

Welfare Reform: An Economist's Perspective

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The election of Bill Clinton has brought welfare reform back to the forefront of the national agenda. President Clinton has listed welfare reform as one of his highest priorities. While concerned with the welfare system in general, he has committed himself to a specific type of reform—placing a maximum limit on the amount of time a family can receive welfare and requiring some type of work program for those still in need after the time limit.

Public discussion of welfare reform did not begin with the 1992 campaign. Welfare reform “came back” into public discourse about ten years ago after a long hiatus, in part because of the 1981 Omnibus Budget Reconciliation Act (OBRA)¹ proposed by President Reagan and passed by Congress. OBRA had two major features. First, it raised the welfare “benefit-reduction rate” from 67% to 100%. Also called the “tax rate” by economists, the benefit-reduction rate is the rate at which a recipient’s welfare benefits are reduced for each extra dollar of earnings. Under a 100% tax rate, a recipient who earns \$100 will have his or her benefits correspondingly reduced by \$100, leaving total income unchanged. Many have argued that the higher rate creates work disincentives.² Regardless of whether that concern is justified, OBRA did bring the work incentive issue back under discussion. Second, OBRA encouraged states to initiate their own welfare reforms. In particular, the Act encouraged states to create work and training programs—called “workfare” by the general public. Most states tested, albeit on a small scale, a wide variety of such programs.³ The 1980s thus saw a gradual increase in state welfare reform activity which continues today and shows no signs of abating.

Despite only sporadic debate on the issue, extensive research on the U.S. welfare system has been conducted since the 1960s. In this essay I present the findings of research by economists on the welfare system and welfare reform, and discuss their implications. Economists have addressed many different aspects of the welfare reform problem, but perhaps their most important contribution has been in explaining the behavioral incentives of welfare systems.

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1. Pub. L. No. 97-35, 95 Stat. 357.

2. *See, e.g.*, ARTHUR LAFFER, *THE TIGHTENING GRIP OF THE POVERTY TRAP* (1984); JOE THOMAS, *PROFILES OF FAMILIES IN POVERTY: EFFECTS OF THE FY 1983 BUDGET PROPOSALS ON THE POOR* (Center for the Study of Social Policy Working Paper, 1982).

3. *See* STAFF OF HOUSE COMM. ON WAYS AND MEANS, 99TH CONG., 1ST SESS., *BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS* 336-39 (1985) [hereinafter 1985 BACKGROUND MATERIAL].

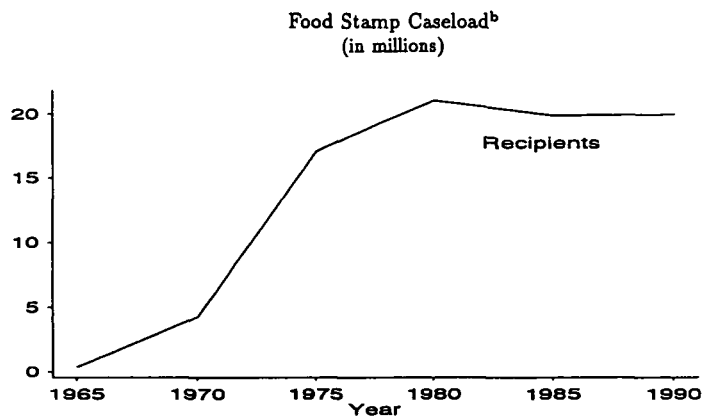
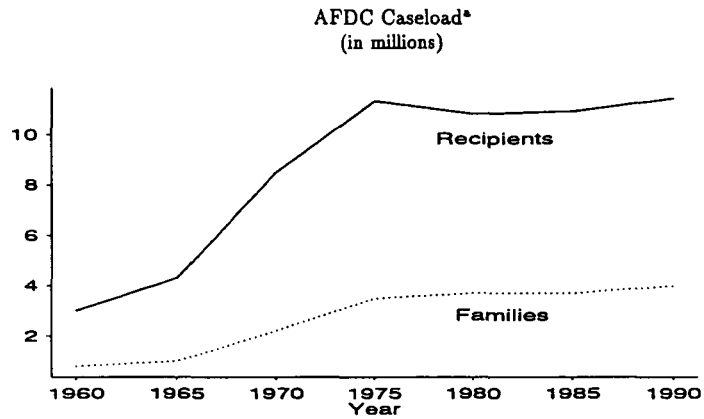
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I will first give a brief overview of the characteristics and history of the U.S. welfare system most relevant to the incentive issues of welfare. I will then briefly summarize the research findings on the incentive effects of the existing welfare system. I will continue by reviewing the findings of research on the effects of several long-considered welfare reforms, including the use of monetary incentives and work and training programs. Finally, I will discuss the implications of the research findings for two current issues in welfare reform about which we do not have much direct evidence: (1) "time-limited" welfare reform, which puts a limit on the number of years that a family can receive welfare, and (2) the "new paternalism"—a collection of recent state welfare reforms aimed at changing behavioral incentives.⁴

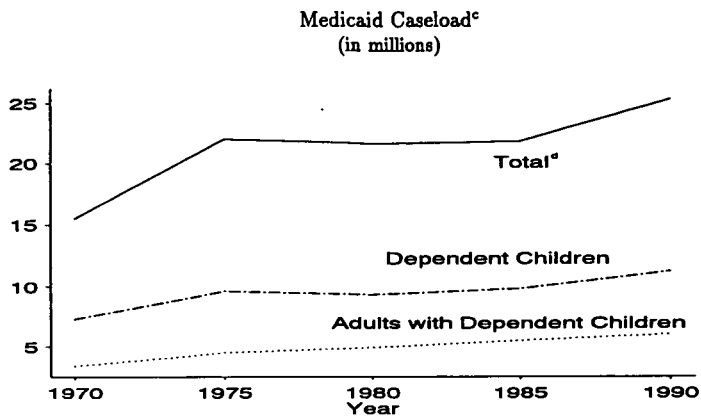
My review demonstrates that welfare is "hard to reform," to use the phrase of a well-known past analyst.⁵ There is little evidence to support the value of many of the reforms now being discussed. This is particularly true of the recent reform proposals dubbed the "new paternalism." The only reform measures with consistently significant positive effects on the earnings of welfare recipients are those which offer training to improve job skills. But even those programs would have to be expanded far beyond their existing levels to make a sizable dent in the welfare caseload and the poverty rate.

