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Work, Welfare, and Family Structure: A Review of the Evidence

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Abstract

Support for reforming the welfare system in the United States is widespread, as evidenced by legislative action by many states and, most recently, the federal government. Although part of the interest in reform is fiscally motivated, interest also exists in making significant changes to address two prominent criticisms of the current system of public assistance in the United States: (1) the system has significant, adverse, work incentives; and (2) the system discourages the formation of two-parent families and is responsible in major part for the high and rising rates of female headship and out-of-wedlock births. This paper uses the available empirical evidence to explore the validity of these criticisms and to evaluate the impact of various reforms. The programs examined include Aid to Families with Dependent Children, Food Stamps, and Medicaid. The paper relies on evidence based on three sources of variation in welfare policy: cross-state variation, over-time variation, and demonstration projects at the state level. The conclusions are that current reforms aimed at reducing female headship and nonmarital births, such as “family caps,” eliminating benefits for teens, and equal treatment of one- and two-parent families, are unlikely to generate large effects. Changes in implicit tax rates and benefit formulas may increase work among current recipients, but overall work effort may not be affected. These predictions should be accompanied by a word of caution: many of the proposed changes have never been implemented at the state or federal level and require out-of-sample predictions. Current state experimentation may help fill this gap.

Work, Welfare, and Family Structure:
A Review of the Evidence

1. INTRODUCTION

There is widespread support for reforming the welfare system in the United States, as evidenced by legislative action by many states and, most recently, the federal government. Although part of the motivation behind current reform efforts is fiscally driven, interest also exists in making significant changes in response to two prominent criticisms of the U.S. system of public assistance programs. The first is that the system has significant adverse work incentives: it lessens work effort among recipients, which in turn contributes to long-term poverty. The second is that the system discourages the formation of two-parent families and is responsible in major part for the high, and rising, rates of female headship and out-of-wedlock births. This paper explores the validity of these criticisms by using the available empirical evidence and, in turn, evaluates the impact of various reforms to the system.

"Welfare" most commonly refers to the Aid to Families with Dependent Children (AFDC) program, which provides cash assistance to low-income families with children. More broadly, welfare corresponds to the set of federal, state, and local means-tested transfer programs. The main goal of public assistance programs is to increase income and reduce poverty among the disadvantaged. The evidence based on comparisons of pre- and post-transfer income shows that these programs have had success meeting that goal (Danziger and Weinberg, 1994). This transfer of income, however, generates potential efficiency losses through its distortions of individual behavior regarding labor supply and family structure decisions. While means-tested programs in the United States are also provided to the elderly and the disabled, concern over adverse work and family structure incentives is directed primarily at programs serving low-income families with children.[1] In addition to cash benefits through the AFDC program, low-income families with children are eligible for such in-kind benefits as Food

Stamps, medical coverage through the Medicaid program, and housing subsidies. Working poor families can also receive earnings subsidies through the tax system by means of the Earned Income Tax Credit (EITC). While there are other smaller programs serving low-income families, this review will focus on the above-mentioned programs.[2]

The disincentives involved in work and family-structure decisions are a direct result of the structure of benefit and eligibility rules for these programs. First, most programs provide a basic benefit level, called a guarantee, which is reduced as a family's earnings increase. The rate at which benefits are reduced, the benefit reduction rate, represents an implicit tax on earned income. Statutory tax rates in the AFDC program are 67 to 100 percent. When combined with other programs, cumulative tax rates can be over 100 percent. Static labor supply theory suggests that welfare benefits, with their combination of a guarantee and benefit reduction rate, lead unambiguously to lower levels of work effort than would exist in the absence of such a program. Second, welfare programs have historically restricted eligibility to single parents and, despite recent expansions for two-parent families, the system continues to favor single parents. The system therefore provides incentives to form single-parent families and to bear children out of wedlock.

Before evaluating the magnitude of these disincentive effects, I will provide some background on the system of public assistance programs in the United States and the population they serve. Section 2 describes the public assistance programs for low-income families and illustrates the magnitude of the cumulative tax rates faced by these families. Section 3 presents data on poverty, family structure, and the characteristics of welfare recipients. Section 4 discusses the expected effects of welfare programs on work and family structure decisions, and Sections 5 and 6 summarize what we have learned about the magnitude of these disincentive effects. Section 7 summarizes key elements of past and current efforts at reforming welfare and discusses the likely impact of various reforms. Section 8 concludes.

2. THE MAJOR PUBLIC ASSISTANCE PROGRAMS

Eligibility and Benefits

Participation in most public assistance programs in the United States requires satisfying two types of eligibility conditions: resource restrictions (means tests) and categorical restrictions. Each of the programs considered here has an income test, and all programs except the EITC also have an asset test. In addition, there are categorical restrictions for many of the programs, often limiting receipt to single parents with children.

The AFDC program was established in 1935 as part of the Social Security Act. Eligibility, benefit determination, and funding are shared between the federal and state governments. Eligibility for AFDC requires that the household contain at least one child who is younger than 18 and must have sufficiently low income and asset levels. The income test requires that family monthly income, after allowable deductions for work expenses and child care, fall below a state-determined maximum benefit level, which varies by family size.[3] Eligibility has historically been limited to single-parent (typically female-headed) families, because of the additional requirement that the child be deprived of support due to death, incapacity, or absence of a parent. Starting in 1961 with expansion by selected states, eventually mandated with passage of the 1988 Family Support Act (FSA), states have extended eligibility to two-parent families by setting up AFDC Unemployed Parent (AFDC-UP) programs. However, the system still favors single parents, as two-parent families must also satisfy a work history requirement and cannot work more than 100 hours per month while on welfare.[4] All AFDC recipients are categorically eligible for Food Stamp benefits and government-financed medical services under the Medicaid program.

AFDC benefits are calculated as the difference between the state-determined maximum benefit level and net family income. The benefit levels vary tremendously across states. For example, in 1993 monthly maximum benefits for a single mother and two children ranged from $607 in California and $658 in Vermont to $164 in Alabama and $120 in Mississippi (U.S. House of Representatives, 1994). A

standard deduction for work expenses of $90 per month is deducted from earnings in calculating benefit payments. In the first four months of working while receiving AFDC, an additional $30 plus one-third of remaining earnings is deducted from gross income. This is the so called “30 and 1/3” rule. Thus, for every $1 increase in earned income over the allowable deductions, benefits are reduced by 67 cents. After four months the one-third deduction is discontinued and benefits are reduced one dollar for every one-dollar increase in earnings. This means that the statutory tax rate on earned income, or benefit reduction rate (BRR), for AFDC recipients is 67 or 100 percent.[5]

The EITC is a refundable tax credit, which, when introduced in 1975, was designed to offset the social security tax for low-income families with children. In order to receive the credit, a family must contain a qualified child, have earnings below a specified level, and file a tax return.[6] In 1994, the EITC was available for families with earnings up to $23,755 for families with one child and $25,300 for families with two or more children. There is no difference in the generosity of the credit for one- and two-parent families, and about 60 percent of recipients are single-parent families (Eissa and Liebman, 1993). The amount of the EITC depends on whether earnings lie in the subsidy, flat, or phase-out range of the credit. Consider a family with two children in 1994. For this family, the subsidy range covers earnings up to $8,425, over which the subsidy equals 30 percent of earnings, generating a maximum credit of $2,538. In the flat range, covering earnings between $8,425 and $11,000, the family receives the maximum credit. In the phase-out range, the subsidy is reduced by 17.68 cents for each additional dollar in earnings such that the credit is fully phased out at earnings of $25,300. The credit is smaller for families with one child.

The Food Stamp program is a federal program which began in 1964. Eligibility and benefits are uniform across the lower 48 states and the District of Columbia. It is the only program considered here which is extended to all needy families, regardless of the presence of children or other family-structure requirements. Like AFDC, families must satisfy an asset test and a net and gross income test. Net

income must not exceed the poverty line, equal to $11,892 in 1994 for a single parent with two children, and gross income must not exceed 1.3 times the poverty line. Food Stamp benefits are equal to the maximum benefit, which varies by family size, less 30 percent of family net income. Net income includes AFDC benefits, and there are deductions for work expenses, child care expenses, and shelter expenses. Because AFDC income is taken into account in calculating Food Stamp benefits, families living in states with low AFDC benefits receive higher Food Stamp grants, thereby reducing the cross-state variation in combined benefits. In 1993, the maximum monthly Food Stamp benefit for a single mother and two children was $295. Food Stamp benefits are adjusted each year for changes in the cost of food.

The Medicaid program, established in 1965, is a joint federal-state program available primarily to recipients of cash assistance, including families with children receiving AFDC and the low-income aged, blind, and disabled receiving Supplemental Security Income (SSI). Benefits in most programs are phased out as income rises. Medicaid benefits, however, are typically provided in full, or not at all. Tying Medicaid benefits to program recipiency leads to a "notch," whereby benefits are lost in their entirety when eligibility for cash benefits ends. However, recent expansions in the program have severed the link between cash benefit receipt and eligibility for Medicaid, reducing the importance of the notch. The FSA expanded coverage by mandating "transition benefits": AFDC recipients who lose eligibility because of increased earnings receive Medicaid for an additional 12 months. Beginning in 1984, Medicaid eligibility was expanded to pregnant woman and children with income in excess of the AFDC limits. All states are now required to extend benefits to children under the age of 6 with family income below 133 percent of the poverty line, and to all children born after September 1, 1993 with family income below the poverty line. When the expansions are fully phased in, all poor children will be covered.[7]

All of the programs discussed above are *entitlement* programs. That is, if a family satisfies the eligibility condition(s) for the program, it will receive benefits according to the appropriate benefit formula. Low-income housing benefits in the United States are not an entitlement: whereas all AFDC recipients are categorically eligible, only about 30 percent receive benefits (U.S. House of Representatives, 1994). Housing assistance typically takes the form of either public housing or subsidized, private (Section 8) rental housing.[8] For both programs, families must satisfy both asset and income tests; the income tests are set by the local housing authority. Once eligibility is determined, a family is placed on a waiting list. Queues can be quite long, more than two years in most urban areas (Painter, 1995). For both types of housing aid, some contribution to rent is required from the family, and the subsidy is the difference between the fair market rent of the unit and the family's contribution.

Table 1 summarizes several key features of the main welfare programs covered in this review: AFDC, Food Stamps, Medicaid, and the EITC. The table shows the variation in the level of finance, level of provision, and eligibility requirements across these programs. These figures show that Medicaid is the most expensive program for families with children, with a total expenditure of 32 billion dollars in 1993. AFDC is second, with 25 billion dollars.

The last 30 years have encompassed great changes in our system of public assistance. Table 2 presents expenditures and participation in these programs for selected years from 1960 to 1993. The first two panels display expenditures on, and participation in, these programs. The last panel shows the percentage of benefits going to families with children in selected years during this period. The table shows that a major trend in welfare programs is the increased importance of in-kind benefits. In 1960, 85 percent of benefits were in cash, a proportion which decreased to 27 percent in 1975 and to 18 percent in 1993. The real cost of the AFDC program reached a peak in the early 1970s and has remained fairly constant since. Among the public assistance programs considered here, the Medicaid

TABLE 1
Description of Public Assistance Programs for Families with Children, 1993[a]

	AFDC	Food Stamps[b]	Medicaid[b]	EITC
Year established	1935	1964	1965	1975
Level of finance	Federal & state	Federal	Federal & state	Federal
Level of delivery	State & local	Federal	State	Federal
Form of benefits	Cash	Food Stamp coupons	Free medical services	Refundable tax credit
Nature of means test	Income, asset	Income, asset	Income, asset	Income
Groups covered	Families with children (primarily single parents)	All persons	AFDC recipients, poor children , elderly and disabled	Families with children
1993 expenditures for families with children	$25.2 billion	$12.9 billion[c]	$32.1 billion	$13.2 billion (preliminary)
1993 participation of families with children	5 m. families 14 m. persons	6.8 m. families[d]	25.8 m. persons	14 m. families (preliminary)
1993 average benefit for families with children	$373/month (family)	$189/month (family)	$1013/yr for children $1813/yr for adults	$945/yr (family)
Statutory tax rate on earnings	67% or 100%	30%	full benefits until eligibility point (“notch”)	-30% phase in 0% flat 18% phase out

Source: U.S. House of Representatives (1994), Social Security Administration (1995), and unpublished data from the Food and Nutrition Service (now the Food and Consumer Service), U.S. Department of Agriculture.

