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The Social and Economic Trends that Shape America

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Declining Labor Force Participation and the Expanding Social Safety Net

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The financial crisis and subsequent recession of 2007–2009 have left many economic problems in their wake. One of the most worrisome has been the decline in labor force participation among Americans of working age. Many believe that an out-of-date but expanding social safety net is at least partially responsible.

Declining Labor Force Participation

In 2014, the overall labor force participation rate for "prime-age" working Americans—that is 25- to 54-year-olds—was about 80.9 percent, compared to a high of 84.1 percent in the late 1990s. Of those not in the labor force, 2.7 million prime-age Americans did not have jobs and were not looking for one (even as they said they wanted one). That took them out of the "labor force," and they therefore were not officially "unemployed."[1] Federal Reserve Chairman Janet Yellen calls this "shadow unemployment."[2]

Some blame the low level of labor force participation on the economic shocks surrounding the recent financial crisis and subsequent recession. The recession clearly reduced labor force participation. Many experts, however, think that the current significant part of the drop in labor force participation has much deeper roots, reflecting trends that are long-term if less noticed.

Work Disincentives

Impact of Safety-Net Benefits on Low-Income Americans. At least since the income maintenance experiments of the 1960s and 1970s, when a guaranteed income appeared to decrease work and increase divorce (at least among some groups), researchers have heavily investigated the role of safety-net benefits as work disincentives. Almost all serious scholars have concluded that such benefits can reduce labor force participation, but they disagree sharply as to how much they do so. Researchers have attributed at least part of the falling labor force participation rate for all men, and especially those with less education, to declining employment prospects combined with the relative availability of disability benefits.[3]

Safety-net programs are supposed to soften the extreme financial hardships of unemployment, thus giving the unemployed time to find employment leading to self-sufficiency. At some point, however, safety-net benefits can become large enough to make working seem not worthwhile to large numbers of people, at least not right away. The question is usually not whether the unemployed will earn *as much as* their benefits, but rather whether they will earn enough *more than* their benefits to justify working—taking into account the possibility, on the one hand, of advancement and, on the other, of working off the books.

The Expanding Safety Net. Historically, eligibility for safety-net programs was narrowly set so that their work-discouraging effects were limited. Cash welfare, SNAP/food stamps, housing assistance, and Medicaid benefits, for example, were available only to very low-income families, usually only female-headed. Thus, until their recent expansions, most safety-net programs did not create a significant work disincentive for the vast bulk of middle-income Americans, because the benefits did not outweigh the palpable benefits of working in available jobs. Since the Great Recession, however, a much larger swath of Americans have become vulnerable to the work disincentives embedded in safety-net programs, at least for periods of time.[4]

The most dramatic example is the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps.

- Between 2000 and 2013, the peak year, SNAP spending grew from about $22.6 billion to about $81.1 billion (in 2014 dollars), and the SNAP caseload increased from 17.2 million individuals to about 47.6 million individuals.

- During this same period, the number of individuals in poverty increased from 31.6 million to 45.3 million.

- Since the start of the Great Recession in 2008, the number of SNAP recipients has increased by 68.7 percent (between 2008 and 2013) even as the number of individuals in poverty has increased by only 13.8 percent.

- In 2014, as the economy improved somewhat, food stamp spending and participation dropped to $74.1 billion and 46.5 million individuals, respectively.

Why have SNAP caseloads and expenditures increased so much? Although a struggling economy and an increase in poverty certainly have contributed to the increase in SNAP enrollment, other factors include statutory changes and local discretion that result in expanded eligibility and loosened criteria for determining eligibility. Some of the key changes include an increase in maximum monthly benefits; nullified assets tests; categorical eligibility to incomes of 200 percent of poverty; verifying income eligibility only once a year; eligibility for noncitizens; counting less income and allowing more deductions in calculating net income; increasing the amount of benefits; waived work requirements for able-bodied adults without dependents (ABAWDs); five months of transitional benefits regardless of income; and ignoring the income of others in the household.[5]

Passage of the Affordable Care Act (ACA) in 2010 added other benefits not tied to work status, and this resulted in still more work disincentives. For example, the ACA expanded Medicaid eligibility to include adult men and women without children who have household incomes under 138 percent of poverty (previously not covered) and provided health insurance premium tax credits that limit the cost of insurance premiums to 2 percent of annual income to households with incomes between 100 percent and 133 percent of poverty.

Whatever urgent needs they may have filled, these expansions also multiplied the number of Americans vulnerable to the work disincentives embedded in safety-net programs. Economist Casey Mulligan, for example, explains that expanded benefits contribute to the declining rates of labor force participation and employment-to-population ratios by keeping many of those who are only marginally attached to the labor force from looking harder for a job.[6]

A Safety Net that Does Not Ensnare

At least since the welfare reforms of the 1990s, when a work requirement was added to the largest cash assistance program, most experts have agreed that the right balance of work-related requirements embedded in safety-net programs can encourage labor force participation and employment. This is a key point. In fact, welfare reform is generally given credit for a significant portion of the increased labor force participation of low-skilled single mothers that occurred in the 1990s.

The challenge will be to reform the welfare system further to get work incentives right. Welfare reform touched just a few of the dozens of means-tested social welfare programs operated by the federal government. Welfare reform will require recognizing the economic realities faced by those who are in need and reforming welfare to ensure that it promotes self-sufficiency rather than undermining it by discouraging work.

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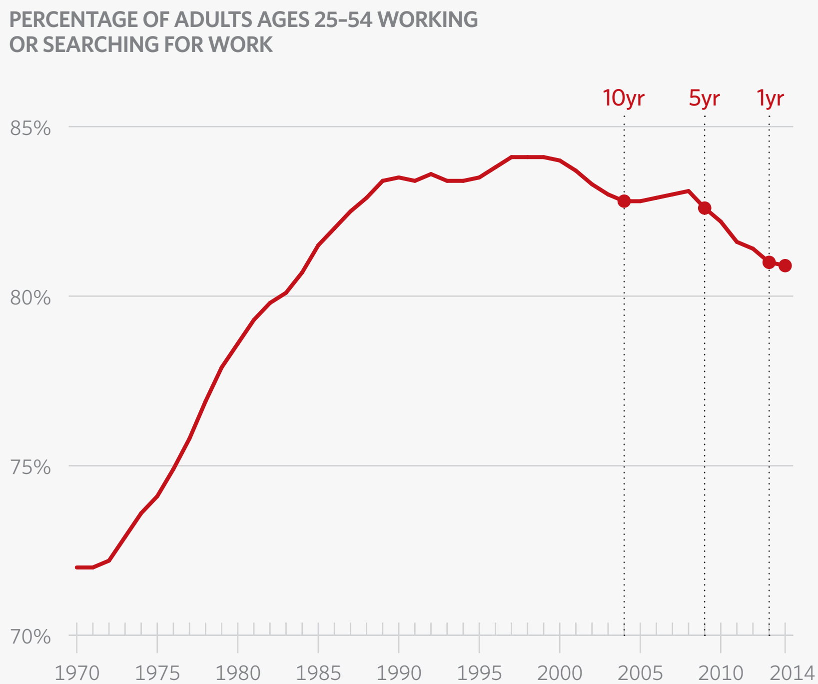
CHANGES | 10-year ▼ 1.9 | 5-year ▼ 1.7 | 1-year ▼ 0.1

Labor Force Participation Rate

From 2004 to 2014, the labor force participation rate for adults ages 25 to 54 fell by 1.9 percentage points.



Sources: U.S. Census Bureau, Current Population Survey, and U.S. Department of Labor, Bureau of Labor Statistics.