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The 47 Percent: U.S. Trends in Income Maintenance and Medicaid Spending, 1990-2011

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We analyze trends and variations in state-level expenditure growth for Medicaid, SSI, SNAP, and TANF. We explore three areas of interest: (1) How program structure impacts growth; (2) How programs responded to the 2008/2009 recession; and (3) How state preference for limited government, measured by Right-To-Work (RTW) status and political affiliation, impacts program expenditure growth. Findings show that program structure impacts expenditure growth: the state-matched programs like TANF and Medicaid grew slower from 1990-2011 than did open-ended federal programs like SNAP. OLS models found states with RTW policies and large Hispanic populations positively associated with higher income maintenance and Medicaid expenditure growth.

Key words: *income maintenance, Medicaid, program expenditure growth, limited government, political affiliation, right-to-work status, Hispanic populations*

All Western industrial governments re-distribute the national product through a variety of programs, for a variety of purposes (Alesina & Glaeser, 2004). While the United States is relatively more restrained than comparable nations in developing its welfare institutions, programs directed to serving the bottom quartile of the population have been the target of persistent criticism. Means-tested programs without an income stream have generally been the object of the most vocal calls for cutbacks and reforms. Opponents point to the continously increasing enrollment numbers and expenditures, possibly resulting in a national pattern of dependency (Eberstadt, 2012). The 2012 Presidential election campaign exposed the deep political cleavages concerning government transfer payments targeted to the poor. Mitt Romney markedly said, at a private fundraiser on May 17, 2012, that 47% of Americans paid zero federal income tax and were thus "dependent upon government" and "will vote for the president no matter what" (see Mother Jones News Team, 2012).

Post election, attacks on transfer programs are represented in the recent legislation, The Nutrition Reform and Work Opportunity Act of 2013 (H.R. 3102, 2013). In an unprecedented move, the Bill decoupled the Food Stamp or SNAP programs from the Farm Bill, potentially increasing its political vulnerability (H.R. 3102, 2013; House Committee on Agriculture, 2013). The bill proposes to downsize the SNAP program over the 2014-2023 periods, reducing funding by $40 billion and enrollment by 14 million. In addition, the bill contains sweeping changes to how the program operates. The Southerland Amendment to the bill proposes to reinstate the asset and income tests and work requirements, to eliminate state performance bonuses, actually providing incentives to states to cut program participation (Rogers, 2013). The bill further proposes lifetime bans for felons, drug testing of recipients by states, sanctioning of USDA and state staff for promoting the program, and, most importantly, shifting the burden of funding to state governments. Vocal advocates of block grants cite the advantages of greater state control and autonomy, and the potential for national and regional budget savings (Stenberg, 2008; see also Dilger & Boyd, 2013). Opponents to the proposed reform of SNAP (and Medicaid) into block grants argue that they may lead to deep cuts to the most needy populations, less oversight (Waller, 2005), and may increase the political vulnerability of the program (Pavetti & Schott, 2011).

In order to help inform the increasingly polarized debate about the future of means-tested programs, we analyze the general trends and variations in state-level expenditure growth for Medicaid, SSI, SNAP, and TANF, the programs targeted to poverty groups that do not have an income stream. We explore the following issues that may affect expenditure growth: (1) *Program structure:* Current legislation proposes to turn SNAP into flat-funded state block grants, and block grant reform for Medicaid is in debate. Does program structure (joint state/federal or federally funded) affect state spending levels? (2) *Program flexibility and utility*: Income maintenance programs are intended to provide a safety need for needy populations. How well did the four programs respond to the

2008/2009 recession? (3) *Political preference and economic policy*: Does the preference for small government inform state-level redistributive policies, and result in slower growth and lower expenditures for means-tested programs at the state level? Do business-friendly, state-level economic policies, namely Right-to-Work (RTW) legislation, influence the state-level program expenditure?

Income Maintenance: Important Safety Net, or Political "Gifts" and Efficiency Drain?