4. The term arises from the seemingly "paternalistic" attitude of these programs toward shaping the behavior of recipients. For a good discussion of the issues, see *The New Paternalism*, 50 PUB. WELFARE 4 (1992).

5. HENRY J. AARON, WHY IS WELFARE SO HARD TO REFORM? (1972).



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^aU.S. SOCIAL SEC. ADMIN., SOCIAL SECURITY BULLETIN: ANNUAL STATISTICAL SUPPLEMENT 334 (1988); STAFF OF HOUSE COMM. ON WAYS AND MEANS, 102D CONG., 2D SESS., BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS 600 (1992). The graph includes statistics for AFDC-UP, a program for families with two parents present.

^bU.S. SOCIAL SEC. ADMIN., *supra* note a, at 307.

^cU.S. SOCIAL STATISTICS, PUBLIC ASSISTANCE STATISTICS tbl. 1 (Series A-2, 1970); U.S. SOCIAL SEC. ADMIN., *supra* note a, at 272.

^dIncludes blind, elderly, and disabled medicaid recipients.

I. THE CONTOURS OF THE EXISTING U.S. WELFARE SYSTEM

The oldest and most important part of the modern U.S. welfare system is the Aid to Families with Dependent Children (AFDC) program. The AFDC program was created in 1935 by the Social Security Act. The Act also created unemployment insurance and Social Security; however, the term "welfare" generally refers to AFDC. AFDC provides cash benefits to families with low income and few assets who have children under eighteen in the household. The first figure shows the caseload level since 1960. As the figure indicates, there was an enormous welfare explosion in the late 1960s and early 1970s. The caseload more than tripled between 1965 and 1975. The expansion was followed by a long period of relative stability through the late 1980s. The caseload began rising again in 1989 and has continued. As this trend is relatively new, little research has been conducted to explore its origins. It should be noted, however, that the increase is still far below the explosion of the late 1960s. Furthermore, it appears to be largely an effect of the recession and, therefore, may be temporary.⁶

One of the most important characteristics of the AFDC program is that it provides assistance almost exclusively to single, female-headed families; that is, to households headed by women without an able-bodied male present. The 1935 Social Security Act intended the AFDC program for widows, but by the 1960s it was providing most support to women with out-of-wedlock children and to divorced or separated women with children.⁷ The provision of benefits only to women without husbands raises several issues. First, it is not clear why poor couples, especially those with steady workers, are any less deserving of assistance than single female heads of household. Second, the existing system provides an incentive for men and women to have out-of-wedlock children and to delay marriage or avoid remarriage. (Whether or not they act on that incentive is a separate issue.) Congress responded to the fairness and the incentive issues in 1962 by permitting states to offer a supplemental program to husband-wife families called AFDC-UP. Because eligibility for the program was and still is highly restricted, however, its caseload has always been inconsequential relative to AFDC.⁸ Furthermore, only about half the states have chosen to adopt the program.

6. "[I]t seems clear that the economy's deterioration has been strong enough to account for some, and probably most, of the accelerated growth [in the AFDC caseload]." U.S. CONGRESSIONAL BUDGET OFFICE, A PRELIMINARY ANALYSIS OF GROWING CASELOADS IN AFDC 1 (1991).

7. ROBERT J. MYERS, SOCIAL SECURITY 611 (2d ed. 1981).

8. Only families whose "breadwinner" has had a substantial history of employment are eligible. In addition, the unemployed "breadwinner" cannot work more than 100 hours per month and retain eligibility, even if the earnings from that work leave the family below the income cutoffs for eligibility. 1985 BACKGROUND MATERIAL, *supra* note 3, at 609-10.

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Two Supreme Court opinions⁹ had a theoretical, if not practical, impact on the incentives issues inherent in AFDC. In 1968 and 1970, the Court struck down the so-called "man-in-the-house" rule, which states had used to forbid the presence of a male in the household of women receiving AFDC even if he were only staying for a single night. The rulings did little to change the make-up of the typical AFDC family, however. There are still virtually no families receiving AFDC with able-bodied males present in the household.

The major change in the welfare system since the 1960s has been the introduction of the Food Stamp and Medicaid programs. The Food Stamp program was introduced in the early 1960s on a voluntary basis and was mandated for all counties in the early 1970s.¹⁰ The program provides food coupons to families with sufficiently low income and assets. It has grown dramatically over the years and is, today, double the size of AFDC.¹¹ Eligibility is based solely on income and assets, and not on marital status or the presence of children. Consequently, husband-wife families, single individuals and single parent families can receive coupons.

Under the Medicaid program, recipients receive free or heavily subsidized care from physicians and hospitals for a prescribed set of services. Historically, Medicaid has been tied almost exclusively to the receipt of AFDC. AFDC recipients get their Medicaid "card" when they go on AFDC and they lose it when they go off. Families not on AFDC have a much harder time acquiring Medicaid benefits. Some states offer a "Medically Needy" program that provides Medicaid benefits for non-AFDC families that have depleted the major portion of their assets.¹² However, that program is used only by those with catastrophic medical care needs. There is no incentive for others to expend their assets to the low level necessary to qualify for eligibility. In the late 1980s, Congress extended eligibility for Medicaid benefits to the children of poor families, whether on AFDC or not—though not to their parents—as well as to new categories of pregnant women. Both of those changes have significantly increased the caseload, as shown in the third figure.¹³

The introduction of Food Stamps and Medicaid has not only changed the types of benefits and eligibility groups provided by the U.S. welfare system, but also has had a major effect on the level of benefits received. For poor female heads, whose main source of cash support is the AFDC program, Food Stamps and Medicaid provide important additional support. The vast majority

9. *Lewis v. Martin*, 397 U.S. 552 (1970); *King v. Smith*, 392 U.S. 309 (1968).

10. U.S. CONGRESSIONAL BUDGET OFFICE, *THE FOOD STAMP PROGRAM: INCOME OR FOOD SUPPLEMENTATION* 9 (1977).

11. U.S. SOCIAL SEC. ADMIN., *SOCIAL SECURITY BULLETIN: ANNUAL STATISTICAL SUPPLEMENT* 307 (1991).

12. 1985 BACKGROUND MATERIAL, *supra* note 3, at 1644.

