strengthening work requirements, and over one-third through shifting more costs to the states.

The Administration's AFDC proposals that would directly reduce benefits would also produce significant offsets in the food stamp, housing assistance, and Medicaid programs, as discussed earlier in this chapter. Extending the definition of countable income to include part of the income of unrelated adults living with the family, for example, would directly reduce AFDC benefits of affected families, thereby increasing food stamp benefits for those that participate in both programs by one-third of the amount of the AFDC cut. Similarly, as AFDC benefits fall, the rent paid by those also receiving housing assistance would drop by 25 to 30 percent of the benefit decline, with the rent decrease being made up by the federal government. The net federal offset from reduced AFDC benefits (including additional savings in Medicaid because some AFDC households would lose eligibility) would be roughly 55 percent.

Federal savings from proposals to strengthen work requirements would be offset by about 5 percent--an amount similar to that found for the eligibility cuts discussed earlier in this chapter. The savings would result mainly through discouragement or deterrent effects. Current AFDC recipients would tend to participate for shorter periods (possibly by getting a job sooner than otherwise) and some eligible families would be deterred from applying for AFDC benefits at all. Some households that lost their eligibility for AFDC would also lose Medicaid benefits, reducing spending for that program, but expenditures for both food stamps and housing assistance programs would increase.

Beyond increased AFDC spending from cost shifting to the states, the most important changes in state outlays resulting from these proposals would be the decrease in Medicaid expenditures. States would not pay any part of increased outlays for food stamps and housing assistance programs.

Social Security

Senators Domenici and Hollings, the Chairman and ranking minority member of the Senate Budget Committee, have independently proposed changes in cost-of-living adjustments (COLAs) for indexed entitlement programs. One proposal would eliminate the first COLA on or after July 1, 1982 and then reduce later ones three percentage points from what they would have been under current policy.[14]

Generally, the analysis of the across-the-board benefit reduction discussed earlier in this chapter would apply to this proposal. Federal spending for food stamps and housing assistance programs would increase, compared to what it would have been otherwise, reducing by an estimated 2 percent the net federal budgetary savings from the proposal. Spending by states for SSI would decrease in those states providing supplementary SSI payments.

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14. To set the October 1, 1982 basic food stamp allotment for fiscal year 1983, the proposal would use the value of the Thrifty Food Plan as of June 1981 ($244 per month for a four-person family) instead of the June 1982 value ($259 per month).

APPENDIXES

APPENDIX A. PROGRAMS PROVIDING BENEFITS TO INDVIDUALS

Since at least the 1930s, federal, state, and local governments have developed a wide range of programs to help individuals and families. Over the last 50 years, these programs, which provide cash and in-kind benefits, have grown so much that at least one-half of all U.S. households now receive benefits from one or more of them. The programs were developed individually, in response to changing circumstances and priorities, and evolved by modifying or adding functions to meet these new conditions. The resulting current system, conventionally divided into social insurance and welfare categories, is characterized by many programs structured to meet multiple goals with considerable functional overlap. The larger programs analyzed in this report are described below and summarized in Table A-1.

SOCIAL INSURANCE PROGRAMS

Social insurance programs provide benefits to persons (and their families) who customarily have contributed to the program's support, usually through designated taxes, and who have reduced earning ability, for example, the aged, unemployed, or disabled.[1] Generally, benefits are paid without regard to the level of income or wealth of the recipient, that is, in most cases, there is no means test. In 1982, $301 billion will be spent on federal social insurance programs which is 82 percent of all expenditures for programs providing benefits to individuals and 41 percent of all federal outlays.

The social insurance system includes Social Security (Old Age, Survivors, and Disability Insurance, or OASDI), railroad retirement, government employee pensions, federal/state unemployment insurance, veterans' compensation, disabled coal miners' benefits, Medicare, and some postsecondary education programs.

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1. Some social insurance programs, such as unemployment insurance, veterans' compensation, military retirement, and disabled coal miners' benefits, do not involve direct recipients' contributions, but can be viewed as a form of deferred compensation.