President Kennedy (1962) once remarked about fiscal policy: "the myths are legion and the truths hard to find." The ideological divide over income maintenance programs cuts to the core of what type of society and size of government is considered desirable, and what fiscal strategy best fosters economic growth, with little or no common ground. From the progressive perspective, the income distribution is a "public good" (Thurow, 1971). Income maintenance programs provide an important safety net for the needy and result in a more equitable distribution (Cassiman, 2008; see also Calvo, 2011). While some short-term effects may be observed, they do not necessarily encourage long-term dependency (e.g., Vartanian, Houser, & Harkness, 2011). Governments redistribute resources to the poor for the political purposes of stability and equity (Okun, 1975; Thurow, 1971) or the objectives of stimulating aggregate demand in economic downturns (Romer & Bernstein, 2009; Weber, 2000; Zandi, 2008). From the Keynesian perspective (Keynes, 1964), transfer payments along with government purchases and tax cuts are important fiscal tools for government to deploy in times of economic contraction, creating a "floor" beneath which aggregate demand cannot fall. Tax cuts and transfer payments are best targeted to the middle and lower end of the distribution rather than the top, as they are more likely to immediately consume. Roosevelt's New Deal and the Kennedy and Johnson administration's "War on Poverty" programs subscribed to this theory of active government intervention in the economy, creating the very poverty programs now so hotly contested.

By contrast, the "classical" economic tradition prefers a minimalist model of state intervention. Resources need to be shifted to those in the position to efficiently use them, the "savings class," or in new parlance, the "job creators" (Bradley & Rector, 2010; Mankiw, 2013). Fiscal policy focused on deficit spending measurably impairs economic growth (Reinhart & Rogoff, 2010) by reducing labor market flexibility and diverting scarce sources from productive use (Gylfason, 1999). Personal government transfers "leak" economic efficiency and stifle innovation (Mankiw, 2013; Okun, 1975) in the misguided quest for equity. From the Public Choice Perspective (Buchanon & Tullock, 1962), income maintenance programs are examples of the "disease of democracy" (Rowley, 1993). They constitute, in Romney's words, the political "gifts" (quoted in Berman, 2012) to voters that actively create the notorious 47%, or the "rent seeking" government-transfer-dependent populations (Becker, 1985). *A Nation of Takers* by Nicholas Eberstadt (2012) is a recent, widely publicized restatement of this argument, finding exponential growth in transfer payment from 1960 to 2010.

Such a preference for limited government, a quest for Federalist state autonomy, informs the debate on devolving programs such as SNAP and Medicaid into flat-funded block grants. The literature on the desirability of means-tested block grants as a model for income maintenance is divided. Block grants are fixed amounts (Dilger & Boyd, 2013), and are thus viewed as an aid in trimming costs on the local and federal level, as noted by Senator Paul Ryan. Block grants give the states, which are purportedly best qualified for local problem-solving, the needed flexibility to do so without the federal strings attached. They differ in legal status from open-ended entitlements structured like SNAP and Medicaid, which create individual "rights" to benefits that can be litigated (King, 2000; Melnick, 1994). Opponents point to incidences where states' broad flexibility can divert funding from the needy (Posner & Wrightson, 1996) and lack the effective, mandatory program oversight built into entitlement programs (Waller, 2005).

Recent policy innovations by conservative governors at the state-level target entitlement reforms (Malanga, 2013). The combination of state budget shortfalls and vocal political aversion to redistributive programs creates a renewed need for comprehensive, comparative analysis of state-level funding and policy outcomes. The existing literature identifies major factors explaining state-level variations in social spending. Economic factors identified include per capita incomes and a state's fiscal and revenue capacity (Holcombe & Stroup, 1996). Interestingly, states with less fiscal capacity spend less on social programs, despite federal grants, and use less of their own resources (Dilger, 1998; The Lewin Group, 2004). Most studies do not find a link between political culture, executive party control at the state-level, and state spending levels (Dilger, 1998; Holcombe & Stroup, 1996), with a few exceptions (Elazar, 1966; Hager & Talbert, 2000).

We explore an added political and economic proxy measure of interest to capture state-level preference of limited government and pro-business policies, the individual states' Right-to Work status. Currently, 23 states have RTW laws, with Indiana becoming the most recent RTW state in February 2012. RTW legislations generally outlaw "union security" clauses, mandating workers in a collectively bargained contract to pay a share of the cost for union representation. RTW laws by themselves alone may have little effect on shaping economic performance, but they are a proxy of a vast array of "business friendly" measures that states have adopted to increase labor market flexibility, such as low tax rates, cash incentives for relocation, and lax environmental and safety regulations (Holmes, 2000; Lafer & Allegretto, 2011). Central to RTW policies is control of labor costs, and RTW states generally have lower per capita personal incomes (Gallagher, 2012).