13. See Omnibus Budget Reconciliation Act of 1987, Pub. L. No. 100-203, 101 Stat. 1330.

of AFDC recipients also receive Food Stamp and Medicaid benefits.¹⁴ The predominance of such multiple-benefit receipt is important because real (i.e., inflation-adjusted) benefits in the AFDC program have declined significantly over the last twenty years. The real AFDC benefit in 1992 was 43% lower than its value in 1970.¹⁵ The introduction of Food Stamps and Medicaid benefits, however, raised the total (real) welfare benefit by more than enough to offset this decline, leaving the current total benefit above its level in the early 1970s.¹⁶

II. INCENTIVE EFFECTS OF THE EXISTING WELFARE SYSTEM

It is useful to divide the research on the welfare system into two parts. In this section I will discuss research on the effects of the existing system. In sections III and IV, I will examine the potential effects of proposed reforms of that system. Naturally, the two are closely linked as reform proposals are necessarily based upon some real or perceived deleterious effect of the existing system.¹⁷

Most research by economists has focused on several popular beliefs about behavioral effects of the welfare system:

- (1) that it serves as a severe disincentive to work
- (2) that it encourages long-term dependency on welfare
- (3) that it encourages marital breakup and illegitimacy
- (4) that it encourages state-to-state migration to take advantage of higher benefits
- (5) that welfare is "passed down" from generation to generation, as children of welfare families go onto welfare themselves.

Probably the most important, and perhaps surprising, overall conclusion from the research is how little evidence exists to support any of these beliefs, with the possible exception of the first.

14. Daniel Weinberg, *Filling the 'Poverty Gap': Multiple Transfer Program Participation*, 20 J. HUM. RESOURCES 64, 72 (1985).

15. STAFF OF HOUSE COMM. ON WAYS AND MEANS, 102D CONG., 2D SESS., BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS 645 (1992) [hereinafter 1992 BACKGROUND MATERIAL].

16. Robert Moffitt, *Has State Redistribution Policy Grown More Conservative?*, 43 NAT'L TAX J. 123, 126-28 (1990).

17. These sections are based upon my recent lengthy review of economic research. Robert Moffitt, *Incentive Effects of the U.S. Welfare System*, 30 J. ECON. LITERATURE 1 (1992).

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A. *Work Incentives*

The study of possible work disincentives of the welfare system has been the most heavily researched topic in economics literature over the last twenty years. The statistical basis for most such studies is the enormous cross-state variation in AFDC benefit levels. In 1992, for example, a family of three received \$120 per month in Mississippi, while the same size family received \$924 in Alaska.¹⁸ Leaving aside the equity and migration issues raised by this disparity, such differences provide researchers an opportunity to study particular behaviors—work levels, marriage and illegitimacy, etc.—of welfare recipients in different states who are similar in other respects (age, education, family size, etc.).

The studies indicate overwhelmingly that the AFDC system discourages work.¹⁹ Female heads of households in higher-benefit states are less likely to be employed than such women in low benefit states. Furthermore, if they do work, they tend to have lower earned income and lower hours of work than women in low-benefit states. This correlation is strong and shows up repeatedly in numerous studies.²⁰

Several comments are in order to put this finding into perspective. It should first be noted that work disincentives were the purpose of the AFDC program when it was enacted in 1935. The intent of that program was to permit widowed mothers to stay at home with their children. Since 1935, however, the AFDC caseload has become more heavily composed of unwed and divorced mothers, for whom there is less public sympathy. Furthermore, labor force participation among women has grown enormously. It is now expected that women should work outside the home rather than be paid to take care of their children. The problem with such an expectation, however, is that low-income women rarely can afford to pay for child care. The available evidence indicates that child care costs are so high that the majority of single mothers would remain in poverty even if they worked full-time.²¹ Consequently, eliminating the work disincentive problem in welfare without forcing women to leave children at home alone or to put them in substandard care would require replacing the existing AFDC system with a child-care system. Such

18. 1992 BACKGROUND MATERIAL, *supra* note 15, at 636-37.

19. See generally Sheldon Danziger et al., *How Income Transfers Affect Work, Savings, and the Income Distribution*, 19 J. ECON. LITERATURE 975 (1981); Jerry Hausman, *Labor Supply*, in *HOW TAXES AFFECT ECONOMIC BEHAVIOR* 27 (Henry J. Aaron & Joseph A. Pechman eds., 1981); Gary Burtless, *The Economist's Lament: Public Assistance in America*, 4 J. ECON. PERSP. 57 (1990).

20. Irwin Garfinkel & Larry Orr, *Welfare Policy and the Employment Rate of AFDC Mothers*, 27 NAT'L TAX J. 275, 282-84 (1974); Jack Meyer, *The Impact of Welfare Benefit Levels and Tax Rates on the Labor Supply of Poor Women*, 57 REV. ECON. & STAT. 236 (1975); Hausman, *supra* note 19.

21. U.S. GEN. ACCOUNTING OFFICE, *MOTHER-ONLY FAMILIES: LOW EARNINGS WILL KEEP MANY CHILDREN IN POVERTY* 8 (1991) (finding that 55% of single mothers who work full-time remain in poverty even after paying child-care costs).

a program would cost millions of dollars and thus do little to decrease public expenditure.²²

A second problem with understanding work disincentive effects is that the number of hours former recipients would work if off AFDC is small. It is estimated that if AFDC were abolished altogether, former recipients would work no more than twenty hours per week on average (or half-time).²³ Many women would work only half-time because they would still have to spend some of their time taking care of their children. In addition, such women often have low job skills. Assuming they earned even a wage of \$5.00 per hour (slightly above the current minimum wage of \$4.25), half-time work would yield earnings of approximately \$5000 per year, an amount far below the official government poverty line for a family of three.²⁴ In reality, many welfare women's skills are too low for employers to hire them even at the minimum wage.²⁵ For these reasons, many analysts believe that increasing recipients' labor market skills is the only long-run answer to the welfare problem described below.