TABLE A-1. OVERVIEW OF THE MAJOR PROGRAMS PROVIDING BENEFITS TO INDIVIDUALS, FISCAL YEAR 1981

Program	Targeted Population	Benefits	Number of Participants, Monthly Average (In millions)	Federal Cost (In billions of dollars)	State and Local Cost (In billions of dollars)
Social Security (Old Age, Survivors, and Disabled Insurance or OASDI)	Retired and disabled workers, survivors, and dependents	Pension averages $384 per month for a retired worker	36	139.6	none
Unemployment Insurance (UI)	Unemployed workers	Varies by state, up to half of prior wages up to maximum amount; averages $102 per week	3.0[a]	20.0	b
Medicare	Elderly and disabled persons	Reimbursement for hospital and physician services	28	42.5	none
Aid to Families with Dependent Children (AFDC)	Low-income, single-parent families with dependent children[c]	Varies by state; median maximum payment is 50 percent of poverty threshold	3.8	8.5	7.2

(Continued)

TABLE A-1. (Continued)

Program	Targeted Population	Benefits	Number of Participants, Monthly Average (In millions)	Federal Cost (In billions of dollars)	State and Local Cost (In billions of dollars)
Supplemental Security Income (SSI)	Aged, blind, and disabled persons	Federal guarantee of $284 for single person and $426 for couple, plus state supplements in 41 states	4.1	7.2	2.4
Food Stamps	Low-income families	$233 per month for 4-person family with no income	8	11.3	d
Medicaid	Low-income families who qualify for AFDC or SSI[e]	Reimbursement to providers for medical services	22[f]	17.1	13.3
Child Nutrition Programs	Children, mainly from lower-income families	Subsidized meals and food	31	4.5	2.7
Housing Assistance Programs	Low-income families	Reduce cost of shelter to 25 to 30 percent of income[g]	3.3	6.7	none

(Continued)

TABLE A-1. (Continued)

a. This is the weekly average; over the year about 10 million people receive unemployment compensation.

b. All funds for UI are included in the federal budget in the Unemployment Trust Fund, although about 80 percent represent benefit payments made under state programs and paid for by state payroll taxes on employers.

c. Two-parent families qualify in about half the states if the principal wage earner is unemployed.

d. States pay roughly half of administrative expenses.

e. Some states also provide Medicaid benefits for the medically needy--generally, people with large medical expenses who would qualify for AFDC or SSI except for their incomes.

f. Persons who received Medicaid benefits during 1981.

g. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) requires an increase from 25 percent to 30 percent, phased in over several years.

Social Security

Social Security, the largest income-transfer program, provided benefits costing almost $140 billion to about 36 million beneficiaries in fiscal year 1981.[2] The program is designed to replace partially the earnings lost when a worker retires or becomes disabled and to pay benefits to family survivors when a worker or retiree dies. It is administered solely by the federal government and financed by a payroll tax paid half by the employee and half by the employer.[3] The tax rate for the self-employed is about three-quarters of the combined employee-employer tax rate.

All persons are eligible for benefits if they meet the program's requirements for disability or for age and retirement, and if they have contributed to the program through the payroll tax for a specified minimum length of time. Most survivors and dependents of disabled or retired workers are also eligible. Roughly 95 percent of all individuals reaching age 65 are eligible to receive Social Security benefits, based either on their own earnings or on those of a past or present spouse. In November 1981, the average monthly benefit received by a retired worker was $385.51; by a disabled worker, $413.27; by a widow or widower, $345.82; and by a child of a deceased worker, $270.89. Benefits are automatically increased annually to reflect changes in the cost of living.

The Social Security program was conceived as a work-related retirement program, but benefits partially reflect presumed need as well as past earnings. The benefit formula is progressive and results in payments which are greater relative to average lifetime earnings for low-wage workers than they are for high-wage workers. Payments of dependents' benefits also lessens the relationship of benefits to earnings.

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2. For a more detailed description of Social Security, see Congressional Budget Office, Paying for Social Security: Funding Options for the Near Term (February 1981).

3. Some argue that the employer's share is, in fact, partly paid by the employee through lowered wages.

Unemploment Insurance (UI)

Financed by federal and state payroll taxes levied on employers,[4] the unemployment insurance (UI) program provides cash benefits during limited periods of unemployment. It is administered primarily by the states according to federal guidelines. Under the regular program, there is substantial variation among the states in benefit levels and eligibility criteria.

Federal taxes collected for unemployment insurance can be used for administration, benefits, and loans to states, while state tax recipts can be used only to pay benefits. These taxes are deposited in, and benefits are paid from, separate state accounts in the Unemployment Trust Fund of the U.S. Treasury and thus appear in the unified federal budget.