Historical Background of U.S. Means-Tested Transfer Programs

In American public political discourse, the neutral term "transfers" has long been abandoned in the fight to curb government spending (Lind, 2012). Rather than transfers, more ideologically loaded terms like "welfare" or "entitlements" are generally used when discussing the future of redistributive programs. "Entitlements" generally refer to those programs that have been paid into by individuals through payroll taxes, such as Social Security, Medicare, Veteran's benefits and Workmen's compensation. "Welfare" refers to programs that are need-based and "means-tested" (Rector, 2012), and is defined by the Department of Commerce as "benefits received for which no current service is performed" (Eberstadt, 2012). The cash program Earned Income Tax Credit, a subsidy for low-wage earners, is not part of this group due to work requirements, and therefore is not included in our analysis.

These means-tested programs make an easy target politically. Proposed cuts resonate well with a predictable base of voters. These programs are not represented by an effective lobby as are Social Security, Medicare, and Farm Subsidies. Proposing cuts thus generally does not incur political risks (Derthick & Teles, 2003). The four programs that fit this description are TANF (Temporary Aid for Needy Families) cash payments, the target of the 1996 Clinton PWRORA Welfare Reform; SSI (Supplemental Security Income) disability payments; SNAP, the Food Stamp Program; and Medicaid, medical care targeted to low income populations. Politically important, they have different funding streams: TANF and Medicaid are joint Federal/State programs, whereas SSI and SNAP are federally funded only.

The TANF/ADFC (Temporary Aid for Needy Families, formerly Aid to Dependent Families and Children) program consists mainly of cash assistance. It was created in 1935 as part of the Social Security Act, intended for "orphans" missing one or both parents. It was considered, in the context of the Great Depression, more advantageous to aid widows than have them take scarce jobs from male breadwinners (Trattner, 1999). This program was funded by states receiving unlimited Federal funds with matching state grants for eligible families. The program was generally disliked, often on moral grounds of encouraging out-of-wedlock birth. As individual states had the power to set the levels, 19 states passed legislation in the 1950s to exclude "undeserving" families such as single mothers and African Americans (Howard, 2007; Trattner, 1999). The continual program growth during the 1960s-1980s period generated further criticisms. Critics blamed the program for a variety of social ills such as the rise of single heads of households and family dissolution (Murray, 1984). The widespread criticism led to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (P.L. 104-193, 1996). The 1996 Welfare reform for TANF under Clinton set time limits, added work requirements, and focused on reducing unmarried births. Today, a large portion is given to children directly. Matched maintenance-of-effort requirement (MOE) fixed-amount block grants can be used in a variety of ways other than cash payments to clients. Only about 41% is spent on cash payments; the remainder is spent on childcare, job training, and transportation (Falk, 2013). Currently, TANF has not been reauthorized since 2010, and states have had to rely on short-term block grant extensions. Waivers granted by the Department of Health and Human Services to help with some of the more stringent work requirements have not been used by any state (Falk, 2013).

SSI (Supplemental Security Income) was originally an amendment to the Social Security Act, created by Nixon in 1972 to standardize payments to the blind and disabled that were considered inefficient and unfair. A federal program funded by general taxes rather than social security taxes, the program experienced rapid expansion in the 1990s. The rapid growth for SSI also led to reform under PRWORA, restricting eligibility in cases of drug and alcohol addiction, childhood disability, and excluding aliens (Berkowitz & Dewitt, 2013). Today, clients' assets must not exceed 2000 dollars.

The Food Stamp program, or SNAP, was started in 1939 by USDA director Henry Wallace to put agricultural surpluses to use during the depression. The program ended in 1939. During the Johnson Administration, the program was reauthorized and fully funded through the Food Stamp Act of 1964, which also contained price subsidies for a variety of commodities. The program, which can be waived by states, generally expanded until the 1996 PRWORA legislation, which also imposed time limits on able-bodied adults. Both Food Stamps and subsidies were historically used as leverage to reach compromise on each Farm bill, until the recent decoupling from the House. The George W. Bush administration's 2002 Farm Bill made it easier for states to administer the program to recipients, and the 2008 Farm Bill increased benefit levels (Congressional Budget Office, 2012). The American Recovery and Reinvestment Act of 2009 (ARRA) (P.L. 111–5, 2009) used $45 billion to expand SNAP benefits. Forty-six states took advantage of the waiver during the 2008/2009 recession (Robertson, 2012).

