

*Public assistance spending for the poor has become an increasingly popular target for conservative purists and cash-strapped liberals, but the conversation to date assumes that only the poor will feel the impact. In the debate over public assistance spending, we look only at the cost. What we neglect to consider, and what this paper addresses, is the impact of that money when it hits the local economy.*

**NCRCRD**

# Policy Briefs

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## **Cut Once, Pay Twice: The Economic Impact of Public Assistance Spending**

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*by Patrick Gaunt*

*At the advent of civil society Plato pointed out that a just society originates in the realization that “the individual is not self-sufficient, but has many needs which he can’t supply himself.”<sup>1</sup>*

Public assistance in America is an industry much like sports, and just like sports we try not to think of it that way. We associate the athletes with moments from our youth when the sport was played for fun and bragging rights without considering the agents, administrators, advertising companies, attorneys, uniform-makers, and peanut vendors who make their living from it.

We see public assistance with similar conceptual blinders, envisioning hungry people living in slum conditions; perhaps we envision people we’d rather not sit next to on the bus. We do not often consider the nurses, x-ray technicians, custodians, child care specialists, teachers, grocery store workers, and pharmacists who do sit comfortably next to us on the bus and on whom the poor spend their benefits. If public

assistance was viewed as an industry, economic development officials would line up to wine and dine the industry in hopes of luring public assistance into their community. The rhetoric cloaking the issue of funding for public assistance masks its function as a meaningful component of local economies. Far from being a drag on the nation, it is an active contributor.

This policy brief suggests that a critical dimension of the debate over public assistance has been overlooked. While it is true, as Burtless says, that “it is the debate over conflicting visions of fairness and justice,”<sup>2</sup> this never-ending debate needs to incorporate the knowledge that public assistance pays back the taxpayer in cash and is a key component of a strong economy.

## Names Matter

“Welfare,” defined as “aid in the form of money”<sup>3</sup> is rapidly becoming little more than a budgetary footnote in the world of human services. By way of example, in 2004, the Department of Employment & Family Services in Cuyahoga County, Ohio, provided public assistance to thousands of households. Table 1 illustrates why the term “public assistance” is more informative than “welfare.” As observers of the political scene can confirm, what we name a thing affects how we think of it.

## Examples of Public Assistance in Cuyahoga County

Cuyahoga County, Ohio, is at the eastern edge of the North Central region and shares many characteristics with other regional metropolitan counties. This region contains 19% of the nation’s poor<sup>4</sup> and 20% of the public assistance spending.<sup>5</sup>

### Medicaid

Medicaid is the principal public assistance health care program for the poor and is funded from the outside and delivered locally. The numbers in Table 2 show that for every dollar in benefits provided to the poor, local output is raised by \$1.85, earnings increase by \$.54, and for every million dollars there are 17 new jobs created. Keep in mind that medical spending

is not a one-time project like building a sports arena, but an annual event.

These multipliers were of particular interest when, in 2004, the state considered reducing Medicaid spending by \$50 million. Medicaid is funded on a 60/40 basis between the federal and the state governments; therefore, the total reduction would be \$125 million dollars. With 15% of the state’s Medicaid payments in Cuyahoga County, the reduction would imperil \$31.3 million in output, \$9.2 million in earnings, and 323 jobs, just in Cuyahoga County. Understanding this gives added traction when voicing opposition to budget cuts.

### Food Stamps

The Food Stamp program poses another set of considerations in deciding what part of the total expense should be counted. All of the funding is federal (outside); research<sup>6</sup> indicates that of every dollar received, the first 75 cents frees up money the recipient was spending on food prior to receiving food stamps. Only about 25 cents of every food stamp dollar is spent on additional food. The 75% that converts to other forms of consumption qualifies for inclusion because without the federal money it would not be in the economy. We implement this understanding by applying 25% of total Food Stamp dollars to the Food & Kindred Product sector and the balance to the Private Household sector (see Tables 3 and 4).