Outlays and the number of beneficiaries depend crucially on the condition of the economy. Because of high unemployment in calendar year 1975, outlays reached $16.4 billion; in fiscal year 1980, outlays were $17.5 billion. Outlays in fiscal year 1982 are estimated to be $26 billion.

The regular state programs generally limit benefits to a 26-week period, although some states pay benefits for longer periods. In addition, state and federal governments provide for increased duration of benefit payments during periods of high unemployment. Since the early 1960s, various additional benefits have been provided temporarily under special circumstances.

Benefits under the regular UI program are about half of a worker's wage up to certain limits; the length of time a person can receive these benefits generally increases with the length of work experience or earnings. Thirteen states supplement the UI benefit check for an unemployed family head with a dependency allowance for a spouse or children.

Currently, about 97 percent of all wage and salary workers are covered by UI, but because of the program's work experience requirements, new entrants and re-entrants to the labor force are generally excluded from receiving benefits. In addition, benefits are generally withheld from those who voluntarily quit their

4. Three states require employee contributions.

jobs. About 28 percent of the unemployed received UI benefits in 1980.[5]

Medicare

The Medicare program, enacted in 1965, provides hospital insurance (Medicare Part A) for about 29 million persons eligible for Social Security and railroad retirement who are 65 and older or who are disabled. Medicare also covers chronic renal disease patients who have Social Security coverage either as a worker, spouse, or dependent. Disabled persons during a two-year waiting period, early retirees, and survivors are not eligible for Medicare.

Medicare Part B, the Supplementary Medical Insurance program, is an optional supplement available to this same population and to all those 65 years and older. After a $75 per year deductible, it pays 80 percent of the cost of physician's and other medical services.

Part A is financed by a payroll tax paid half by employees and half by employers, while Part B is financed by premiums paid by recipients and appropriations from general revenues. In fiscal year 1981, Medicare spent about $42.5 billion or over $1,400 per eligible person.

Other Social Insurance Programs

A number of other government programs provide benefits to particular categories of people based on their past work histories or work-related disabilities, but they are not included in the analyses in this report. Among these programs are federal, state, and local government retirement programs, which often supplement rather than supplant Social Security benefits. Federal government pensions provided benefits worth almost $18 billion in fiscal year 1981. Also, every state has adopted worker's compensation programs to provide cash benefits to employees whose disabilities are work-related. Coverage, eligibility rules, and basic benefits vary widely in these state-run programs. The Black Lung program,

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5. Richard T. Curtin, et al., Coping with Unemployment Among American Households (The University of Michigan, Survey Research Center, May 1981).

an occupation-related program for coal miners, provided $1.8 billion in cash benefits to nearly 480,000 miners and their dependents in 1981. Also, the 30 million veterans and their survivors and dependents were eligible for benefits from retirement, health, education, employment, and housing programs costing about $23 billion in 1981.

Besides these direct transfers, tax expenditures related to retirement, disability, unemployment, and medical costs contribute indirectly to the social insurance system.[6] For example, the elderly are allowed an extra income tax exemption and most unemployed workers pay no tax on their unemployment compensation benefits.

WELFARE SYSTEM

Unlike the social insurance system, the welfare system bases benefits on tests of need. Because eligibility usually depends on a family's composition, current income, and its ownership of assets, but not on any prior tax payments or contributions, these programs are called "means tested." In fiscal year 1982, welfare programs will account for $65 billion, or about 18 percent, of all federal spending for benefits to individuals and 9 percent of total federal outlays.

The major cash programs in this category are Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI). In-kind assistance to the poor is provided by the food stamp, child nutrition, and Medicaid programs, as well as by several housing assistance programs.

Aid to Families with Dependent Children (AFDC)

The AFDC program is a grant-in-aid program that assists needy dependent children living with a single parent, relative, or (by

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6. Tax expenditures are revenue losses that result from provisions of the federal tax code that give special or selective tax relief to certain groups of taxpayers. Like federal spending programs, tax expenditures channel resources from some sectors of the economy to others. For more details, see Congressional Budget Office, Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1982-1986 (September 1981).

court order) in foster homes or private nonprofit child-care institutions. Almost all of the single-parent families are headed by women. In roughly half the states, two-parent families with an unemployed principal wage earner are also eligible if they meet additional requirements. About 3.8 million families participated in the AFDC program each month during fiscal year 1981, at an annual federal cost of $8.5 billion and an annual state cost of $7.2 billion.

