Economic Growth, Welfare Reform, and the Food Stamp Program

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The Federal welfare system is an integral component of the social safety net for American families during times of financial need. Along with programs such as unemployment insurance, welfare enables families to maintain a minimum standard of living when other sources of income decline. Welfare encompasses a variety of assistance programs, notably cash assistance, Medicaid, housing assistance, and food stamps.

The nature of welfare was fundamentally changed by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, better known as welfare reform. Since passage of the Act, USDA's Food Stamp Program is now one of the only assistance programs available based primarily on financial need. The importance of this program will be especially apparent during times of increased economic need, such as recessions.

Since 1994, the number of people receiving welfare and food stamps has declined dramatically. While part of this decrease may be attributable to changes in welfare rules, the expanding economy was a major factor. Assessing the relative contributions of economic conditions and welfare changes on these recent declines is important to the effective administration of welfare programs and the Food Stamp Program.

Legislation Creates New Welfare Program...

Prior to welfare reform, the main cash assistance program was Aid to Families with Dependent Children (AFDC), established as part of the Social Security Act of 1935 to serve single parents with children under age 18. Each State set its own eligibility requirements and support levels, and these varied widely. In 1994 for a family of three, Mississippi provided the lowest benefits ($120 per month) in the 48 contiguous States, and Connecticut provided the highest ($680 per month). The inflation-adjusted value of AFDC payments had declined dramatically. The median amount paid by a State was $792 per month (in 1994 dollars) to a three-person family in 1970, but had declined to only $435 by 1993, a drop of nearly 45 percent.

With the passage of welfare reform, AFDC was replaced with a new program called Temporary Aid to Needy Families (TANF) . Under AFDC, States committed a certain amount of assistance per recipient, and the Federal Government matched every dollar of State aid with approximately $1.10 of Federal aid. Under the block-grant structure of TANF, however, every State is given a fixed sum of Federal money (based on recent spending levels for AFDC) and, with a wide amount of latitude, they are free to design how this assistance is provided. For example, States can use what was previously cash assistance to set up job training programs to give recipients skills to enter the work force. The assumption is that this increased freedom enables States to construct welfare programs that meet the particular needs of their low-income population.

The Act also ended the Federal guarantee of some minimum standard of living for poor families with children. Under AFDC, this guarantee was made without employment demands placed on the heads of families and without time limits. Under welfare reform, 25 percent of the single-parent families receiving TANF benefits must be working at least 20 hours a week by 1997, and 50 percent must be working at least 30 hours a week by 2002. For two-parent families, 90 percent must be working a combined 35 hours a week by 1999. If States do not meet these requirements, their grant from the Federal Government will be cut by 5 percent the first year and an additional 2 percent in each subsequent year. This provides an impetus for States to move families into the workplace and off of welfare.

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The unrestricted nature of AFDC was also changed. Under TANF, recipient families can receive benefits funded by Federal monies for a lifetime total of only 5 years. States can make this limit less binding by exempting up to 20 percent of their families from the 5-year limit. But, they can also impose stricter limits—as little as 2 years of receiving assistance.

...And Cuts the Food Stamp Program

The Act cut more funds from the Food Stamp Program than from any other program, through reductions in benefits per person and restrictions in eligibility. Expenditures for the Food Stamp Program are projected to decline by about $22 billion during 1997 to 2002 from what they would have been without reforms. The benefit levels for recipients fell from an average of 80 cents per person per meal to 75 cents. This reduction occurs for several reasons: a family (one or more persons) can now receive food stamps worth a maximum of 100 percent of the cost of USDA's Thrifty Food Plan (suggested amounts of foods that make up a nutritious diet and can be purchased at a relatively low cost), down from 103 percent; the standard deduction used in calculating the benefit levels of households is capped at 1996 levels; increases in the deduction for shelter expenses are specified through 2001, after which it no longer increases; some non-Federal energy assistance is now counted toward household income; and the earnings of primary or secondary school students older than age 17 (instead of 22) are now counted toward household income.

Along with reducing benefits, the Act generated cost savings by making ineligible approximately over 1 million food stamp recipients. Most legal immigrants are now ineligible. However, refugees and those granted political asylum may be eligible for 5 years from the date admitted or granted asylum. Immigrants admitted for lawful permanent residence may be eligible if they have U.S. military service or if they can be credited with at least 40 quarters of qualified work (their own or a spouse or parent). Forty quarters of work is approximately 10 years of work.