[a]All dollar amounts are in current dollars.
[b]Program is not limited to families with children. The expenditure and participation figures reflect just those for the portion of the caseload comprised of families with children.
[c]Calculated by multiplying total benefit payments by reported figures on the percentage of benefits going to AFDC recipients. This is an underestimate of the total cost of the Food Stamp program for families with children.
[d]Calculated from figures on the percentage of households with children in the Food Stamp unit.

TABLE 2
Expenditures and Participation in Selected Public Assistance Programs, 1960–1993

	1960	1975	1980	1985	1990	1993
			Program Expenditures (millions of 1993 Dollars)			
Cash Programs						
AFDC	4,887	25,500	23,560	21,969	23,438	25,242
EITC[b,c]	0	3,357	3,483	2,804	7,659	13,239
In-Kind Programs						
Food Stamps[d]	0	12,607	16,770	18,089	19,553	26,304
Medicaid	0	33,941	45,211	54,949	80,146	132,010
Housing[e]	864	30,189	29,554	25,167	20,940	20,535
			Program Participation (millions)			
Cash Programs						
AFDC (families)	n/a	3.3	3.6	3.7	4.0	5.0
AFDC (persons)	3.0	11.1	10.6	10.8	11.5	14.1
EITC (families)[c]	—	6.2	7.0	7.4	12.6	14.0
In-Kind Programs						
Food Stamps (persons)[d]	—	16.3	19.2	19.9	20.0	27.0
Medicaid (persons)	—	22.0	21.6	21.8	25.3	30.9
Housing (households)[e]	n/a	n/a	4.0	5.1	5.4	5.6
			Percentage of Benefits for Families with Children			
Food Stamps[g]	—	—	52.0%	51.5%	56.3%	54.7%
Medicaid	—	—	27.3%	24.4%	27.2%	29.8%

Sources: U.S. House of Representatives (1994), Social Security Administration (1995), Congressional Research Service (1993), and unpublished data from the Food and Nutrition Service.

[a]Many of these programs are also available to the elderly and childless families. Unless otherwise stated, the figures correspond to program totals, not just the benefits for the nonelderly. Expenditures include federal and state costs.
[b]Cost of EITC includes the tax expenditure associated with the credit, and the decrease in individual tax receipts due to the credit, and the refunded portion.
[c]Figures for 1993 are projections.
[d]Does not include data for Puerto Rico, which operated a Food Stamp program from 1975 to 1982.
[e]Figures in the final column are for 1992.
[g]Includes percentage of benefits to AFDC recipients only.

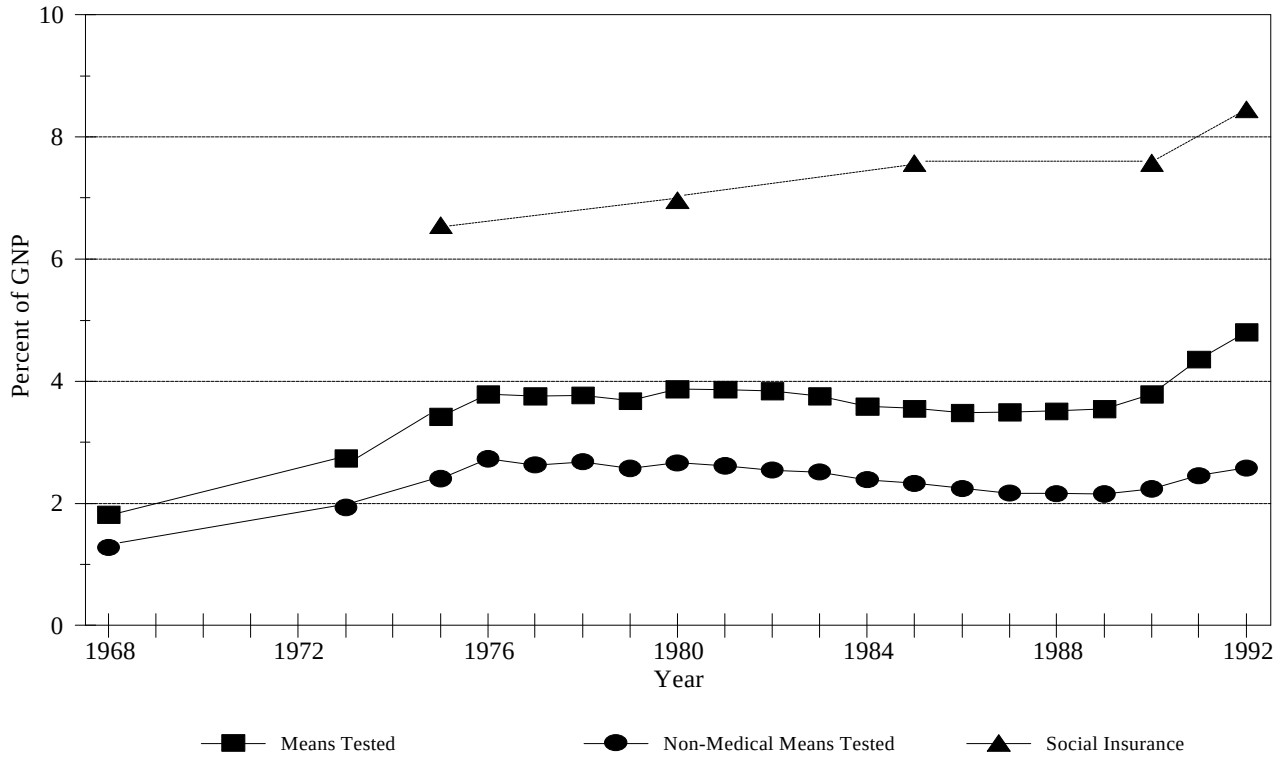
program is both the largest and the one with the highest growth rate. The cost of the Medicaid program, in 1993 dollars, has increased from $54.9 billion in 1985 to $132 billion in 1993. Although families with dependent children represent about 71 percent of all Medicaid recipients, expenditures for this group represent only 29 percent of the total expenditures (U.S. House of Representatives, 1994).

The cost of the EITC program has increased dramatically in the last 10 years, owing to major expansions in 1986, 1990, and 1993. These expansions have increased the value of the credit as well as the range of incomes covered by the credit. The maximum credit for a family with two children, in current dollars, increased from $550 in 1986 to an expected $3,560 in 1996. During the same period, the upper limit on earnings has increased from $11,000 to $28,524. After accounting for changes in prices, the maximum credit has increased more than 350 percent over this period, and the income limit has increased by 86 percent. Table 2 shows that the number of families receiving the EITC is now about three times as large as the number of families receiving AFDC. Under current law, the cost of the EITC is expected to be over one and one half times as large as federal spending on the AFDC program by 1996 (U.S. House of Representatives, 1994). The Food Stamp caseload has grown fairly steadily over the past 20 years. The cost of the program is now about equal to the AFDC program, yet families with dependent children represent less than 60 percent of the Food Stamp caseload (U.S. House of Representatives, 1994).

Figure 1 demonstrates changes over time in total expenditures on public assistance programs as a percentage of GNP.[9] Between the late 1960s and the mid-1970s, outlays on means-tested programs increased. Since then, however, they have remained very stable, at just under 4 percent of GNP. The increase in cost of these programs in the last few years of the figure is primarily due to growth in Medicaid, as nonmedical means-tested programs increased only slightly at the end of the period. For comparison, the figure also presents the total cost of social insurance programs, such as

FIGURE 1

Government Expenditures as a Percentage of GNP
(Federal, State and Local)



Source: Congressional Research Service (1993) and Burtless (1994).

social security, Medicare, and unemployment compensation, as a percentage of GNP. The cost of these programs is almost twice the amount spent on the poor.

Implicit Tax Rates Faced by Low-Income Families

The above discussion suggests that poor families with children are eligible for a patchwork of benefit and tax programs. In all programs except Medicaid, the benefit a family receives depends on its level of earnings, which in turn depends on work effort. As a first step toward understanding the work incentives facing program participants, this section presents information on earnings, benefits, and income that are attainable at different wage rates and hours of work for representative welfare recipients. These incentives are summarized by implicit tax rates on earned income, which indicate how much disposable income increases as work effort increases. Because a family may be participating in many programs simultaneously, one has to consider the taxes faced under the combined set of programs.

It should be emphasized that these implicit tax rates are only relevant for work which is reported to the case worker. In fact, high marginal tax rates for this group may increase the incentive to conceal earnings from the authorities. Although the available evidence is somewhat anecdotal, it suggests that a large fraction of AFDC recipients are working and not reporting the income to the authorities (Edin and Jencks, 1992).[10]

The earnings, income, and tax rates reported here are calculated using a benefit and tax simulation program which takes into account federal and state tax and transfer programs. To illustrate the magnitude of the tax rates faced by public assistance recipients, I have simulated benefits, taxes, and disposable income for representative families. The simulation model calculates payroll taxes, state and federal income taxes, and benefits received from AFDC and Food Stamps.[11] To do the calculation, we need to make assumptions about the hourly wage rate, the number of children, the state of residence, and the amount of child care and work expenses. Each of the simulations are calculated

assuming that the family consists of a single mother with two children and that the mother incurs child care costs equal to 20 percent of earnings and other work expenses amounting to 10 percent of earnings.[12] All taxes and transfers are calculated under 1993 law. Simulations are conducted under alternative assumptions concerning the woman's hourly wage, her state of residence, and which statutory BRR the woman faces in the AFDC program. These estimates are similar in construction and magnitude to others in the literature, such as recent analyses by Dickert, Houser, and Scholz (1994) and Giannarelli and Steuerle (1995).

Table 3 presents the annual income, expenses, and average tax rates assuming that the woman lives in California, can earn $5.00 per hour, and that she is in the first four months of work and faces the 30 and 1/3 rule.[13] If the woman is not working, she has annual disposable income of $8,639, of which $7,284 comes from AFDC and the remainder from the Food Stamp program. If she chooses to work part time at $5.00 per hour, she has earnings of $5,200 but her disposable income increases by only $2,449, because increasing her work effort generates an EITC of $1,014, but brings child care expenses, work expenses, and a reduction in her AFDC payment of $1,467 and in her Food Stamp benefit of $340. This results in a tax rate for going from no work to part-time work of 52.9 percent. The same woman considering full-time work would face a tax rate of 64.3 percent for going from no work to full-time work, and a tax rate of 75.8 percent for going from part-time to full-time work.

There are several points to make in this table. First, the tax rates are very high. To put these in some perspective, in the absence of the implicit tax rates imposed by the AFDC and Food Stamp programs, tax rates for this woman would be about 18 percent for part-time work and 23 percent for full-time work. Second, they are somewhat lower than the statutory rate of 67 percent, owing to the allowable deductions. Third, the marginal tax rate (MTR) on going from no work to part-time work is lower than that going from part-time to full-time because of the standard deductions.[14] Last, these tax rates are an underestimate of the actual rates because they do not take into account housing benefits

TABLE 3
Annual Income, Expenses and Tax Rates Faced by a Representative Welfare Recipient in 1993[a]
(California AFDC Benefits with 30 and 1/3 Rule)

	No Work	Part-Time Work[b]	Full-Time Work[c]
Income			
Earnings	$0	$5,200	$10,400
EITC	0	1,014	1,511
AFDC	7,284	5,817	3,391
Food stamp benefits	1,355	1,015	963
Expenses			
Child care	0	1,040	2,080
Work expenses	0	520	1,040
Other federal taxes	0	0	0
Payroll taxes	0	398	796
State taxes	0	0	0
Disposable income	8,639	11,088	12,349
Average tax rate, no work[d]	—	52.9%	64.3%
Average tax rate, part-time work[d]	—	—	75.8%

[a]The simulation is for a single mother living with two children in California earning $5.00 per hour. Child care expenses are 20 percent of earnings and other work expenses are 10 percent of earnings. AFDC benefits are calculated using the 30 and 1/3 rule.
[b]20 hours per week.
[c]40 hours per week.
[d]Tax rates calculated as one minus the change in disposable income over the change in earnings.

and Medicaid. Until the recent expansions, losing AFDC eligibility would lead to a loss of Medicaid as well, adding to the already high tax rate. However, the transitional benefits and expansions in coverage for children together reduce the impact of Medicaid on tax rates, at least in the short run.