Because of their low incomes and assets, families receiving AFDC benefits are also eligible for in-kind transfers such as Medicaid, food stamps, and housing assistance. States have the option of taking account of the value of food stamps and housing assistance benefits in computing AFDC payments.

The federal government finances AFDC through matching grants to the states, with each state's matching rate based on its per capita income. In 1981, the average federal share was 54 percent and ranged from 50 percent--the legal floor--to 77 percent.

Eligibility standards and payment levels vary widely among states, which are required to administer and pay part of the cost of the program. Federal law requires each state to establish a basic "needs standard" and limits eligibility to families with incomes less than 150 percent of that standard.

Benefit amounts are based on a state's maximum payment, often less than the needs standard. Because over half the states do not pay the full amount of the needs standard, it is possible to be eligible for aid but receive no payment. In July 1981, the state median maximum payment for a female-headed family of four with no income was about 50 percent of the poverty threshold. In the continental United States, maximum payments as a percent of the poverty threshold ranged from a low of 17 percent in Mississippi to a high of 85 percent in California.

The actual AFDC grant is the maximum payment for that family size reduced dollar-for-dollar for other income, after deductions for child-care and work expenses.[7] Other income includes earnings and cash benefits from other programs.

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7. Earners can deduct expenses for the child-care, up to $160 per child per month, and a standardized $75 for work expense. In addition, for the first four months of participation, a work incentive deduction is allowed that equals $30 plus one-third of earnings remaining after other deductions.

Supplemental Security Income (SSI)

The SSI program provides cash assistance, based on need, to persons who are aged, blind, or disabled. About 4.1 million persons participated in the SSI program each month in fiscal year 1981 with annual outlays about $2.4 million. Many SSI recipients are not eligible for Social Security benefits, generally because they do not meet Social Security's requirements for labor force experience. Over 60 percent of SSI beneficiary households receive Social Security benefits; about 45 percent receive food stamps. Most SSI recipients are automatically eligible for Medicaid.[8] SSI benefits are reduced dollar-for-dollar for other cash benefits over $20 per month.

Basic benefits are paid by the federal government, and 41 states provide a supplementary state payment. For the year beginning July 1, 1982, single SSI recipients receive at least the federal guarantee of $284.30 a month, which is 73 percent of the poverty standard, while SSI couples receive at least $426.40 a month, or 82 percent of the poverty standard. Federal SSI benefits are automatically adjusted to reflect increases in consumer prices. In states that pay them, supplementary payments can raise monthly benefits to as high as California's $439 for single individuals and $815 for couples.

Food Stamp Program

The Food Stamp Program provides needy households with a monthly allotment of coupons that can be used to purchase food.[9] Eligibility standards and benefit levels are uniform throughout the nation, making food stamps the only program for which all low-income persons qualify, regardless of other characteristics such as family composition. The federal government bears the entire cost of the benefits and shares about equally the administrative costs with the states, which are responsible for the program's administration.

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8. About one-third of the states have been permitted to apply somewhat more stringent Medicaid eligibility criteria to their SSI recipients than other states. Many refer to these as "209(b) states," reflecting the section of the Social Security amendments of 1972 which provided this option.

9. For a more detailed description of food stamps, see Congressional Budget Office, The Food Stamp Program: Income or Food Supplementation?, Budget Issue Paper (January 1977).

In fiscal year 1982, the basic benefit--called the "thrifty food plan"--is $233 per month for a family of four with no income, or about one-third of the poverty threshold. This benefit is reduced 30 cents for each dollar of income, net of a few deductions. During fiscal year 1981, monthly participation averaged about 8 million households at a total federal cost of $11.3 billion for the year.

Child Nutrition Programs

These programs provide indirect subsidies to both needy and nonneedy children through food assistance programs, such as the school lunch program; the school breakfast program; the summer feeding program; the child care feeding program; the special milk program; and the special supplemental food program for women, infants, and children (WIC).[10] Costs are shared among sponsors of the programs, with a federal contribution of about 60 percent. In fiscal year 1981, the federal cost was $4.5 billion and the state cost was almost $3 billion.

Federal payments to states, schools, and other sponsors of the various feeding programs are usually based on the family incomes of the participating children. In places that participate in the programs, children are eligible to receive free lunches, suppers, and breakfasts if their family incomes are below 130 percent of the poverty level. They may receive meals at reduced prices--about half price--if their family incomes are between 130 and 185 percent of the poverty level. Children from families with incomes above these levels also have breakfast, lunch, and milk costs reduced by more limited amounts in participating schools.