Able-bodied adults between the ages of 18 and 50 and without dependents who are working fewer than 20 hours a week are eligible for food stamps for only 3 months in any 36-month period. However, States can apply for waivers that exempt these adults from the work requirement in areas where the unemployment rate exceeds 10 percent or where there is a scarcity of employment opportunities. Forty-three States and the District of Columbia have applied for waivers for at least one area in their State. And, legislation in 1997 allows States to grant exemptions of the work requirements to up to 15 percent of individuals not otherwise subject to those requirements.

But Food Stamp Program's Importance Grows

While the size of the Food Stamp Program has decreased, its importance to welfare assistance has increased. States now receive fixed TANF grants that do not expand as needs increase, unlike under AFDC. States are now responsible for any increase in assistance (previously, States were responsible for about half of any increase). Additionally, families may receive TANF funds for only 5 years. The Food Stamp Program, however, has the authority to expand during recessions and remains available to households whose TANF funds have expired.

Three criteria must be met to qualify for food stamp benefits. Qualifying households must be both income and asset poor. That is, the gross income of a household must be at or below 130 percent of the poverty line ($1,445 per month in fiscal 1998 for a three-person household, the most common food stamp household). The net income of households, after subtracting from cash income such items as the standard and shelter deduction and credit given for earned income, must be below 100 percent of the poverty line. Virtually all households with gross incomes below 130 percent of the poverty line have net incomes below 100 percent of the poverty line. A household must also have assets worth less than $2,000 ($3,000 for households with someone 60 years of age or over).

The maximum amount of food stamps a household can receive depends on household size. For example, a three-person household can receive up to a maximum of $321 per month in fiscal 1998, while a four-person household can receive up to $408 per month (these amounts are for a household with no net income). Benefits also vary with income. Food stamp benefit levels fall by 30 cents for each additional dollar of increased household net income.

Food Stamp Participation Sensitive to Economy's Health

During a recession, average household earnings fall and unemployment rates increase. For example, during the recession of the early 1980's, median incomes (expressed in 1995 dollars) fell from $34,011 in 1978 to $31,957 in 1983, and the unemployment rate rose from 6.1 percent to 9.6 percent.

The fall in earnings and increase in unemployment affected both participation and average benefit levels in the Food Stamp Program. Participation increased as more people became eligible due to lost jobs or falling incomes. In 1978, 16.0 million people participated, and by 1983, 21.6 million people participated. (Before the Food Stamp Act of 1977, participants had to pay a portion of the value of food stamp coupons from their own resources. The elimination of this purchase requirement also caused the number of participants to increase.) Out of already participating households, those with earned incomes (about 20 percent of food stamp households have earned income) saw a fall in income and, consequently, an increase in food stamp benefits. Conversely, during an economic expansion, fewer people will be eligible and existing participants will generally receive lower benefit levels.

Unemployment and food stamp participation rates both increased during the recession of the late 1980's and early 1990's (fig. 1). The correlation between food stamp participation rates and the poverty rate is even closer—there were declines in both series in every year from 1983 to 1989.

The Food Stamp Program remains one of the only entitlement programs for the majority of the population that can expand to meet the increased demands of economic downturns. With the block-grant structure of TANF, States now face an increased price of providing assistance and, during times of economic downturn, they may not have the fiscal ability to meet heightened demands. (There is a small contingency fund available for States wanting to increase expenditures on assistance programs but lacking the money to do so.) If State expenditures on assistance programs per recipient decline during a recession, there will be a corresponding increase in food stamp benefits (because benefits are tied to a household's income). The Food Stamp Program's role in the social safety net is also expanded because it enables households who have exhausted their 5-year limit for TANF benefits to still obtain food. (Many nonworking able-bodied adults without dependents and immigrants do not, however, qualify.)

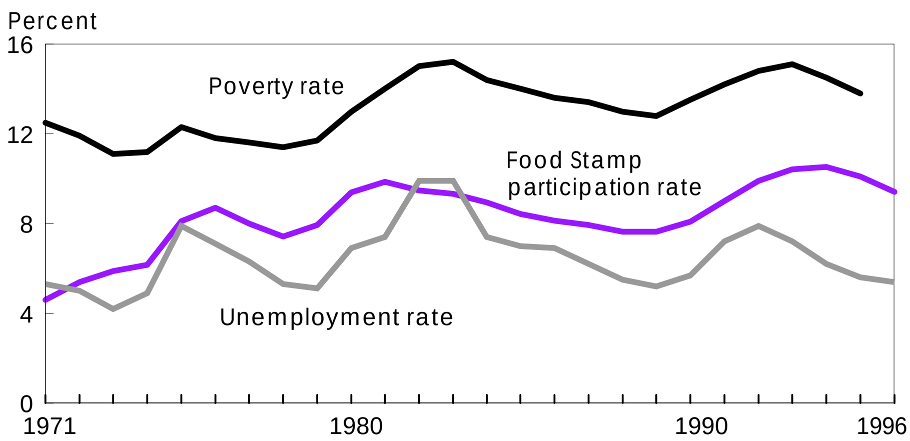
Economic models developed by USDA's Economic Research Service (ERS) examine how unemployment and other factors affect food stamp participation rates and poverty rates. The models used data from 1971 to 1996 (1971 was the year national standards were established for the Food Stamp Program and States were required to inform people requesting welfare assistance about food stamp benefits).

