The Great Recession, Families, and the Safety Net

The Great Recession caused significant hardship for many U.S. families. Safety net programs—some of which were expanded during the recession and its recovery—mitigated some of the worst effects, but were not available to all households and were insufficient to compensate for the depth of the downturn. What can policymakers learn from the adequacy of the response?

Overview

The Great Recession led to significant and persistent drops in both wages and employment. Median real household cash income fell from $57,357 in 2007 to $52,690 in 2011.[1] 15.6 million people were unemployed at the peak of the recession. Poverty increased from 12.5% in 2007 to 15.1% in 2010. How did this affect people already in poverty? Did the social safety net do its job? And what non-economic impacts did the recession have on families?

We review efforts by two UC Berkeley faculty to answer these questions. Hilary Hoynes, Professor of Economics and Public Policy, argues that the social safety net for the most part did protect disadvantaged populations, with some notable exceptions. Daniel Schneider, Assistant Professor of Sociology, finds that increases in the unemployment rate during the Great Recession led to an increase in men's controlling behavior and a decrease in fertility rates among unmarried and teen women.

How the Safety Net Worked During the Great Recession

The social safety net is intended to support the most disadvantaged households. But when official poverty increases by 21% over a three-year period like it did during the Great Recession, are public programs able to respond adequately? Hilary Hoynes studied the effect of the social safety net on general poverty rates and child poverty rates during the Great Recession. In one paper, Hoynes examines the relationship between poverty, the safety net, and business cycles with UC Davis researcher Marianne Bitler.[2] In the second paper, Hoynes looks specifically at child poverty during the Great Recession with Marianne Bitler and Southern Methodist University researcher Elira Kuka.[3] Important to this discussion are the different forms that these programs take, their restructuring in 1996, and their expansion during the recession.

This brief reviews research by UC Berkeley faculty and IRLE affiliates Hilary Hoynes and Daniel Schneider. Written by Lisa McCorkell, a Masters of Public Policy candidate at the Goldman School of Public Policy at UC Berkeley, with Sara Hinkley of IRLE.

Cash welfare was inadequate

Aid to Families with Dependent Children (AFDC) started in 1935 as a cash welfare program for single-parent families with children who had low income and minimal assets. If families had no income, they would receive the maximum amount of the benefit, which was steeply reduced as earnings increased. In response to arguments that AFDC disincentivized both working and forming two-parent families, the program was restructured in 1996 and renamed Temporary Assistance for Needy Families (TANF). Among other changes, TANF established work requirements and set a maximum of five years of lifetime usage.

TANF was also changed into a block grant from the federal government, giving states more flexibility on how to use the funding. Since 1996, the number of families receiving cash welfare has significantly dropped—for every 100 families with children in poverty, only 23 received cash welfare in 2014, compared to 68 in 1996, and these families are at the lowest income-to-poverty threshold.[4]

In an attempt to soften the blow of the Great Recession, the social safety net was expanded through the American Recovery and Reinvestment Act of 2009 (ARRA). One of the bill's provisions included giving states $5 billion more in TANF funds. However, several states actually reduced benefits or set harsher restrictions because of their own constrained budgets.[5] Therefore, Hoynes and Bitler find that there was only a slight increase in TANF caseload and a reduction in TANF benefits per capita during the Great Recession. In other words, TANF was not responsive to the crisis and offered little protection to needy families during the downturn. This could be because families were out of work for too long and no longer qualified, they hit the five year maximum usage, or the scaling back of the program reduced its visibility.

Food stamps provided greater coverage

Food stamps—officially renamed Supplemental Nutritional Assistance Program (SNAP) in 2008—are a federal voucher program for non-prepared food items. Anyone (individuals, families, and people with and without children) can be eligible if they meet certain income and asset requirements. The income maximum is higher than for TANF, and the benefit reduces at a relatively slow rate, so the program reaches more people than TANF does. Since the program is set at the federal level, until recently there was not as much variation in requirements between states like there is with TANF. Welfare reform in 1996 made legal immigrants ineligible for SNAP until 2002 and limited childless, able-bodied adults under 50 years of age to a maximum of three months of benefits in a 3-year period.

