Social welfare cuts ultimately come with heavy price, researchers say

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Photo by L. Brian Stauffer

(Phys.org) -- Slashing government funding for Medicaid, food stamps and other programs that serve the poor – while politically popular with some lawmakers and many conservatives – may do more harm than good to the economy and cost taxpayers more in the long run, suggests a report by researchers at the University of Illinois.

Government spending on public benefits programs promotes economic well-being in several ways – stimulating local, state and national economies; creating jobs; generating tax revenue and increasing economic security, the researchers found.

A team led by Mary Keegan Eamon, a faculty member in the School of Social Work, analyzed studies on the four main types of public benefits programs – cash assistance, public health insurance, food assistance and public housing – provided to low-income households in the U.S. and the advantages these programs accrue to non-recipients.

Federal and state lawmakers are considering multibillion-dollar cuts to programs for the poor, including the Supplemental Nutrition Assistance Program, formerly known as food stamps, in attempts to reign in the national debt and states' budgetary shortfalls.

However, focusing on direct expenditures alone ignores the cost savings these programs provide to taxpayers and the private sector, especially over the long term, Eamon said.

As an example, Eamon pointed to the Supplemental Nutrition Program for Women, Infants and Children, which serves 9 million low-income women and children each month and is among the federal programs targeted for significant cuts in the coming fiscal year. By providing nutritious food and medical care, the program prevents low-birth-weight babies, significantly reducing Medicaid costs and expenditures for services related to developmental problems caused by nutritional deficiencies.

"We spend less on Supplemental Security Income for disabled children, hospital costs during the baby's first few months, educational modifiers and other types of programs that are the result of the baby and its mother not having the nutrients and medical care that they needed prenatally," Eamon said.

A cost-benefit analysis by the U.S. General Accounting Office in 1992 found that each federal dollar spent on WIC returns an estimated $3.50 to federal, state, and local governments and private payers – saving an estimated $1 billion over 18 years.

Expenditures on public benefits programs – public health insurance, public housing, food programs and the Earned Income Tax credit for low-income workers – have been linked by numerous researchers to increases in state and/or local tax revenue and economic activity. Increased consumer spending and economic activity from receipt of public benefits positively affect employment, increase earnings and enhance property values, even in more affluent neighborhoods, indirectly benefitting non-recipients.

Spending cutbacks work in reverse – costing jobs and depressing wages and property values.

A recent analysis indicated that state Medicaid expenditures – along with federal matching funds – generated about 3.4 million jobs and wages of more than $133 billion during Fiscal Year 2005. Increases in the Earned Income Tax Credit also create jobs, studies indicate.

Despite demonstrated cost savings and economic gains, public benefits programs and their recipients continue to be stigmatized as financial burdens. Some conservatives claim that America's social policy has failed, that government expenditures are driving up rather than reducing poverty rates and are impeding economic growth.

"It's been shown time and time again that there's a correlation between the social welfare spending that a country does and poverty rates," Eamon said. "The more you spend, the less poverty there is. So that says to me that the reason we have poor people in this country is because we don't spend enough on anti-poverty programs, not that we spend too much."

Non-recipients of public benefits gain indirectly in a number of ways – economically and non-economically – from government spending on programs that primarily serve the poor. Politicians and activists who want to preserve funding for these programs could rally political and public support by appealing to non-recipients' self-interests, the researchers said.

According to one study, more than half of Americans will live in poverty at some time during adulthood.

Reframing economic hardship as a common occurrence that is caused by structural problems within society rather than personal failings could rally political and societal support for government investment in public benefits programs, Eamon said.

Rather than calling programs "welfare" or even "means-tested benefits," lawmakers and advocates might decrease negative perceptions of programs and their recipients by promoting programs as forms of "social insurance" that minimize financial risk.

"State spending on Medicaid can be reframed from a tax burden to an economic gain because the federal government matches state funds, which in turn enhances state and local economies (e.g., provide payments to health care providers, support jobs, and increase income)," the researchers wrote.

The authors concurred that framing government spending on public benefits as an economic stimulus appears to be a good strategy as well, especially during economic downturns.

Even if government spending on public benefits does not generate more economic benefits than it costs, society still gains from indirect non-economic benefits. These include satisfaction from fulfilling humanitarian and spiritual values, such as ensuring that every citizen has access to needed health care and that children do not go to bed hungry.

Co-authors on the study were social work professor Chi-Fang Wu and

Saijun Zhang, a postdoctoral research associate in the Children and Family Research Center.

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