Medicaid is by far the largest expenditure of the four programs (see Table 2). Medicaid was created 1965 by the Johnson Administration by amending the Social Security Act as an entitlement program to help states provide medical coverage for low-income families (Katz, 1996). States have to match up to half the federal funds (the average is 57%), and states may bundle benefits with S-CHIP, the program that assists with children's health care. Federal payments vary from state to state, according to state per capita income, ranging from 50-82% federal matching (Kaiser Family Foundation, n.d.). Most states choose to use private providers and establish their own rates for providers. As cost and enrollment have steadily grown, states have cut pay to providers and tightened eligibility. Medicaid funding has become a major budgetary item for many states in fiscal crisis, with states spending 18-20% of state budget on the program. In 2012, 13 states cut Medicaid to balance their budgets (Kaiser Health News, 2012). As part of the Affordable Care Act, starting in 2014, people with income of up to 133% of the poverty line can qualify for coverage, including adults without dependent children. State governors who opposed the Affordable Care Act did not participate in the Medicaid expansion.

The cash program Earned Income Tax Credit (EITC) was initiated by Gerald Ford in 1975 and expanded and indexed to inflation by Ronald Reagan in 1986 (Alstott, 2010). The program eliminates the income tax liability of low-income workers, an idea originally credited to Milton Friedman. Twenty-seven million income tax filers received $63 billion in federal refundable credits in the tax year 2012 (Flores, 2014). The EITC is thus a costly program which leads to errors on tax returns (Faler, 2014). The program is also implicated in creating disincentives to marriage and work, and increasing the ranks of people exempt from tax liabilities (Alstott, 2010; Faler, 2014). However, the work requirements and Republican heritage of the program have made it largely exempt from attacks, and there is currently no pending legislation for EITC program reforms.

Methods

Our investigation is informed by the following research questions:

1. Does the Federal or state-matched structure of the program influence program spending?

2. How well did the programs respond to the 2008/2009 recession?

3. How does political affiliation and associated economic policies influence the state-level program expenditure?

To address the first question, we analyze state and regional trends in enrollments and expenditures, and calculate state and regional variations in program expenditures through continuously compounded growth rates, commonly used for population growth, compound interest, and forecasting. We calculate growth rates for the years 1999-2011, the last available date from the same time series, and growth rates for the last and current administrations 2000-2008, and 2008-2011. Some authors of the most alarmist transfer payment program growth rates (Eberstadt, 2012) have not clearly disclosed what type of technique they used to calculate the resulting numbers. In all likelihood, the high rates of growth were calculated through relative change. Relative deltas calculate the difference as a percent of the base value between two end points, and thus can overestimate growth among high values, and respond poorly to negative numbers, which the programs such as SSI, TANF have had in many years in the last decades. In contrast, continuously compounded growth rates take the natural log. The number of compounding periods per year increases without limit, the *continuous compounding* referred to in the term.[1] The natural log (ln) is the effective annual rate of growth, the amount of time needed to reach a certain level of continuous growth. This measure is preferable, since variables like expenditure, GDP, and population growths are often exponential and non-linear. This measure is also preferable to relative-change percentages because the rise and fall of growth rates are not symmetrical.

For regions, we use the Bureau of Economic Analysis (BEA) operational definition of U.S. regions. We calculate yearly rates of change for the program expenditures for Medicaid, SNAP, TANF and SSI, from BEA's time series record of "Personal

Current Personal Transfer Receipts (SA-35) (U. S. Bureau of Economic Analysis, n.d.).

In order to assess programs' responses to the 2008/2009 recession, we calculate a yearly rate of change for real GDP, Medicaid, SNAP, SSI and Medicaid for the years 1997-2011. We compare and plot the yearly program change against GDP. We adjust all the required time series for constant dollars with GDP deflators, also available from the BEA.

In order to study the relationship between political affiliation and associated economic policies and state-level program expenditure, we construct an OLS regression model. The model tests the hypothesis that the rhetoric of a small-state footprint, advocated more by proponents of RTW legislations and Republican leadership, is indeed implemented in state-level practice. In other words, RTW status and political affiliation with the Republican Party is hypothesized to be negatively associated with means-tested transfers, as we have assumed that the preference for a small government informs state-level redistributive policies. RTW status has been used in previous studies as a proxy for business friendly policies, specifically increased labor market flexibility, and less regulation (Holmes, 2000; Lafer & Allegretto, 2011; Zullo, 2011). The composite measure "Income Maintenance" from the BEA includes TANF and SNAP, as well as some other smaller programs such as Women, Infants, and Children (WIC); total Medicaid amounts from the BEA are the outcome variables. We do not model TANF and SSI individually, as the expenditures are relatively small in comparison to SNAP and Medicaid.