The models show that while inflation does not have a large effect on the poverty rate, it does on the food stamp participation rate. This is possibly due to the fact that nominal wages have not kept pace with inflation, leading to a larger population eligible for food stamps. And, as the real value of AFDC benefits declined (only four States tied their benefit levels to the inflation rate), more people entered the Food Stamp Program.

The models also show that the relationship between the U.S. economy and food stamps changed after 1990, but it did not change for poverty. This is probably due in part to the increased percentage of eligible households deciding to enter the program. From 1989 to 1992, the share of eligible households participating in the Food Stamp Program grew from 59 to 74 percent, according to research commissioned by the USDA's Food and Nutrition Service.

ERS simulated the effects on food stamp participation of a mild economic downturn similar to those of the late 1980's and early 1990's, with unemployment rates ranging from 7.6 percent to 8.3 percent and inflation rates of 1.7 percent to 2 percent. If such an event were to occur, the ERS model projects food stamp participation rates to rise as high as 10.58 percent—slightly above the previous high of 10.49 percent in 1994.

Figure 1
Food Stamp Participation and Poverty Mirror Health of Economy



Notes: The poverty rate is the number of persons in households below the poverty line, divided by the U.S. population. The unemployment rate is the number of unemployed males looking for work, divided by the number of males in the U.S. labor force. The food stamp participation rate is the number of persons receiving food stamps, divided by the U.S. population.

Improving Economy Results in Declining Welfare Cases

Future growth or contraction of the Food Stamp Program depends both on the state of the economy and the success of the Act in moving people from welfare to work. In recent years, many States have seen their welfare rolls decline dramatically. Disentangling the impact of various factors on these recent declines will help us understand what lies ahead for the Food Stamp Program.

Beginning in 1962, States could apply for Federal waivers to make changes in their AFDC programs. Not many Federal waivers were requested, however, until the Bush and Clinton administrations. By 1996, 43 States had applied for some form of waiver. For example, Wisconsin received a waiver to implement a Learnfare program, which mandated that all teenagers without high-school diplomas or equivalents must be enrolled in school or else the family's benefit level would decline. Connecticut established the Reach for Jobs First program, which included a 21-month time limit for employable recipients to continue receiving benefits and allowances for families to keep all benefits as earnings increase (up to the poverty line).

At the same time, the United States has been in the third longest economic expansion in the twentieth century. Since 1992, there has not been a quarter with a negative Gross Domestic Product growth rate.

Coinciding with these Federal waivers and the economic expansion were sharp declines in welfare participation in nearly every State. The declines are very large in some States. (In Wisconsin, for example, the number of AFDC recipients fell 48 percent between 1993 and 1996, and Oregon cases fell by 43 percent.) An important question then becomes: to what extent are these declines attributable to State changes in welfare programs and to what extent are they due to economic expansion?

Before turning to this question a cautionary note is in order. The ultimate goal of welfare reform is to improve the well-being of poor families, not just to remove people from welfare. Declining caseloads in and of themselves do not give any information as to whether families are better or worse off; they indicate only that fewer people are receiving welfare. An accurate assessment of the Act's effects requires an analysis of the well-being of poor households before and after its implementation. A decline in the poverty rate, combined with a decline in welfare cases, is one possible indicator that people are moving off of welfare and out of poverty. From 1995 to 1996, there was no statistically significant change in the poverty rate—13.8 percent in 1995 and 13.7 percent in 1996. Thus, many families during this period were leaving welfare but they were still poor.

In a widely publicized study, the President's Council of Economic Advisers found that 44 percent of the decline in AFDC caseloads from 1976 to 1996 was due to economic expansion and 31 percent was due to Federal waivers. They analyzed how State AFDC caseloads changed due to a State's unemployment rate, its generosity of benefits, and the date States applied for Federal waivers and the types requested. These estimates have been cited as evidence of the success of welfare reform. This conclusion is not accepted by many experts in poverty research, however. Researchers at the Urban Institute argue that the impact of Federal waivers is overstated because the Council of Economic Advisers' model considered welfare reforms occurring when a waiver was approved rather than when it was implemented. In some cases, this gap can be quite large. In Delaware, for example, the Federal Government approved a waiver on May 8, 1995, but the change is not expected to be implemented until September 1998.

