COMMENT BY

BRUCE D. MEYER  This paper by Marianne Bitler and Hilary Hoynes examines the important question of how the social safety net has changed over time and how these changes have affected the well-being of families. Many indicators suggest that the safety net has changed substantially. Whether in terms of program caseloads or in terms of expenditure, over the past 15 years or so, Aid to Families with Dependent Children (AFDC) and its successor Temporary Assistance for Needy Families (TANF) have become much less important, while the earned income tax credit (EITC) and the food stamp program (today known as the Supplemental Nutrition Assistance Program, or SNAP) have steadily expanded. More recently, enrollment in and spending on unemployment insurance (UI) skyrocketed in the Great Recession.

The paper begins with nice descriptions of the main programs that provide for the disadvantaged, focusing on AFDC/TANF, food stamps, and UI. The program rules are carefully summarized, and recent changes to these rules are described in detail. The focus on these programs partly flows from the authors' decision to examine the nonelderly exclusively. The study also focuses on nonmedical assistance. If one is concerned about where the current safety net might be failing to serve the disadvantaged, cash or near-cash assistance to the nonelderly is likely to be the right place to look. Robert Moffitt and John Karl Scholz (2010) have noted that recent
increases in income support have been focused on very poor elderly, disabled, and childless families through the Social Security (both its old-age and its disability components), Supplemental Security Income (SSI), and health programs. In contrast, very poor families with children have seen a decline in expenditure due to lower receipt rates of AFDC/TANF and food stamps, although recently SNAP caseloads have risen considerably.

The paper also focuses on how the safety net for the nonelderly has responded to the recession, rather than on how those disadvantaged by persistently poor skills, disability, or old age have fared in recent years. The paper’s analysis thus concentrates on those likely to be hurt given the differing trends in government spending by demographic group, and given that the economy is in the midst of its most severe downturn since the Great Depression. The authors’ conclusions about the functioning of the safety net will not be applicable to the elderly or to those among the nonelderly who are suffering more long-term disadvantage.

It is also worth stepping back and thinking about the ways a recession can hurt the disadvantaged. The most obvious way is through the loss of employment and a decline in earnings among the employed. Thus, the recession is likely to have its largest effects on those who depend on employment, namely, the able-bodied nonelderly. Another way to characterize the trends in income support in recent years is as a shift in support from the nonworking poor to the working poor (Moffitt 2003, 2007). Given this shift, one might be especially worried if the recession leads to a loss of benefits for the working poor, such as from the EITC, as employment falls. Other effects of the recession on the disadvantaged might include a reduced likelihood of marriage and higher rates of marital dissolution (although Hellerstein and Morrill 2010 provide evidence that divorce is procyclical), both of which might impoverish single adults and their families. Finally, one might see a decline in private transfers and other support for the poor.

A basic question that the paper could address more directly is how one should go about assessing the state of the safety net. Presumably, economists and policymakers would like to know how the safety net cushions any income shocks and prevents them from leading to a fall in family well-being. To examine this question, we first need to assess the extent of the shocks to income. We also need to decide how to measure family well-being. We could measure well-being using income, which has a long tradition. But income often only translates roughly into well-being, because families save and borrow. Furthermore, most families, even most poor families, have substantial nonfinancial assets: homes, cars, and other durables. Depending on their stock of these assets, a change in income will have dif-
ferent effects on their well-being. Finally, income is often misreported in household surveys, especially among the most disadvantaged households. Only half of food stamp and welfare dollars are reported in the main survey used by the authors, the Current Population Survey (Meyer, Mok, and Sullivan 2009, Meyer and Goerge 2010). The reporting of private transfers is likely worse. Consumption data are a good alternative to income data, given that recent research shows that consumption is better measured than income at the bottom and that low consumption is more closely associated with deprivation than is low income (Meyer and Sullivan 2003, forthcoming-b). Other dimensions to well-being might also be of concern. If families have less nonmarket time (including leisure), or if access to medical care has changed, for example, then well-being is affected.