The National School Lunch Program, which accounts for roughly two-thirds of child nutrition costs, served about 26 million children each day at a federal cost of almost $3 billion for fiscal year 1981.

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10. For a more detailed description of child nutrition programs see Congressional Budget Office, Feeding Children: Federal Child Nutrition Policies in the 1980s, Budget Issue Paper (May 1980).

Medicaid

The Grants to States for Medical Assistance Program (Medicaid), enacted in 1965, finances medical care for the needy.[11] State agencies administer Medicaid through grants from the Health Care Financing Administration, while financial responsibility is shared by federal, state, and sometimes local governments. There is substantial variation from state to state, both in the categories of persons covered and in the benefits to which they are entitled.[12]

By federal statute, all AFDC and virtually all SSI recipients are eligible for Medicaid. About 30 states also cover the medically indigent: persons with large medical bills who meet all the other requirements of AFDC or SSI except for their incomes. About half of Medicaid recipients are under age 21; one-sixth are over 65. Large segments of the poor population--poor childless couples, single persons under age 65, the working poor, and intact families--do not qualify for Medicaid, however, because they do not qualify for AFDC or SSI.

In fiscal year 1981, Medicaid paid for medical services for over 22 million persons at a federal cost of $17 billion. This is an average of $760 per recipient, but the average varies widely by state and type of recipient. In fiscal year 1980, the most recent year for which data are available, the average for AFDC recipients in Mississippi was $231, while in New York it was $364. The difference between the average Medicaid costs for AFDC recipients results from differences in benefits and the price of medical care in the two states. The comparable figures for all Medicaid recipients was $533 in Mississippi, and $993 in New York. The higher figure is caused principally by the inclusion of more elderly and disabled Medicaid recipients.

Housing Assistance

Federal housing assistance programs administered by the Department of Housing and Urban Development (HUD) reduced shelter

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11. For a more detailed description of Medicaid, see Congressional Budget Office, Medicaid: Choices for 1982 and Beyond, Budget Issue Paper (June 1981).

12. When Arizona's demonstration project begins in October 1982, all states will have at least a minimal Medicaid program.

costs for approximately 3.3 million low-income households in 1981.[13] More than 2.5 million of these families were assisted under the Section 8 and public housing rental assistance programs. Under each of these programs, assisted households contribute a fixed proportion of their incomes toward their own housing, and the federal government makes up the difference between that amount and the full costs of the dwellings they occupy. As a result of the 1981 reconciliation act, the rent for families in Section 8 and public housing will rise from 25 percent to 30 percent of net income.[14]

While the other transfer programs discussed above are generally entitlements--that is, anyone qualifying and applying for the program must, by law, be provided with benefits--participation in the housing assistance programs is limited by the amount appropriated for the programs. Rental assistance commitments expected to be outstanding as of the end of fiscal year 1982 will be sufficient to serve about 30 percent of the target group of those programs. Federal costs for all major HUD housing assistance programs totaled about $6.7 billion in fiscal year 1981.

Other Welfare Programs

A variety of government assistance programs are not included in this report, but provide some or all of their benefits to lower-income people. They include:

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13. For a more complete description of these programs, see Congressional Budget Office, The Long-Term Costs of Lower-Income Housing Assistance Programs, Budget Issue Paper (March 1979).

14. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) set the rent for Section 8 and public housing tenants at the highest of three figures--30 percent of the family's monthly adjusted income, 10 percent of the family's monthly gross income, or that part of a family's welfare payments specifically designated to meet housing costs in those states that adjust welfare to cover housing. Because these are higher than prior rent charges, they are to be increased over several years, but the exact phase-in provisions have not yet been determined.

- Pensions, health services, housing, and educational assistance for needy veterans (including, in some cases, dependents and survivors of such veterans).

- Emergency cash and in-kind assistance to families with emergency needs for a single month or as a result of a natural disaster.

- Educational assistance, such as Pell grants, and guaranteed student loans.

- Assistance to special groups, such as refugees and Indians.

- Social services, such as legal and other services that are provided under Title XX of the Social Security Act through grants to states.

- Energy assistance.

- Employment programs, such as the Work Incentive (WIN) program, job training, and employment services.

- Tax benefits, such as the earned income tax credit, which supplements the earnings of low-income families with children by providing a refundable tax credit.