Economists at the Institute for Research on Poverty at the University of Wisconsin have found much lower impacts of welfare reform than did the Council of Economic Advisers. For the 26 States experiencing at least a 20-percent decline in AFDC caseloads between 1993 and 1996, 78 percent can be attributed to the improved economy and only 6 percent to Federal waivers.

For More Details...

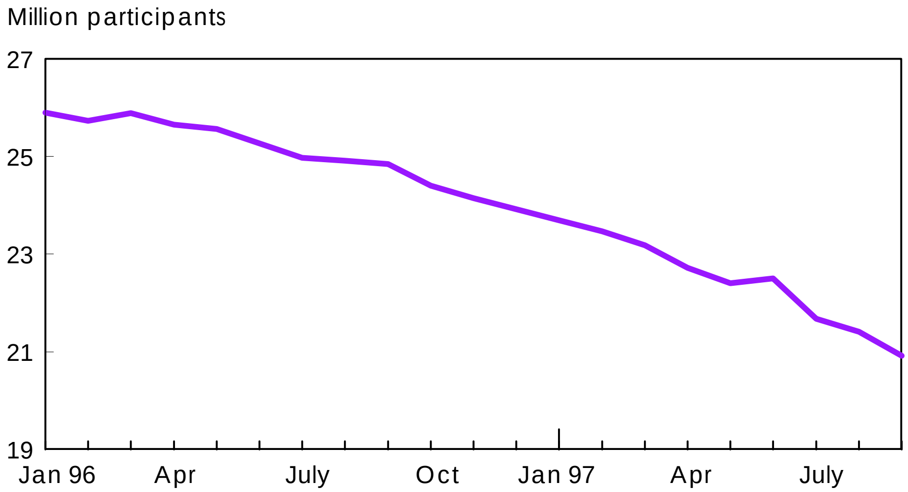
The models used to compare the economic determinants of food stamp participation rates and poverty rates and to make projections of their future rates are discussed in greater detail in "The Food Stamp Program, Welfare Reform, and the Aggregate Economy," by Betsey A. Kuhn, Michael LeBlanc, and Craig Gundersen in *American Journal of Agricultural Economics*, Volume 79, Number 5, 1997. The article also summarizes the Personal Responsibility and Work Opportunity Reconciliation Act, with special emphasis on its impact on the Food Stamp Program; estimates the impact of cuts in food stamp benefits on the agricultural and nonagricultural sectors of the economy; and analyzes the potential interactions between TANF and the Food Stamp Program.

Implications for the Food Stamp Program

Distinguishing the effects of welfare reforms and economic expansion on declining welfare caseloads has important implications for the Food Stamp Program. As welfare caseloads declined, so did food stamp caseloads (fig. 2). From January 1996 to May 1997, food stamp participation fell from 25.9 million people to 22.4 million. Ninety percent of AFDC/TANF

Figure 2

Number of Food Stamp Recipients Has Fallen by 20 Percent Since January 1996



recipients also receive food stamps, and families tend to move on and off multiple welfare programs. Thus, while part of this decline must be attributed to the ineligibility of many immigrants and unemployed childless, able-bodied adults, at least some of the decline is probably due to the same factors underlying the recent decline in AFDC/TANF caseloads, including a growing economy, a low unemployment rate, and a low inflation rate.

The impact of future recessions on food stamp participation rates will be mitigated if welfare reform has produced permanent changes in welfare caseloads. If, however, the recent decline is primarily due to economic expansion, the decline in food stamp participation rates will probably be temporary. During the next recession, food stamp participation rates would rise again as predicted in the ERS model.

Regardless of the success of welfare reform, two factors may increase food stamp expenditures during an economic downturn. First, as TANF benefits expire and families enter a bleak labor market, their incomes will fall (unless jobs are found), leading to an increase in their food stamp benefits. Second, if States transfer funds from cash to noncash assistance programs (instead of giving families a check, for example, a State provides subsidized daycare for the family, enabling the mother or father to work outside the home), the income of TANF recipients will fall, leading to an increase in food stamp benefits. According to researchers associated with the Economic Policy Institute, States may do this in order to maximize their receipt of Federal aid in the form of food stamps.

If welfare reform enables people to enter and become established in the workforce, the impact of the next recession on food stamp expenditures will be mitigated. If, however, temporary economic expansion is primarily responsible for the recent decline in food stamp caseloads, future recessions will increase expenditures for the Food Stamp Program, as has happened in the past. The impact likely will be even greater because of the potential fiscal inability of States to increase TANF payments. If this occurs, average incomes will fall and food stamps will expand to fill the increased food need.

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