The two outcome variables are modeled as a 1990-2011 growth rate, and Medicaid as a capita amount in 2011 (per capita income maintenance is too small an amount to have an effect). Explanatory variables modeled are: 2011 population, continuously compounded Income Growth (as measured by growth in Per Capita Personal Income) and GDP growth (U.S. Bureau of Economic Analysis, n.d.), percent of all ages in poverty in 2011, percent of African Americans in 2011, percent of Hispanics in 2011 (http://www. census.gov/), regional dummies for the BEA regions, a dummy for Republican measured by voters' preference in the U.S. Electoral College in the last four consecutive Presidential elections (2000-2012) (which captures consistent "red" states), and a Right-to-Work dummy to control for states' preference for business friendly policies and labor market flexibility. Indiana is not treated as a RTW state in our paper due to the data years we analyze. Our study is limited by the very broad measures of political affiliation and economic performance used. More differentiated measures for state-level economic performance, such as exports, sectorial composition, and measures that capture recent policy innovations need to be developed for useful comparisons.

Results

General Description and Overview

In order to determine how spending on income maintenance programs and Medicaid compare across states, we look at all government transfers as a percentage of personal income. The percentage of all government transfers in income range from 12% (North Dakota) to 26% (West Virginia). In 22 states, government transfers do constitute nearly a fifth of income, ranging from 19-26%. Total income maintenance, however, only ranges from 3% to 1% of personal incomes in the 50 states. Pensions, Disability and Social Security constitute the larger percentage of personal income, ranging from 5-8% of personal income. Medicare ranges from 1-5% of personal income, and Medicaid from 1-3% (not shown in Table). With the exception of Maine, the remaining 10 states where government transfers are above 20% have poverty rates well above the national average of 15.9% and high percentages of minority populations (see Table 1).

Currently, thirteen states have slashed Medicaid and other matched programs to balance strained budgets (Kaiser Health News, 2012). Programs intended for low income populations are targeted for cuts in national and state budget proposals. Continuously compounded growth rates from 1990-2011 show a decline for both TANF and SSI, the programs targeted by welfare reform in 1996. We find 6% growth for Medicaid and 8% growth for SNAP. Enrollment for programs ranges from a low of 1.5% and 2.5% of the U. S. population for TANF and SSI, and 14.4% for SNAP. Medicaid by far has the highest program expenditures, as well as largest enrollments at 17% of the population (see Table 2).

The growth rates show an interesting political effect that responds to our research question whether program structure affects spending levels. Programs that require state funding grew slower both in dollar amounts and enrollments (enrollment growth not shown). The Federal program SNAP experienced the most growth, whereas the state-matched program TANF declined from 1990-2012, and Medicaid grew modestly. It is important to note that while Medicaid expenditures grew even faster than SNAP, it did not significantly grow in enrollment between 1990-2011. The Medicaid expenditure growth was primarily driven by dramaticly rising costs of healthcare, a widely-noted phenomenon (Jacobs & Skocpol, 2002), as state governments have continuously restricted eligibility and cut cost to providers.

Table 1. Government Transfers as Percent of Personal Income 2012.

State	All Govt. Transfers % of Pers. Income	Income Maint. % of Pers. Income	% in Poverty	% African American Population	% Hispanic Population
West Virginia	0.26	0.03	18	3.2	0.7
Mississippi	0.24	0.03	23.8	36	1.4
Arkansas	0.23	0.02	19.6	15.5	3.2
Kentucky	0.22	0.03	19.3	7.2	1.5
Alabama	0.22	0.03	19	29.2	1.7
South Carolina	0.22	0.03	18.3	28.9	2.4
Maine	0.22	0.02	14.4	0.5	0.7
Michigan	0.21	0.03	17.4	14.1	3.3
New Mexico	0.21	0.03	20.6	13.3	42.1
Tennessee	0.20	0.03	18	16.1	2.2
Arizona	0.20	0.02	18.7	5	25.3

The yearly rate of change in dollar values for the last three decades similarly shows different patterns for matched and federally funded programs. Medicaid growth has generally been below 10%, barring the flexibility expansions under President Bush in 2001. TANF growth since the 1996 welfare reform, barring the extra ARRA funding during the recession, has been a modest 2-3%, with 10 years of the 30 showing declines in funding.

Table 2. Program Participation, Average Monthly Benefit, and Expenditure Growth Rates, 1990-2011.