APPENDIX B. DATA SOURCES AND METHODOLOGY FOR ESTIMATES

This appendix discusses the estimates presented in this paper, including their data sources, the methods used to derive them, their applicability to years after 1983, and the factors affecting their size.

DATA SOURCES

The three main data sources used in the analyses are:

- The March 1981 Current Population Survey (CPS);
- Program data for food stamps, Aid to Families with Dependent Children (AFDC), Social Security, and Supplemental Security Income (SSI); and
- CBO baselines and economic assumptions presented in Baseline Budget Projections for Fiscal Years 1983-1987 (February 1982).

The March 1981 CPS provided the basic rates of participation in more than one program. These rates were compared to those from other data sources and adjusted when appropriate. The other data sources were the 1979 Test Panel of the Income Survey Development Program (ISDP)/Survey of Income and Program Participation (SIPP), the March 1980 CPS, and data from individual programs.

After resolving, where feasible, inconsistencies resulting from differences in accounting periods and filing units and scheduled changes in program rules and benefits, the March 1981 CPS participation rates were quite consistent with information from these other data sources. For example, the March 1980 CPS indicated that 10.7 percent of census households receiving food stamps sometime during calendar year 1979 also received unemployment compensation during that year. In comparison, Wave I of the 1979 Test Panel of the ISDP indicated that 12.1 percent of food stamp households received unemployment compensation during the three-month reference period in early calendar year 1979. The 1979 Test Panel rate is 13 percent higher than the CPS, a difference primarily reflecting less income underreporting in the

1979 Test Panel. Other comparisons generally yielded similar or smaller differences, after consistency adjustments were made.

ESTIMATION METHODS

The three types of estimates contained in Tables 4 through 9 in Chapter III are discussed in this section:

- Offsets;
- Net budget effects; and
- Percentage changes in spending by the interacting program.

The effects on federal versus state and local government spending were computed from the above estimates using the appropriate cost-sharing rates for the programs.

Offsets

Each offset estimate required three items, projected for fiscal year 1983:

- The proportion of households in the reduced program that also participate in the interacting program;
- The rate at which benefits are reduced for other income for the participants in both programs; and
- The adjustment factor reflecting any difference in the average benefit of participants in both programs compared with all program recipients.

To demonstrate how these items were incorporated into the estimate, the interaction between AFDC and food stamps resulting from an across-the-board benefit reduction in the former program is discussed in detail.

First, an estimate of participation in the Food Stamp Program by AFDC households was developed. Such estimates range from 70 to 80 percent, depending on the data source. More estimates cluster in the low 70s, but the trend over time is upward, so a rate of 75 percent was used as the estimate for 1983. This rate excludes those participants in both programs that receive benefits from a third, such as SSI, that would offset changes in AFDC benefits. Such offsets would leave total cash assistance unchanged and, therefore, food stamp benefits would remain unchanged. This adjustment is larger for other interactions, such as between Social Security and food stamps, since a larger proportion of Social Security recipients also receive SSI benefits than do AFDC recipients.

Second, based on a recent survey of food stamp recipients, for each dollar decline in AFDC payments the average food stamp household is projected to receive 32 cents more in food stamps, depending on the income and shelter deduction of the household. (For comparison, the rate for elderly households is 28 cents; it is lower because about one-fifth of such households receive the minimum benefit, which would not be affected by a change in income.)

Combining these two numbers yields an initial estimate of the offset; that is, when AFDC benefits decline by one dollar, food stamps increase 32 cents for the 75 percent of AFDC households participating in both programs. For the 25 percent not participating in the Food Stamp Program, no increase would occur, so the food stamp offset would be 24 cents (0.75 x 32 = 24) for all AFDC households.

Finally, because the average AFDC benefits for those who receive food stamps do not differ significantly from the average benefits of the entire AFDC caseload, no adjustment is made to account for a differential effect of the AFDC benefit reduction. In contrast, such an adjustment is necessary for the offset by SSI of a reduction in Social Security benefits because the average Social Security recipient also getting SSI receives about 67 percent of the benefits of the average Social Security recipient.