The presence of the 30 and 1/3 rule significantly reduces the tax rates faced by low-income families. Figure 2(a) presents disposable income as a function of hours worked for the case presented in Table 3. Figure 2(b) recalculates disposable income for the same family, assuming that the mother has been working for over four months and thus faces the 100 percent statutory tax rate in the AFDC program. The figures separate income into net earnings, EITC, AFDC, and Food Stamp benefits. Net earnings are gross earnings less all expenses and taxes other than the EITC. The difference between Figures 2(a) and 2(b) is striking. Without the 30 and 1/3 rule, in Figure 2(b), disposable income is almost unchanged between 5 and 40 hours of work and the tax rate for moving from no work to part-time work is 75 percent. The MTR of moving from part-time to full-time work is 99 percent. A woman contemplating leaving welfare to work full time (at the $5.00 hourly wage) would see an increase in disposable income of $1,400, representing only a 16 percent increase over attainable income while not working.

California was chosen because it contains the nation's largest welfare population, accounting for about 17 percent of the AFDC caseload (U.S. House of Representatives, 1994). California is unusual, however, because AFDC benefit levels are among the highest in the country. As shown in Figure 2, the woman working full time for $5.00 per hour is still eligible for AFDC benefits, even when the BRR is 100 percent. These high implicit tax rates are faced by recipients in all states, although the exact magnitude depends on many things, including the state's benefit level (and the amount paid for child care and other work expenses). To illustrate the possible differences between the states, Figure 3 repeats the exercise assuming that the woman lives in Illinois. In 1993, our mother and two children could receive an AFDC grant of $367 per month in Illinois, which is about

Figure 2a
(a) With 30 and 1/3 Rule (BRR=67%)

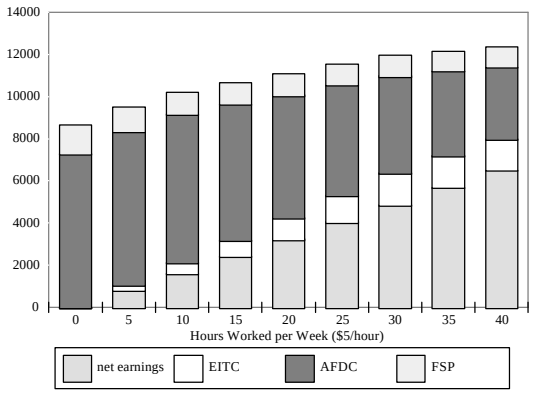


Figure 2b
(b) Without 30 and 1/3 Rule (BRR=100%)

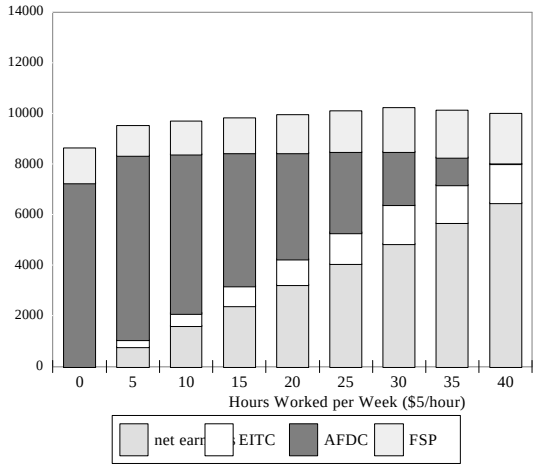


Figure 3a
(a) With 30 and 1/3 Rule (BRR=67%)

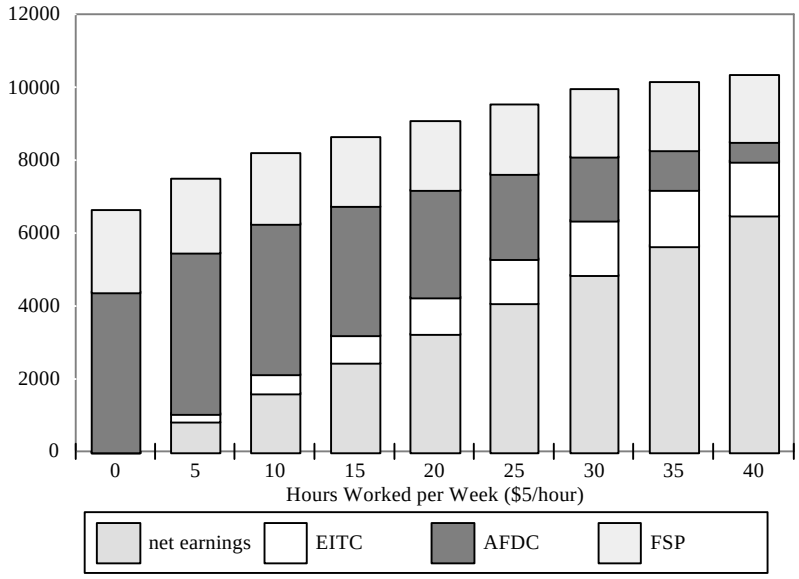
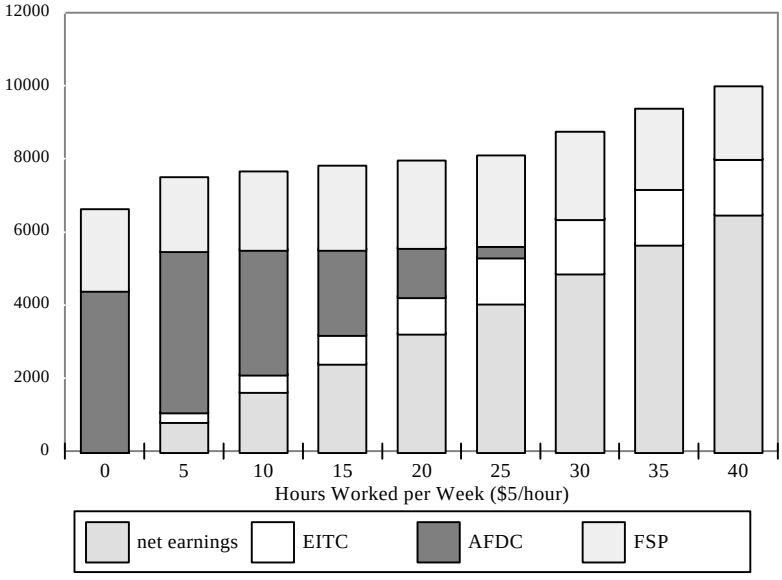


Figure 3b
(b) Without 30 and 1/3 Rule (BRR=100%)



average for the United States, compared to $607 in California. A comparison of Figures 2 and 3 shows that potential income is lower in Illinois, but a higher Food Stamp grant partially makes up for the lower AFDC grant. The same general pattern found in Figure 2 also is evident in Figure 3. With the 30 and 1/3 rule, disposable income increases modestly as earnings rise; without the 30 and 1/3 rule, income is quite flat as a function of hours worked until the family earns its way off AFDC, which in this case occurs at 30 hours per month.

To illustrate how tax rates vary for women with different wage opportunities, Table 4 presents tax rates for our family in California at various wage levels. Increasing the wage generally leads to higher tax rates on part-time work but lower tax rates on full-time work. As wage rates rise, the break-even level of hours of work decreases, increasing the marginal tax rates at lower levels of hours. The table also shows the importance of the EITC. The top panel of the table presents tax rates based on the 1996 levels for the EITC, when the current expansions will be fully phased in. The lower panel presents tax rates in the absence of an EITC. The 1996 EITC (where the maximum wage subsidy is 40 percent) decreases tax rates by about 30–50 percent at the lower wage levels. This represents significant reductions for low wage-workers.[15]

3. FACTS CONCERNING WELFARE, POVERTY, WORK, AND FAMILY STRUCTURE

- ***Female-headed families are becoming increasingly more common.***

Figure 4 shows female-headed households as a percent of all families with children over the period 1968 to 1993. In 1968, about 8 percent of white families with children were headed by a single mother, whereas in 1993 almost 17 percent of white families with children were female-headed households. These trends are even more dramatic for black families, where the rate of female headship increased from about 30 percent in 1970 to over 50 percent in 1993.

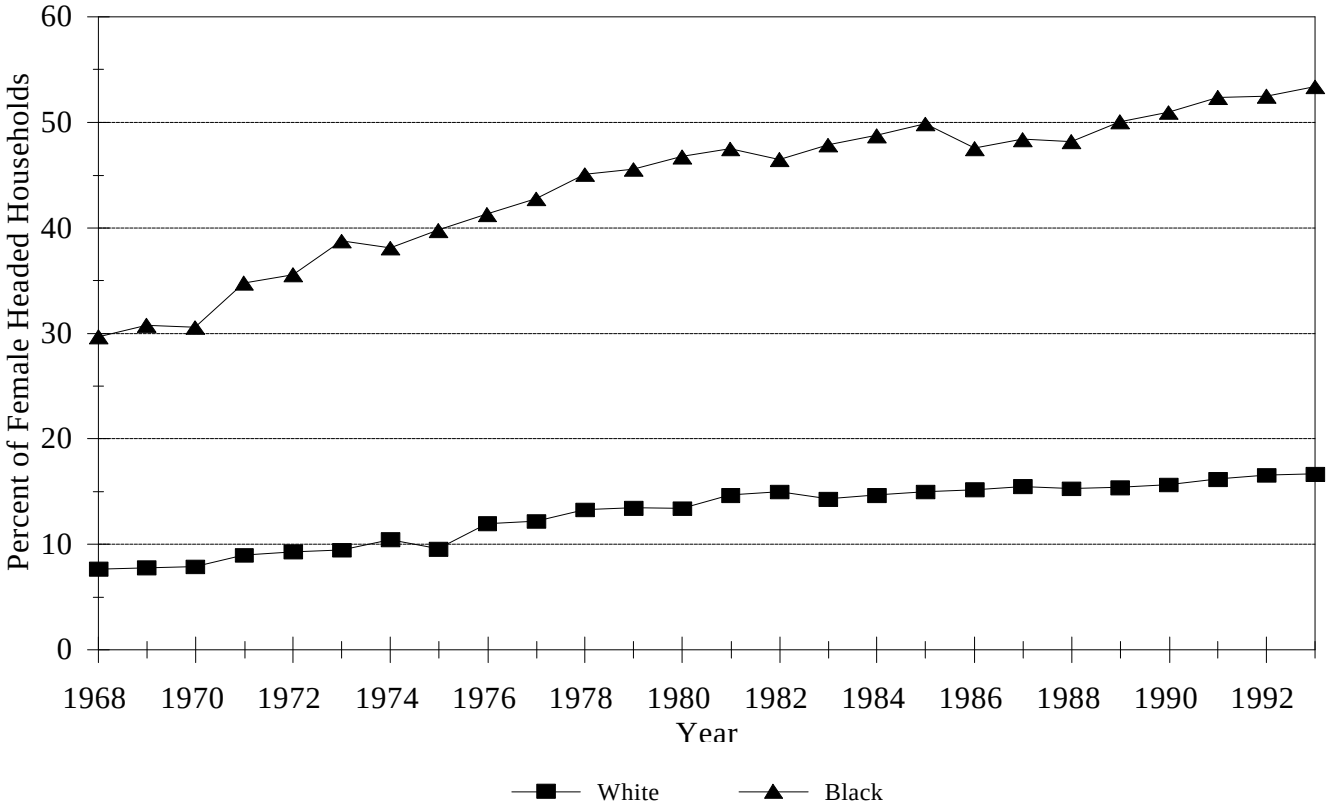
TABLE 4
Average Tax Rates for a Representative Welfare Recipient in 1993, by Wage Rate and Presence of EITC Program[a]
(*California AFDC Program with 30 and 1/3 Rule*)

	Work Transition		
	From No Work to Part-Time Work	From Part-Time to Full-Time Work	From No Work to Full-Time Work
	Average Tax Rates with 1996 EITC		
Wage Rate			
$5.00	32.4%	60.5%	46.5%
$7.50	36.7	91.3	64.0
$10.00	46.5	91.2	68.8
$12.50	56.9	78.0	67.5
	Average Tax Rates without EITC		
Wage Rate			
$5.00	72.4%	85.3%	78.9%
$7.50	76.7	82.1	79.4
$10.00	78.9	71.4	75.1
$12.50	79.6	56.9	68.3

[a]The simulation is based on a single mother living with two children in California. Child care expenses are 20 percent of earnings and other work expenses are 10 percent of earnings. AFDC benefits are calculated using the 30 and 1/3 rule. Part-time work is 20 hours per week and full-time is 40 hours per week. Tax rates are calculated as one minus the change in disposable income over the change in earnings.