Factors other than the safety net might also have changed in the Great Recession in ways that affect family well-being. The years leading up to the recession as well as the recession years themselves were a period of atypically slow employment growth. In addition, tighter credit and the sharp decline in housing prices imply that many households can no longer borrow or access housing equity in bad times, which suggests that the recession may have done more damage than its depth alone would indicate. Thus, it seems likely that the effect of changes in the safety net may be difficult to separate from that of other changes in economic conditions.

The paper reports three main sets of empirical results. The first summarizes aggregate changes in a number of measures of economic conditions, benefit receipt, and well-being both in the recent recession and in earlier contractions and expansions. Among the most important findings from this analysis are that even though unemployment rose more in the recent recession than in the 1979–82 recession, official poverty rose less, and total consumption and food consumption in the bottom income quintile actually went up. Also, food stamp receipt rose much more in this recession than in past ones. These initial results do not indicate a newly permeable safety net.

The second set of results describes the responsiveness of state program caseloads and individual reported receipt of benefits to state unemployment rates. The paper argues that food stamp caseloads and receipt have become more sensitive to unemployment, but that the sensitivity of AFDC/TANF to unemployment has not risen or may have fallen over time. However, the evidence seems to be mixed. The authors’ variable interacting the unemployment rate with a dummy for the postreform period has a positive coefficient in both the AFDC/TANF and the food stamp regressions, suggesting increased responsiveness of these programs, but it is statistically insignificant in both cases. The authors also interact classifications of the different state welfare
reforms with unemployment. Such a classification is not an easy thing to do or one that can be done with confidence, given the multidimensional and qualitative changes in state welfare laws. In any case, only one of five coefficients in the AFDC/TANF caseload regressions is significantly different from zero at the 5 percent level or better, and the two that are significant in the food stamp caseload regressions are of conflicting sign. Thus, the evidence of decreased responsiveness is weak.

In the analysis using survey data on benefit receipt by program, the results are similarly inconclusive. The responsiveness of AFDC/TANF receipt to changes in unemployment more than doubles after reform, whereas that for food stamps does not quite double but is more precisely measured and significantly different from zero. These survey results should be interpreted with caution, however, given that the survey misses half of TANF and food stamp receipt.

Another interesting feature of the paper is its use of both administrative aggregate data and survey data. The authors suggest that similarities in the results in the two data sources may mean that the deficiencies of the survey data are not important. However, the differences in specifications, the large standard errors, and the lack of comparison of the magnitudes of the coefficients make this exercise unconvincing. One can easily compare in the survey and administrative data, however, the magnitude of the interaction coefficient on unemployment after reform relative to the main effect (the unemployment rate alone) in tables 4 and 7. The administrative data indicate that AFDC/TANF caseloads are about 20 percent more sensitive after reform, whereas the survey data indicate an increased responsiveness of 125 percent. The discrepancy for food stamps is also very large. This is not evidence that allows one to conclude that survey errors are unimportant.

In any case, it is not clear that one should conclude a great deal from such regressions about the likely changes in caseloads or benefit receipt in future recessions. Each recession is a little different. The responsiveness of poverty to unemployment has varied sharply across decades, as many authors have found (for example, Blank and Card 1993, Blank 2000, Haveman and Schwabish 2004, and Meyer and Sullivan forthcoming-a). In addition, changes in state welfare programs over time have been very large and are hard to summarize, and these might be confounding the relationship of caseloads and expenditure with unemployment.

AFDC/TANF receipt may be less sensitive now to unemployment than it has been historically, but the evidence is not there yet to show it. It would not be surprising if AFDC/TANF were not particularly sensitive to unemployment, because it is a program that serves a population with low histor-
ical employment rates. Past research has found that this sensitivity is indeed low and has changed over time (Blank 2001). If this sensitivity is lower in recent decades, it might reflect the fact that federal funding does not vary with unemployment under the block grant system introduced as part of welfare reform. Alternatively, it might be due to the program being more targeted at those who cannot work and thus are less sensitive to labor market conditions.