ARRA increased the monthly maximum of SNAP benefits by 13.6%, providing more than $6 billion in additional benefits, and temporarily suspended the 3-month time limit for able-bodied childless adults. In 2011, more than one in seven people were beneficiaries of SNAP. Hoynes, Bitler, and Kuka find that SNAP made up a significant percentage of total income for children in poverty during the recession, ranging from 23.3% of income for those under 50% of poverty to 13.0% for those under 150% of poverty. Hoynes and Bitler find that depending on the measure used, SNAP shows at least the same amount of protection as previous recessions if not more during the Great Recession, although one might expect a more dramatic result given the substantial uptake in caseload.

Family tax credits

The Earned Income Tax Credit (EITC) is the country's primary anti-poverty program for families with children, serving as a tax credit for lower-income working families.[6] The goal of the EITC is to incentivize work while increasing families' after-tax income. As with SNAP, more people are eligible for EITC than TANF.

The Child Tax Credit (CTC) was introduced in 1997 as a nonrefundable tax credit of $1,000 per child. It was originally structured as a poverty alleviation tool—phasing out at moderate incomes—but after the 2017 tax bill, the CTC has doubled to $2,000 per child and is now available to married households earning up to $400,000 per year.[7]

ARRA increased the amount of EITC for families with three or more children and also introduced the Making Work Pay Tax Credit, providing an additional credit of up to $400 per worker per year. Hoynes and Bitler show that the usage of the EITC is not related to how the economy is doing —EITC spending remained relatively unchanged during the Great Recession and there is not a significant correlation between the EITC and increases in unemployment between 1980 to 2010. However, since receiving EITC is dependent on working, Hoynes et al. argue that this consistent level of spending is masking a balanced increase in married couples' EITC receipt (since one person within the couple losing a job could decrease income enough to make them qualify) and a decrease in single parents' receipt (since losing a job means no one in the family receives EITC), leading to more protection for married couples.[8]

Overall, Hoynes and other researchers have repeatedly found that the EITC and CTCs combine to be an important source of income for families under 200 percent of poverty, particularly during the Great Recession. These tax credits keep five million children out of poverty, making it the biggest anti-poverty program for children.

The expansion of unemployment insurance

Unemployment Insurance (UI) provides partial earnings replacement temporarily up to a limited amount per month for people who lose their jobs. Eligibility for UI is not determined by income and asset tests, but instead is a function of one's earnings history. Under the regular UI program, recipients receive benefits from the state for up to 26 weeks. It can be extended for 13 or 20 additional weeks in states that are experiencing high unemployment rates, funded jointly by the federal government and states.

ARRA shifted the cost of the extended benefit to the federal government in an effort to encourage more states to opt in and provided for a $25 weekly increase in benefits. In addition, the Emergency Unemployment Compensation program was implemented which raised the maximum duration of receiving benefits to 99 weeks. Hoynes and Bitler find that UI is central to replacing income during recessions, and there was a large increase in spending on UI during the Great Recession (a total of $74 billion in emergency benefits and $71 billion for regular and extended benefits in 2010). They find that UI is the most responsive program to downturns: a one percentage point increase in the unemployment rate led to a 16.6% increase in UI benefits per capita. The effect of UI on keeping people out of poverty is evident at every level of poverty, though it does have more impact on higher levels of poverty. And like Food Stamps, the researchers find that compared to previous recessions, UI has at least the same amount of protection if not more during the Great Recession.