### Child Care

Subsidized childcare enables people with young children to seek employment and training. In 2004, 21,000 children received subsidized childcare in Cuyahoga County. For the Child Care Sector, the employment multiplier jumps

**Table 1: Public assistance spending in 2004 by benefit.**

Benefit	Percent of Total Spending	Year 2004 Dollars
Medicaid	84%	\$1.8 billion
Food Stamps	8%	\$167.4 million
Child Care	5%	\$106.1 million
Cash Assistance (Welfare)	3%	\$66.2 million
Total	100%	\$2.1 billion

Source: Employment and Family Services, Cuyahoga County, Ohio

to 31 (see Table 5). Clearly, childcare is labor intensive. In 2003, the state lowered the income threshold for eligibility in order to cut costs. As a result, the number of children served in the county dropped by about 5,000, saving the state \$25.2 million in direct payments alone, while at the same time weakening the local economy by 890 jobs and \$14.1 million in earnings. Since most of the childcare facilities are non-commercial providers, the \$14.1 million in earnings came straight out of the wallets of those most in need of assistance.

### **Temporary Aid to Needy Families**

In Cuyahoga County, Temporary Aid to Needy Families (TANF) assisted just over 6,000 households in 2004. Unlike Medicaid there are no prior programs to take into account. The Mother's Pension that preceded Aid for Dependent Children (ADC), later renamed TANF, were too irregular to be considered.<sup>7</sup> The only adjustment to be made is deflation to reflect the year 2000 model (see Table 6). With only 3% of the county's clients enrolled in TANF, the expenditures and impact are the least of the four programs. The 1996 legislation that changed cash assistance to a time-limited benefit has expired and is being maintained in a series of continuing resolutions. Most of the changes discussed in Congress would reduce the number of persons eligible for the program, and TANF, while making large headlines, is already a small program.

### **The Sum of the Impact**

In the Bureau of Economic Analysis reference year of 2000 there were 645,700 people<sup>8</sup> employed in Cuyahoga County; 26,500 of them (4.1%) were in jobs created as a result of public assistance spending. Of the \$25.9 billion in wages earned in the county that year, \$784.3

**Table 2: Impact of Medicaid on the Health Care Sector**

Adjusted Change in Final Demand to Health Care Sector  
\$1,266,191,954

Multiplier	Multiplier Value	Impact
Output	\$1.85	\$2.3 billion
Earnings	\$0.54	\$690 million
Employment	17	21,813

Source: Employment and Family Services, Cuyahoga County, Ohio

**Table 3: Impact of Food Stamps on Food & Kindred Products Sector**

Adjusted Change in Final Demand to Food & Kindred Products  
\$37,804,9853

Multiplier	Multiplier Value	Impact
Output	\$1.59	\$60.1 million
Earnings	\$0.22	\$8.2 million
Employment	6	245

Source: Employment and Family Services, Cuyahoga County, Ohio

**Table 4: Impact of Food Stamps on Private Household Sector**

Adjusted Change in Final Demand to Household Sector  
\$113,414,860

Multiplier	Multiplier Value	Impact
Earnings	\$0.22	\$25.5 million
Employment	9	996

Source: Employment and Family Services, Cuyahoga County, Ohio. There is no output multiplier for the Private Household sector as it is defined as compensation to domestic workers.

**Table 5: Impact of Subsidized Child Care on the Child Care Sector**

Adjusted Change in Final Demand to Child Care Sector  
\$95,825,153

Multiplier	Multiplier Value	Impact
Output	\$1.85	\$176.8 million
Earnings	\$.49	\$46.9 million
Employment	31	2,961

Source: Employment and Family Services, Cuyahoga County, Ohio

**Table 6: Impact of TANF Cash to Private Household Sector**

Adjusted Change in Final Demand to Household Sector  
\$59,831,236

Multiplier	Multiplier Value	Impact
Earnings	\$0.22	\$13.5 million
Employment	9	527

Source: Employment and Family Services, Cuyahoga County, Ohio. There is no output multiplier for the Private Household sector as it is defined as compensation to domestic workers.

**Table 7: Sum of Impacts to Cuyahoga County Economy**

Total Adjusted Change in Final Demand to All Programs  
\$1,573,068,156

Multiplier	Impact
Total Output	\$2.6 billion
Total Earnings	\$784.3 million
Total Employment	26,542

Source: Employment and Family Services, Cuyahoga County, Ohio

million of it (3%) paid for work arising out of public assistance spending. The local economy in 2000 benefited from a \$2.6 billion boost to its output due to public assistance spending. Summing the economic impact of these four types of public assistance, it is clear that although some would argue against what they perceive as unwarranted transfers of wealth to an “underclass,” the greatest beneficiary in dollar terms is the private economy (see Table 7).

Clearly, cutting public assistance budgets will impact more than the poor.



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**For More Information**

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