B. Welfare Dependency

A popular conception of welfare system "abuse" has been that certain women "take advantage" of the system by staying on the welfare rolls for long periods. Research in this area was essentially non-existent until Mary Jo Bane and David Ellwood conducted two studies in the early 1980s.²⁶ Their findings lend some support to the popular view of welfare system abuse. While they found that the majority of women going onto AFDC would be on the rolls only for a very short time, a significant fraction would continue to receive benefits for several years. For example, Ellwood estimates that 10% of women going onto the rolls would receive benefits for at least one month every year for over nine years.²⁷ Furthermore, the statistics indicate that many women who leave the rolls after only a short stay later return. Ellwood calculated that 23.5% of

22. Craig Thorton, *Costs of Welfare Programs*, in WELFARE POLICY FOR THE 1990s 247, 255-58 (Phoebe H. Cottingham & David T. Ellwood eds., 1989).

23. Moffitt, *supra* note 17, at 16.

24. 1992 BACKGROUND MATERIAL, *supra* note 15, at 1272 (1992 poverty line for a family of three is \$11,280).

25. The United States General Accounting Office, for example, calculated that a woman with "(1) 11 years of schooling, (2) 1 year of full-time work experience, (3) 2 years of part-time work experience, (4) currently unemployed . . . , and (6) living in the urban South" could be expected to earn \$4.15 an hour. U.S. GEN. ACCOUNTING OFFICE, *supra* note 21, at 21.

26. MARY J. BANE & DAVID ELLWOOD, *THE DYNAMICS OF DEPENDENCE: THE ROUTES TO SELF-SUFFICIENCY* (1983); DAVID ELLWOOD, *TARGETING 'WOULD BE' LONG-TERM RECIPIENTS OF AFDC* (1986).

27. ELLWOOD, *supra* note 26, at 5, 16. Ellwood's calculations did not consider different amounts of time women spend on the rolls each year. As long as a woman received AFDC for one month of the year, she was considered—for purposes of the study—to have received AFDC that year. *See infra* text following note 28.

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women going onto the AFDC rolls would receive benefits for at least one month for ten or more years within the next twenty-five!²⁸

Although Bane and Ellwood's studies suggest there is a surprisingly large percentage of "long-term" welfare recipients, the implications of this finding are not immediately apparent. First, because of data limitations Bane and Ellwood could not calculate how many months per year women receive benefits. It could be, for example, that long-term recipients heavily supplement their AFDC income with earned income every year. This possibility is not reflected in the studies. Rather, according to the studies, a woman has not freed herself of "dependency" if she receives AFDC benefits at least one month per year for over nine years.

A second problem with drawing implications from the Bane-Ellwood findings is that there may be factors other than the AFDC program influencing long-term reciprocity. A more natural explanation is that women who are on AFDC for long periods have fewer job skills, are in worse health, or are in some way "worse off" than other recipients. For example, it may be that women with very low job skills who leave the welfare rolls eventually return because their salaries do not increase sufficiently. Research on the earnings of working female heads indicates that low-skilled women who work on a regular basis do not experience much growth in earnings over time.²⁹ Although the reason for this lack of earnings growth is not known with certainty, it is presumably a result of dead-end jobs that require few skills and which do not lead to advancement. Because of this lack of earnings growth, such women, even if they occasionally leave the rolls, will periodically and frequently return. In the absence of any program to improve their basic level of skills, such women will need continuous support.

Those who argue that the AFDC program itself causes long-term welfare reciprocity believe that AFDC has a narcotic effect on recipients. The narcotic effect theory assumes that women on welfare experience a deterioration in their job skills over time because they are not working. As their stay on the program proceeds, they become less and less likely to "make it" on their own. This possibility, sometimes called the "welfare trap," seems very plausible to many economists and analysts of the welfare system.³⁰ It has proven very difficult to verify the "narcotic" hypothesis statistically, however. While virtually all the available data indicate that women who stay on the rolls for longer periods of time have lower earnings and lower job skills than those who are on for

28. ELLWOOD, *supra* note 26, at 5, 16.

29. Robert Moffitt & Anuradha Rangarajan, *The Effect of Transfer Programmes on Work Effort and Human Capital Formation: Evidence from the U.S.*, in *THE ECONOMICS OF SOCIAL SECURITY* 116, 133 (Andrew Dilnot & Ian Walker eds., 1989).

30. IRWIN GARFINKEL & SARAH MCLANAHAN, *SINGLE MOTHERS AND THEIR CHILDREN: A NEW AMERICAN DILEMMA* 39 (1986).

only short periods,³¹ it is not clear whether this disparity occurs because the job skills of the long-term recipients have deteriorated over time, or because their job skills were lower than those of the short-term recipients before they went on welfare. Researchers have not yet succeeded in disentangling the different explanations.

C. Family Structure

Another popular belief about the AFDC system is that it encourages illegitimacy and discourages marriage. This belief is based on the fact that the primary beneficiaries of AFDC are single mothers. The research on this issue, however, shows little relationship between illegitimacy or marriage and receipt of welfare benefits. Early studies show no correlation at all between benefit levels and illegitimacy rates. Later studies show either no effect or a confusing mix of effects that vary for different ethnic groups and reveal no convincing pattern.³² More significant negative correlations have been found between benefit levels and marriage or remarriage.³³ Most analysts, however, conclude such correlations do not by themselves explain the rise in female headship, the rise in divorce rates, or the fall in remarriage rates in the U.S. over the 1970s and 1980s.³⁴

Despite the weakness of findings correlating AFDC and the rise of single parent families, Congress in 1988 was sufficiently persuaded by the theory to mandate that all states offer the AFDC-UP program, the program offering benefits to two-parent families. Congress did little, however, to require states to relax the very stringent eligibility restrictions in that program. Thus, it is unlikely that the 1988 legislation itself will have a major impact on the female-headed orientation of the existing welfare system even if studies linking AFDC to single parenthood are correct.

31. See, e.g., Anuradha Rangarajan, *Dynamic Labor Force and Welfare Program Participation* (1990) (unpublished Ph.D. dissertation, Brown University).

32. See generally David Ellwood & Mary J. Bane, *The Impact of AFDC on Family Structure and Living Arrangements*, 7 RES. LAB. ECON. 137, 197-98 (1985); Greg Duncan & Saul Hoffman, *Welfare Benefits, Economic Opportunities, and Out-of-Wedlock Births Among Black Teenage Girls*, 27 DEMOGRAPHY 519 (1990) (demonstrating that impact of AFDC benefit levels on illegitimacy is statistically insignificant); Robert Plotnick, *Welfare and Out-of-Wedlock Childbearing: Evidence from the 1980s*, 52 J. MARRIAGE & FAM. 735 (1990); Shelly Lundberg & Robert Plotnick, *Testing the Opportunity Cost Hypothesis of Adolescent Premarital Childbearing* (1990) (unpublished manuscript, presented to a meeting of the Population Association of America).