The safety net mitigates poverty

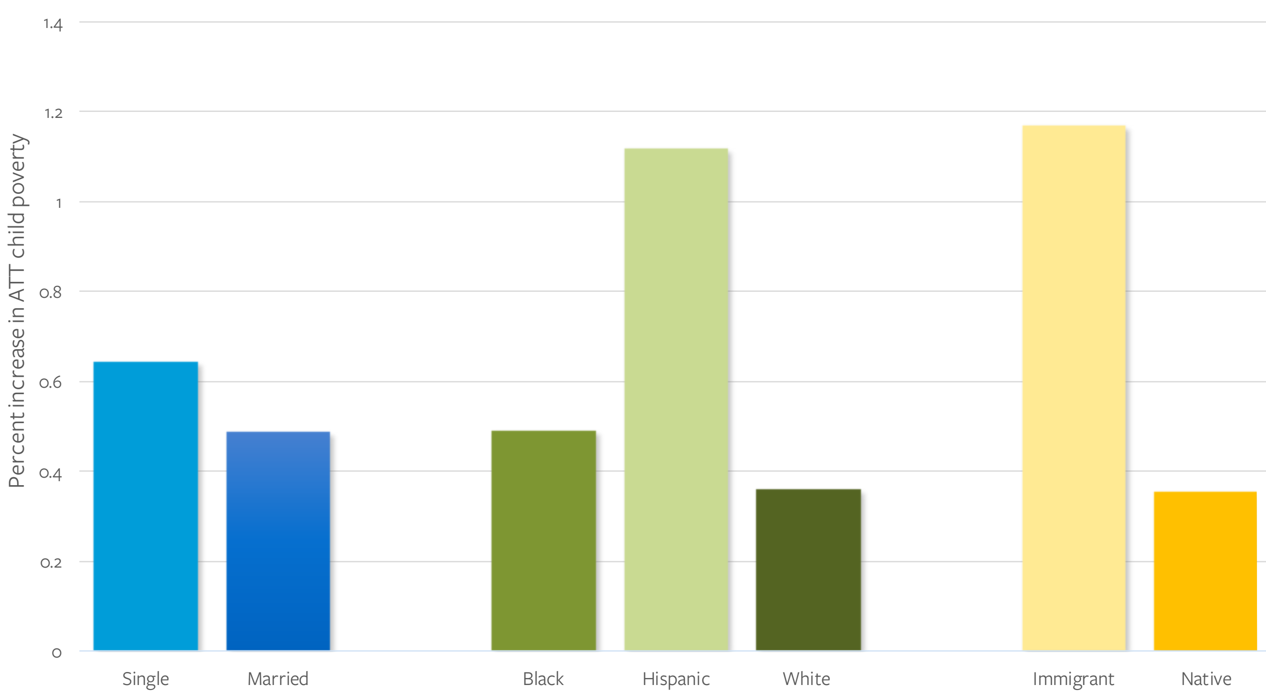
Based on their extensive analyses, Hoynes and her co-authors conclude that the social safety net provided protection for most people and children in poverty during the Great Recession. Hoynes observes in both papers that, after welfare reform, the safety net is one that now supports families that have at least some work while before it supported more non-working families.

Hoynes' team measures after-tax-and-transfer (ATT) poverty that totals cash income; the cash value of noncash transfers like food stamps, school lunch, and housing subsidies; and net tax burden (property taxes, net federal and state taxes after EITC and CTCs) in order to give a more accurate picture of poverty rates. By this measure, ATT poverty increased by 7.7% between 2007 and 2010, less than a third of the 24.6% increase in cash poverty, indicating that the safety net effectively mitigated the effects of the Great Recession on very low-income people.

Hoynes and her co-authors find that for households in deep poverty (below 50% of the poverty threshold), an increase in the unemployment rate by one percentage point leads to a 0.2 percentage point increase in ATT poverty versus a 0.5 percentage point increase in cash poverty. This finding holds for other levels of poverty as well, and demonstrates that the safety net successfully mitigated income loss during the Great Recession for children in poverty.

There is an important exception here, though: this effect was not seen among children of immigrants. As seen in Figure 1, Hoynes et al. find that a one percentage point increase in the unemployment corresponds with a 1.2 percentage point increase in both cash poverty and ATT poverty for children of immigrants. This finding reflects the ineligibility of unauthorized immigrants for many safety net programs and reduced access for authorized immigrants, which means that already struggling children of immigrants are faced with deeper poverty during downturns. In addition, children whose head of household is single and children with Black or Hispanic household heads experienced larger increases in poverty with a one percentage point increase in the unemployment rate than their married and white household heads counterparts did, respectively. This is because racial and ethnic

Figure 1. Effect of a 1 percentage point increase in unemployment rate on ATT poverty



Source: Bitler, Hoynes, & Kuka, 2017

minorities and single-headed households have a higher poverty rate baseline and are more likely to be affected by economic downturns.

Hoynes finds that the social safety net is not just a mechanism to incentivize work, but plays an important role in protecting most already disadvantaged populations from suffering further during economic downturns. ARRA expanded crucial protections; while its scope was limited, its impacts suggest the potential of safety net programs to reach needy families if adequately resourced.

Mitigating income effects may also help ameliorate the long-term non-economic effects of downturns, which researchers are just beginning to assess. We now turn to some of that research in the work of Daniel Schneider.

