Measuring the effects of the Reagan welfare changes on the work effort and well-being of single parents

In 1981 Congress passed the first major budget of the Reagan administration, the Omnibus Budget Reconciliation Act (OBRA). This act included among its many provisions the first major reforms since 1967 in Aid to Families with Dependent Children (AFDC), the principal program providing cash assistance to needy children and their custodial parents in single-parent families and, in half the states, to two-parent families in which the breadwinner is unemployed (AFDC-UP).

Whereas a slowdown in the growth rate of spending on social welfare programs had begun under Carter, the cuts in welfare which were instituted by Reagan were new. In keeping with a basic tenet of the Reagan administration, the cuts represented a rejection of what has been called “social engineering”—“the use of subtly graduated incentives and disincentives, and sharply focused programs, to affect human behavior and to improve the human condition.” No program reflected social engineering more clearly than did AFDC. Over time it had shifted in focus from a program to provide sustenance to destitute orphans to one designed to supplement the earnings of poor families headed by women. Negative behavioral effects of the program were dealt with by numerous modifications. Thus, when the program was thought to encourage the dissolution of families, a program for two-parent families, AFDC-UP, came into being (in 1961) to obviate the need for families to break up in order to be eligible for welfare. When AFDC was thought to discourage work, various incentives were put in place, such as (in 1967) the Work Incentive Program (WIN) to provide training and employment placement, and the $30-and-one-third earned-income disregard, which allowed working recipients to retain each month the first $30 they earned plus a third of the rest of their earned income. In addition, a recipient’s allowable work expenses did not reduce her AFDC benefits.
Critics of OBRA claimed the new regulations would encourage recipients to stay on welfare. They stated that even if work effort among families headed by nonaged nonwhite women were classified as poor, age remained constant, the changes would increase poverty proportionately distressed. (In 1980, while the official poverty rate was 13 percent, 27.9 percent of households headed by nonaged white women and 51.2 percent of households remained on the rolls as a result of the elimination of the $30-and-a-third rule faced a lower tax rate than before OBRA because they now faced only income and payroll taxes. Those who remained on the rolls faced a higher benefit-reduction rate (now 100 percent). Economic theory predicts greater work effort in response to a lower tax rate, but less work in response to a higher rate, all other things equal. In addition, all working recipients lost benefits, and theory predicts that work would increase to offset this loss. The net effects of OBRA on the work effort of all who were affected therefore could be known only through empirical study. The effects of OBRA on income of those terminated from AFDC could also be known only from empirical evidence, since income depends on how successful women are in raising their earnings to make up for lost benefits.

First assessments of costs and caseloads reflected the anticipated results. According to Robert J. Rubin, an Assistant Secretary of the U.S. Department of Health and Human Services, 408,000 families lost eligibility and 299,000 lost some benefits nationwide. The changes saved the federal and state governments about $1.1 billion in 1983.

However, finding out what the effects of OBRA have been on work effort and income has proved no easy task, though many studies have been initiated.

Problems in designing studies of the effects of OBRA

Measuring OBRA's effects is difficult for a number of reasons. At the time it passed, other events were taking place which were bound to influence the work effort and income of women heading households. The most important of these was the 1981-82 recession, the worst in 45 years. Furthermore, in addition to cyclical macro events such as recessions, long-term trends continuously affect hours of work,
income, and participation rates in social welfare programs, regardless of any changes brought about by legislation. (For example, labor force participation rates of all women, including women heading households, had been drifting upward throughout the 1970s.) So many concurrent events make it difficult to obtain reliable estimates of the effects of OBRA soon after its implementation. But long-range effects may be impossible to obtain because the legislation itself has been changed. Through the Deficit Reduction Act of 1984 (DEFRA), Congress has already acted to ameliorate some restrictive provisions of OBRA as related to working AFDC mothers. In this welter of change is it possible to measure what the effects of a program are? According to Moffitt, estimates of OBRA effects—though extremely tentative—can be made.

Moffitt claims that the best way to examine the effects of OBRA is to compare independent cross sections of a population of individuals large enough to embrace not only those directly affected by the legislation (i.e., working women on AFDC) but all those who could possibly be affected (i.e., recipients of AFDC and nonrecipients; workers as well as nonworkers). And in the absence of a counterfactual (a control group) these cross sections would have to be examined over a number of years, in order to observe, and statistically cancel out, any changes resulting from macroeconomic events and trends. A study using successive cross sections of women heading households could, for example, provide answers to the following pertinent questions related to labor supply: How has the size of the AFDC caseload changed? How have AFDC participation rates of all female household heads changed? What changes have occurred in the labor supply and employment rates of AFDC participants, both those working before OBRA and those who were not working? What changes have occurred in the labor supply of the total population and various different population subgroups (such as low-income women)?

What a cross-sectional study cannot do is follow the effects of OBRA on particular individuals. The net numbers revealed by a cross-sectional study may mask a number of specific effects. An unchanged percentage of families applying for welfare may, for example, result from great increases in the applications of some groups of women balanced by great decreases in the applications of others. And reductions in the AFDC caseload could result from any—or all—of the provisions in OBRA. Information on specific effects of OBRA may be more accessible from panel studies, which follow the same individuals over time (in this instance from their pre-OBRA situations to their post-OBRA situations).

According to Moffitt, a panel study, if properly designed, can provide all the information that a cross-sectional study furnishes. However, to be properly designed, such a study must be drawn from a joint population (that is, a data set that is a representative sample of all those who could, under any circumstances, be affected by OBRA) at three points in time—pre-OBRA, during the OBRA period, and during a subsequent period—to determine transitions on and off the program, without which the net effects of OBRA on work effort cannot be obtained. Even more points in time must be measured if macroeconomic events are to be discounted. Unfortunately, the panel studies carried out to date are all flawed, by Moffitt's standards, because they are not of such design. They cannot measure all transitions onto and off of AFDC, nor their net effects, and hence cannot provide some of the numbers readily obtained from a cross-sectional study. They do, nevertheless, provide much of a revealing nature. The critical review of the following panel studies is taken from Moffitt's paper, as is Table 1, which compares the studies that have measured the effects of OBRA on work effort.

Panel studies of work effort

Research Triangle Institute

A panel study carried out by the Research Triangle Institute (RTI) (1983, see box) made use of two national probability samples of the AFDC caseload, one drawn in September 1980 and one in September 1981. Each sample was tracked for twelve months through the examination of AFDC case records to determine whether sample members stayed on AFDC and whether they were employed or not. Because each initial sample consisted of recipients of AFDC rather than all eligibles, or some even broader population, the study can provide estimates only of the effect of OBRA on transitions from recipiency status (working and nonworking) to nonrecipiency status, and not vice versa. Nor does the design allow an estimation of macroeconomic effects. The two cohorts may reflect differing economic conditions over the two periods as well as the effects of OBRA.

The study found that OBRA had no effect on either the probability that a working AFDC recipient would move to being a nonworking recipient or on the probability that a nonworking recipient would become a working recipient. For both cohorts, about 18 percent of those who were working and on AFDC in the base month were on AFDC but not working one year later. (One would expect that fewer would be working in the second cohort, not only because the OBRA changes reduced income from earnings, but because the unemployment rate in 1981–82 increased more rapidly than it did in 1980–81.)

There are limitations to the RTI study. We cannot learn, for example, the extent to which those who lost their jobs and came onto the rolls of AFDC as nonworkers failed to look for or accept part-time work because of the benefit-reduction rate. Nor can the study tell us anything about workers who were not AFDC recipients, but could have been, had they reduced their hours of work. Also, the employment rate of those who left AFDC at the end of the first cohort was not determined for comparison with the OBRA cohort. So the effect of OBRA on the work effort of those who did not come back on the rolls cannot be determined.
Institute for Research on Poverty

Another study, carried out by IRP researchers Steven Cole, Sandra Danziger, Sheldon Danziger, and Irving Piliavin with support from the Wisconsin Department of Health and Social Services (see box), was in some respects an improvement on, and in some respects less satisfactory than, the RTI study, according to Moffitt's criteria.

The IRP study drew a sample from the population of working AFDC recipients in December 1981, shortly before the OBRA provisions were implemented in the state. From February to May 1983 a telephone interview of the sample was conducted.