33. See generally Sheldon Danziger et al., *Work and Welfare as Determinants of Female Headship*, 97 Q.J. ECON. 519 (1982); Robert Hutchens et al., *AFDC and the Formation of Subfamilies*, 24 J. HUM. RESOURCES 599 (1989); Robert Moffitt, *The Effect of the U.S. Welfare System on Marital Status*, 41 J. PUB. ECON. 101 (1990); Saul Hoffman & Greg Duncan, *A Comparison of Choice-Based Multinomial and Nested Logit Models: The Family Structure and Welfare Use Decisions of Divorced or Separated Women*, 23 J. HUM. RESOURCES 550 (1988).

34. See generally DAVID ELLWOOD, *POOR SUPPORT: POVERTY IN THE AMERICAN FAMILY* 45-80 (1988) (discussing possible causes of the rise in single-parent families).

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D. Migration

There are also few consistent studies indicating that AFDC has an impact on migration. Despite numerous media accounts of movements of individual welfare families to higher-benefit states, the available research has proven inconclusive. For example, studies show that welfare families move to high-benefit Wisconsin in numbers equal to those of non-welfare families. Furthermore, welfare families move to Wisconsin in equal numbers from all surrounding states, not just the low-benefit ones.³⁵ Broader statistical studies of migration patterns between states often show higher rates of migration from low-benefit states to high-benefit states rather than the reverse.³⁶ It is unclear, however, whether the studies have sufficiently controlled for other variables that affect migration. For example, it is well accepted that migration results from relative economic opportunities as well as along family-based migration "channels," both of which positively correlate with differences in benefit levels.³⁷ The research in this area has not yet successfully isolated the pure effects of benefit levels in the migration decision.³⁸ Like many of the other behaviors discussed here, migration involves a complex set of decisions. Welfare benefits may play such a small role in that decision for the average family that its statistical isolation is very difficult.

E. Intergenerational Transmission of Welfare Dependency

Another important issue explored by economists and demographers is whether children from welfare families are more likely to go on welfare themselves than children from non-welfare families. The available research shows overwhelmingly that this is true.³⁹ For example, 58% of children

35. PAUL PETERSON & MARK ROM, WELFARE MAGNETS 27-28 (1990).

36. See generally Edward Gramlich & Deborah Laren, *Migration and Income Redistribution Responsibilities*, 19 J. HUM. RESOURCES 489 (1984); Rebecca Blank, *The Effect of Welfare and Wage Levels on the Location Decisions of Female-Headed Households*, 24 J. URB. ECON. 186 (1988); REBECCA CLARK, URBAN INST., DOES WELFARE AFFECT MIGRATION? (1990).

37. See generally RICHARD CEBULA, THE DETERMINANTS OF HUMAN MIGRATION (1979).

38. Moffitt, *supra* note 17.

39. See generally John Antel, *The Intergenerational Transfer of Welfare Dependency* 74 REV. ECON. & STAT. 467 (1992); Peter Gottschalk, *The Intergenerational Transmission of Welfare Participation*, 11 J. POL'Y ANALYSIS & MGMT. 254 (1992); Robert Lerman, *Do Welfare Programs Affect the Schooling and Work Patterns of Young Black Men?*, in THE BLACK YOUTH EMPLOYMENT CRISIS (Richard Freeman & Harry Holzer eds., 1986); Sarah McLanahan, *Family Structure and Dependency: Early Transitions to Female Household Headship*, 25 DEMOGRAPHY 1 (1988); Gary Solon et al., *Sibling and Intergenerational Correlations in Welfare Program Participation*, 23 J. HUM. RESOURCES 388 (1988); FRANK LEVY, THE INTERGENERATIONAL TRANSMISSION OF POVERTY (Urban Inst. Working Paper No. 1241-02, 1980); Martha Hill & Michael Ponza, *Intergenerational Transmission of Welfare Dependency* (1989) (unpublished manuscript, presented to a meeting of the Population Association of America).

coming from families on welfare receive welfare as adults compared to only 27% of children from families that did not receive welfare.⁴⁰

The question discussed by the research community is whether the correlation reflects some direct transmission of a "propensity" for welfare, or whether it reflects intergenerational transmission of something else. The assumption underlying the intergenerational welfare transmission concept is that children growing up in welfare families are more likely to learn the rules of the system and/or are more likely than other children to conclude that it is socially acceptable to be on welfare. However, welfare families also have very low incomes, are headed by adults with extremely low levels of education, and tend to reside in low-income areas beset by crime and drug-related problems. That children growing up in such families are more likely to receive welfare as adults than children from middle-class families may simply reflect the fact that children of poor families are more likely to grow up poor. The intergenerational welfare correlations may, in other words, reflect merely the intergenerational transmission of education and income levels rather than of welfare. Until welfare transmission can be separated from these latter transmission mechanisms, the effect of welfare per se cannot be determined.⁴¹

III. EFFECTS OF LONG-STANDING REFORM MEASURES

Many different types of welfare reform measures have been studied over the last twenty-five or thirty years. The most well-known measures are those directed at altering work patterns and earnings. Of these reform measures, there are two major types: (1) attempts to solve the work problem by providing monetary incentives to welfare recipients through a negative income tax; and (2) attempts to provide work and training programs to recipients. A third, newer reform measure seeks to aid mothers by ensuring that they receive support from fathers.

A. *Monetary Incentives*

Monetary incentives historically have been the most popular reform measure amongst economists. Both Milton Friedman and James Tobin advocated a negative income tax in the 1960s to encourage work among recipients.⁴² At that time, like today, welfare recipients faced a 100% "tax rate" on their

40. 1992 BACKGROUND MATERIAL, *supra* note 15, at 690.

41. Some studies of the intergenerational transmission of income show positive effects. None, however, have successfully separated its effects from those of welfare. See, e.g., WILLIAM H. SEWELL & ROBERT M. HAUSER, EDUCATION, OCCUPATION, AND EARNINGS: ACHIEVEMENT IN THE EARLY CAREER (1975).

42. MILTON FRIEDMAN, CAPITALISM AND FREEDOM (1962); James Tobin et al., *Is a Negative Income Tax Practical?*, 77 YALE L.J. 1 (1967).