FIGURE 4

Female-Headed Households as a Percentage of All Families with Children, 1968-1993
(By Race)



Source: U.S. Bureau of the Census, Current Population Reports, Series P-20, Household and Family Characteristics, various years.

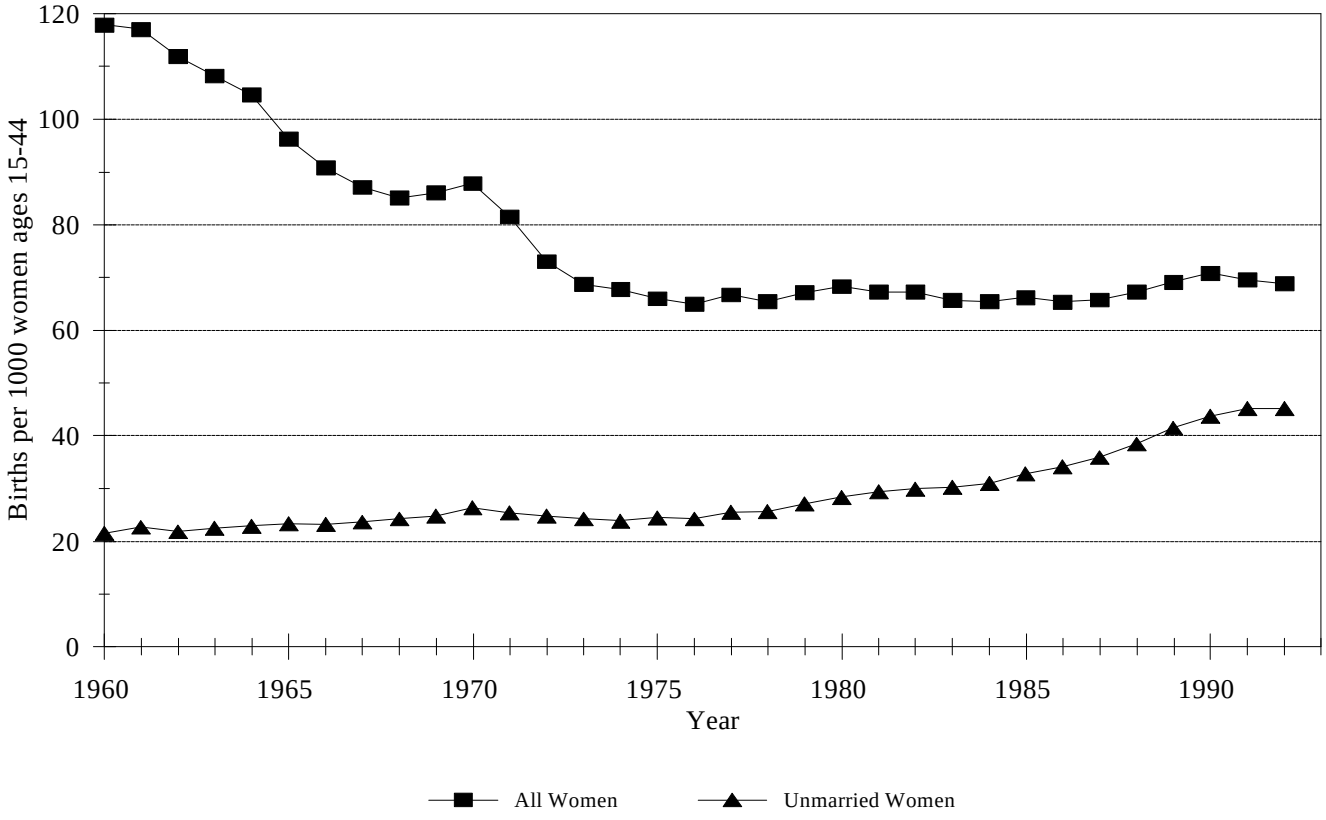
Also significant is the dramatic increase in nonmarital birth rates, measured as the number of births to unmarried women per 1000 unmarried women ages 15–44. Figure 5 shows that the nonmarital birth rate more than doubled over the period 1960–1992, from 20 to 42 per 1,000 unmarried women. These trends are occurring, to some degree, among women of all reproductive ages and in all racial and ethnic groups (Ventura et al., 1995). This steady increase in birth rates among unmarried women is particularly striking, since overall birth rates for all women, as shown in Figure 5, have shown only modest increases since the 1970s. In 1960 the birth rate among all women was almost six times the rate for unmarried women, yet that ratio had fallen to less than 2 to 1 by the end of the period. This increase is particularly striking for blacks, where in 1993 70 percent of all births were to unmarried mothers (Ventura, 1995). Changes in the ratio of nonmarital births to all births (the nonmarital birth *ratio*) are a result of several demographic factors, such as nonmarital and marital fertility rates and marriage rates. Among whites, the increase in the nonmarital birth ratio is due to both increases in the nonmarital fertility rate and decreases in marriage. Among blacks, it is primarily the decrease in marriage that has driven up the nonmarital birth ratio (Ventura et al., 1995).

- ***Poverty rates are higher among female-headed households than any other group.***

Table 5 presents poverty rates among families by age of the head of household and family type in 1993, based on a tabulation of the March 1994 Current Population Survey (CPS). The poverty rate among female-headed households with children was about 46 percent, compared to 9 percent among two-parent families. High poverty rates among female-headed households with children are not limited to minority groups: 41 percent of white, 58 percent of black, and 61 percent of Hispanic female-headed households are poor. Almost half of all families in poverty are now accounted for by female-headed households, yet they only account for about 13 percent of all families, reflecting the growing trend toward the “feminization of poverty.” The table also shows that poverty rates among

FIGURE 5

Birth Rates by Marital Status, 1960-1992
[Births per 1000 Women Aged 15-44 in the Specified Group]



Source: National Center for Health Statistics (1994), Ventura (1995).

TABLE 5
Percentage of Families in Poverty, by Age of Household Head and Family Type, 1993[a]

	All	Head < 65	Head ≥ 65
All families	12.2%	13.3%	6.9%
Families with Children < 18			
Husband-wife families	9.0	8.8	23.8
Female head	46.1	46.8	28.2
Male head	22.4	22.4	22.7
All	18.5	18.4	25.5
Families without Children <18			
Husband-wife families	4.1	3.8	4.8
Female head	10.7	11.0	10.0
Male head	10.0	10.5	8.4
All	5.1	4.9	5.5

Source: Author's tabulation of March 1994 Current Population Survey.
[a]Based on a sample of primary families only. Does not include secondary families or unrelated individuals. All results are weighted.

elderly households are relatively low—5.5 percent among families without children headed by an elderly individual.

- ***Public assistance programs reach poor families with children.***

As discussed above, resources for public assistance programs in the United States are primarily spent on poor single-parent families with children and on the elderly. This is reflected in Table 6, which presents the percentage of nonelderly families in poverty who are participating in various public assistance programs. Among the 3.9 million poor female-headed households with children, 63 percent receive AFDC or general assistance, 87 percent receive some type of means-tested benefits, and 14 percent receive no benefits at all. This can be contrasted to the 2.3 million two-parent families with children in poverty, where only 24 percent receive cash assistance and 40 percent receive no benefits. For the 1.1 million nonelderly families without children who are in poverty, 64 percent do not receive any of these means-tested benefits.

- ***Multiple program participation is the rule, not the exception.***

In-kind transfer programs have become increasingly important for welfare recipients. In 1992, 86 percent of all AFDC recipients received Food Stamps and 96 percent received Medicaid (U.S. House of Representatives, 1994).

- ***Labor force participation rates among public assistance recipients are lower than among those not receiving benefits.***

Table 7 shows that among poor female-headed households with children receiving cash means-tested benefits during 1993, only 32 percent worked that year, compared to 71 percent among those not receiving any benefits and 87 percent among all female-headed households with children with incomes between 100 and 200 percent of the poverty line. Labor force participation rates are also low among poor two-parent families on public assistance—43 percent of husbands and 23 percent of wives

TABLE 6
Percentage of Poor Families Receiving Public Assistance Benefits in 1993, by Family Type[a]

	Number in Poverty (Millions)	*Percentage of Poor Families Receiving Benefits from:* AFDC or GA	Food Stamps	Medicaid[b]	Subsidized Housing	Any Means-Tested Program[c]	No Benefits[d]
Head < 65 with children							
Husband-wife	2,268	23.6%	49.1%	45.2%	9.5%	60.1%	39.9%
Female head	3,941	62.6	76.5	77.0	36.7	86.5	13.6
Male head	338	41.1	53.8	60.0	16.2	65.6	34.4
Head < 65, no children	1,065	9.4	30.1	31.4	11.7	45.0	55.0
All families with head < 65	7,612	42.6	60.8	60.4	24.2	71.9	28.1

Source: Author's tabulation of March 1994 Current Population Survey.

[a]Based on a sample of primary families only. Does not include secondary families or unrelated individuals. Receipt of benefits is determined at the household level. All results are weighted.
[b]At least one person in the household is covered by Medicaid.
[c]Includes receipt of AFDC, general assistance, food stamps, Medicaid, or subsidized housing.
[d]Not receiving any of the benefits listed in note c. Note that family can still be receiving other means-tested benefits, such as school lunches and energy assistance.

TABLE 7
Labor Force Participation Rates among Parents in Poor Families, by Family Type and Receipt of Public Assistance Benefits in 1993[a]
(Nonelderly Families with Children)

	Receipt of Public Assistance Benefits			
	AFDC or GA	Any Means-Tested Benefits[b]	No Benefits[c]	All Families 100%–200% Poverty
Labor Force Participation Rates among Nonelderly Families with Children				
Female head	32.8%	40.9%	70.8%	87.3%
Husband-wife family				
Husband	45.4	61.6	83.4	91.8
Wife	22.7	32.4	49.7	60.4

Source: Author's tabulation of March 1994 Current Population Survey.

[a]Based on a sample of primary families only. Does not include secondary families or unrelated individuals. Receipt of benefits is determined at the household level. Nonelderly families are those headed by someone less than 65. All results are weighted.
[b]Includes receipt of AFDC, general assistance, food stamps, Medicaid, or subsidized housing.
[c]Not receiving any of the benefits listed in note b. Note that the family can still be receiving other means-tested benefits, such as school lunches and energy assistance.

receiving cash assistance worked, compared to 83 percent of husbands and 50 percent of wives who did not receive any benefits.[16,17]

4. EXPECTED EFFECTS OF PUBLIC ASSISTANCE ON LABOR SUPPLY AND FAMILY STRUCTURE

The standard model used to evaluate the work incentives of welfare programs is a static income-leisure model. In that model, individuals choose a level of work effort by maximizing the utility of income and leisure subject to a budget constraint that takes into account the tax and transfer program(s) that are being examined. Figure 6 presents a simplified version of the budget constraint faced by an AFDC participant. In the absence of AFDC benefits, the person receives only her earned income, and her budget opportunities are represented by ACDE, with a slope equal to the wage rate *w*. The AFDC program provides a maximum benefit of *G*, the "guarantee," but introduces a BRR of *t*, where for each additional dollar in earned income, the AFDC benefit is reduced by *t* dollars. Income opportunities in the presence of the AFDC program are then represented by ABDE and the slope of the AFDC budget segment is *w(1-t)*. The maximum benefit level and the tax rate combine to create a break-even level of income where benefits are zero. Below the break-even point the household can receive positive benefits and above the break-even level the household is not eligible.