Like the RTI study, the IRP one was limited to following a panel of AFDC recipients defined at a single point in time. It was even more restricted than the RTI study in that it included only those on the AFDC rolls who were working when the sample was drawn. (The RTI study included nonworkers. An analysis of nonworking recipients in Wisconsin is now under way.) Although the original IRP study did not include an earlier cohort, one was added later to make it possible to compare OBRA effects with changes in a pre-OBRA period.4 By excluding those terminated from the rolls solely on the basis of the change in the assets test, this study avoids confounding that particular OBRA provision with those provisions that reduce income from earnings, though of course it remains impossible to ascertain what the specific effects of specific changes in AFDC have been.

Most of the working recipients in the IRP sample continued to work after OBRA. Among those terminated from AFDC by OBRA, only 3.6 percent reported that they had quit their jobs, were not working, and had received AFDC in some post-OBRA month. Among those whose benefits were reduced, the comparable percentage was 12.5. Seventy-five percent of those terminated from AFDC and 61 percent of those who had their benefits reduced were still working at the same job they held when OBRA was implemented. Of those who were either terminated or had their benefits cut, 17 percent were not working and on AFDC at the time of the interview.10 Despite the fact that this study was carried out in one state and the RTI used national probability samples, the 17 percent is surprisingly close to the 18 percent found in the IRT study, a return rate no greater than that which occurred in the pre-OBRA, prerecession period.

General Accounting Office

The General Accounting Office (GAO) both analyzed OBRA's effects on national AFDC caseloads and outlays and evaluated its effects in greater detail at five sites: Boston, Dallas, Memphis, Milwaukee, and Syracuse. This panel study (see box) consisted of an analysis of AFDC case records in a base period (before OBRA), in an OBRA period, during which the changes were implemented, and in a subsequent period. Like the RTI study, this study included working and nonworking recipients but did not extend to nonrecipients.

On a national level the GAO found that AFDC costs were reduced $93 million a month, or 9.3 percent, and caseloads were reduced by 493,000, or 13.7 percent.11 (In Wisconsin the comparable figures were 6.3 percent and 9.5 percent.12) Working AFDC recipients were no more likely to stop work and increase their reliance on AFDC after OBRA was implemented than they had been in the prior year. Table 1 shows that among working AFDC recipients, 15-27 percent of the OBRA cohort were on AFDC and not working after a year, compared to 17-28 percent before OBRA. For those who returned at any time in the year after OBRA, the rates were 11-30 percent across the five sites.13

City of New York

A panel study of the effects of OBRA in New York City was conducted by that city's Human Resources Administration (1983, see box). Data were collected for about a year on three samples of ADC (the New York program is called Aid to Dependent Children) employed recipients: (1) recipients terminated from the program because their gross income exceeded 150 percent of the ADC standard of need; (2) employed ADC recipients who lost benefits or whose cases were closed because of the loss of the $30-and-one-third

Table 1

<table>
<thead>
<tr>
<th>Status of Cases One Year Later after Initial (Base) Month</th>
<th>On AFDC</th>
<th>Not on AFDC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research Triangle Institute</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OBRA cohort</td>
<td>18%</td>
<td>27%</td>
</tr>
<tr>
<td>Pre-OBRA cohort</td>
<td>18</td>
<td>54</td>
</tr>
<tr>
<td>Institute for Research on Poverty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OBRA cohort</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Pre-OBRA cohort</td>
<td>25</td>
<td>62</td>
</tr>
<tr>
<td>General Accounting Office</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OBRA cohort</td>
<td>15-27</td>
<td>7-21</td>
</tr>
<tr>
<td>Pre-OBRA cohort</td>
<td>17-28</td>
<td>32-58</td>
</tr>
<tr>
<td>New York City/HRA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OBRA cohort</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Pre-OBRA cohort</td>
<td>18</td>
<td>45</td>
</tr>
<tr>
<td>Minnesota</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OBRA cohort</td>
<td>16</td>
<td>12</td>
</tr>
</tbody>
</table>

Sources: (See box for full references.) Moffitt, Table 2; RTI, Table 31, pp. 3-8; Cole et al., pp. 7-9; U.S. GAO (1984), Table 12, p. 31; City of New York (1983); Table 12, p. 23 (150% and 30 and 1/3 groups weighted 25%-75%); Moscovice and Craig, Figure 2, p. 12 (64%-32% weighted average of terminces and reductions).

4Time interval varies by study: RTI, 12 months; IRP, 14 months; GAO, 12 months; NYC/HRA, 12 months; Minnesota, 12 months.

1Supplied by Dan Feaster.
income disregard after four months; and (3) a comparison group of employed recipients receiving ADC nine months before the cuts were implemented. Table 1 shows that whereas before OBRA 18 percent of those on ADC and working were on ADC and not working a year later, after OBRA the percentage had dropped to 16. The conclusion drawn by the Human Resources Administration on the basis of their data was that ADC recipients who were employed prior to the cutbacks did not quit work as a result of OBRA.

After OBRA, employed ADC recipients dropped from 5.9 percent of the caseload (in December 1981) to 2.9 percent (by the end of 1982). Only 61.5 percent of this drop was attributed to the cases closed as a result of changes in the earned-income disregard and the gross-income limitation.14 It is not known what caused the further decline in the employment of ADC recipients. Among the possibilities is the work disincentive for nonworking recipients created by the OBRA regulations.

Minnesota study

Using a panel of working AFDC recipients in Hennepin County, Minnesota, Ira Moscovice and William Craig (1983, see box) followed them from January 1982 through January 1983. This study lacked a pre-OBRA cohort. It also depended entirely on interviews, which are more likely to be inaccurate than are caseload records.

Of those in the sample, two-thirds had their grants terminated and one-third had their grants reduced by OBRA. After a year 72 percent of the sample were not on AFDC, 16 percent were on AFDC and unemployed, while 12 percent were on AFDC and employed (see Table 1). Among those whose grants were terminated, 85 percent were off AFDC and working a year later.15 Of those who had their grants reduced, 36 percent were off AFDC and working, 28 percent were on AFDC and working, and 30 percent were on AFDC and not working.16

Center for the Study of Social Policy

Three additional studies were coordinated by the Center for the Study of Social Policy (1984, see box). In Georgia, Michigan, and New York City, families whose benefits had been terminated or reduced as a result of OBRA were interviewed 12 to 18 months after the new law came into effect. The group selected had a strong attachment to the work force in that most had worked at least 21 of the 27 months preceding their interview.

At the time of the interview 38 percent of the Georgia families, 24 percent of the Michigan families, and 27 percent of the New York City families had come back on the rolls at some point following termination.7 Because the status of cases one year later is not presented in the study, data cannot be provided in Table 1.

Studies of Effects of OBRA on AFDC Recipients


Moffitt's cross-sectional study

Having pointed out the narrower range of questions addressed by the various panel studies, Moffitt analyzed eight independent cross sections of all female heads of households with at least one child under the age of 18. He drew his data from the public use micro files of the March Current Population Surveys for 1977 to 1983, surveys which are annual random samples of about 60,000 households. He generated a time series from 1976 to 1982 containing data on the number of weeks worked the previous year, employment status the week of the survey, real earnings over the previous year, and participation in AFDC over the previous year. He hoped to demonstrate how a cross-sectional study can improve on panel studies by distinguishing OBRA effects from macroeconomic effects, even though a consistent time series of these variables (Table 2) is so short.

He found that in the two-year period 1981-82, weeks worked by female heads of households dropped from 27.9 to 26.3. This large drop by historical standards was accompanied by a large rise in the unemployment rate, from 7.6 percent to 9.7 percent. Using regressions to determine the relationship between these variables, Moffitt estimated that the number of weeks worked by female household heads after OBRA, and their employment status (whether employed), were both lower than he predicted on the basis of historical trends. The results suggest a slight negative effect of OBRA, but one that is not significant. His time-series data further suggested that OBRA may have had a positive effect on real earnings, but caused no significant change in AFDC participation rates.

By restricting data to those female household heads whose income was below twice the break-even level for AFDC, Moffitt found that the positive effects of OBRA (increases in weeks worked and in real earnings, and decreases in AFDC participation rates) were greater at lower income levels. He found in fact that at successively lower income levels, the estimated positive effects of OBRA became ever larger. Moffitt's conclusion was that the time-series data show, at best, no evidence of any work disincentive of OBRA.