Program	Amount (in billions)	Average Monthly Benefit	Enrollment 2011 (in milliions)	% of U.S. Population	Type of Program	Growth 1990-2011 Cont. Comp.	Growth 1990-2011 Rel. Change
SNAP	78	$287	45	14.4%	Federal	8%	228%
TANF	30.6	$378	4.6	1.5%	State/ federal	-1%	-28%
SSI	47	$478	7.7	2.5%	Federal	-2%	101%
Medicaid	404.1	$6,775	52.9	17.0%	State/ federal	6%	244%

Growth for federally-funded programs, unlike TANF and Medicaid, is positive for the three decades. Growth for SSI expenditures since the 1990s has mostly ranged from 2-6% following the restrictions from the 1996 welfare reform (see also Table 3). With the exception of 1996 welfare reform, the open-ended Federal program, SNAP, has grown rather quickly both under the George W. Bush and Obama administrations. Clearly, states have put the brakes on growth in programs that are partially states' responsibilities and taken advantage of the easier access and program waivers instituted by the Bush and Obama administrations for Food Stamps. Looking at the growth of programs in U. S. states and regions, we find slightly higher growth for all four programs for the Rocky Mountain and Southwest regions, very likely due to the states that have high percentages of Hispanic populations. States such as Arizona (25.3%) Colorado (17.1%), New Mexico (42.1%), and Nevada (19.7%) are represented among the top ten in growth for these programs (tables showing individual rates of growth in states and regions available upon request).

Are programs targeted to low-income populations responsive to economic contractions, given the means-tested nature of the programs? Given increased need in times of recessions and increasing unemployment, we would expect a decrease of programs in periods of economic expansion, and an increase in funding during the recent recession. Looking at program expenditure plotted to GDP yearly change, TANF and SNAP do respond to the 2008-2009 recession by expansion (see Figure 1). It is important to note that program expenditures were increased and access to the program eased legislatively by both the George W. Bush and the current administration's expansion of the 2009 Recovery Act (ARRA). Medicaid and SSI, however, only moderately expanded in the 2000-2001 and 2008-2009 recessions. During the 2008-2009 recession, SSI increased a modest 3.8%, and Medicaid 4.8%. Due to the restrictions placed on Medicaid, few adult people who lost their employer-based health care transferred to Medicaid. The increase mainly reflected children covered (Holahan & Chen, 2011). TANF and SNAP grew 7.2% and 28% respectively (see Table 3).

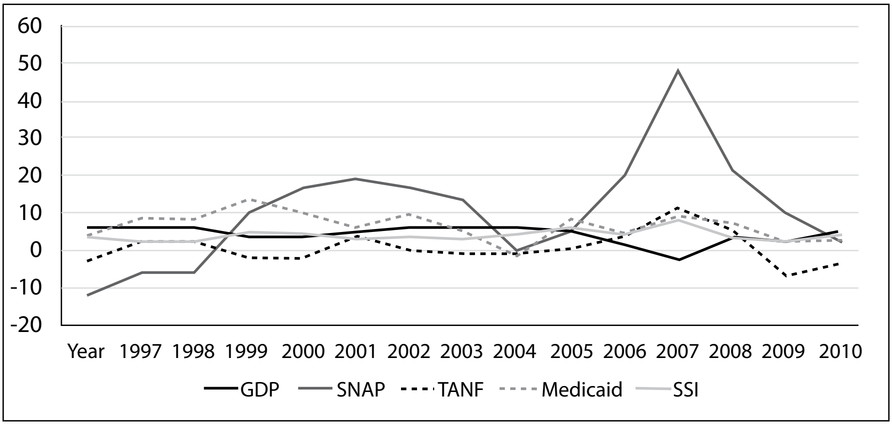
Table 3. GDP, SSI, SNAP, TANF and Medicaid Expenditure Yearly Rate of Change, 1997-2012.

Year	GDP	SSI	SNAP	TANF	Medicaid
1997/1998	5.52	4.01	-12.1	-2.51	4.33
1998/1999	6.41	2.31	-6.02	2.82	8.44
1999/2000	6.43	2.1	-5.87	2.9	8.09
2000/2001	3.38	4.69	9.63	-1.81	13.92
2001/2002	3.47	4.53	16.57	-2.33	10.01
2002/2003	4.69	3.04	18.87	3.86	5.81
2003/2004	6.38	3.85	17.27	0.28	9.56
2004/2005	6.49	3.14	13.67	-0.34	5.04
2005/2006	5.98	4.29	-0.35	-0.7	-1.74
2006/2007	4.87	5.76	5.21	0.99	8.38
2007/2008	*1.84*	*4.3*	*19.77*	*3.91*	*4.36*
2008/2009	*-2.28*	*8.1*	*47.87*	*11.18*	*9.14*
2009/2011	*3.74*	*3.32*	*21.46*	*5.44*	*7.42*
2010/2011	*3.97*	*2.41*	*9.34*	*-7.23*	*2.23*
2011/2012	*4.05*	*4.27*	*2.93*	*-3.31*	*2.86*

Note: Data during and after the Great Recession years are italicized.

