The Crowd-out Effects of Medical Assistance Expenditure on Cash Assistance and Social Services Expenditures

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ABSTRACT

This paper examines the crowd-out effects of the three types of social welfare spending on each other: (1) cash assistance spending, (2) medical assistance spending, and (3) social services spending. In doing so, it employs a fixed-effects model and utilizes panel data covering 1980 to 2004 for 50 states.

Empirical findings are interesting. Medical assistance spending has crowd-out effects on social services spending and vice versa. The size of crowd-out effect flowing from medical assistance spending to social services spending is quite comparable to the crowd-out effect size flowing from social services spending to medical assistance spending. Medical assistance spending has crowd-in effects on cash assistance spending and vice versa. The size of crowd-in effect flowing from medical assistance spending to cash assistance spending is three times as large as the crowd-in effect size flowing from cash assistance spending to medical assistance spending. Social services spending and cash assistance spending have neither crowd-out nor crowd-in effects on each other. These findings suggest that a recent continuing expansion of health care spending in state budgets has cut spending for people in need of non-health social services from state and local governments.

Keywords: social welfare expenditure; medical assistance expenditure; cash assistance expenditure; social services expenditure; crowd-out effect
I. Introduction

Public policy is considered as response to inadequate outcomes of markets; for example, there are various policies that provide the rule of law, protect the environment and resolve other externality problems, allow for financing and supply of public goods, preempt personal time-inconsistency problems, and finance and provide the entitlements of social insurance. Government, specifically, plays a substantial role in social welfare through public policy and finance. In addition, social welfare policy has characteristic of redistribution. Redistributive policy is one of the most controversial policies, because such policy takes a resource from one identifiable group and gives a benefit to another identifiable group. Thus, it is important to allocate funding for different kinds of policies and programs (Birkland, 2011; Hillman, 2002).

Social welfare spending has steadily increased since 1983, according to a 2007 report, entitled as The End of Post-Reform Growth in Social Services: Social Welfare Spending by State and Local Governments, 1977-2005 (Gais, Bae & Dadayan, 2007). State governments have grown their responsibilities for funding and providing public goods and services. On one hand, state and local governments have limitations of their budget; thus, the governments cannot conduct all social welfare policies as amount of their desire.

Social welfare spending can be classified as the following three categories: (1) cash assistance, (2) medical assistance, and (3) social services. Cash assistance spending includes AFDC (Aid to Families and Dependent Children), cash assistance of TANF (Temporary Assistance for Needy Families), and SSI (Supplemental Security Income). Medical assistance spending is expenditure for health care; for example, there are Medicaid and SCHIP (State