Effects of OBRA on the well-being of single parents

Some of the panel studies also included data on the income effects of the OBRA changes in AFDC. These have been gathered together by Steven Cole in Table 3. The results are unequivocal: women were much worse off financially than they had been in the pre-OBRA period.

In Wisconsin the incomes of women whose AFDC benefits were reduced or terminated declined by about 17 percent. Despite the recession, the average monthly earnings of affected women increased from $522 per month pre-OBRA to $559 post-OBRA, an average increase of $37 a month. This small aggregate increase combines large increases in the earnings of those who stayed off of AFDC the entire time and large declines for those who were not working and were back on AFDC. Yet increased earnings and increased food stamp benefits failed to compensate for the loss of AFDC benefits.

<table>
<thead>
<tr>
<th>Year</th>
<th>Weeks Worked</th>
<th>Nominal Earnings</th>
<th>Real Earnings</th>
<th>AFDC Recipients</th>
<th>National Unemployment Rate</th>
<th>CPI</th>
<th>Real AFDC Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>25.6</td>
<td>5365</td>
<td>2143</td>
<td>.392</td>
<td>N.A.</td>
<td></td>
<td>$170</td>
</tr>
<tr>
<td>1977</td>
<td>26.0</td>
<td>4065</td>
<td>2240</td>
<td>.375</td>
<td>.527</td>
<td></td>
<td>166</td>
</tr>
<tr>
<td>1980</td>
<td>28.1</td>
<td>5917</td>
<td>2397</td>
<td>.335</td>
<td>.575</td>
<td></td>
<td>142</td>
</tr>
<tr>
<td>1981</td>
<td>28.9</td>
<td>6385</td>
<td>2344</td>
<td>.341</td>
<td>.572</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td>1982</td>
<td>26.3</td>
<td>6798</td>
<td>2351</td>
<td>.337</td>
<td>.555</td>
<td></td>
<td>131</td>
</tr>
<tr>
<td>1983</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>.516</td>
<td>N.A.</td>
<td></td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Source: Moffitt, Table 4.

Note: Employment status refers to whether employed or not in the week of the survey; AFDC participation is defined by receipt of and AFDC income received in previous year.

*For a family of four, per month.
The Center for the Study of Social Policy found that the condition of those who had their benefits cut or were terminated dropped between 6 and 21 percent (see Table 3). In Georgia 81 percent of the sample had cash incomes (not counting on Poverty General Accounting Office's Institute for Research Center for Study of Social Policy"

The GAO conducted interviews in August 1982 and found that the average reported monthly income of families who lost AFDC as a result of OBRA was lower than the 1983 poverty level for 28 to 41 percent of the families in Boston, Milwaukee, and Memphis, and for 75 to 86 percent of the families in Dallas and Memphis. Of those who were terminated from AFDC benefits also lost food stamp benefits. The GAO conducted

In the General Accounting Office study, the income loss was also found to be substantial, ranging from a 7 percent reduction in total monthly income in Boston to close to 25 percent in Dallas and Memphis. Some earners who lost AFDC benefits also lost food stamp benefits. The GAO conducted

In Minnesota all of those who had their AFDC income terminated or reduced suffered a loss of income over the year. The average monthly net income of respondents dropped from $847 to $781, or by 7.7 percent (see Table 3). According to the authors of this survey all groups spent a greater proportion of their income on basic needs after OBRA came into effect: 44 percent were short of food at some time, and 30 percent had a utility cut off or threatened to be cut off. Of those who were terminated from AFDC and thereby lost their eligibility for Medicaid, one-fourth of the respondents and one-third of their children had no health insurance coverage in January 1983. The economic status of all respondents was clearly reduced.

In Georgia 81 percent of the sample had cash incomes (not counting food stamps) below the poverty level before OBRA and the percentage rose to 88.5 after the cuts. In New York City, looking at income one month before and one month after OBRA, the cuts almost doubled the number of families below the poverty line (from 28 percent to 52 percent).

Since the federal budget cuts took effect, many of these families are still experiencing hardship today. Half of the Michigan and New York City families and one-third of the Georgia families had run out of food completely within the last year; over 80 percent of the Georgia and Michigan families had run out of money; and over one-third of each of the samples had bills more than two months overdue. The loss of Medicaid coverage was the most serious problem for many of these families; one-quarter of the Georgia sample and one-third of the Michigan families had overdue medical bills averaging $492 and $432 respectively. Nearly half of the Georgia and Michigan mothers and 21 percent of the New York City mothers stated they could not always afford needed health care for themselves and their children. A study carried out by Sandra Danziger (1984, see box) adds a psychological dimension to the effects of the OBRA changes on well-being. She found that the sense of security and well-being of women who combine work and welfare has declined. Not only do they see themselves as worse off than women who have left the welfare rolls entirely, they actually perceive themselves as slightly worse off than welfare mothers who do not work. In the past, women combining work and welfare felt better off than those who were completely dependent, and it is thought that they used AFDC in much the same way that other workers use Unemployment Insurance—to fill gaps when major interruptions of income occurred. OBRA has taken this option away from them. Although they have been unable to offset their reduced benefits by earning higher wages or working longer hours, these women can only hope that continued employment will eventually translate into high enough wages to spell freedom from welfare.

### Table 3

<table>
<thead>
<tr>
<th>Institute for Research on Poverty</th>
<th>Pre</th>
<th>Post</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Accounting Office</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boston</td>
<td>924</td>
<td>861</td>
<td>.7</td>
</tr>
<tr>
<td>Dallas</td>
<td>745</td>
<td>560</td>
<td>.25</td>
</tr>
<tr>
<td>Memphis</td>
<td>653</td>
<td>495</td>
<td>.24</td>
</tr>
<tr>
<td>Milwaukee</td>
<td>1,008</td>
<td>891</td>
<td>.12</td>
</tr>
<tr>
<td>Syracuse</td>
<td>874</td>
<td>767</td>
<td>.12</td>
</tr>
<tr>
<td>Minnesota</td>
<td>847</td>
<td>781</td>
<td>.8</td>
</tr>
<tr>
<td>Center for Study of Social Policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>609</td>
<td>554</td>
<td>.9</td>
</tr>
<tr>
<td>Michigan</td>
<td>822</td>
<td>775</td>
<td>.6</td>
</tr>
<tr>
<td>NYC</td>
<td>858</td>
<td>677</td>
<td>.21</td>
</tr>
</tbody>
</table>

Source: Table prepared by Steven Cole from the various studies.

*Current dollars.

*Terminated cases only.

A study carried out by Sandra Danziger (1984, see box) adds a psychological dimension to the effects of the OBRA changes on well-being. She found that the sense of security and well-being of women who combine work and welfare has declined. Not only do they see themselves as worse off than women who have left the welfare rolls entirely, they actually perceive themselves as slightly worse off than welfare mothers who do not work. In the past, women combining work and welfare felt better off than those who were completely dependent, and it is thought that they used AFDC in much the same way that other workers use Unemployment Insurance—to fill gaps when major interruptions of income occurred. OBRA has taken this option away from them. Although they have been unable to offset their reduced benefits by earning higher wages or working longer hours, these women can only hope that continued employment will eventually translate into high enough wages to spell freedom from welfare.

### The value of the results

Both panel studies and cross-sectional studies have their place in determining the effects of such program changes as those incorporated in OBRA. Even panel studies that are less than optimally constructed may be informative, since the information in cross sections—net changes in the costs of AFDC, the labor supply of women who head households, and their earnings—tell only part of the story. To the extent that net numbers cancel out movements in opposite directions, valuable information may be lost. On the other hand cross-sectional studies, or, in any event, studies that explore the changes within a historical perspective, are obviously required to separate out the effects of a legislative reform from macroeconomic trends and events. Perhaps more important than the type of study selected is the type of questions explored.
Early studies of OBRA have dealt chiefly with effects on the work effort of working AFDC recipients, but, as mentioned earlier, these are but a small proportion of the AFDC caseload. It is therefore a matter of great import to examine the effects of the new OBRA regulations on the nonworking majority of AFDC recipients. Are they discouraged from taking part-time work? If so, the OBRA reform may have long-range negative repercussions on the dependency of these women.