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earnings; any money they earned through work was deducted dollar-for-dollar from their benefits, leaving them with little, if any, incentive to work while receiving welfare.⁴³ Congress reduced the tax rate to 67% in 1967, but raised it back to 100% in 1981.⁴⁴ One method of encouraging welfare recipients to work would be to lower the tax rate. A 50% rate, for example, would provide work incentives by allowing welfare recipients to have a higher income if working than if not.

Although the negative income tax seems intuitively useful in encouraging work, the available research shows it has almost no such effect.⁴⁵ There is a catch-22 in the negative-income-tax concept which vitiates its impact. The problem is that most moderate tax rates (e.g., 50% or so) encourage part-time work but not full-time work because full-time work (e.g., thirty-five or more hours per week) would result in earnings too high for welfare eligibility. Today, under the 100% rate, women must either work full-time with no benefits or receive benefits and not work at all. A reduction in the tax rate to 50% would encourage women to stay on welfare and to work part-time rather than move off welfare and work full-time. This paradoxical effect of a low tax rate is inevitable and cannot be avoided by any simple solution; it is an inherent result of providing welfare benefits to part-time workers when they were not so provided before. The only solution to the problem would be to extend benefits to full-time workers. However, such a solution would greatly increase the caseload and welfare expenditures.

The statistical evidence shows that the net effect on work effort of lowering the tax rate is approximately zero.⁴⁶ States that have experimented with lower tax rates have experienced no changes in work levels of the low-income female heads of households.⁴⁷ In addition, the 1967 Congressional reduction in the AFDC tax rate to 67% and the increase in 1981 back to 100% have had negligible impacts on the work effort of female heads.⁴⁸ Among academics, at least, the idea of using monetary incentives and a negative income tax to encourage work effort is essentially dead.

43. See *supra* note 2 and accompanying text.

44. Omnibus Budget Reconciliation Act of 1981, Pub. L. No. 97-35, 95 Stat. 357.

45. See Moffitt, *supra* note 17, at 41 (describing studies by Frank Levy and others).

46. See generally Frank Levy, *The Labor Supply of Female Heads, or AFDC Work Incentives Don't Work Too Well*, 14 J. HUM. RESOURCES 76 (1979); Robert Moffitt, *A Problem with the Negative Income Tax*, 17 ECON. LETTERS 261 (1985).

47. See generally GARY APPEL, INSTITUTE FOR INTERDISCIPLINARY STUDIES, EFFECTS OF A FINANCIAL INCENTIVE ON AFDC EMPLOYMENT: MICHIGAN'S EXPERIENCE BETWEEN JULY 1969 AND 1970 (1972); VERNON SMITH, MICHIGAN DEP'T OF SOCIAL SERVS., WELFARE WORK INCENTIVES: THE EARNINGS EXEMPTION AND ITS IMPACT UPON AFDC EMPLOYMENT, EARNINGS, AND PROGRAM COST (1974).

48. See generally WINIFRED BELL & DENNIS M. BUSHE, NEGLECTING THE MANY, HELPING THE FEW: THE IMPACT OF THE 1967 AFDC WORK INCENTIVES (1975); Robert Moffitt, *Work Incentives in the AFDC System: An Analysis of the 1981 Reforms*, 76 AM. ECON. REV. 219 (1986); U.S. GEN. ACCOUNTING OFFICE, AN EVALUATION OF THE 1981 AFDC CHANGES (1985).

It is worth noting that a low tax rate may still be favored for equity reasons. At current benefit levels and at the current 100% tax rate, many "working poor" families are not eligible for benefits and yet are still below the official government poverty line. As a matter of social policy, one may wish to provide assistance to those families.

B. Work and Training Programs

Much more popular at the policy level in the 1980s were work and training programs, commonly known as "workfare."⁴⁹ Work requirements were imposed officially on the AFDC caseload in 1967, but from 1967 to 1981 they were neither strongly enforced nor well funded. As a result, they had little effect.⁵⁰ The increase in state-level work programs following the 1981 OBRA legislation eventually led to the 1988 passage of the Family Support Act by Congress, the most important piece of welfare reform legislation in twenty years.⁵¹ The Family Support Act put the full weight of federal welfare policy behind work and training programs by mandating that all states institute such programs. The Act also directed states to require a minimum fraction of their AFDC recipients to participate. The goal of the Act was to change the nature of welfare reciprocity by making work an integral part of welfare.

There are two rather different philosophies underlying work and training programs. Each requires use of a different criterion to judge whether it has been or is likely to be a success.⁵² Observers such as Lawrence Mead support work requirements and mandatory work programs for welfare recipients primarily because they impose a "reciprocal obligation" on recipients; that is, recipients must reciprocate society's provision of income support by working.⁵³ If this is the only goal of the program, the main criterion for success is the percentage of the caseload that participates in work programs. Whether the welfare recipients' job skills improve through the work is not relevant.⁵⁴ Others support such programs only if they actually improve the skills of recipients and eventually lead to "self-sufficiency"; that is, an ability to sustain oneself off the rolls.⁵⁵ If self-sufficiency is the main goal of the program, it

49. Analysts of work and training programs reserve the term "workfare" for mandatory programs (i.e., required as a condition of AFDC receipt) that require recipients to engage in some activity, even if non-productive. Newspaper accounts typically dub any training or work program for AFDC recipients as "workfare" even if it is voluntary and has strong productive components.

50. JUDITH M. GUERON & EDWARD PAULY, FROM WELFARE TO WORK 54 (1991).

51. Pub. L. No. 100-485, 102 Stat. 2343.

52. Moffitt, *supra* note 17, at 42-43.

53. See generally LAWRENCE M. MEAD, BEYOND ENTITLEMENT: THE SOCIAL OBLIGATIONS OF CITIZENSHIP (1986).

54. For example, Gueron and Pauly report an evaluation of a workfare program in West Virginia intended simply to make recipients work. The program had no impact on recipient earnings. GUERON & PAULY, *supra* note 50, at 87, 94.

55. See, e.g., *id.* at 94.

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must be judged on the basis of how much skills and earnings are increased and whether the welfare rolls are significantly reduced.