The primary policy parameters are the guarantee and the benefit reduction rate. Increasing the guarantee causes a reduction in labor supply through a pure income effect. Changes in the tax rate, like changes in wages, generate both income and substitution effects, and the net effect is ambiguous. Figure 6 illustrates the effect of increasing the BRR to 100 percent, represented by ABCE. By reducing the net wage from *w(1-t)* to zero, the cost of leisure is reduced and, hence, through the substitution effect, labor supply decreases. The income effect associated with an increase in the tax rate, by reducing income at a given level of hours, leads to lower levels of work effort. However, the

Figure 6
Sample Budget Constraint for AFDC Program

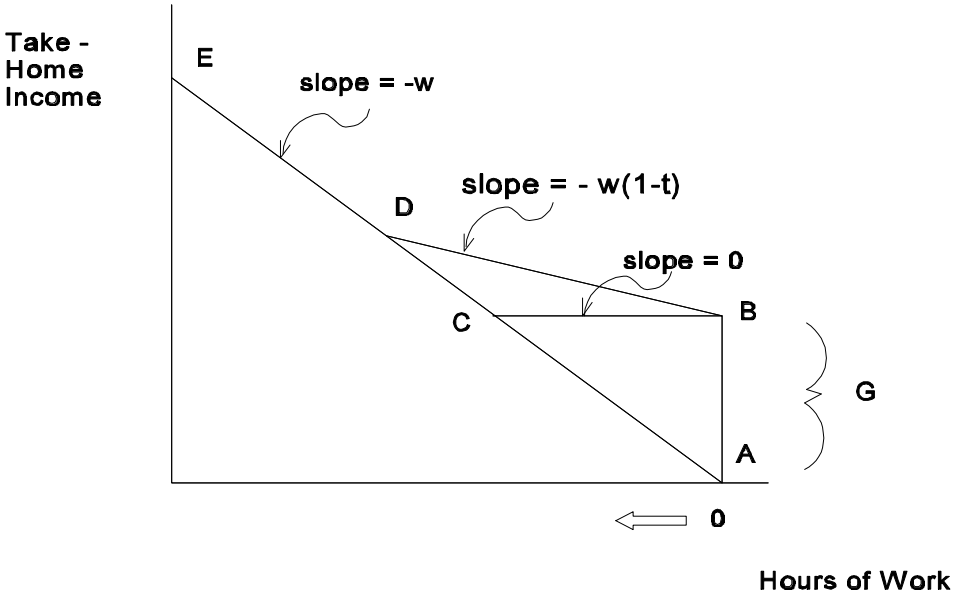
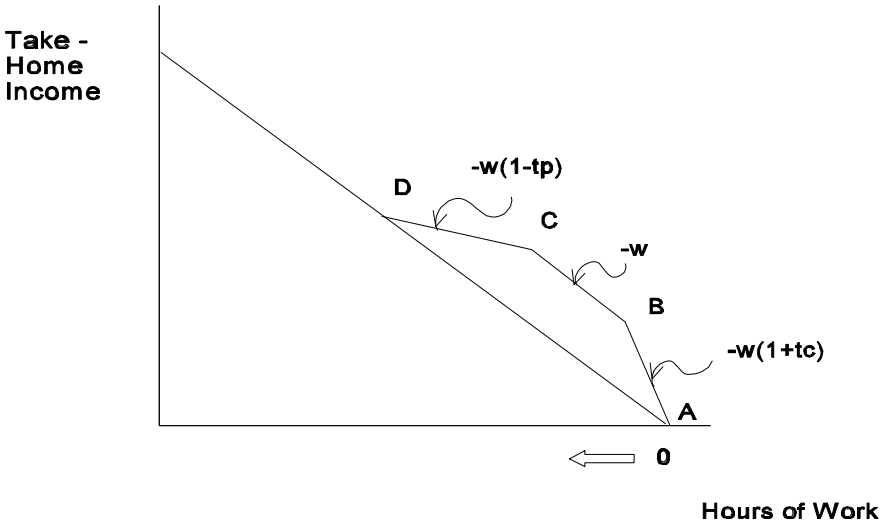


Figure 7
Sample Budget Constraint for EITC



total effect of a welfare program, by establishing a guarantee and tax rate, leads unambiguously to lower levels of work effort.

A change in the guarantee or tax rate not only changes the incentives for work for existing recipients, but also changes the composition of the recipient population through entry and exit, and it affects the labor supply of new entrants (Moffitt, 1992a; Levy, 1979). For example, a decrease in the BRR from 100 to 67 percent may increase work among current recipients, but reducing the BRR will increase the break-even level of income, which will lead to increases in entry into the program. Some new entrants will decrease their labor supply in response to the reduction in the BRR and others will leave their labor supply unchanged but may be eligible due to the program expansion. Ashenfelter (1983) calls these two caseload effects the "behavioral" and "mechanical" effects. A third group of new entrants may have been eligible even before the program's expansion but were not participating due to lack of knowledge about the program, or because of costs of participation (Moffitt, 1983). This is a potentially important group, as the take-up rate is estimated to be between 45 and 65 percent for female heads of household (Moffitt, 1983; Blank and Ruggles, 1996). The overall change in the labor supply of female heads depends on the relative magnitudes of existing participants and new entrants.

The EITC program, in contrast to the AFDC program, is designed explicitly to subsidize employment. Figure 7 shows a stylized budget constraint for the EITC program. The main strength of the EITC is that in contrast to AFDC, theory predicts unambiguous increases in labor force participation rates. For individuals out of the labor market, both the income and substitution effects of the EITC are positive and provide an incentive to enter the labor market. For those already in the labor market, the work incentives of the EITC program depend on which of the three segments of the budget constraint the family is on. In the subsidy region of the credit, over segment AB, the net wage increases to $w(1+tc)$, where tc is the credit rate. In the flat region of the credit (segment BC), the net wage is w. In the phase-out region of the credit (segment CD), the net wage *decreases* to $w(1-tp)$, where tp is the

phase-out rate. For persons in the subsidy range of income, the substitution effect is positive but the income effect is negative, leading to an ambiguous total effect. In the flat and phase-out ranges of the credit, work effort unambiguously decreases.[18] These negative effects on hours worked are potentially significant, as about 70 percent of recipients have incomes in the flat or phase-out ranges of the credit (Eissa and Liebman, 1996).

Unfortunately, the world is much more complicated than that presented in the stylized figures above. First, there are multiple programs that women are eligible for (and other taxes that they face), which complicate the budget constraint. For example, if Medicaid benefits are dropped when a family loses eligibility for AFDC, then a very high marginal tax rate is generated at this so-called Medicaid "notch." Second, because of allowable deductions to earnings, the effective tax rate faced by these women will typically be lower than the statutory rate of 67 to 100 percent. Third, the static model does not take into account the long-term implications for current work effort, for example, augmenting human capital to lead to higher future wages. Last, while two-parent families represent a small fraction of AFDC participants (8 percent) they represent almost one-half of all EITC recipients (U.S. House of Representatives, 1994; Eissa and Liebman, 1993). The discussion above presents the simple case of one potential earner in the family. The incentives of these programs are more complicated with two possible earners in the family.[19]

The theoretical justification for the adverse effects of the welfare system on family structure are straightforward. First, since the inception of the AFDC program, benefits for two-parent families have been nonexistent or limited. Because of unequal treatment of single- and two-parent families, the U.S. welfare system provides incentives to divorce, separate, and delay marriage and remarriage.[20] Second, for the same reasons, the welfare system provides an incentive for out-of-wedlock childbearing. Third, the benefit levels provided in most welfare programs increase with the size of the

family. For example, in 1993, a single mother living in California with one child would receive an increase in her AFDC benefit of $117 (from $490 to $607) if she had an additional child.

Because the EITC provides benefits to both married and single-parent families, it appears to carry less marriage penalty than does AFDC. But if both parents are working, there may be gains to splitting the family into two units if each can obtain the credit.

The economic model underlying most studies of the impact of welfare programs on family structure is developed in work by Becker on marital formation and dissolution (Becker, 1973, 1974, 1981). Becker's model is based on the proposition that a woman will choose marriage when the economic benefits (or utility) inside marriage exceed the economic benefits outside marriage. Implications of this model are that increases in the earnings or wages of the potential spouse will increase the probability of marriage, while increases in any benefits available outside marriage (such as welfare benefits) will decrease the probability of marriage. By the same argument, increases in benefits increase the probability of having another child or having a child out of wedlock.

5. EFFECTS OF WELFARE ON LABOR SUPPLY AND FAMILY STRUCTURE: LESSONS FROM THE LITERATURE

The empirical literature on the incentive effects of welfare programs is largely based on evidence from three sources. The first source is differences in programs across states at a point in time. The second source is changes in programs over time. Empirical analyses using this type of variation can take the form of aggregate time-series analysis, pooled cross-section analysis, or studies using panel data. Examples used in the literature include changes in the BRR in the AFDC program in 1968 and 1981, changes in benefit levels over time, and expansions in the EITC and Medicaid programs. Studies using these two sources of variation are useful in determining how labor supply or family structure might change in response to changes in benefits or tax rates. Ultimately we are interested in not only

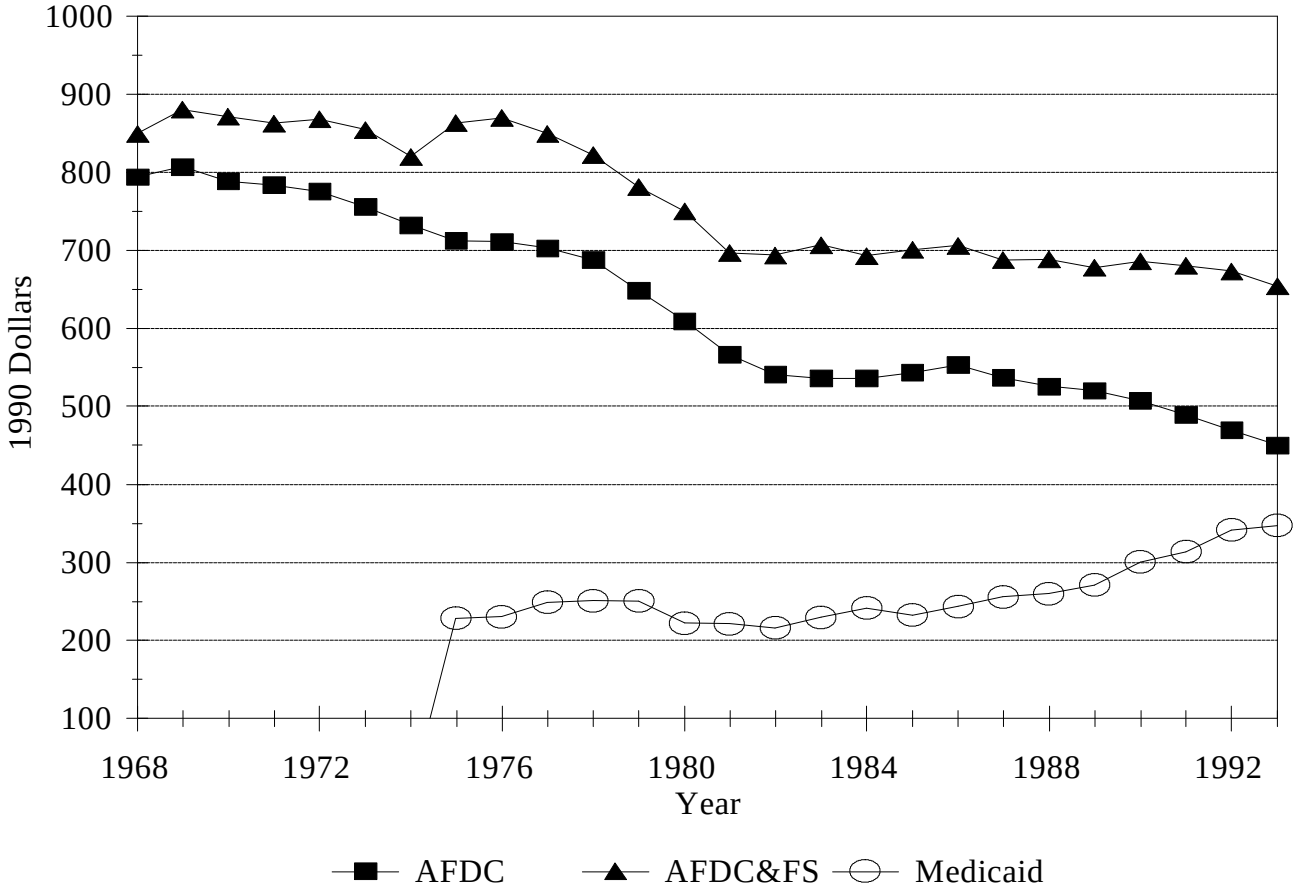
these *marginal* effects, but also in how the *existence* of the programs themselves affects the outcomes of interest. We have very little program variation that allows us to observe such changes directly. Thus the existing studies are limited in their ability to make predictions about eliminating programs. These issues will be discussed in the context of welfare reform in a later section.