Researchers at the Institute for Research on Poverty are now looking into the question of how nonworking AFDC recipients reacted to OBRA. Preliminary results suggest that nonworking AFDC recipients followed the same pattern as working recipients in that the net effect of OBRA was to shorten their stay on AFDC. Even if some of them chose not to work, this effect was swamped by such program changes as the assets limit and the lowering of the break-even point. Although the proportion of nonworking AFDC recipients increased after OBRA, this could be explained by the fact that many of those who would have worked while on AFDC were eliminated from the program by the rule changes. Thus the rise in the proportion of nonworking recipients does not necessarily indicate a behavioral response.24

Panel or cross-sectional, the astonishing thing about the studies that have been done so far is that they show remarkable unanimity in their results. OBRA seems to have had little or no net effect on the work effort of single women who were women who left AFDC before OBRA was implemented. Robert Hutchens, who is in the process of examining studies of OBRA for IRP and the Urban Institute, concurs: "OBRA did not increase the propensity for AFDC recipients to become or remain nonworking recipients."25

OBRA has, at the same time, reduced the incomes of most AFDC women who were working when it was implemented. Despite increased earnings during a recessionary period, these women failed to compensate for lost AFDC benefits. Again Hutchens concurs: "There is solid evidence that the average pre-OBRA working recipient suffered a decline in income during the year after OBRA's implementation."26

The discovery that many working women on welfare, when faced with the choice between work and welfare, choose work is not surprising to those who are familiar with the results of the Supported Work Demonstration.27 The discovery that many of these women have suffered large cuts in their incomes, though not surprising either, is certainly alarming. The principal purpose of welfare is to provide support for impoverished children. In 1982, 21.9 percent of the children in this country were poor. In single-parent families 47.3 percent of the white children and 70.5 percent of the black children were poor.28 These poverty rates are not likely to fall much as the economy recovers.

Some analysts (e.g., George Gilder) have argued that in the long run the motivation and achievement of children who grow up on welfare will be lower because of the psychology of dependence. OBRA is thus seen as having long-run positive effects because it reduced the number of children receiving welfare.29 But others counter that the money saved today may be lost in later years—on health care, prisons, and the reduced productivity of adults who experienced deprived childhoods. Unfortunately, we do not yet have the evidence with which these opposing hypotheses can be tested.30

AFDC-UP is operated at the option of the states. Only about half of all states have such a program.
Glazer, p. 94.
Ibid., p. 319.
Committee on Ways and Means, pp. 324–325.
The ceiling for qualifying for AFDC has been raised to 175 percent of a state's standard of need. Part-time as well as full-time workers will now receive the full $75 a month deduction for work expenses. (Under OBRA the size of the deduction was related to the number of hours worked.) Rather than have the entire $30-and-one-third earnings disregard expire after four months of employment, the $30 disregard has been extended to cover a 12-month period. Those who lose AFDC when their disregards expire will continue to receive Medicaid coverage for nine months, and individual states will be allowed to extend the coverage for an additional six months beyond the nine. This extension covers families who lost AFDC after DEFRA came into effect (October 1, 1984) as well as those dropped from the rolls before that date if they would have continued to be eligible for AFDC with the benefit of the disregards (Children's Defense Fund, "The Deficit Reduction Act of 1984;" CDF, 122 C Street, N.W., Washington, D.C., 20001, pp. 1–3).
Feaster, Gottschalk, and Jakubson (see box).
Cole et al. (see box), p. 10 and Table 3.
General Accounting Office (see box), pp. 3–4.
Cole et al., Table 1.
GAO, p. 5.
City of New York (see box), p. 6.
Moscovice and Craig (see box), Fig. 1.
Ibid.
Center for the Study of Social Policy (see box), p. ii.
Coe et al., Table 8.
GAO, p. 6.
Center for the Study of Social Policy, p. 53.
Ibid., p. ii.
Feaster, Gottschalk, and Jakubson, pp. 9–11.
Hutchens (see box).
Ibid.
See "The Dynamics of Dependency," Focus 7:2.
Is a golden age in poverty policy right around the corner?

by Eugene Smolensky

Eugene Smolensky, professor of economics at the University of Wisconsin and Institute affiliate, served as director of the Institute from July 1980 to July 1983. He delivered this address at the Fourth National Conference on Research, Demonstration and Evaluation in Public Social Services, sponsored by the National Council of State Public Welfare Administrators of the American Public Welfare Association, November 9, 1984, in Washington, D.C.

A lot of people interested in the well-being of the poor are discouraged just now. In the presence of the massive budget deficit we expect to see further cuts in antipoverty programs.

I have my own private reason for being especially discouraged. This is the twentieth anniversary of my first paper on poverty in the United States. The argument of that paper was that poverty is a relative concept, which implies that reducing poverty over the long term requires changing the distribution of income, but that we simply don't know how to do that. There was one sustained reduction in income inequality in the United States in the period for which we have reliable data. That came abruptly, when the economy was in the heated, over-full employment of the Second World War, and we certainly did not expect to see levels of employment like that in peacetime. The record since, of course, bears my expectations out. Measures of poverty which define poverty as a proportion of average income show no significant sustained decline in the incidence of poverty at any time during the past four decades. But it's worse than that. At the time that speech was published, by the fixed absolute measure of poverty that is the official standard, poverty stood at 15.7 percent. The most recent official number is 15.2 for 1983, although the 1984 rate will probably be a little below that. Twenty years ago, I thought that a fixed measure of poverty was a copout. Any economy would look good against such a measure, I thought. How wrong I was.

A person could be discouraged. I am not discouraged. Indeed, I am quite optimistic. Two kinds of data make me optimistic. First, we have been successful before. There was a golden age of poverty reduction in this country. It occurred during the Johnson-Nixon years—from 1965 to 1974—when poverty as officially measured fell from 17.3 to 11.6 percent. Taking account of in-kind transfers would have taken the poverty rate down to close to 7 percent in 1974. What Nixon hath wrought so can Reagan, and without a war. Reagan has something Johnson and Nixon did not have—extraordinarily good luck.

The second body of data that makes me optimistic is the research now under way at the Institute for Research on Poverty. Let me now turn to each of these—the lessons from the golden age and of current research—starting with the work of the Institute.

One of our major research efforts during the past year has been to quantify the impact of Reagan administration policies on the poor. That analysis has had to separate the effects of mandated changes in tax and transfer programs from changes in unemployment—all of this with at most three years' data. We simulated the effects of changes in unemployment on the joint distribution of market and transfer income to obtain the effects of changes in the macroeconomy on the incidence of poverty. The programmatic changes made by Reagan were treated as a one-time change in each of the moments of the distribution, by relying on dummy variables.

The incidence of poverty began to rise during the 1979 recession, more than a year before Reagan took office. When the first tax and budget cuts went into effect in 1981, the economy was two years into a severe recession during which the average income-to-needs ratio fell 8 percent. In addition, transfer growth has been slow for almost a decade. We nevertheless think that we have been able to decompose the 2.2 percentage point official increase in poverty between 1980 and 1983 into components due to changing unemployment rates, to a secular trend, and to the noncyclical nonsecular changes attributable to the Reagan program. Our model attributes about 40 percent of the recent increase in poverty to the Reagan tax and budget programs. (We also find that, ceteris paribus, Reagan's program raised mean market incomes by about 2.3 percent. Just as the president's supporters predicted, both average income and inequality increased.)

The key point for us today is that sustained prosperity will take us to a poverty rate only one percentage point higher than would have been the case in the absence of the Reagan cuts. While one percentage point is hardly a negligible amount—about 2.5 million people—it is not so large that it cannot be overcome.

One way it's going to be overcome is the focus of a second major research effort at the Institute. We are engaged in a practical effort to restructure the nation's approach to child support.
Everyone knows the facts. Twenty percent of children live apart from one parent. Half of all children in single-parent families are impoverished. If current trends continue, a quarter of American children will experience poverty before age 18. But only 59 percent of eligible women now receive child-support awards from the courts. Nearly 90 percent of unmarried women, and half of those who are separated, receive no award. Even of divorced women, 20 percent fail to get a support award. Furthermore, an award is hardly good enough. Of all children awarded support in 1978, only 49 percent received the full amount due them, and 28 percent received nothing. Consequently, half of all welfare expenditures are devoted to families potentially eligible for child support from an absent parent.

