoly, 2005, Chapter 7). One possible difference is that the reform may have pushed off the rolls those recipients with greater earnings capability, whereas our estimates are intended to pertain to the entire caseload, which should be expected to include women with lower potential incomes off welfare.

The other columns of the table shed further light on the influence of behavioral effects. They show that the influence of behavioral effects is much less for those in deep poverty and much more for those in near-poverty, especially for the means-tested programs. Taking into account behavioral response has only a small influence on the impact of those programs on deep poverty even for housing programs, where the impact on deep poverty is 84 percent of the no-behavioral-effect estimates. These results arise from the relatively low earnings and employment rates of the very poor population, even in the absence of the programs. On the other hand, the relatively high earnings and employment rates of those higher up in the income distribution result in greater behavioral effects. While the impact is still modest in size for the SSI and TANF programs, the impact of housing programs on the percent of recipient families below 150 percent of the poverty line is only about one-fifth of the no-behavioral-effect estimate.

Section 4: Summary and Conclusions

Our review of the impact of the U.S. benefit system on poverty has revealed several important facts. First, the combination of the means-tested and social insurance transfers in the system have a major impact on poverty, reducing deep poverty, poverty, and near-poverty rates by about 14 percentage points in the U.S. population as a whole in 2004. Second, this impact is only negligibly affected by work incentives which, in the aggregate, have almost no effect on the pre-transfer rates of poverty in the population as a whole. Third, the impact is still important when improved measures of the poverty line, such as those suggested by the National Academy of Sciences, are used. While overall rates of poverty are considerably higher when using those measures than when using others we examine, the amount by which poverty is reduced is approximately the same, save for a slightly greater reduction of deep poverty for the NAS measure.

When we examine the source of this poverty-reducing impact of the system, however, we find that the largest impact arises from the OASI program. The elderly had pre-transfer poverty rates of 55 percent in 2004. OASI reduces poverty dramatically and reduces deep poverty and the poverty gap among the elderly almost to zero. The DI program also has a major impact through its effect on reducing high deep poverty rates almost to zero among the disabled. The SSI, TANF, Food Stamp, EITC, and housing assistance programs all have significant, though smaller, impacts as well. Their effects are often targeted on specific groups; for example, poverty rates among single-parent families are significantly reduced by the system.

We find that the demographic group which is most underserved by the system are non-elderly, non-disabled families with no continuously-employed members. While such families are eligible for some means-transfers such as TANF, Food Stamps, and housing (although recipiency rates often low), they are generally ineligible for other benefits if they are childless and, obviously, they are ineligible for the significant benefits from the EITC. Their poverty rates are over 80 percent before transfers and 67 percent after transfers, by far the highest of any of the demographic groups we examine.

When we examine trends in the benefit system over the twenty years prior to 2004, we find that the overall contours of the system are unchanged and that the benefit system has continued to have a large impact on poverty. However, we also find major shifts in the distribution of transfers within and across demographic groups. Within single-parent and two-parent families, as well as those with nonemployed members, we find a notable shift in transfers away from those in deep poverty toward those at higher income levels, both below and above poverty. These trends reflect primarily the rise of the EITC and decline of AFDC/TANF and Food Stamps for the very poor, which is a regressive combination. We find that the post-transfer deep poverty rates for these groups have actually risen over time as a result. Across groups, we find a notable shift in expenditures toward the elderly and disabled and away from other groups. These expenditure shifts are reflected in our calculations of program poverty impacts. In 1984, programs reduced poverty much more among single parent families and the nonemployed than they did in 2004. Programs in 2004 have larger effects on the higher income groups than they did in 1984.

We note several characteristics of the U.S. benefit system which other studies have similarly noted. First, the U.S. system favors groups with special needs, such as the disabled and the elderly. Groups like these which are perceived as especially deserving receive disproportionate transfers and those transfers have been increasing over time. Second, the system favors workers over nonworkers and has increasingly done so over time. The rise of the EITC and the decline of AFDC/TANF is most illustrative of this trend. Third, the system has a preference for in-kind transfers for food, medical care, and housing over pure cash transfers. This preference has increased over time. Aside from the TANF program, which has shrunk though it still has an impact on single-parent families, all other cash programs in the U.S. have a specially favored group (the disabled, workers, etc.) as their recipients.

