

OBRA effects: An update

The Omnibus Budget Reconciliation Act (OBRA) of 1981 contained a number of provisions that economists expected would reduce the work effort of women receiving Aid to Families with Dependent Children (AFDC). Chief among these provisions were the following:

1. The \$30-and-a-third earned-income disregard was eliminated after four months of continual employment. This meant that a working AFDC recipient would lose a dollar in benefits for every dollar earned after she had worked for a four-month period.
2. Eligibility was restricted to those families with incomes below 150 percent of a state's standard of need (a state-determined subsistence income) and whose assets were valued at less than \$1000.

As reported in *Focus* 8:1,¹ initial studies of the effects of these changes did not show the anticipated reduction in work effort. Faced with a choice between work and welfare, many AFDC recipients appeared to prefer working, even in those cases when this meant a reduction in income and the loss of Medicaid health insurance for their children. Both individual-level studies of AFDC recipients before and after OBRA, as well as aggregate time-series evidence, were consistent with this finding. Both types of evidence were available through the end of 1982.

In an update on this research, Robert Moffitt of Brown University, an Institute affiliate, has extended his time-series studies to the years 1983 and 1984.² Using tabulations from March Current Population Surveys of representative samples of the U.S. population, Moffitt has found a significant decrease in the number of hours worked by women who head households in 1983 and 1984, when the unemployment rate is taken into account. Furthermore, this effect appears to be widening over time.

Table 1 presents the mean hours of work per week and national unemployment rates over the period 1968 to 1984.

With unemployment rates at approximately the same level, women can be seen to be working 1.2 fewer hours per week in 1984 than they were in 1981. (OBRA was implemented in late 1981 and early 1982.) In his earlier work, which stopped in 1982, Moffitt found no labor supply response because he attributed the small 1981-82 drop in hours to the large increase in the unemployment rate occurring at the same time.

Using regression analysis, Moffitt demonstrates that, holding unemployment constant and adjusting for long-term trends in employment, the number of hours per week worked by women heading households in 1983 was 1.14 fewer than would have been expected in the absence of OBRA, and the 1984 hours worked represents a drop of 2.06. Weeks worked and annual real earnings through 1983 show the same decline, though not at significant levels.

That the disincentive effects of OBRA should have been somewhat delayed was, according to Moffitt, not unexpected. Women trying to manage on very low incomes are extremely vulnerable to economic and other dislocations. With no savings, and holding jobs for periods that seldom qualify them for Unemployment Insurance, these women are likely over time to face situations, such as the loss of a job or the illness of a child, that give them no alternative but to return to welfare. In addition, the regulations of OBRA themselves suggest a lag in the disincentive effects. Because AFDC recipients are allowed to retain \$30 and a third of their earnings for four months of consecutive employment before facing the 100 percent benefit-reduction rate, the impact of this regulation would be felt only gradually by working welfare recipients, particularly since this group has a high labor-force turnover rate.

Moffitt's results suggest the need for long-term studies at the individual level to determine the true impact of OBRA. ■

¹"Measuring the Effects of the Reagan Welfare Changes on the Work Effort and Well-Being of Single Parents," spring 1985.

²Robert Moffitt, "A Note on the Effect of the 1981 Federal AFDC Legislation on Work Effort," IRP mimeo., July 1985.

Table 1
Trends in Mean Weekly Hours of Work of Female Household Heads in the United States

	1968	1969	1971	1973	1975	1977	1979	1981	1982	1983	1984
Hours of work	18.8	18.6	17.6	17.7	17.2	18.2	20.6	20.4	19.3	17.9	19.2
Unemployment rate	3.6	3.5	5.9	4.9	8.5	7.0	5.8	7.6	9.7	9.6	7.5

Source: Tabulations from the Current Population Surveys.