These grim statistics have led Irwin Garfinkel to champion what he calls a "Child Support Assurance Program." If he has his way, all parents who live apart from their children will be liable for a child support tax, expressed as a percentage of gross income per child. Children with a living absent parent would get an amount equal to that paid by the absent parent. If the payment fell below some minimum amount, it would be supplemented out of general revenues. Under this plan, AFDC would be returned to the role envisaged for it in the 1935 Social Security Act—a support system for a few destitute widows, abandoned women, and women who cannot or will not identify the fathers of their children. Under any of several specific plans, budgetary costs for AFDC would decline sharply, and total budgetary costs would decline modestly. Many children would be taken out of poverty; their mothers would not be on welfare and would have increased incentives to work.

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Edited by E. Uhr and Elizabeth Evanson. Unsigned articles written by the editors.

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The Child Support Assurance Program is not merely a paper program. A demonstration is in the field in Wisconsin in ten counties, testing the workability of two of the three main planks of the program. Wages are being garnished and sent to the clerk of courts according to a standard schedule (17 percent of gross income for the first child and up to 33 percent for three or more children). The minimum benefit provision may be tested at a later date. While these demonstrations have no effect on women now on AFDC, a waiver to permit us to extend the demonstration to AFDC recipients was passed by the last session of Congress.

Getting fathers to support their children and thereby reducing the AFDC rolls would permit us to turn away from relying on transfers and toward the private market. Here too research from the Institute is relevant and encouraging.

The Supported Work Demonstration, in which the Institute played a key part, subjected a study sample of 6616 individuals, half participants and half controls, to intense evaluation. Of the four target groups (long-term AFDC recipients, former drug addicts, former criminal offenders, and delinquent youth) the excess of benefits over costs was by far the highest for AFDC women ($8000). In the 25th to 27th month of observation, long after the period during which the experimental groups held guaranteed jobs, the employment of experimentals was 20 percent above that of controls, hours worked were 35 percent higher, and earnings were almost 50 percent higher. The gains were particularly large for middle-aged women (aged 36 to 44 at the outset of the demonstration). Only one-third of these women were high school graduates. Fourteen percent had never worked, and 61 percent had not held a full-time job during the preceding two years. Many of these women lost their food stamp and Medicaid benefits along with AFDC, so that only 50 percent of their earnings represented an increase in real income. Clearly, despite substantial disincentives, female heads of households will work if given the opportunity.

Our studies of the effects of the Reagan program on the poor provide further evidence in support of the eagerness of AFDC women to work, if such evidence is required. We followed about 1000 Wisconsin women whose benefits were reduced or terminated under the Omnibus Budget Reconciliation Act (OBRA) of 1981. We found that of average women worked about as much as before, despite the fact that those still on AFDC now faced a 100 percent tax rate. Some women worked less, but others worked more. There was some small reduction in hours worked, but that may have been due to the recession. We observed a large increase in wage rates, which we are at a loss to explain. The net result of the OBRA cuts was that work effort was maintained, welfare dependency declined, but on average total real money income of the household fell by 7 percent. That this average masks considerable diversity can be seen by the fact that the poverty rate among AFDC women working before OBRA more than doubled.
Since the administration of welfare in Wisconsin is highly automated, we were able to study women who were not working as well as those who were. We found that the probability of going from no work to some work was also unaffected by OBRA. Two-thirds of the women not working at a point in time were still not working in the subsequent year both before and after the restructuring of AFDC benefit levels.

It seems clear to me, then, that a labor-short economy and a restructured child support system, when combined with the determination of older AFDC women to work if carefully guided into the labor force, promises a dramatic decline in poverty and in welfare. Which takes us to the fabled luck of Ronald Reagan. It seems extremely plausible to me that apart from the cyclical downturn looming in a year or so, the prospects for a very tight labor market are quite bright. As we roar past the mid-term election toward the presidential elections of 1988, unemployment may be as low as it has been in the postwar period. If that is the case, we will have an unusual opportunity to move many of the poor into the labor market while raising benefit levels for those unable to take advantage of even these especially propitious circumstances.

My rosy projection rests not so much on Reagan's supply-side miracle as the long demographic cycle, more specifically Richard Easterlin's "relative-cohort size" thesis.7

The ratio of young adults (under 29) to older adults (30-64) is falling now and will continue to fall until at least the mid-1990s. This means that the number of jobs that must be added each year to achieve full employment will be falling since, of course, young workers are new workers. Similarly the capital stock can grow more slowly while still raising the capital-to-labor ratio and productivity per worker. Thus the wages of the young will grow relatively rapidly, and if past history is a guide, the gap between young and old workers, which has been widening since the mid-1950s, will close.

Most important, the smaller cohorts will feel reduced competitive pressures; they will have a better psychological outlook; there will be fewer incentives for women to work outside the home and fewer marital strains. Now the birthrate will rise too, but, all in all, the rate of change in demographic events affecting families is going to be considerably slower in the next decade than it was during the past two decades. The more rapid rise in income and the less rapid rate of demographic change due to these "relative cohort size effects" should lessen the welfare caseload. A smaller caseload and a tight labor market open up exciting opportunities for progress against poverty. The stage is set for Reagan and his immediate successor to provide us with a second golden age of poverty reduction. And we don't need a war to do it.

It is often said that people make their own luck, and somehow it does seem appropriate to each of their public personalities that Jimmy Carter should have presided at a time when the labor force was growing at a record rate while Reagan reigns during a steep decline in labor force growth. But neither Carter nor Reagan determined that the baby boom should peak in 1957 and that hence the rate of growth of the labor force should peak in 1977 and 1978. Carter put more people to work in the years 1977 and 1978 than Reagan did during the whole of his first term.

During that peak year of 1977, President Carter proposed his Program for Better Jobs and Income (PBJI). That proposal embodied most of the items on the welfare reform agenda: welfare reform was combined with job creation, an earnings supplement was integrated with income-conditioned cash assistance and extended to individuals and intact families, a uniform national benefit structure was established which raised benefits in the lowest-paying states, a work requirement as a condition of receiving benefits was imposed, and the administration of several existing income-conditioned programs was consolidated. Like many of Carter's proposals, it was technically complex, bold, embodied the best parts off the research shelf, and was doomed to legislative failure.

The program undoubtedly died in the Congress for a variety of reasons—not the least of which was the $8.8 billion job-creation component. The nation would have had to embark on the mass creation of public service jobs for low-wage, low-skill workers, a task for which the country had no previous experience. At that time, the number of jobs that would have to have been created was massive, even though those jobs were meant only for those unable to find a job on their own. Finding a job in 1977 and 1978 meant competing with nearly 8 million new job seekers. In 1987-88 there will be half as many new entrants into the job market. A very modest job-creation program will do, and we have the Supported Work model to guide us. It may be time to return to the principles that underlay PBJI—a work bonus system that ensures that anyone at work is substantially better off than anyone who does not work: high benefit levels and high benefit reduction rates for those not expected to work, and low basic benefit levels and low benefit reduction rates for those expected to work, and a raised income threshold before becoming liable under the regular income tax.

As for the future, I envisage a tight labor market and some budget slack two years down the road. Poverty will stand at 7 or 8 percent when in-kind benefits are included, as compared to 10 percent now. In that environment I would hope that many local programs will be in place to shift the burden of children onto their fathers. For women remaining on AFDC, especially older women, there will be job placement under "graduated stress" (work discipline), as pioneered in the Supported Work demonstrations. The success of these women, and the decline in their numbers along with the budgetary slack, feeds a rise in benefit levels for those unable to work. Between 1965 and 1972, that golden age, Old Age Insurance benefits were increased five times, by 7, 13, 15, 10, and 20 percent. In the process, poverty for the aged

continued on p. 18
Women are more likely than men to be poor throughout their lives. Projects being carried out at the Institute explore their situations and options at three stages in their lives: in young adulthood, in single-parent families as the children themselves reach adulthood, and in old age, as widows of retired workers.