The third source is state demonstrations or experiments. State experimentation with welfare programs is typically done in a classical experimental setting, with random selection into treatment and control groups. The policy change in these cases is not limited to tinkering with benefit and tax rates, but typically involves changing some other aspect of eligibility or participation. This section will concentrate on evidence from the first two sources. State experiments will be discussed in the next section.

Let us begin with a simple examination of the time-series trends in program generosity. Figure 8 presents trends in benefits in the AFDC, Food Stamps, and Medicaid programs over the last 25 years.[21] The most striking fact in this figure is the dramatic decline in AFDC benefits since late 1960s. The real value of the AFDC guarantee dropped by almost 50 percent during this period, with benefits continually in decline, aside from the 1982–1988 period, when benefits were largely unchanged. The introduction of in-kind benefit programs in the late 1960s and early 1970s moderated the decline in AFDC benefits in the early part of the period. The cash value of AFDC and Food Stamp benefits, as shown by the line labeled AFDC&FS, declined by about 30 percent over the period. This is in part due to the fact that Food Stamp benefits are adjusted annually for changes in food prices, whereas changes in AFDC have to be authorized by state legislatures. Despite the fact that real wages have also declined over much of this period, benefit-to-wage ratios exhibit similar trends to the real benefits shown in Figure 8 (Hoynes and MaCurdy, 1994). Average state Medicaid

FIGURE 8

Maximum Welfare Benefits for a Family of Four, 1968-1993
(1990 Dollars)



expenditures for female-headed households increased somewhat over the period, which, if valued by households as cash, would further moderate, but not reverse, the fall in AFDC benefits.[22]

If labor supply and family structure decisions are sensitive to the financial inducements of welfare programs, then one would expect that the dramatic changes in benefits shown in Figure 8 would be associated with changes in outcomes. Comparing the trend in benefits to the trends in female headship (Figure 4) and nonmarital births (Figure 5), it appears that benefits tracked these trends in family composition until the mid-1970s. Since then, real benefits have declined while the headship rate and nonmarital birthrates have continued to increase. In addition, time-series trends in labor supply and hours worked among female heads of household do not appear to track trends in AFDC tax rates or benefit levels (Moffitt, 1992a). This approach, while illustrative, is not conclusive, because other factors may have changed over this time period, which may result in significant incentive effects of the welfare system. Further, comparing contemporaneous benefits with outcomes may not be appropriate. This may be particularly true for family structure decisions, where the effect of welfare may be lagged, possibly through effects on long-run norms. This has not been addressed in the literature.[23]

The remainder of this section summarizes empirical studies on the effects of existing welfare programs on labor supply and family structure and relies on existing reviews whenever possible. The vast majority of the literature has examined the incentive effects of the AFDC program. This is probably the result of many factors. First, in-kind programs were not introduced until the mid-1960s, some 30 years after the AFDC program, and for some time were significantly smaller than the AFDC program. Second, AFDC benefits vary dramatically across the states, whereas Food Stamp benefits and to a certain extent Medicaid do not. Last, examining in-kind benefits often requires making assumptions about how these benefits are valued by the household. Are they equivalent to cash and thus can enter directly in the budget constraint used in static labor supply analysis? Food Stamp benefits are likely to

be inframarginal and, hence, can be treated as cash transfers (Moffitt, 1989). Medicaid benefits are much more difficult to value because of their insurance component.

Labor Supply

Static labor supply theory predicts that the existence of the AFDC program unambiguously leads to lower levels of labor supply among potential recipients. One of the main goals of the literature is to determine by how much labor supply is reduced among female heads of household. This is inherently difficult to measure, since it requires out-of-sample prediction. Danziger, Haveman, and Plotnick (1981) and Moffitt (1992a) provide surveys of the literature and report that most studies find nontrivial disincentive effects. Overall, estimates show that the introduction of AFDC leads to a 10–50 percent reduction in labor supply from pretransfer levels. While the upper end of the disincentive effects are large, predicted levels of work effort among program participants *in the absence of the program* still remain very low compared to other female heads of household. The result is that, in the absence of AFDC benefits, earnings would remain sufficiently low that 95 percent of previous participants would have incomes low enough to retain eligibility under the program, and family income levels rarely are raised to the poverty level (Moffitt, 1983). Hoynes (1996a) examines the effect of AFDC-UP on the labor supply of two-parent families and finds somewhat larger disincentive effects, where husbands and wives reduce hours worked by about 80 percent from pretransfer levels. This may in part be explained by higher wage opportunities and greater work experience levels among these recipients. Page (1995) examines the effect of the expansion by the Family Support Act of AFDC-UP and finds labor supply effects consistent with Hoynes (1996a).

The available evidence suggests that average levels of labor supply of female heads of household are not sensitive to changes in the benefit reduction rate in the AFDC program. While the studies find that increases in the rate lead to moderate and significant increases in labor supply among recipients, they are offset by decreases of new entrants, responding to the increase in the break-even

level of income (Danziger, Haveman, and Plotnick, 1981; Moffitt, 1992a; Hoynes, 1996a). This does not necessarily imply that wage elasticities are low, but that entry effects may also be important. Because statutory levels of benefit reduction rates are constant across states, these studies typically identify the tax effect from differences in effective tax rates or wages. Examination of the time-series variation in the BRR—the reduction from 100 to 67 percent in 1968 and the increase back up to 100 in 1982—also shows no effect on labor supply (Moffitt, 1992a).

The majority of welfare recipients who receive AFDC payments also receive Food Stamps, Medicaid and, in about a third of the cases, subsidized housing. Only a handful of studies have taken these programs into account in estimating the work disincentives of welfare benefits. Overall, these studies show rather modest effects of in-kind programs. Fraker and Moffitt (1988) find that the Food Stamp program reduces labor supply among female heads of household by about 10 percent and that the combined impact of Food Stamps and AFDC reduces labor supply by about 21 percent. Blank (1989) and Winkler (1991) use cross-state variation in average Medicaid expenditures and find very small work disincentive effects. Moffitt and Wolfe (1992) estimate a family-specific value for Medicaid based on the health status of the family and find significantly larger effects on labor supply. Keane and Moffitt (1996) consider the combined impact of AFDC, Food Stamps, Medicaid, and public housing, and find a modest work disincentive. In their analysis, however, they treat public housing as an entitlement. Painter (1995), accounting for rationing of public housing by controlling for average waiting times across public housing authorities, finds that ignoring housing benefits underestimates the work disincentive by 46 percent.

One of the most significant changes in in-kind programs is the severing of the link between AFDC receipt and Medicaid eligibility that has taken place in the past 10 years. This has occurred through expanding Medicaid eligibility to children in families with incomes exceeding AFDC eligibility thresholds and providing up to one year of Medicaid coverage to families who leave AFDC for work.

Yelowitz (1995) found that expanding Medicaid coverage to children at income levels above AFDC eligibility increased labor force participation rates by 1 percentage point among all female heads of household, and reduced AFDC participation rates by 1.2 percentage points. Transitional benefits may not significantly influence welfare-to-work decisions, as very few families have actually taken advantage of this program (Ellwood and Adams, 1990).

In sum, the available evidence suggests that welfare programs do create a modest work disincentive, but that the existence of the programs does not completely explain the very low levels of work effort among welfare participants as compared to nonparticipants. For example, Moffitt (1983) finds that AFDC benefits explain only about one-half of the difference in hours worked between female-headed participants and nonparticipants. Hoynes (1996a) finds that AFDC-UP benefits explain one-third of the difference among participating and nonparticipating married men and one-half of the difference among married women. This may be because the studies have not controlled adequately for recipients' poor work opportunities or other costs of going to work, or it may be explained by differences in tastes for work.

The empirical studies of work incentives of the EITC program have made use of the tremendous expansion of the program, both in terms of the size of the credit and the range of eligibility, which has take place over the past 10 years. First, the expansion of the credit as part of the 1986 Tax Reform Act (TRA86) increased the credit rate from 11 percent to 14 percent and increased the maximum credit from $550 to $851 (U.S. House of Representatives, 1994). Eissa and Liebman (1996) find that the TRA86 expansion led to a 2.8 percentage-point increase in the labor force participation rate for single mothers, or a change of about 4 percent. As expected, they found the responses to be concentrated among lower-education groups, with an increase of 6 percentage points for those with less than a high school education. They found no significant effects of the EITC on hours worked for any group. They discuss several reasons which could explain the lack of an effect for hours of work. If the

phase-out rate does not generate large distortions, then the deadweight loss associated with the program is potentially much lower than expected. Overall, however, Eissa and Liebman's estimated labor supply response was relatively small compared to the cost of the credit's expansion—about $23,000 per new worker.

Dickert, Houser, and Scholz (1995) combined labor supply elasticities from the literature with their own estimates of the elasticity of labor force participation to examine the effects of the 1993 EITC expansion. Their results imply an increase in labor force participation rates of 3.3 percentage points, or 6 percent, for single mothers and 0.7 percentage points for primary earners in two-parent families. In contrast to Eissa and Liebman, they find the entry effect to be offset by significant reductions in hours of work among those already in the labor market. However, they find overall significant net positive effects of the credit on hours of work.[24] The cost of the expansion of the credit is paid for with a reduction in the AFDC caseload for single parents, but no cost savings occur for two-parent families.

Family Formation

The early literature on the effects of AFDC on female headship is based primarily on state, SMSA, or city-level analyses. The results from this literature are mixed and find no strong evidence that AFDC has a significant effect on female headship decisions (Groeneveld, Hannan, and Tuma, 1983). The more recent cross-sectional evidence, reviewed by Moffitt (1992a), shows a significant and positive, but modest, effect of welfare on female headship, remarriage, and divorce. These studies, however, are based on cross-state variation in welfare benefits and may be biased if there are omitted state characteristics which are correlated with welfare benefits. For example, a state which is more accepting of nontraditional family structures may favor a higher level of support for female-headed households. This positive correlation between benefits and unmeasured characteristics would lead to an upward bias in the estimated welfare effect. Moffitt (1994) and Hoynes (1995) find that after controlling for state and individual fixed effects, the welfare effect is small and not statistically

significant. Winkler (1995) finds that the FSA's expansion of AFDC-UP to all states did not lead to significant increases in marriage. Together this evidence suggests that marriage decisions are not sensitive to financial incentives.

The literature on the effect of welfare on out-of-wedlock births is also quite conclusive. Acs (1995) and Moffitt (1995) provide recent reviews of the literature on the effects of welfare on nonmarital births. Overall, these effects are often insignificant, and when they are not, they are small. Larger effects are found for whites: among them, on average, a 10 percent increase in benefits leads to a 5 percent increase in the nonmarital birth rate (Acs, 1995). All but one study found insignificant results for blacks. All but a few of these studies rely on cross-state variation, and the estimates are very sensitive to the other state controls which are included (Moffitt, 1995). As with female headship, unmeasured state characteristics can potentially bias the estimated welfare effect. Ellwood and Bane (1985) and Jackson and Klerman (1995) look at changes over time within states, controlling for state characteristics, and find no effect of welfare on nonmarital births for blacks or whites. Only a few studies examine the effects of welfare on subsequent births, and none of them have found a positive effect (Acs, 1995).

6. EVIDENCE FROM STATE EXPERIMENTS

The studies discussed in the previous section use differences in policy across states and/or over time to estimate the effects of welfare programs on labor supply and family structure. An additional source of information, which is rising in importance, is the evidence based on the evaluation of state experimentation with AFDC programs. Experimentation typically takes the form of setting up demonstration projects in selected localities within the state, where a relatively small group of randomly chosen welfare recipients are randomly assigned to treatment or control groups. Within this classic experimental setting, the effects of the policy change or "treatment" is measured as the

difference in the outcome of interest between the treatment and control groups (Hausman and Wise, 1985). The policy changes considered within this setting are becoming increasingly diverse and include changes in participation requirements, eligibility, and benefit formulas. This section presents a short history of state experimentation with the AFDC program and discusses the implications for the current discussion on the incentive effects of welfare programs.