Net Budget Effects

The net reduction in budgetary outlays, expressed as a percent, is simply the percentage size of the cut (20 percent in this paper) minus the percent of the program savings that is offset by other programs. Using the previous example, a cutback in AFDC outlays achieved by a 20 percent across-the-board benefit reduction would cause a 24 cent increase in food stamps for each dollar cut, or a 4.8 percent offset to the 20 percent cut (0.20 x 24 = 4.8). Thus, the net cut is 20.0 minus 4.8 or 15.2 percent for the food stamp offset. Adding the offsets of other programs yields the overall, or net, budget effect.

Effects on Interacting Programs

The percentage change in spending by each interacting program is the estimated dollar size of the offset divided by the estimate of that program's costs with the result expressed as a percent. To continue the same example, the CBO's current policy baselines for AFDC and food stamps are $15,331 million[1] and $12,543 million, respectively, in fiscal year 1983. The estimated offset by food stamps would be $736 million ($15,331 x 0.20 x 0.24 = $736); therefore, the percentage increase in food stamp expenditures would be 5.9 percent ($736/$12,543 = 0.059).

Federal Versus State and Local Spending. Using cost-sharing (matching) rates between the federal and state governments, the effect on different levels of government can be estimated. For the AFDC/food stamp example, the federal government pays 54.1 percent of total AFDC costs and 100 percent of food stamp costs. Considering only these two programs, for each dollar cut from total AFDC benefits, the federal government would spend 54.1 cents less in AFDC, but 24 cents more for food stamps (100 percent of 24 cents), which is an offset in federal spending of 44.4 percent (24/54.1 = 0.444). Of course, the overall effect on a given level of government would include offsets in all programs affected by the cut being analyzed.

APPLICABILITY OF ESTIMATES TO LATER YEARS

The estimates presented in this study are all for fiscal year 1983 and, with one exception, would be similar in size for later years, with differences usually less than a few percentage points. The exception is unemployment insurance (UI), for which estimates depend crucially on the state of the economy and may vary in different years. For example, the offset by food stamps that would occur with an across-the-board reduction in unemployment compensation in 1983 is about 30 percent higher than it would have been in 1979--about 3.0 cents versus 2.3 cents for each dollar reduction in UI--although the difference is still less than one percentage point in this case.

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1. The $15,331 million figure is the combined federal, state, and local spending for AFDC; $8,294 million (54.1 percent) is the federal share.

The differences in the estimates of the outlay effects for interacting programs for recent years are usually less than a few percentage points, as was the case for the offset effects. The outlay effect on each interacting program depends on the ratio of spending for the two programs involved. Therefore, if spending for the changed and interacting programs is changing slowly and steadily, then their ratio is easy to project and the results will change slowly. In recent years, this has been the case for most programs analyzed in this report. Although many programs were cut in last year's budget actions, their ratios have remained relatively constant.

FACTORS AFFECTING THE SIZE OF ESTIMATES

Four main factors affect the size of the offset estimates and would be important in estimating the effects of proposals other than the hypothetical ones used in this study. They are:

- The size of the reduction;
- The distribution of the benefit changes between those who do and do not participate in other programs;
- The number of programs explicitly changed; and
- The extent of changes in behavior of those affected by the cut.

The size of the program reduction is directly related to the offsets in most cases. For some recipients, though, the offsets may be affected by break-even points, minimum benefit guarantees, or other program rules that constrain benefit amounts. Because one- or two-person households eligible for food stamps receive a minimum of $10 in stamps monthly, benefit changes in other programs may not alter the amount of food stamps they receive, thus lowering the size of the overall offset.

The distribution of the cut--who is affected and how--also directly affects the estimates. If those affected by a program change do not participate in other programs, then no interactions occur. For example, lowering the income eligibility standards for AFDC may produce a much lower increase in spending by housing assistance programs, since higher-income AFDC households participate less frequently in housing assistance programs than does the average AFDC household.

In general, changes to more than one program would produce offsets that are additive. In some cases, however, changes can be designed to reduce the impact of the interactions by simultaneously modifying all programs involved so that the offsets would cancel each other. In other cases, such as omitting cost-of-living adjustments in all programs that have them, offsets would be small because many indexed programs are indexed at the same time and in similiar ways.

Finally, program changes may induce significant changes in recipients' behavior that, in turn, would affect the size of offsets. This is especially important if the change in benefits is large or is concentrated on one group of recipients so that it reduces substantially their total disposable income. Recently enacted reductions in work incentives in AFDC, for example, may cause declines in work effort leading to increased outlays for AFDC. Such behavioral responses would occur over a period of time and would cause, ultimately, offsets in other programs.