The recession's effects on family life

Berkeley sociologist Daniel Schneider, with Kristen Harknett and Sara McLanahan, studies the effect that the Great Recession had on intimate partner violence. Intimate partner violence (IPV) is defined as "behaviors perpetrated by a person's spouse or romantic partner that include physical violence, sexual violence, or psychological/emotional violence, including behavior designed to control a victim's movements, interpersonal contacts, and access to financial resources."[9] Sociologists have found that economic insecurity can increase stress and undermine men's feeling of control.[10] Other researchers have found that, at the individual level, unemployment and economic hardship are associated with domestic abuse, but without controlling for other drivers of abuse, this research has not been able to establish a causal relationship between distress and abuse.[11]

Using the Fragile Families and Child Wellbeing Study to look at rates of IPV and individual economic distress and the Bureau of Labor Statistics Local Area Unemployment Statistics for area-level data, Schneider et al. explore the effects of individual and local economic distress. They find that compared to mothers who do not experience economic hardship, mothers who experience some form of economic hardship are almost twice as likely to experience controlling behavior (13% vs. 7%) and are four times as likely to be victims of violent behavior (2% vs. 0.05%). The association remains even when researchers control for history of abusive behavior.

When both partners are unemployed, mothers are also more likely to experience violent or controlling behavior. While the researchers find no relationship between average unemployment rates and men's abusive behavior, there is a relationship between how quickly local unemployment grows and levels of IPV. The researchers look at the percent change in the unemployment rate over 12 months, hypothesizing that a rapid deterioration in labor market conditions creates economic uncertainty that could lead to more abusive behavior. In locations where the unemployment rate increased by 50% in one year, rates of abuse increased from 10% to 12%, and where the unemployment rate doubled, abuse increased to 14%. These results hold even when controlling for other measures of household distress, suggesting that increases in IPV are driven not just by personal experience of economic hardship but by localized levels of economic anxiety and uncertainty.

Intimate partner violence affects victims' health and employment, and impacts the children who witness and experience abusive behavior. Schneider has also found that the Great Recession had a negative effect on birth rates among unmarried and teen women.[12] For every percentage point increase in unemployment or foreclosure rates, the national fertility rate decreased by 0.67 percentage points, which he attributes in part to increased use of effective contraceptives.[13]

Schneider's work raises important research questions about how behavioral responses to economic hardship may have the long-term effects on households not captured in economic indicators.

Policy implications

The federal government's response to the recession included a significant expansion of eligibility for UI, an increased allocation for TANF, and an expansion of the EITC and CTC. Other federal safety net spending increased as the portion of the population eligible for services expanded during the downturn. These expansions of the social safety net, while limited, were crucial in keeping families and children out of deeper levels of poverty. However, the economic collapse still had dramatic effects on earnings and employment, which thrust more families into poverty and drove increased rates of intimate partner violence.

Policy-makers should consider several paths for ensuring that the social safety net can respond adequately to the next economic downturn:

- Oppose the "public charge" rule proposed by the White House, which would further limit immigrant access to the social safety net. In fact, eligibility for direct assistance programs should be expanded to include unauthorized immigrants, particularly children of immigrants.[14]

- Reduce the amount of discretion that states have over programs like TANF through spending requirements and accountability measures to ensure that funds are being spent in the intended way.[15]
- Be prepared to pass a stimulus package that sufficiently expands the social safety net during a time of economic crisis.
- Explore ways to increase social services for families experiencing economic hardship—this would require countercyclical public spending, rather than reducing funding for social programs just as demand for them increases.

FEATURED RESEARCH

Bitler, M., & Hoynes, H. (2016). The more things change, the more they stay the same? The safety net and poverty in the Great Recession. *Journal of Labor Economics* 34, S403-S444.

Bitler, M., Hoynes, H., & Kuka, E. (2017). Child poverty, the Great Recession, and the social safety net in the United States. *Journal of Policy Analysis and Management* 36, 358-389.

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NEXT IN THIS SERIES

This is the second in a series of policy briefs featuring IRLE faculty research on the Great Recession. The first brief explored the causes of the Great Recession. The third will will review employment and wage trends during and since the Great Recession and the fourth will look at strategies for regulating the recovery.

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Series editor: Sara Hinkley, Associate Director of IRLE.

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