The roots of state experimentation with the AFDC program are in the Social Security Act of 1935, the legislation which established the program. While states have control over setting rules concerning benefits and income eligibility, the Act also gives authority to the Secretary of the Department of Health and Human Services to "waive specified requirements of the Social Security Act pertaining to the AFDC program in order to enable a State to carry out any experimental, pilot, or demonstration projects that the Secretary judges likely to help in promoting the objectives of the program" (U.S. House of Representatives, 1994, p. 364).

The modern use of state experiments began with the Reagan administration and has increased steadily throughout the Bush and Clinton administrations. The experiments of the 1980s and early 1990s were primarily welfare-to-work programs which had job search, work experience, job training, and education components. The Omnibus Reconciliation Act of 1981 had two major provisions aimed at reducing the AFDC caseload. First, it increased the BRR from 67 to 100 percent. Second, it provided guidelines for states to engage participants in employment and training programs. These guidelines were not mandates, but provided an "OBRA toolbox" which states could use to innovate (Greenberg and Wiseman, 1992). By the end of 1989, 24 evaluations were conducted on programs within 19 states. Most of these programs took the form of mandatory job search for eligible adults in recipient families.[25] These programs were found to have a relatively small impact on earnings, employment, and the welfare caseload. The largest results were in the range of decreasing AFDC participation by 5 percentage points and increasing quarterly earnings by $100 (Greenberg and Wiseman, 1992) and were concentrated

among moderately disadvantaged recipients (Gueron and Pauly, 1991).[26] Low-cost programs focusing on rapid placement generated greater cost-benefit calculations relative to higher-intensity, higher-cost programs focused on training and education (Gueron and Pauly, 1991).

Despite the rather modest impact of the OBRA demonstrations, they had a significant impact on welfare policy, as reflected in the passage, in 1988, of the Family Support Act (FSA) (Wiseman, 1991). The centerpiece of the FSA was the establishment of an employment, education and training program for AFDC recipients called the Job Opportunities and Basic Skills Training (JOBS) program. While the FSA required that all states implement a JOBS program, states were allowed considerable freedom in the design of a program. JOBS programs typically consist of some combination of education and training, job search and placement, and work experience. States have to decide, among other things, how to allocate resources between low-cost and high-cost programs and to whom the program will be targeted. Subject to available resources, however, participation is required among all nonexempt recipients.[27] In short, eligible recipients are expected to take jobs and participate in employment services, and the state is expected to provide services and the incentives to find employment.

Overall, participation in JOBS programs has increased dramatically: in 1992, 23 percent of eligible adults were participating (U.S. House of Representatives, 1994). The evaluations of the state JOBS programs suggest that they have a modest impact on earnings, employment, and welfare participation. In order to illustrate the effect of JOBS programs, consider the case of the Greater Avenues for Independence (GAIN) program, the California JOBS program that has been operating since the mid-1980s and is widely believed to be the most successful in the country. The most dramatic results among all major JOBS evaluations in the country have been found for Riverside County, a mixed urban-rural county located southeast of Los Angeles, which developed a low-cost program that focused on immediate job placement. Over a three-year period, the GAIN program increased

employment rates by 14 percentage points, or 25 percent, and AFDC participation decreased by about 13 percent (Riccio, Friedlander, and Freedman, 1994). The overall reduction in government expenses relative to the cost of the program was substantial: $2.84 per $1.00 invested. However, more resource-intensive programs, focusing on education and training of long-term recipients in urban areas, found much smaller results, yielding negative returns to the program.[28]

Beginning in the early 1990s, state demonstrations advanced far beyond employment and training programs. In January 1992, waivers had been approved for 15 projects in 9 states. At the Bush administration's encouragement, 1992 brought more than 15 additional projects (Wiseman, 1993).[29] This continued under the Clinton administration, which approved more than 25 new or revised plans. The provisions implemented as part of this waiver process affect nearly every facet of eligibility and benefit rules and include (1) provisions concerning two-parent families, such as elimination of the 100-hour rule and work requirements for AFDC-UP participants; (2) changes in the benefit formula, such as reducing the benefit reduction rate, modifying allowable deductions, and implementing a two-tier benefit schedule under which benefits are reduced after a fixed time on the program; (3) provisions for teens, such as establishing incentives for teens to stay in school and live with their parents; (4) imposing a "family cap," whereby benefits are not increased if an additional child is born while on welfare; (5) establishing incentives for paternity identification; (6) imposing time limits on welfare receipt; and (7) liberalizing asset tests. Although the evaluations of these demonstrations will be valuable to those implementing recent welfare reform provisions, the programs are in their infancy and it is too early to include any information for this review.

The rise of experimentation at the state level is a significant trend in welfare policy. It is important, however, to keep in mind the limitations for their use in designing nationwide, or even statewide, welfare policy. First, state demonstrations are typically quite small in scale, and take place in select communities in the state. The scale of the program limits the realization of possible macro or

community feedback effects, such as the effect of the program on labor markets, social norms and information diffusion (Garfinkel, Manski, and Michalopoulos, 1992). If the sites for the program are not randomly selected, then the ability for wide-scale replication is uncertain (Greenberg and Wiseman, 1992). Second, most of the current state demonstrations involve multiple changes to AFDC eligibility and benefits. For example, the Wisconsin Parental and Family Responsibility Initiative (PFRI) is aimed at teenage recipients and simultaneously imposes a partial family cap, liberalizes the treatment of deductions against earned income, expands benefits for two-parent families by removing the 100-hour-rule and the work history requirements, and increases the incentive for paternity establishment within one year of a child's birth (Wiseman, 1993). In these demonstrations, recipients in the "treatment group" will experience all of these changes, and the evaluation of the program will show the net effect of all of them on employment and welfare outcomes. This multiple-treatment approach will make it very difficult to determine the relative benefits of the various components of the legal changes. Third, these demonstrations are typically of a limited duration. Since the recipients in the treatment group know this, they may be unlikely to make different choices, given uncertainty about future rules. This may be particularly true for long-term decisions like marrying and having a child. Last, changes in eligibility and benefits will change the overall generosity of welfare, which may affect entry into the program. The demonstrations typically are based on a sample of recipients and thus will not measure the entry effect (Moffitt, 1992b).

7. WELFARE REFORM, WORK, AND FAMILY STRUCTURE

Current welfare reform proposals are motivated by a desire to achieve an overlapping set of goals: reducing dependency on the system, decreasing long-term dependence, reducing program costs and caseloads, encouraging work, encouraging the formation of two-parent families and discouraging nonmarital childbearing. These goals are not new, in fact they underlie reforms to the system that have

been debated and to some extent implemented over the past 25 years. This section begins with a taxonomy of welfare reforms past and present. Some represent failed attempts at reform and others represent changes which have been implemented at the state or nationwide level. This discussion is not meant to be a comprehensive history of welfare reform, but presents the main measures aimed at enhancing the incentives to work and to form two-parent families. The section concludes with a discussion of the likely implications of current reforms, using the evidence presented in the paper.

A Taxonomy of Welfare Reform

Let us begin by separating reforms into those *inside welfare* and those *outside welfare* (Ellwood, 1988). Within those groups we will consider financial and nonfinancial measures.[30]

Reforms Inside Welfare

Financial Incentives. Over the history of the program, financial incentives have been the most common policy tool used in attempting to increase work and decrease welfare dependency. Changes in tax rates and benefit levels are the most prominent example of such a policy. The Negative Income Tax experiments of the late 1960s and early 1970s represent the most significant, but unsuccessful, attempt at reforming the structure of benefit and tax rates.[31] Other examples are the decrease of the BRR in 1968 and its increase in 1982. Current state experiments reflect a renewed interest in altering work incentives through changes in benefit rules. Many states have received waivers to implement decreases in tax rates, changes in the treatment of deductions in calculating benefits, and reductions in benefits.

Currently, the use of financial incentives has expanded to encourage the formation of two-parent families and to discourage nonmarital childbearing. “Family cap” provisions reduce or eliminate additional AFDC benefits if a child is born while the mother is on aid. Other examples are the elimination of benefits for unmarried teen mothers unless they live with their parents or providing financial incentives to stay in school.

The justification for these reforms is simple. They place higher costs on undesirable behavior relative to desirable behavior and their effectiveness depends on the sensitivity of individuals to these financial incentives, or disincentives.

Categorical Eligibility Rules. Past reforms have expanded eligibility to two-parent families in order to encourage their formation. The FSA required that all states provide AFDC benefits to two-parent families. In addition, many states are experimenting with eliminating the 100-hour work-limit and work-history requirements for the primary earner in the AFDC-UP family, which is an eligibility condition imposed on two-parent families but not single parents.

Current proposals limit eligibility in order to discourage nonmarital childbearing, such as prohibiting unmarried teen mothers from receiving AFDC. Another example of changing categorical eligibility is time-limiting benefits, thereby discontinuing eligibility after some fixed period of time on welfare. These proposals, while being debated on the national level, are also part of the state experiments now planned or in progress.

Transitional and Support Services. Moving from welfare to work commonly results in two important sources of economic hardship, in addition to the loss of AFDC benefits. First is the cost of child care; second is the loss of medical insurance through Medicaid. Both of these issues were addressed in the FSA. In order to make the transition to employment less costly, the FSA mandated 12 months of Medicaid coverage for the family after leaving AFDC for work and established programs to subsidize the cost of child care for working welfare recipients.

Welfare-to-Work Programs. Welfare recipients have relatively low educational levels and limited work experience and skills necessary to find employment. These shortcomings produce low earnings opportunities, and hence, small or no gains from seeking employment. These facts have motivated the reforms requiring participation of welfare recipients in mandatory work programs (often known as “workfare”), education and training programs, and job search and placement programs. The

goal of each of these programs is to reduce the caseload through increased work effort. In workfare programs this is achieved by providing work experience, while education and training programs expand wage opportunities through increasing human capital. Job search and placement programs reduce the costs associated with job search and build skills necessary for successful interviews and job performance. This reform has its roots in earlier legislation, but culminated in the FSA, which included provisions requiring participation by all nonexempt adults in state-designed and operated welfare-to-work programs.

Reforms Outside Welfare

Financial Incentives. Financial incentives have been used primarily to increase the returns to work. The most prominent, and most costly, of reforms implemented outside the welfare system is the EITC expansion which has taken place over the past 10 years. The EITC is advanced as a partial replacement of welfare by transferring income to poor families while minimizing the work disincentives associated with the program. Another example of this type of reform is increasing the minimum wage.

Health Care and Child Support. When the Medicaid program was established, participation among families with children was linked to AFDC recipiency: when a family earned enough to get off AFDC, it also lost Medicaid coverage. Recent expansions in Medicaid eligibility have severed the link between AFDC receipt and Medicaid coverage by providing coverage for poor children. In states with low AFDC benefit levels, this has resulted in significant expansions of eligibility. The effect of these expansions is to reduce both the cost of seeking employment and forming two-parent families.

The FSA contained provisions designed to reduce dependency on welfare by increasing the role of the absent parent. It provided incentives for paternity establishment and established guidelines for setting child support payments and facilitating payment collection.

Expected Effects of Current Reforms

Summarizing decades of reform is not easy, but the conclusion that emerges from the evidence presented in this paper is that tinkering with the system is not likely to yield significant results. For example, changes in the benefit reduction rate did not lead to significant increases in work effort (Moffitt, 1992a) and the introduction and expansion of welfare-to-work programs had positive effects, but the results were modest and not likely to generate huge reductions in the caseload (Gueron and Pauly, 1991). On the other hand, reforms outside AFDC, such as expanding the EITC and Medicaid, may generate more sizable increases in labor supply (Dickert, Houser, and Scholz, 1995; Eissa and Liebman, 1996; Yelowitz, 1995). In light of these findings, recent interest in reforming welfare focuses on more dramatic changes to eligibility and benefit rules. The current elements focused on family structure include eliminating benefits for additional children while on welfare, prohibiting or limiting the availability of benefits for unmarried teens, and further expanding benefits for two-parent families by eliminating additional work restrictions. Elements focused on decreasing dependency and increasing work include time limiting benefits and liberalizing the benefit formula to increase the returns to work.[32]

Each of these reforms have been discussed in the context of nationwide changes to the AFDC program. While no consensus that has yet emerged, the waiver process has resulted in state experimentation with virtually all of these provisions. As discussed earlier, it is too early to present results from this state experimentation. What can we conclude about the likely effects of these reforms on labor supply and family structure, using the available empirical evidence?