SSI, a relatively small program, tracks GDP growth almost perfectly, increasing during economic expansion, and contracting along with economic downturns. These results indicate that Medicaid and SSI, programs that address healthcare and disability, were only moderately increased in times of economic downturns. SNAP, the open-ended federal program with the least restrictions in terms of eligibility, is the most expanded program in the 2008/2009 recession (see Figure 1).

Figure 1. GDP and Medicaid, SNAP, SSI and TANF % Yearly Change, 1997-2011



Political and Economic Determinants of Expenditure Growth

Our analysis looks for evidence on how the purported preference for small government informs state-level redistributive policies, and whether business-friendly economic policies, namely RTW legislations, influence state-level program expenditure.

Table 4 illustrates the effects of our main variables (i.e., *RTW* and *Republican*). In regression model I, the composite variable *Income Maintenance Growth* shows a positive, statistically significant effect of RTW legislations. This finding indicates that the lower wages associated with RTW legislations generally need to be mitigated through increased transfer payments over time.

Actually, RTW states also experience faster per capita *Income Growth*, which reduces *Income Maintenance Growth*.

However, this faster *Income Growth* is not enough to offset the overall impact of lower wages. Even when we remove *Income Growth* from our control model, RTW states still experience

Table 4. Regression Coefficients for Income Maintenance Growth, Medicaid Growth, and Per Capita Medicaid Expenditure.

Independent Variable	Model I Income Maintenance Growth	Model II Medicaid Growth	Model III Per Capita Medicaid 2011
RTW Dummy	1.759*** (.000)	.041	-.272* (.035)
Republican	.297	.202	-.043
BEA Regions	.022	.183	-.066* (.017)
Population (in millions)	-.091*** (.001)	-.090** (.004)	.011
% AA	-.004	.018	.002
% Hispanic	.056* (.012)	.100*** (.000)	-.003
Poverty	-.069	-.033	.070* (.014)
Income Growth	-1.838*** (.000)	-1.082* (.014)	--
GDP Growth	.013	.102	--
Log PCPI	--	--	1.162* (.035)
Log GDP	--	--	-.131
Intercept	12.652*** (.000)	9.318*** (.000)	-10.081 (.101)
R Square	.643	.518	.502
Adjusted R^2	.563	.410	.390

Note. * = p < .05. ** = p < .01. *** = p < .001.

higher growth in income maintenance transfers (see model I in Table 5). One tangible reason is that per capita *Income Growth* is unevenly distributed by concentrating on the upper-income populations. Therefore, the results here suggest that, at a state level, pursuing higher, aggregate *Income Growth* by permitting lower wages and increased labor flexibility would likely lead to an aggregate increase in transfer payment needs in the state population in the long run.

Per Capita Medicaid shows a significant but negative association with RTW dummy variable. This result indicates that RTW states tend to adopt the policy of cutting Medicaid. RTW legislations and Republican leadership are associated with lower personal incomes and higher poverty rates in most RTW states. Nine out of 10 states that occupied the lowest PCPI ranks in 2011 were all Republican states, and seven were RTW states. But the funding amount per capita is generally less in RTW states; indeed, model III shows this pattern to be true even when the poverty rate is controlled for. The lesser expenditure thus clearly indicates a state-level policy preference rather than the extent of social need.

For a political effect, the variable *Republican* in the last four elections is not statistically significant with the dependent variables. The *Republican* variable becomes significant when we remove the *RTW* dummy variable, which is highly correlated with Republican (r = .60, p=.000). Of the 24 Republican states, the following seven did not have RTW statuses as of 2011: Alaska, Georgia, Indiana, Kentucky, Missouri, Montana, and West Virginia. Of the 22 RTW states, the following three did not have four consecutive Republican administrations: Florida, Iowa, and Virginia. In a stepwise analysis not shown here, we find that the effects of *RTW* and *Republican* behave similarly when the other variable is not present, but *RTW* is a better predicator than *Republican*, yielding higher R square values in all models. RTW legislations may thus be a more important predictor on transfer payments patterns than political affiliations.

