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THE PERVERSE FEDERAL INCENTIVES FOR WELFARE CUTS

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Nineteen ninety-one was a bad year for welfare recipients. Nine states cut and 31 states froze benefits under the Aid to Families with Dependent Children program. At the same time, 14 states cut and another 13 froze general cash assistance payments--the program for poor people not eligible for AFDC. By all accounts, when all of the numbers are in, 1992 will turn out to have been worse.

These cuts hurt. But before heaping all the blame on the states, we should recognize another culprit: the categorical nature of federal poverty programs. In particular, the interplay of the federal AFDC and food stamp programs invites states with large budget deficits to cut welfare.

Food stamp allocations are based on the recipient's income, so a decline in welfare benefits automatically entitles a recipient to more food stamp benefits. A \$ 1 drop in welfare results in a food stamp increase of about 30 to 45 cents, according to the U.S. Department of Agriculture, which administers the program. Hence, the food stamp program cushions the effects of cuts in AFDC, making them less inhumane and politically more palatable.

More important is who pays the bills. AFDC is jointly funded by state and federal dollars, with states picking up between 20 and 50 percent of total costs; the average state share is about 46 percent. Food stamp benefits, on the other hand, are 100 percent federally funded. The effect of a cut in AFDC payments is a substitution of federal dollars for state dollars in aid to the poor.

Some statistics from California illustrate the point. In 1991, the state adopted cuts in its assistance programs that, between 1991 and 1996, will reduce state spending on the poor by \$ 10.8 billion. However, the state's budget analysts calculate that this reduction will trigger a \$ 4 billion rise in food stamp payments, so the net loss to the poor drops to \$ 6.8 billion.

The interaction between AFDC and food stamps is widely appreciated in Washington. But until state budgets got so tight, it was seen solely as an obstacle to increasing AFDC. Now it is clear that the interaction works in both directions, encouraging decreases in AFDC as well as dampening increases in the program.

This interaction is no secret in the states. Many poorer states and states with less apparent sympathy for the poor long have relied on food stamps, rather than AFDC, as their primary program for the poor. In Alabama and Mississippi, for instance, the maximum AFDC payment is about \$ 120, while the maximum food stamp benefit is \$ 277. In comparison, the California figures are \$ 694 and \$ 159, respectively. For New York City, they are \$ 577 and \$ 210.

Now, the more generous states are facing enormous budget deficits, so they are taking the first steps down the same cost-cutting and cost-shifting path. In 1991, District of Columbia officials openly acknowledged the role of the food stamp cushion in their decision to cut AFDC benefits by 4.5 percent. Although federal law prohibits states from cutting welfare in order to increase food stamps, a court upheld the D.C. cuts because they were motivated mostly by budget woes, not cost shifting.

But while the states gain, the poor lose: For every 43 cents states save, AFDC benefits decline by about 65 cents. Removing this increasingly attractive incentive for cutting benefits will require a radical change in federal funding of antipoverty programs.

The AFDC/food stamp interaction is only one of many created by the profusion of categorical federal programs which, in turn, create incentives for states to distort their priorities. Ten committees of Congress and a dozen federal administrative departments have established and preside over more than 75 separate public assistance-like programs, each with its own funding formula and mandates. Hundreds more programs have been established to meet the non-financial needs of disadvantaged individuals and families.

Up to now, it has not been possible to reduce the jumble of federal funding streams--each year brings more, not fewer, categorical programs--because of the powerful special interests involved and because most advocacy groups believe that having more programs leads to more total spending on the disadvantaged. But the current rash of state welfare cuts is telling evidence that the current system creates perverse incentives that can actually hurt the poor. In a period of shrinking budgets and growing needs, it's time to rationalize federal antipoverty aid to the states.

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