The evidence suggests that family structure decisions are not sensitive to financial incentives. Thus the provisions aimed at discouraging nonmarital births and female headship will have very small impacts. However, it is important to note that this conclusion is based on empirical evidence that uses cross-state differences or over-time changes in benefit levels to estimate the program's effect on family

structure. One should exercise caution when using studies to evaluate the effects of a change policy (e.g., eliminating a program for a subgroup) which has not been observed in previous data. Eliminating work requirements for two-parent families on AFDC-UP is not likely to lead to significant increases in marriage rates, as the existing constraints are not binding for most couples (Hoynes, 1996a) and the expansion of the AFDC-UP program as part of the FSA did not significantly affect family structure decisions (Winkler, 1995).

Implementing time limits for AFDC receipt is likely to yield mixed results. If a five-year limit is imposed, 35–45 percent of new welfare entrants or three-quarters of the existing welfare population will be affected (Pavetti, 1995; Ellwood, 1986). Employment prospects for these long-term recipients are limited, as over half enter welfare with no work experience and over 60 percent have less than a high school education (Pavetti, 1995). Recent experience with eliminating Michigan's general assistance (GA) program also supports the claim that women may have difficulty finding employment. Two years after male GA recipients were removed from the rolls, only 20 percent had found steady employment (Danziger and Kossoudji, 1995).[33] Further, the employment outcomes of AFDC recipients may be very sensitive to local economic conditions (Hoynes, 1996b). Together, this evidence suggests that family incomes could fall dramatically if time limits were implemented.[34] On the other hand, using evidence from France, Hanratty (1994) estimates that time limiting benefits for single mothers has increased labor force participation rates by 11 percentage points, an increase of 25 percent. This is based on a means-tested program much like the AFDC program, except that eligibility ends when the youngest child turns age 3. These results may have limited applicability for the United States, as France also provides universal medical care and high-quality free nursery school and day care programs (Hanratty, 1994).

Changing benefit formulas to increase work incentives is likely to generate minimal increases in labor supply. This is one area where we do have a significant body of evidence, and collectively it

suggests that marginal changes to implicit tax rates faced by welfare recipients is not likely to have significant effects on labor supply (Moffitt, 1992a). Increasing returns to work within welfare may increase labor supply for current recipients, but this is likely to be offset by reductions in labor supply among new entrants onto the program. Eliminating the 100-hour rule for two-parent families not only furthers the leveling of the playing field between single- and two-parent families, but also is designed to eliminate the inherent work disincentive that it creates. Hoynes (1996a), by estimating the structural parameters of household utility function, is able to examine the implications of elimination of the 100-hour rule and finds that it is likely to increase labor supply among AFDC-UP recipients without significantly increasing the program caseload. However, since participation in AFDC-UP is still very low, this is unlikely to have a significant impact on the income of the poor.

8. SUMMARY AND POLICY RECOMMENDATIONS

This paper has explored the validity of the claims that our welfare system causes low levels of work effort and high rates of female headship and nonmarital childbearing. Although is it true that the system does provide adverse incentives for the formation of two-parent families, the empirical studies show conclusively that the magnitude of these disincentive effects is very small, so that our welfare system cannot explain the high rates of headship and illegitimacy. The estimated work-disincentive effects of welfare programs are somewhat larger in size, and show that public assistance programs explain about one-half of the difference in labor supply of participants and nonparticipants.

These results imply that current reforms aimed at reducing female headship and nonmarital births, such as “family caps,” eliminating benefits for teens, and equal treatment of two-parent families, are unlikely to generate large effects. Changes to implicit tax rates and benefit formulas may increase work among current recipients, but overall work effort may not be affected. Any changes should be accompanied by resources for job search and training, although these programs alone are not a panacea.

These predictions should be accompanied by a word of caution. Many of the proposed changes have never been implemented at the state or federal level and require out-of-sample predictions. Current state experimentation may help fill this gap.

As the importance of in-kind benefits continues to rise, we need to continue to examine the implications of these programs for labor supply and family structure. In addition, as two-parent families become an increasingly large minority of welfare recipients, more research should focus on that group.

Notes

[1]There is also a concern that the structure of benefits in programs for the disabled also discourage work effort. These issues will not be covered here.

[2]Other means-tested programs serving low-income families include school lunch programs, the supplemental food program for women, infants and children (WIC), energy assistance, Head Start, and various training programs. These programs are small compared to those mentioned in the text and, accordingly, they have received less attention in the literature. The other major public assistance programs in the United States are the Supplemental Security Income (SSI) program, which serves low-income elderly and disabled persons, and general assistance (GA) programs, which serve primarily single men. Low-income families may also receive social insurance benefits, such as unemployment compensation or social security.

[3]In addition to the net income test, gross family income must be less than 1.85 times the need standard, which is also state determined and is typically lower than the maximum benefit level. The asset test limits real and personal property, excluding home equity and vehicle equity, to $1000. Unlike income limits, the asset limit is set federally.

[4]Two-parent families must satisfy two conditions not required of single parents. First, the primary wage earner in the family can not work more than 100 hours per month. This hours limitation is the origin for the term “unemployed” in AFDC-UP. Second, the primary wage earner must display previous “significant” attachment to the labor force. Significant attachment is typically satisfied if the worker was employed and earned at least $50 in at least six of the last thirteen calendar quarters, or was eligible to receive unemployment compensation sometime in the last year. The 1988 FSA mandated that states set up AFDC-UP programs, but allowed states to limit benefits to 6 months per year.

[5]In addition to the standard deduction, one can also deduct child care expenses. In 1993 the

maximum child care deduction was $200 per child per month for children younger than 2 and $175 for children over 2.

[6]Starting in 1994, a small EITC was made available to childless workers ages 25–64 with earnings up to $9,000.

[7]States can, and many do, cover children at higher income levels than required by Congress.

[8]Other housing programs serving low-income households include rural housing programs, programs serving homeowners, and farm programs.

[9]Expenditures include the combined cost to federal, state, and local governments for a comprehensive set of means-tested transfer programs, including those in Table 2 plus many other smaller programs such as school lunch programs, student loan programs, housing programs, and job training programs.

[10]This information is based on Edin's in-depth interviews with 50 female-headed households receiving AFDC and living in Chicago. None lived on welfare alone, many worked off the books in legitimate jobs, and a few received income from drugs or prostitution. It is not clear whether these figures can be generalized to the entire AFDC caseload, which is very heterogeneous. Most states have developed tracking systems which link welfare case files to quarterly unemployment insurance earnings records. This catches unreported work in the covered sector but does not address work in underground economy.

[11]Because a minority of AFDC recipients receive housing benefits, they are not considered here. Including housing benefits would increase the estimated tax rates.

[12]In 1990, 27 percent of working poor families paid for child care and spent, on average, 33 percent of family income on child care (Hofferth et al., 1991). Urban welfare recipients are more likely to have to pay for care (Mathematica Policy Research, 1988).

[13]While the tax rate is set federally, California received permission from the U.S. Department

of Health and Human Services to extend the 30 and 1/3 rule past the four-month limit. The lower tax rate was made permanent in September 1993.

[14]The phase-out range of the EITC imposes a high MTR at high levels of work effort, but at the relatively low hourly wage in this simulation the woman never reaches the phase-out range of the credit.

[15]Note that in the top panel of Table 4, the MTR of going from part-time to full-time work increases substantially between the $5.00 and $7.50 per hour wage rate. This is because the worker earns enough to move into the phase-out range of the EITC, where the tax rate is over 20 percent.

[16]These figures report the fraction that worked at all in 1993 among all those receiving welfare in 1993. Employment rates among current recipients are quite a bit lower.

[17]It is well recognized that these differences between recipients and nonrecipients should not be interpreted as a disincentive effect of welfare, because families may be self-selected in the welfare recipient group (Moffitt, 1983).

[18]In the flat range there is only an income effect, leading to lower levels of work effort. In the phase-out range, the reduction in the net wage leads to lower work effort by decreasing the return to work (substitution effect) and increasing income, holding work effort constant (income effect).

[19]For example while the EITC encourages labor force participation of single parents, it does not necessarily do so for married couples. Depending on the income of the primary earner in the family, the incentives for the secondary earner may be to reduce hours (or earnings). The EITC may then be substituting for income that the secondary earner in the household would have otherwise contributed.

[20]Actually, AFDC provides disincentives to live with the *natural* father of the children, regardless of marital status. Cohabiting with an unrelated male is treated quite leniently in terms of eligibility and treatment of his income. Further, in many states, marrying a man unrelated to the children does not affect eligibility or benefit levels. The rules and incentives for cohabitation and

marriage is discussed at length in recent work by Moffitt, Reville, and Winkler (1995).

[21]AFDC benefits are calculated as the weighted average of maximum benefit levels for a family of four in the 50 states, using the caseload as the weight. AFDC&FS is the combined value of AFDC and Food Stamp benefits and is equal to 70 percent of the maximum AFDC benefit plus the Food Stamp maximum benefit. The 70 percent results from AFDC income being "taxed" in calculating the Food Stamp benefit. Medicaid benefits are average benefits within states for a family of four. The AFDC data are from unpublished tables from the Family Support Administration, U.S. Department of Health and Human Services. The Food Stamp data came from unpublished tables from the Food and Nutrition Service, U.S. Department of Agriculture. The Medicaid data were provided by Robert Moffitt.

[22]If the value of Medicaid to families is equal to the average expenditure, then the combined benefits in the three programs increased somewhat up until the mid-1970s, declined until the late 1980s, and increased somewhat at the end of the period.

[23]One exception is Murray (1993), who examines aggregate trends in nonmarital births and finds higher correlation with welfare benefits when a long lag is used.

[24]In order to perform this calculation, Dickert et al. assume that new entrants in the labor market work 20 hours per week for 20 weeks in the year.

[25]Single parents with children under the age of 6 were usually excluded from the requirements.

[26]These program effects, and all the other evidence in this section, are derived from comparisons of outcomes in the treatment group to outcomes in the control group.

[27]Among the individuals exempt from participation in JOBS programs are those with a child less than 3, those who are sick or are caring for a sick family member, or those residing in an area where services are not being provided (U.S. House of Representatives, 1994).

[28]The program in Alameda County, containing the city of Oakland, generated a return of $0.45

per $1.00 spent on the program, while Los Angeles County generated a benefit-to-cost ratio of $0.26 (Riccio, Friedlander, and Freedman, 1994).

[29]As described in Wiseman (1993), Bush stressed the importance of innovation at the state level and promised that the waiver process would become more streamlined and less arduous for state welfare officials.

[30]Congress has recently passed sweeping legislation reforming AFDC. Major features include time limiting benefits, work requirements, and block granting the program. Although this paper was prepared before the recent changes were passed, clearly states will have considerable freedom to make changes to their programs. This section provides a discussion of the issues relevant to that debate.

[31]Like AFDC, a negative income tax (NIT) program is characterized by two parameters: the benefit guarantee and the benefit reduction rate. The income maintenance experiments took place in four cities where several alternative combinations of benefit levels and tax rates were implemented. There are many sources which provide overviews of the experiments and the many outcomes studied, for example see Munnell (1987).

[32]Converting the AFDC program into a block grant to the states is likely to cause many changes to the nation's welfare system as the entitlement nature of the program is eliminated. However, the implications for labor supply and family structure are difficult to discuss until we see how states respond. See Sawhill (1995) for a general discussion of the implications of block grants and Quigley and Rubinfeld (1996) for a discussion of the likely state response.

[33]This group may be more job ready than AFDC recipients, as over three-quarters had some previous work experience and all are childless. Their rates of disability were high, however, as reflected by the fact that one third of the group is now receiving disability benefits (Danziger and Kossoudji, 1995).

[34]Some plans for time limiting benefits would provide for a public sector or subsidized job for

those unable to find employment. This would act to lessen the impact of time limiting benefits.

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