Living Arrangements, Employment, Schooling, and Welfare Recipiency of Young Women

The decisions of young women to get married, leave their parents' households, and bear children used to be conjoined. It was the aberrant woman who chose to become a single parent in a household of her own. This is no longer the case, and explanations are being sought for why the structure of families should have changed so drastically in so short a time. Sheldon Danziger of the Institute, George Jakubson and Robert Hutchens at Cornell University, and Saul Schwartz at Tufts University, under a grant from the Assistant Secretary for Planning and Evaluation (ASPE) of the U.S. Department of Health and Human Services, will pursue the question of what determines a young mother's choices regarding living arrangements, education, employment, and welfare use.

They will use two data sets: the March 1984 Current Population Survey will provide cross-sectional material; the Panel Study of Income Dynamics will provide longitudinal information for estimating a dynamic model in which education is explicitly linked to employment and earnings through the accumulation of human capital over time. Because both models require a calculation of the different welfare benefits available in different living arrangements, an additional output of this work will be a detailed analysis of the variation in welfare benefits across living arrangements. The researchers will use their models to determine the effects that changes in welfare policy have had on living arrangements, employment, and education.

Intergenerational Consequences of Family Disruption

Although research has been done in the past on the consequences of growing up in a household headed by a woman, there is good reason to believe that much of it is outdated and/or suffers from methodological limitations.

Institute researchers Sara McLanahan and Larry Bumpass have received a grant from the National Institute of Child Health and Human Development to examine the long-term effects of family disruption. In particular they will look at three factors that indicate deprivation and dependency in the next generation: failure to graduate from high school, the propensity to form female-headed families, and the incidence of poverty and participation in welfare programs.

They will attempt to determine the causes of deprivation and dependency. Do they result from a lack of resources? From the absence of a father in the household to serve as a role model? Or from stress related to family disruptions that occur at critical times in the lives of the children?

Three surveys will be used: the Panel Study of Income Dynamics, the National Survey of Family Growth (1982), and the June 1980 Current Population Survey.


To what extent does poverty among widows result from the choice by their husbands of a retirement plan that does not include a survivor option? This question is being explored by Karen Holden of the Institute and Richard Burkhauser of Vanderbilt University under a grant from ASPE/DHHS. Using data from the Retirement History Survey, the researchers will construct a household decision model to find what factors determine the selection of a joint-and-survivor option at retirement. They will also explore why widows are at such great risk for poverty. And they will attempt to measure the degree to which poverty results from the pension-option choice.

Legislation has been proposed to require husbands to accept reduced retirement annuities in order to provide for their wives in the event of their deaths. This restriction on the freedom of choice of retirees can be justified only if based on empirical evidence that it will result in reduced economic hardship for their widows.
Given the resources devoted to fighting poverty, we have done about as well as we could have hoped. There is a logic to the broad outlines of the current "safety net." Using categorical programs, we have provided financial support to the needy and probably have not caused a very appreciable share of the current problems.

David Ellwood and Lawrence Summers, "Poverty in America: Is Welfare the Answer or the Problem?"

The first lesson is that the income strategy has worked. Providing cash and in-kind transfers has reduced the extent of poverty and disparities across age and racial groups. These gains, however, have been purchased at large budgetary costs, and some efficiency losses.

Sheldon Danziger, Robert Haveman, Robert Plotnick, "Antipoverty Policy: Effects on the Poor and Nonpoor"

My reading of the evidence on manpower programs does not correspond to the widespread view in the press that "nothing works" or "nothing works well." It would be more accurate to say that "nothing works miracles."

Gary Burtless, oral summary of "Public Spending for the Poor: Trends, Prospects, and Economic Limits"

In December 1984 the Institute and the U.S. Department of Health and Human Services cosponsored a conference designed to assess past, present, and future antipoverty policy in the United States. The Institute had held a similar conference in 1975 to review a decade of government efforts on behalf of the poor. Circumstances have altered considerably since then; the intervening years have brought major changes to the social, economic, and political scene. Government social policies have recently undergone retrenchment and, most important to the topic at hand, poverty over the long term has proved more difficult to combat than was anticipated by the architects of the War on Poverty and others who envisioned the emergence of a Great Society.

Yet the general tone of the conference was not pessimistic. Covering topics that ranged from macroeconomics and changes in the income distribution to the causes and consequences of alterations in family structure to the effects of health and education programs, the participants concluded that while nothing has worked miracles, some programs have worked better than others and all have provided lessons for the future. Research results suggest that by concentrating antipoverty efforts on particular groups and by pursuing specific strategies that are now known to be effective, poverty can be further diminished.

The next issue of Focus will discuss the papers that were delivered at the conference, held in Williamsburg, Virginia, December 6–8, 1984. To be published in a symposium volume in early 1986, the papers can meanwhile be purchased from the Institute (see order form, inside back cover). They are listed here in the order of their presentation.

1. "Antipoverty Policy: Effects on the Poor and the Nonpoor," by Sheldon Danziger (University of Wisconsin), Robert Haveman (University of Wisconsin), and Robert Plotnick (University of Washington).
2. "Poverty in America: Is Welfare the Answer or the Problem?" by David Ellwood and Lawrence Summers (Harvard University).
8. "The Effect of Direct Job Creation and Training Programs on Low-Skilled Workers," by Orley Ashenfelter (Princeton University), and Laurie J. Bassi (Georgetown University). [Preliminary version of paper.]
10. "Education and Training Programs and Poverty; or, Opening the Black Box," by Nathan Glazer (Harvard University).
Getting by: The Wisconsin Basic Needs Study

What is poverty? It is often defined as an affliction of those whose incomes are below the poverty line (discussed below). But does this mean that a person with an income one dollar over the poverty line is not poor? Any line is arbitrary: poverty is a matter of degree and need.

Another way to define poverty is the condition of having insufficient income to provide one’s basic needs. But this begs the question. What are basic needs? Clearly in the United States they are not the same as basic needs in much of the Third World, say, where by adequate food one means sufficient nourishment to prevent starvation, and adequate shelter is any protection from the cold. In the United States the answer is much more complicated. Food, yes, shelter and clothing, yes, but how much and of what sort? What about a car? Kidney dialysis? And are basic needs the same all across the country? Does it cost as much to make ends meet in a small town as it does in a large metropolis?

The questions are not merely academic. Eligibility for many government programs and the size of the benefits depend on definitions of poverty and estimates of basic needs. Every state is required by law to determine standards of need on which to base their payments to recipients of Aid to Families with Dependent Children (AFDC).

States go about determining the standard of need in a number of ways, though “fiscal ability to a large extent influences state determination of need.” Some states, including Wisconsin, have both a standard of need and a payment standard, to make it clear that what they can afford to pay is not necessarily what they deem adequate provision. Most states establish a needs standard by using a market-basket approach, in which a bundle of commodities selected by the welfare department or the legislature or some other groups as sufficient to cover basic needs is priced out and updated according to some national index, or according to changes in the costs of the individual items in the budget. Many states have in the past made use of the Bureau of Labor Statistics Lower Level Budget (discussed below) in making their market-basket selections. Some states conduct surveys of the costs of those items that are thought to differ most geographically, such as energy. Some states use surveys conducted by other states.

Needs standards vary greatly, from a low in 1984 for a four-person family of $217 in Tennessee to a high of $911 in Vermont. They do not result in generous AFDC payments. In all states but two, the maximum monthly AFDC and food stamp benefits for a one-parent family of three persons in January 1984 provided an income well below the poverty threshold of $661 a month. In those two states (Alaska and New York) the cost of living was extremely high and therefore payment above the poverty line did not signify bounti-fulness as much as the high price of necessities. In Wisconsin the standard of need is at present equal to 85 percent of the poverty line, and combined food stamps and AFDC benefits bring a three-person family’s income up to 94 percent of the poverty line.1

Wisconsin has in the past based its needs standard to some extent on national data and surveys, though the ultimate determination is in the hands of the legislature. Questions about the appropriateness of national measures prompted the state’s Department of Health and Social Services (DHSS) to authorize a study to investigate what the basic needs of households in Wisconsin are, and to what extent national statistics can be used to measure them. The study was undertaken by the Institute for Research on Poverty under a subcontract from DHSS. Major funding for the project came from DHSS and the U.S. Social Security Administration, with additional funds from the University of Wisconsin Graduate School and the College of Letters and Science.