The result of these preferences is that the U.S. system differs dramatically from the universalist ideal envisioned by promoters of the negative income tax and others proposing similar systems. This ideal would provide cash benefits only on the basis of income and not on the basis of any other characteristic, and would therefore serve all poor families in similar economic circumstances equally. It would provide for all their consumption needs, not just a subset of them.[29] Instead, the U.S. public appears to be paternalistic, preferring to impose its own consumption preferences on the poor, and appears to be heavily influenced by perceptions of deservingness (see Bane (2009) for a recent review of poll evidence). It also appears to prefer to subsidize the low-income employed and to disfavor providing subsidies to nonemployed men or to women to remain at home with their children. The latter preference may arise from the increasing labor force attachment of middle class women and consequent changes in expectations about whether women should work.

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[29] A possible rationale for the low coverage of some groups, like non-disabled childless families and individuals, is that their labor supply elasticities are sufficiently high that the public prefers to provide them with few transfers if they do not work. The optimal tax model in economics would predict this outcome. Indeed, studies from the negative income tax experiments showed major labor supply reductions among two-parent families from an unrestricted program (Burtless, 1987). However, the optimal tax model has little to say about most of the trends we note here, since they mostly concern distributional weights that the public assigns to different groups.

There are many avenues for future research. One is to further explore one of our key findings, the redistribution of expenditures for certain demographic groups from the poorest households toward those with greater incomes. The exact programs which have resulted in this and the reasons for that redistribution, as well as whether it has occurred in years other than the three we examine, deserve further investigation. Another major issue is the appropriate valuation of Medicare and Medicaid. These programs are the largest and fastest-growing for the low-income population and are beginning to exercise a dominant influence on public budgets. Yet there has been inadequate work on the key issue of how to assign a market value to these benefits, as well as the more traditional issue of how recipients value them relative to cash. A final issue is that, despite the very large volume of research on the behavioral disincentive effects of transfer programs, our review revealed large lacunae in the literature which made it impossible for us to estimate their effects on family incomes, poverty, and other behaviors. These and other topics constitute stimulating areas for further work.

Appendix A

Construction of NAS Poverty Measures FCSU and FSCUM

Thresholds

Both the FCSU and FSCUM thresholds are based on out-of-pocket expenditures, as calculated by the Census Bureau using data from the Consumer Expenditure Survey. The first threshold is based on out-of-pocket expenditures on Food, Shelter, Clothing, and Utilities (FCSU) and the second threshold is based on out-of-pocket expenditures on Food, Shelter, Clothing, Utilities, and Medical-out-of-pocket expenses (FCSUM). Both thresholds include repayment of mortgage principal for owned housing. The FCSU reference family threshold for a family of two adults and two children in 2004 is $21,895 and the FCSUM reference family threshold is $23,738.[30]

[30] See Garner and Short (2008) for a detailed description on the construction of these thresholds.

These reference family thresholds are adjusted for family size and composition using a three-parameter scale that differentiates between single-parent families and two-parent families. For the FCSUM, only the non-medical part is adjusted. The three-parameter scale is shown below (Garner and Short 2008):

1. One and two adults: $scale = (adults)^{0.5}$
2. Single parent: $scale = (adults + 0.8*firstchild + 0.5*other\ children)^{0.7}$
3. All other families: $scale = (adults + 0.5*children)^{0.7}$

The medical part of the FCSUM threshold is further adjusted for family characteristics associated with variations in medical-out-of-pocket expenses (MOOP). In 2004, MOOP was estimated to represent 7.4 percent of the FCSUM reference threshold.[31] This portion of the FSCUM reference family threshold is multiplied by the relevant risk factor for family type and added to the non-medical portion of the FCSUM threshold for each family (Short 2001).[32]

[31] Authors' Personal communication with Kathleen Short.

[32] See Table A-10 in Short (2001) for family risk factors. Details on how family health and insurance status were imputed are available from the authors upon request.

Resources and Deductions

Pre-transfer resources are defined as in the updated Scholz et al. measure used in this paper. They include the sum of earnings and non-transfer nonlabor income minus income and payroll taxes. Federal and state income taxes were computed from the NBER TAXSIM program (Feenberg, 1993) and payroll taxes were directly calculated using official tax rates. In the computation of income taxes, the EITC and the child tax credit were excluded since those credits were counted as transfers.