Most of the research conducted on these programs has focused on whether they affect individual earnings and caseload size. Research regarding individual earnings is moderately encouraging. The Manpower Demonstration Research Corporation has conducted the best studies. They have shown that most of the programs tested by states in the 1980s had some positive effect on individual earnings.⁵⁶ For example, a program in Baltimore mandating job-search assistance and on-the-job training for AFDC recipients improved the annual earnings of participants by \$511 after three years.⁵⁷ The impact of training programs on caseload reduction is more disappointing. Caseloads do not seem to be reduced much by the programs.⁵⁸ Why caseloads do not diminish as earnings increase has not been conclusively determined. One explanation is that increased earnings are experienced by women who would have gone off the rolls in any case.⁵⁹

Despite the findings of research on training programs, there is still good reason for caution. Even the most optimistic results from the studies show an increase in annual earnings of around \$1000 per year; most estimates lie instead in the \$200-\$600-per-year range.⁶⁰ A thousand dollars is not a trivial amount, but it is not enough to move a majority of recipient families above the poverty line, nor will it have much impact on the welfare caseload. To have a larger earnings impact would require an investment in training and education much larger than anything tried thus far. Most existing programs have instead been low-cost job-search-assistance or job-placement programs.⁶¹

The issue of education and training for the U.S. workforce as a whole is larger than just the welfare problem, of course, and it may be that increases in expenditures for welfare recipients would be more politically acceptable if they were part of a more comprehensive package. In addition, one of the problems with providing education and training programs only to AFDC recipients is that most unskilled male workers and unskilled female workers

56. *Id.* at 26.

57. Judith M. Gueron, *Work and Welfare: Lessons on Employment Programs*, 4 J. ECON. PERSP. 79, 91 (1990).

58. JEAN GROSSMAN ET AL., MATHEMATICA POLICY RESEARCH, REANALYSIS OF THE EFFECTS OF SELECTED EMPLOYMENT AND TRAINING PROGRAMS FOR WELFARE RECIPIENTS (1985).

59. Grossman et al. find, for example, that even when a training program does not reduce the number of months a woman remains on AFDC, her earnings are higher after she goes off than the earnings of women who had gone off AFDC without having previously been in a training program. *Id.* at 12.

60. A study of the effect of a Food Stamp work registration program requiring job-search assistance for recipients found that those who received assistance had on average \$400 per year higher earnings than those who had not received assistance. CENTER FOR HUMAN RESOURCES, FOOD STAMP WORK REGISTRATION AND JOB SEARCH DEMONSTRATION (1986). Another study found that a program called "Supported Work" which provided intensive assistance in learning work-environment skills improved the earnings of those receiving it by \$492 per year. GROSSMAN ET AL., *supra* note 58. For other studies, see Moffitt, *supra* note 17, at 46-48.

61. GUERON & PAULY, *supra* note 50, at 15-26.

without children do not benefit from such programs. From a policy perspective, it seems more reasonable to increase expenditures for the entire low-skilled population—male or female, childless or not.

C. Child Support Reform

A different type of welfare reform, directed more at caseload reduction than work per se, is reform of the child support system. The deficiencies in the child support system are well-known. Only 18% of women on AFDC received any child support in 1983.⁶² Sixty percent had no court-ordered child support award.⁶³ Even those with an award often received nothing, and only 5% of them received full payment. The situation in the general population is similar but less severe.⁶⁴

While there is widespread public support for reform of the system, a serious concern is whether it is possible to get much money out of low-income absent fathers.⁶⁵ Estimates of how much income can be obtained from the fathers of welfare children vary, but even the most optimistic cover only a fraction of the cost of the AFDC system. Some analysts therefore propose that the government guarantee a grant for those mothers whose child support payments are not forthcoming.⁶⁶ The key to these proposals is that child support would be guaranteed even if the woman left AFDC. The proposal would thus eliminate a significant disincentive to leaving AFDC rolls. A 1985 test in Wisconsin found that a guaranteed child support award of \$3000 per year would lower the AFDC caseload by approximately 3%.⁶⁷

IV. RECENT REFORM PROPOSALS

Welfare research tends to follow welfare policy rather than lead it. Nowhere is this more evident than in two types of reform that have come under active discussion in the last three or four years: time limitations on welfare and "new paternalism" reforms underway in several states. These

62. Robert Lerman, *Child Support Policies*, in WELFARE POLICIES FOR THE 1990s, *supra* note 22, at 219, 228.

63. *Id.*

64. STAFF OF HOUSE COMM. ON WAYS AND MEANS, 101ST CONG., 1ST SESS., BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS 633 (1989).

65. Irwin Garfinkel & Donald Oellerich, *Noncustodial Fathers' Ability to Pay Child Support*, 26 DEMOGRAPHY 219, 230-31 (1989).

66. See, e.g., ELLWOOD, *supra* note 34, at 165-74 (evaluating pros and cons of government-guaranteed child support).

67. See Irwin Garfinkel et al., *The Wisconsin Child Support Assurance System*, 25 J. HUM. RESOURCES 1, 24 (1990).

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policies have moved rapidly from the discussion stage to enactment or near-enactment. As a consequence, few studies of their impacts have been conducted. However, the research on behavioral effects in general bears importantly on what can be expected from these reforms.

A. Time Limitation

A set of reform proposals has recently emerged whose central element is a limitation on the length of time that a family can receive AFDC; usually in the range of two-to-five years.⁶⁸ The most stringent proposals bar recipients at the end of the stated period from ever receiving welfare again. The less stringent proposals bar recipients from the program for some prescribed length of time before reeligibility. Many proposals suggest that the welfare program be replaced by a work program for recipients reaching the end of their term.⁶⁹ President Clinton has suggested such a plan although as of this writing the details of his proposal have not been spelled out.

A major impetus for time limitation is the fact that a large fraction of recipients receive benefits for at least part of the year for many years.⁷⁰ However, as discussed earlier, the proper policy response to those statistics depends importantly on whether long-term dependency is interpreted as the result of some narcotic effect of welfare or of other factors like lack of job skills and poor health.⁷¹ Although there is no evidence to support the accuracy of the "narcotic effect" thesis, it is the principal assumption underlying the time limitation movement.