BEA Regions, specifically the prosperous Far West region, California, Washington and Oregon, is negatively associated with *Per Capita Medicaid*. This result indicates an interesting difference in those states' willingness to fund Medicaid programs compared to their Northeastern counterparts. Race has an independent effect as well. Both the composite *Income Maintenance Growth* and *Medicaid Growth* variables are positively associated with *Percent of Hispanic* population. Individual states with high percentages of Hispanics are represented among the top ten in individual program growth expenditure (tabular data available upon request). These results cause concern: they indicate that Hispanics are inadequately integrated into the labor market and require medical and income assistance.

These results have been checked against the potential risks posted by multicollinearity. The variance inflation factors (VIF) of all models in Table 4 are below 5.0, which is below the standard 10.0 threshold. In addition, we have run models by removing several highly correlated variables that are near or above .60—specifically, *Log PCPI* and *Log GDP*, which correlate with *Poverty* and *Population* respectively; *Republican*, which correlates with *RTW Dummy* at a .60 level; and *Poverty*, which correlates with *Percent of African American*.

Conclusion

Where do we go from here in terms of reforms for means-tested programs? In concrete terms, which policies and programs should receive support in the interest of a more equitable society? Our results show growth for the programs from 1990-2011 has been relatively modest, with the exception of SNAP, the food stamp program. The structure of the program clearly affects program spending: the state matched programs of TANF and Medicaid grew modestly, and TANF has been in decline for many consecutive years. Clearly, states use programs they have to match less freely: forty-six governors of all political persuasions availed themselves of SNAP waivers during the recession. States visibly limited Medicaid spending: adjusted for inflation, growth for the U.S. was a modest six percent, and much, if not all, could be attributed to the rise in cost.

Given this context, turning SNAP into flat-funded state block grants, an effort repeatedly led by House Republican legislators, would in all likelihood lead to consistently lower levels of funding and restrict the program's accessibility. SNAP could possibly follow the TANF pattern of enrollment and funding growth since 1996, a scenario that would in all likelihood increase food insecurity among the most needy populations. In the recent recession, SNAP, the open-ended federal program, was the only program meaningfully expanded. TANF, SSI and Medicaid only moderately expanded. SNAP therefore has provided an important safety net for the needy, and should thus be vocally supported. What other program could be as responsive as SNAP to expand the safety net in economic downturns? State budget shortfalls and cutbacks targeting poverty programs will most likely continue in the foreseeable future, requiring continued need for a federal program.

Income maintenance programs show an interesting geographical and political discrepancy between the need for poverty programs and the publicly-professed political aversion. At the very heart of the debate over income maintenance programs is the argument that less focus on redistribution and more on business-friendly policies increases economic growth. Findings show the contrary: the lower wages associated with RTW policies are associated with increased income maintenance growth and increased need for state-sponsored health care in the long term (even if the needs may not always be met).

While such states may gain income growth for the upper-class residents and labor flexibility, the system is inequitable because such gains need to be mitigated by all U.S. taxpayers through federal programs, burdening residents in non-RTW states disproportionately. These measures also seem to come with increased transfer payment dependency. Missouri and Michigan recently passed RTW legislations, and Pennsylvania and Alaska are the current battlegrounds for similar legislations. The push to pass RTW legislations should be resisted. Of special concern are states with large minority populations, specifically Hispanic populations, which show accelerated levels of income maintenance and state assisted medical care. The adoption of RTW laws, combined with cutbacks in state funding, would clearly affect these vulnerable populations.

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Endnotes:

1. *Growth* $N = N_0 e^{rt}$. *Where:* r is the rate of natural increase. N_0 refers to the initial amount of expenditure. N is the amount of

expenditure after a certain time, t, has elapsed. e is the constant 2. 71828... (the base of natural logarithms). As the Natural Log (ln) is the amount of time needed to reach a certain level of continuous growth, interpretation of the resulting number is straightforward, as it is the annual growth rate.

2. For example, the budget increase from \$100 to \$120 may be an increase of 20%, but for a subsequent budget cut from \$120 to \$100, the percentage change would be -16%. Assessing growth rates in fluctuating situations by taking a natural log would remedy the shortcoming: both ln(120/100) and ln(100/120) are symmetrical (0.1823 and -0.1823, respectively). This measure thus offers more precision for our assessment.