The study was carried out under the direction of Diane Colasanto and Maurice MacDonald (see box, p. 15). Its purpose was not only to define and provide accurate measurements of basic needs in Wisconsin for use by the state legislature, but to evaluate various alternative measures now in use and consider new means whereby individual states can evaluate the condition and needs of those who suffer hardship. Results of the study were compared with the national measures.

The poverty line measure

The official statistical measure of poverty was first devised by Mollie Orshansky in 1964 and adopted in 1969 by the Office of Management and Budget.2 This measure was based on the judgment of experts and a survey of consumer behavior. The experts were nutritionists in the Department of Agriculture who drew up an Economy Food Plan in 1961—market baskets of food adequate to provide minimally sufficient nutrition for various-sized households. The costs of these baskets were multiplied by three, because a 1955 Household Food Consumption Survey showed that the average ratio of food expenditures to income was 1 to 3. On the basis of this information, 124 separate poverty lines were established, differentiating families by size, sex and age of head, farm or nonfarm residence. A household in which money income, as measured by the Census Bureau, was below the relevant cutoff was defined as poor. The cutoffs were originally updated each year on the basis of changes in the prices of the food in the baskets. Thus the poverty line rose with inflation. In 1968 the poverty line for a family of four headed by a man and not living on a farm was $3555. In 1982 the poverty line for a four-person household was $9862, and in 1983, $10,178.3
The poverty lines have been adjusted in a number of ways over the years. The Consumer Price Index was substituted as the inflation adjustor; the distinctions between farm and nonfarm families and between male and female household heads were eliminated. The Economy Food Plan was replaced by the Thrifty Budget Plan.

Many have criticized the poverty line. Recent surveys have found, for example, that lower-income families now spend less than one-third of their income on food. Expert opinion about what constitutes a nutritionally adequate diet has changed. And Census money income does not take into account in-kind income. When the poverty line was constructed, in-kind income was inconsequential: in 1967, 80 percent of federal outlays benefiting persons below the poverty line were in the form of cash payments. Ten years later cash payments accounted for only 44 percent of outlays. The poverty line also fails to take taxes paid into account, and it makes no geographical distinctions. Therefore, though the line is of inestimable value as a continuing indicator of changes in economic hardship, it is far less satisfactory as a measure of basic needs, especially for setting welfare payment amounts.

Standard family budgets of the BLS

Until recently many states determined basic needs by using budgets of the Bureau of Labor Statistics. The BLS produced family budgets between 1907 and 1982. They provided annual estimates of the cost of purchasing a number of goods (i.e., a market basket) that was supposed to represent various standards of living: lower, intermediate, and higher. Separate baskets were designed for a four-person family and for a retired couple. Experts determined family needs on the basis of the BLS Consumer Expenditure Survey. Although these budgets of the BLS, by making geographic distinctions, were of more help to states in determining basic needs than was the poverty line, they were far from satisfactory. In fact in 1978 the BLS requested the Institute for Research on Poverty to analyze the budget-making procedure and recommend revisions. An Expert Committee, which included Poverty Institute former directors Eugene Smolensky and Harold Watts, prepared a report suggesting wide-ranging changes in the method by which the budgets are determined and in particular recommended moving away from specific items (the market-basket approach) to an income level, determined not by experts but based on a norm found by means of surveys of actual expenditures. The committee members felt that basic needs should reflect an individual household's taste and judgment. In response, in part, to the committee's criticisms, the BLS discontinued its budget-making process altogether. In its last budget report the BLS stated: "Continuation of the programs would have required revision of concepts and expenditure data and extensive price collections, for which funding was not available."

The Wisconsin Basic Needs Study

The designers of the Wisconsin study eschewed the market-basket approach on the basis of the criticisms leveled at it by the Expert Committee. Rather than collect data on specific quantities of specified goods consumed by respondents in a survey, the BNS used an expenditure analysis approach.

It has long been known that food expenditures as a percentage of income decline at some point, after increasing until that point. Empirical studies have shown that the percentage of income devoted to other necessities also declines once a particular level is reached. This income level, if it could be determined, would be considered as the one at which basic needs were met. Such a determination would require detailed information on the demographic composition, financial situation, and complete expenditures of a representative sample of Wisconsin households.

To accomplish this purpose, longitudinal data were collected from 1817 households during the period March 1981 to June 1982. The sample was selected to represent a cross section of the state's population as well as several populations of particular policy interest—households in which the head was 65 years old or older; AFDC participants; households containing children but no male adult (i.e., those demographically eligible for AFDC); and the needy (those whose incomes were below 144 percent of the food stamp eligibility level).

Respondents were interviewed five times, once in person and four times by phone. They also kept diaries in which they recorded their day-to-day expenditures on frequently recurring items for several months.

Food, shelter, and clothing were designated as necessities. Transportation was not, since many of these expenditures, recorded in the diaries, were not for essential travel. Medical expenses were not included because many of the households (those receiving Medicaid or Medicare, or employer-provided health insurance) pay little or nothing at all for health care.
The results of the expenditure analysis can be seen in Figure 1. The figure shows that in Wisconsin the percentage of income spent on food, shelter, and clothing declines rapidly in income categories above 125 percent of the national poverty line. Until that point, 55 percent or more of income is spent on necessities. Indeed, when transportation is included, necessities absorb more than 70 percent of income. The author suggests that the Wisconsin AFDC standard of need should be raised from the current 85 percent of the poverty line to approximately 100 percent. So the national poverty line, despite its drawbacks, does appear to provide a useful standard for defining basic needs in Wisconsin.

Wisconsin equivalence scales

The next question was the best way to determine equivalence scales; that is, to determine how basic needs vary across households with different characteristics. The specific characteristics that the Wisconsin DHSS wished to examine were household size, urban vs. rural residence, the presence of a teenager, and the presence of two adults (as opposed to one) in a household.

The researchers used regression analysis to separate out how expenditures varied with the characteristics being studied. The resulting equivalence scales were then compared to national equivalence scales, derived by different techniques, and to current scales in use in Wisconsin.

Not surprisingly it was found that, other things being equal, increases in family size, location in an urban area, the presence of a teenager, and two adults in the household all raised the expenditures of a household. The equivalence scales for household size were found to closely resemble those used in the past, which were based on the BLS equivalence scales (families of different sizes were considered to be equivalent to the reference family at the point at which they were spending the same proportion of total income on food). These scales differed from the equivalence scales of the poverty line, which are multiples of the cost of food for each size family, because there are greater economies of scale for nonfood necessities. Location (whether urban or rural) was found to have a large effect on the cost of getting by. The regressions showed that urban living costs 18 percent more than living in rural communities. An 8 percent differential was found for families with a teenager, and two-parent households were estimated to have expenditures 18 percent greater than single-adult households of the same size.

Subjective assessments of need

In addition to collecting objective data on income and expenses of various households over time, the BNS tested a new subjective approach to basic needs that has been in use for some time in Europe. Respondents are asked what is called a Minimum Income Question: “Living where you do now and meeting the expenses you consider necessary, what would be the very smallest amount of income per month—after taxes—your household would need to make ends meet?” The answer to this question has been found to vary with the household’s current income. Those at the lower end of the income scale say they require more than their current income to get by, while high-income respondents recognize that they can get by on less. A point exists, therefore, at which respondents feel they are just getting by, and this can be defined as the level at which basic needs are met.

The advantage to such an approach is its simplicity. It is much less expensive to ask two questions than to obtain detailed data on all income and expenditures.
Although the DHSS did not adopt the use of subjective questions as a procedure for determining the standard for a reference family, it did consider equivalence scales based on responses to the Minimum Income Question. Table 1 shows that with respect to family size, the results of the subjective analysis were remarkably similar to the objective results. On this basis alone, one could argue that the subjective approach is a promising option for updating equivalence scales.