Although there is no direct evidence on what would happen to welfare recipients if they were completely cut off of welfare (since no such program of that type has yet been tested), estimates of the work disincentives of AFDC provide indirect evidence. As noted earlier, some estimate that current AFDC recipients would earn approximately \$5000 per year if off the rolls.⁷² That amount is considerably below the average annual income from AFDC and Food Stamps combined (\$7471 per year in 1991).⁷³ The disparity between the amount potentially earned off the rolls and the amount received by the average welfare recipient is even greater if the latter includes other welfare benefits such as Medicaid. Thus there is no question that, on average, female-headed households would be considerably worse off than they are now if strict time limitation were implemented. In addition, these statistics mask what would no doubt be considerable variation among recipients. While some welfare

68. See, e.g., ELLWOOD, *supra* note 34, at 175.

69. See, e.g., *id.*

70. See BANE & ELLWOOD, *supra* note 26; ELLWOOD, *supra* note 26.

71. See *supra* notes 26-31 and accompanying text.

72. See *supra* notes 23-24 and accompanying text.

73. 1992 BACKGROUND MATERIAL, *supra* note 15, at 1190.

recipients with above-average job skills could do quite well off welfare there would be many who would do much worse. For those women and their children, destitution would certainly increase.

Many supporters of time limitations believe that the limit would act as "shock therapy." They argue that expelling women from the rolls would, after a few years, force them into productive work patterns and human capital investment that would eventually lead to higher earnings and permanent "self-sufficiency." While there is no direct evidence on this question, the existing evidence on the life-cycle earnings profiles of female heads off AFDC is not encouraging. Low-skilled female heads off AFDC do not experience much growth in earnings even if they are working.⁷⁴ It is likely that the jobs for which they are qualified are not the type that lead to much earnings growth or job advancement.

In light of the statistical evidence, a more productive welfare reform proposal would include a training program at the end of the limitation period. The value of such a measure, however, depends upon the type of work program implemented. A time limitation program could be viewed, for example, as a natural extension of the work philosophy underlying the Family Support Act that would involve little more than strengthening the Act's participation requirements. Proposals to replace welfare with a guaranteed jobs program, possibly with public sector employment, represent a more significant break with the welfare policy of the last ten years.⁷⁵

B. *The "New Paternalism"*

The reform efforts at the state level over the last two or three years have been collectively dubbed the "new paternalism." They represent a blend of policies directed explicitly at altering the behavioral incentives of welfare recipients.⁷⁶ California, New Jersey, and Wisconsin have enacted the most publicized proposals. Other states have proposed similar measures.⁷⁷ The most controversial of the reforms are those that deny extra benefits to women for the additional children they have while on welfare. New Jersey was the

74. Anuradha Rangarajan and I have estimated that their earnings increase by about 3% per year. Moffitt & Rangarajan, *supra* note 29, at 130.

75. Public sector employment was part of the Comprehensive Employment and Training (CETA) Program. Begun in 1973, CETA provided public-sector employment for disadvantaged and unemployed individuals. The program was eliminated in 1981 because by then it had little political support from either the public or private sector. See generally NATIONAL COMM'N ON MANPOWER POLICY, SPECIAL REP. NO. 23, CETA (1978). For a discussion of training programs, see Laurie J. Bassi & Orley Ashenfelter, *The Effect of Direct Job Creation and Training Programs on Low-Skilled Workers*, in FIGHTING POVERTY: WHAT WORKS AND WHAT DOESN'T 133, 149 (Sheldon Danziger & Daniel H. Weinberg eds., 1986).

76. *The New Paternalism*, *supra* note 4, at 4.

77. *Id.* at 6-13.

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first state to pass such a measure.⁷⁸ Other proposals are also directed at incentives, including: (a) penalties on recipients who migrate into a state from another one (California); (b) overall reductions of benefit levels (Michigan, Massachusetts, California, Maryland, Ohio, Illinois, Maine); (c) reductions in the AFDC tax rate on earnings in order to increase work effort (California, New Jersey); (d) benefit reductions for mothers and children who are absent from school (Wisconsin); and (e) liberalizations of the eligibility restrictions in the AFDC-UP program as well as other incentives for welfare women to marry including allowing them to retain some benefits after marriage (California, New Jersey).⁷⁹

Underlying all of the proposals is an acceptance of the popular ideas about welfare recipient behavior discussed in Section II of this essay. Reliance on such assumptions represents a significant change in the conventional wisdom among policymakers. Only a few years ago such incentive effects were regarded as greatly uncertain. Today they are regarded by the reform advocates in many states as obvious, true, and large in magnitude. The evidence, however, has not changed. The statistical basis for the incentive effects of the various proposals remains extremely weak.⁸⁰

Given the lack of statistical support for the assumptions underlying the "new paternalism" movement, there are two explanations for its popularity. One is that policymakers at the state level are ignorant of the weakness of the evidence and are under the false illusion that there will be strong behavioral responses to their provisions. A less charitable interpretation is that policymakers are fully aware of the weakness of the evidence, and of the probable low levels of behavioral response to the legislation, but are interested in reducing expenditures. Virtually all of the proposed reforms reduce expenditures with the notable exceptions of AFDC-UP and marriage reform proposals. As noted previously, the welfare caseload has been rising since 1989 as a result of the recession, and legislators may be responding to an urgent need to cut spending.

V. CONCLUSION

The large body of evidence on the effects of welfare reform measures does not suggest simple solutions to the problem of high welfare caseloads and poverty rates. The easiest and simplest reforms are those that manipulate the benefit formula by increasing or decreasing benefits, or by changing the tax

78. MICHAEL WISEMAN, LAFOLLETTE INST. OF PUB. AFFAIRS, *THE NEW STATE INITIATIVES* (1992). The measure went into effect in June 1992.

79. *Id.* at 6-12.

80. *See supra* section II.

rate on earnings implicit in the formula. Unfortunately, changes of this type neither significantly affect the employment levels or earnings of welfare recipients, nor do they appear to have beneficial impacts on the long-run skills or earnings of poor female-headed families.

Although the research on “new paternalism” reforms is not yet complete, past research on other aspects of the welfare system suggests that such changes will have little impact. The “new paternalism” proposals reflect little more than tinkering with incentives. They are likely to have negligible long-run effects on the problems of the low-income population in the U.S. because they do not address the fundamental problems of poverty including significant job skill deficiencies among the poor.

The only reform measures that have been shown to have any significant impact on the earnings of welfare recipients are those introducing work and training programs. A fundamental expansion of education and training programs, toward which the Family Support Act was a small step, remains the best hope for a long-run solution to the welfare problem.