Child care and other work-related expenses are subtracted from resources in both the FCSU and FCSUM poverty measures. MOOP, however, is only subtracted from resources in the FCSU measure, since the FCSUM measure accounts for MOOP in the threshold. For child care and other work-related expenses, we follow the methods described in Short (2001).[33]

[33] Median expenses listed below were obtained in personal communication with Kathleen Short.

Below are median weekly amounts for child care expenses in 2004, depending on the age composition of children under 12 in the family:

1. One Child under 12 years
    a. None under 5 years $52
    b. One under 5 years $96

2. Two or more children under 12
    a. None under 5 years $57
    b. One under 5 years $104
    c. Two or more under 5 years $104

Median weekly expenses are multiplied by .85 and then by the number of weeks worked by the parent who works the least. If one parent does not work at all, no child expenses are deducted. In addition, expenses are capped by the earnings of the lower earning parent.

The median weekly amount for work related expenses for 2004 is $23.19. This amount is also multiplied by .85 and by the number of weeks worked for anyone in the family who worked. In addition, expenses are capped by that person's earnings.

For MOOP expenses, we use information from the medical expenses topical module administered in Wave 3 of the 2004 SIPP. Specifically, MOOP is the amount of money spent on medical care, including health insurance premiums and excluding reimbursements.[34]

[34] Details on how MOOP was imputed for missing observations are available from the authors upon request.

Appendix B

Calculations of Pre-Transfer Earnings

SSI. For SSI recipient families with heads over 65, the SSI estimates for the elderly are used. Those estimates imply that male earnings should be increased by $2,375 dollars for men and decreased by $1,425 for women (1996 dollars; in 2007 dollars, the figures are $3,139 and $1,883, respectively). Since we do not know who in the family is the recipient, we apply the male figure to family earnings if the head is male, and the female figure to family earnings if the head is female. We increase or decrease family earnings by that amount. To account for corresponding changes in positive tax payments, we ratio tax payments up or down using the average tax rate for the family at their initial, observed point. For SSI recipient families with heads under 65, we apply the figures for work disincentives for the SSI disabled. We increase family earnings by $2,203 (2006 dollars; $2,266 in 2007 dollars). We adjust positive tax payments in the same way as previously described for the elderly.

TANF. The family earnings of each family receiving TANF was increased by 20 percent of its TANF benefit. A tax adjustment was made in the usual way.

Housing Assistance. For families receiving housing assistance and who had earnings, earnings are increased by 11 percent and taxes adjusted according. To generate an increase in the employment rate of 4 percentage points, every tenth nonworking family receiving housing assistance was randomly selected and was given the mean earnings and taxes of working recipient families (after the 11 percent increase). Since 44 percent of recipient families did not have earnings, moving one-tenth of them to working status increases the employment rate by 4 percentage points.

OASI. As noted in the text, we assume that the program reduces the employment rate of men by 15 percentage points at age 62 and that this disincentive declines linearly to zero by age 70. We therefore first calculate the percentage-point reduction at each age. Then we calculate the rate of nonemployment at each age, 62 to 70, and then determine what fraction of these nonworkers would have to be changed to workers to generate the afore-calculated increases in the employment rate. For example, at age 62, 32.3 percent of men do not work, so moving a little less than half of them to working status would increase the employment rate of men age 62 by 15 percentage points. After calculating these fractions for each age, we randomly select nonworking men at each age and move them to working status. We then assign them the mean earnings ($4,991 per month in 2007 dollars) and taxes of working males in the 55-60 age group in the data, a proxy for pre-retirement earnings.

Disability Insurance. For all families receiving DI, we change their earnings exactly as described above for under-65 SSI recipient families.

Medicare. For all families over 65, we apply a procedure analogous to that used for the OASI program. Using age-specific reductions in the employment rate induced by Medicare for men at each individual age fro m 62 to 71 provided to us by French and Jones, we again randomly select from the nonworkers and change them to workers at a rate necessary to generate the desired increase in the employment rate. Then the earnings and taxes of working men 55-60 are again assigned to these families.

Unemployment Compensation. Using the estimated annual earnings disincentive of $3,585 (1990 dollars, translated to $5,687 in 2007 dollars), we increase the earnings of all families who received benefits during the year by this amount, and make the usual tax adjustment.

Workers Compensation. We conduct the exact same procedure as for Unemployment Compensation, but reduce the disincentive amount by 25 percent.

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