### Table 1

Comparing Family Equivalence Scales from Regressions on Total Expenditures and Responses to Question on Minimum Income (cost for reference family = 100)

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Model 2 (a)</th>
<th>Model 4 (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Expenditure Analysis</td>
<td>Minimum Income Question</td>
</tr>
<tr>
<td>2</td>
<td>81</td>
<td>85</td>
</tr>
<tr>
<td>3</td>
<td>94</td>
<td>93</td>
</tr>
<tr>
<td>4</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>106</td>
<td>110</td>
</tr>
</tbody>
</table>


\(a\) Includes variables for family size, 1980 annual income, and a sample selection term.

\(b\) Includes variables listed in a, plus presence of teenager and an indicator for two-parent families.

The subjective results of the BNS were corroborated in a study carried out by Sheldon Danziger, Jacques van der Gaag, Michael K. Taussig, and Eugene Smolensky. These researchers used the Minimum Income Question asked in the sixth wave of the Income Survey Development Program, a national survey carried out by the Social Security Administration. In comparing equivalence scales they obtained with those based on the poverty line, they found smaller differences in needs as families grow in size and for those with an aged as opposed to a nonaged head, and larger differences between households headed by men and those headed by women.

### Summarizing the results of the BNS

The Basic Needs Study, making use of both expenditure analysis and subjective questions on well-being, provided empirical justification for using the national poverty line as an approximate measure of a needs standard for a family of four in Wisconsin. The BNS further validated the equivalence scales that had been used for the BLS family budgets (as opposed to those used with the poverty line) and pointed to some special circumstances that increase household need: urban residence, teenagers in the household, and two adults rather than one. And it suggested that subjective techniques may provide inexpensive alternatives to the laborious process of expenditure analysis.

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*Committee on Ways and Means, U.S. House of Representatives, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Washington, D.C.: GPO, 1984), pp. 304-305.

*Tbid., p. 300.


*MacDonald (see box), p. 9.

*The survey proved valuable in a number of other studies. The entire sample was used to evaluate the impacts of changes in food stamp regulations that were incorporated in the Omnibus Budget Reconciliation Act of 1981 (OBRA)—see Maurice MacDonald, "Evaluation of Impacts of the Omnibus Reconciliation Act of 1981 on Wisconsin's Food Stamp Costs and Caseload," Final Report to the Food and Nutrition Service, Office of Analysis and Evaluation, 3101 Park Center Drive, Alexandria, Va., 22302, October 1984. The population of AFDC recipients was used to study the OBRA changes in the AFDC program—see "Measuring the Effects of the Reagan Welfare Changes," in this issue.


Golden age in poverty policy  
continued from p. 11

was virtually eliminated. We did that, at least in part, out of love for the elderly. Can we love women heading households? Probably not—but we will like them better when there are fewer of them, and when more of them work.

But wait, I hear you cry. What about the deficit? Don’t we have to keep our pockets zipped to bring down the deficit? There are two answers to that. First, while it is true that the federal government will need $100 billion in taxes or spending cuts precisely at the time when I envisage budgets being slack, I expect that to be in the bag by that day next summer when the Congress adjourns. We can expect a lot of talk about restructuring taxes during the next few months, but the breakthrough will probably be something simple like a national sales tax dressed up as a value-added tax, plus, perhaps, fewer brackets in the personal income tax.

More important, the states are not in deficit now, and they will have even larger surpluses (following a lean year) a few years down the road. The action in welfare is not going to be in Washington. Quietly, in the beneficent shadow of benign neglect, change will emanate from the statehouses.

In 1988 a new era can open—one in which, having licked poverty through transfers, we can keep it licked through jobs. At long last we can achieve President Johnson’s original objective of eliminating poverty through a hand up rather than a handout. The window of opportunity is narrow, the birthrate is already on the rise. We need to get to work now. [1]

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The results of Supported Work are reported in Robinson G. Hollister, Jr., Peter Kemper, and Rebecca A. Maynard, eds., *The National Supported Work Demonstration* (Madison: University of Wisconsin Press, 1984).


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Center for research and retrieval of data from the SIPP and ISDP

In September 1984 the Census Bureau released the first report from its new Survey of Income and Program Participation (SIPP). The SIPP is the most important source of data on the poor since data collection from social experiments began almost twenty years ago. According to the Census Bureau it will provide a better understanding of the level and changes in the level of well-being of the population and of how economic situations are related to demographic and social characteristics of individuals. The data collected in SIPP will be especially useful in studying federal transfer programs, estimating program cost and effectiveness, and assessing the effect of proposed changes in program regulations and benefit levels. Analysis of other important national issues, such as tax reform, social security program costs, and national health insurance can be expanded and refined, based on the information from this new survey.

The novelty of the new data series lies in its continuous monitoring of events in the lives of individuals, such as marriage, divorce, and job loss, and relating them to detailed sources of income, including government transfers.

For a history of the SIPP and its pilot, the Income Survey Development Program (ISDP), see the accompanying box.

With funding from the National Science Foundation, Martin David and Alice Robbin are establishing a Research Clearinghouse and Data Center at the Institute for Research on Poverty to provide access to the new data series to interested users throughout the country. This center will carry out four major services:

- It will integrate data and documentation through an information management system.
- It will provide access to the data through a nationwide dial-in system.
- It will furnish instruction and workshops for new users of the system.
- It will develop solutions to problems related to the analysis of data.
Data and documentation will be integrated by incorporating both into a relational database management system. This system will provide rapid access to information while carefully preserving the logic imposed on the data by the survey design. The data will be organized to suit the requirements of researchers, whether they are studying eligibility for a particular program or the circumstances surrounding a specific event (such as a layoff), or want a broad picture of the well-being of families or households. The database management system will make it significantly easier to incorporate each of these points of view, and several others, into a study of particular problems, such as teenage unemployment.

Data will be made available on a University of Wisconsin–Madison computer. Storage of the data, electronic mail, and some documentation services will be furnished without charge. Capability that is being implemented combines some features of the established bibliographic databases, such as the National Technical Information Service and data services provided to time-series analysts by companies such as Data Resources, Inc., and Chase Econometrics. On-line services will include a bibliography of publications on SIPP and ISDP and technical memoranda, a codebook, and data. The codebook and documents will be presented in a form that can easily be searched for key words, authors, or specific entries.

The center will combine electronic mail with a bulletin board to allow users of the data to communicate with one another and to leave memos on problems encountered in a file of working documents that can easily be read by others. The center’s consultants will provide assistance to members of the center via electronic mail.

Prospective users of SIPP or the earlier ISDP data should contact Dr. Alice Robbin, Institute for Research on Poverty, 3412 Social Science Building, 1180 Observatory Drive, Madison WI, 53706 (608) 262-4574 or 262-6358.

History of ISDP and SIPP
In 1975 the Office of the Secretary of the U.S. Department of Health and Human Services authorized a major program to study income measurement, the Income Survey Development Program (ISDP), to be carried out jointly with the U.S. Bureau of the Census. Because the severe limitations of the March Income Supplement of the Current Population Survey (CPS) could only be rectified by making substantial changes in the survey instrument and procedures, the ISDP was designed to provide sufficient detail to measure program eligibility, interaction among programs, in-kind and cash income, and movement into and out of federal programs. Fieldwork began in 1977 with experimental measurements at test sites and progressed to quarterly interviews with 9500 households in 1979. The 1979 data include six measurements on individuals over an 18-month period. Administrative records were also sampled and reports were validated against those records.

The interagency interaction resulted in the inclusion of much innovative subject matter in the ISDP; the program was terminated, however, in mid-fiscal year 1982 and little research has been done to date. Public use files were released in 1983 and will be available through the Research Clearinghouse and Data Center.

The Survey of Income and Program Participation (SIPP) embeds designs of the ISDP in a continuing program of measurement of income. SIPP is the most extensive and precise tool to date for investigating the economic well-being of people in the United States, the relationship of economic situations to demographic and social characteristics of individuals, and the consequences of economic and social processes of change. SIPP was funded during fiscal year 1982, and the first sample panel of 20,000 households was fielded in October 1983. A second panel will begin in 1985. It will include an additional 6000 households. Each household will be interviewed every four months for two and a half years. The strategy of data collection will produce "sufficient data for longitudinal analyses while providing a relatively short recall period for reporting monthly income."¹

The first wave of the SIPP panel was released in October 1984; the second wave is slated for release in late January 1985.

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