The paper’s third set of results examines the effects of welfare reform on various well-being measures, principally poverty rates. The authors also look at living arrangements and “disconnectedness” (the condition of being effectively cut off from both work and welfare). For all outcomes, the authors examine the coefficient on the interaction of unemployment with welfare reform, essentially asking whether well-being declines more with higher unemployment after welfare reform than before. Before examining this interaction, or second-order effect, it is worth knowing a bit more about what happened overall after welfare reform. One might suspect that changes in caseloads provide limited information on well-being, given that AFDC/TANF caseloads fell from 5 million assistance units to under 2 million, yet the evidence is mixed on how families fared after welfare reform. James X. Sullivan and I looked extensively at this issue (Meyer and Sullivan 2004, 2008) and found that, overall, families’ material well-being is apparently higher after welfare reform, but it is a complicated and mixed picture. Consumption by single mothers rose in all income deciles, and their income rose in all but the first. We argue that the decline in reported income for the bottom decile is likely due to misreporting. Housing characteristics (number of rooms, presence of air conditioning and appliances, and so forth) improved after welfare reform for those who were likely to be on welfare, but health insurance coverage fell for some groups of single mothers. Time spent in nonmarket activity (leisure time and time spent on housework) dropped substantially for single mothers, but this loss of time does not appear to have decreased their time with children (also see Gelber and Mitchell 2009); rather, it has come out of time spent cleaning and shopping and the like.

With the above as background, let me turn to the current results. The paper regresses several poverty measures, family structure, and a dummy variable for neither work nor welfare receipt on the unemployment rate after welfare reform as well as the unemployment rate for the entire period. These results are probably the most important findings of the paper. For only one of the outcomes is the key interaction coefficient significantly different from zero. That outcome is the share of people with income below
150 percent of the official poverty line. For the other cutoffs (100 percent and 50 percent of the poverty line), the coefficients are insignificant. Given that the official income definition used to determine the official poverty measure misses many of the most important parts of the safety net (food stamps, the EITC, the child tax credit, housing assistance), it is not an especially useful tool for evaluating the safety net. When the authors examine poverty measures that use alternative income definitions that account for taxes, food stamps, and other benefits, the changes are insignificant, as they are for other well-being outcomes. Even the alternative poverty numbers are questionable given that, as noted above, the survey that the authors rely on misses half of food stamps and TANF. I would urge the authors to look at changes in means and low percentiles of consumption in the Consumer Expenditure Survey.

The situation of families with children may be worse in high-unemployment areas than it was in the past under similarly high unemployment, but the data to determine if this is so are not yet available. Chairman Mao, when asked whether the French Revolution was a success, reportedly said that it was too early to tell. This sentiment applies even more strongly to the topic of this paper. In evaluating these analyses, we should be aware that it may be too early to determine how the safety net is affecting families in the Great Recession and its aftermath. The unemployment rate was 5.8 percent, equal to the median value over the full sample, in 2008, the next-to-last year of data examined in the principal analyses in the paper. Unemployment rose sharply in 2009, but one year of data with high unemployment is not a lot on which to base conclusions. There is substantial variation across states, but still it is too early to conclude how the new safety net will perform in recessions.

REFERENCES FOR THE MEYER COMMENT
GENERAL DISCUSSION

Donald Kohn wondered about possible interactions between welfare and unemployment insurance. Among the many advantages of having low-income individuals in the labor force rather than out of it is greater access to the UI system. Increased use of UI should damp the cyclicality of welfare by delaying any cyclical effects. This is particularly likely to occur with low-skilled people who have trouble reentering the labor force as extended benefits expire. One result is that any cyclical effects would tend to be seen at or after the end of a recession.