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Explaining Welfare Reform: Public Choice and the Labor Market

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Abstract

This paper seeks to identify factors that could plausibly have led to the contractionary welfare reform initiatives begun at the state and federal levels in the United States in the 1990s, initiatives concentrated on the Aid to Families with Dependent Children (AFDC) program. A review of aggregate time-series evidence, cross-sectional regression research, and studies of attitudes toward welfare spending and toward welfare recipients suggests a role for three types of factors. First, a major expansion of the U.S. welfare system in the late 1980s in terms of expenditures and caseloads may have led voters to want to retrench by cutting back on the AFDC program, even though that program was not primarily responsible for the expansion. Second, declines in the relative and absolute levels of household income, wages, and employment rates among the disadvantaged population may have driven up caseloads and costs, increased the social distance of voters from the poor, heightened concern with work incentives, and led, more generally, to a decrease in the perceived "deservingness" of the poor. Third, a surge of births to unmarried mothers in the 1980s is suggested, by cross-sectional and attitudinal evidence, to have led to a reduction in voter support for the AFDC program.

Explaining Welfare Reform:
Public Choice and the Labor Market

In August 1996, the President of the United States signed a bill passed by both houses of the U.S. Congress entitled the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, commonly known by its infelicitous acronym, PRWORA. The provisions of the legislation constituted the most sweeping and dramatic reform of the main U.S. cash welfare program, Aid to Families with Dependent Children (AFDC), in its history. The AFDC program, created by Congress in 1935 as part of the original Social Security Act (which also created the old-age Social Security program and the Unemployment Insurance program), has long been the most well-known means-tested cash transfer program for the poor in the United States. Providing funds primarily to single mothers and their children, AFDC has become the prototypical welfare program in the minds of the U.S. public and the media.

The provisions of PRWORA included, for the first time, requirements that individual state programs have strict work requirements backed up with credible sanctions for noncompliance, a lifetime time limit of 5 years on receipt of benefits (at least benefits paid for with federal funds), and requirements that teen parents stay at home and in school. However, aside from these new strictures, PRWORA removed most other federal requirements on how states could run the program, leaving state governments relatively free to create just about any type of program they wished, however generous or tight-fisted. PRWORA also devolved financial responsibility to state governments as well, converting prior matching federal financial support into a closed-end block grant. The name of the program was changed to Temporary Assistance for Needy Families (TANF). Although other programs for the poor—such as the Food Stamp, Medicaid, SSI, and housing programs—were not changed so drastically, there are significant provisions in the legislation restricting eligibility and benefits in those programs as well (U.S. Department of Health and Human Services, 1996).

This paper is concerned with the causes of this piece of contractionary welfare reform legislation. The analysis takes an explicitly public-choice approach to these questions. In this approach,

institutional features of the political process and the seemingly discretionary acts of politicians are deemphasized and primacy is assigned to voters and their preferences. With a set of such preferences, outcomes are assumed to occur according to a particular voting rule or choice mechanism. Legislatures and their members, elected public officials, and rules of governing bodies are for the most part ignored; those institutions are simply assumed to be conduits, or transparent vessels, through which the voters' will is translated into laws. With this approach, all attention is focused on voter preferences, in this case preferences for redistribution to the poor. Applying this approach to explaining PRWORA, we may ask why preferences for redistribution might have changed so drastically in 1996 or shortly before.

There is in the public-choice field a sizable research literature on the determinants of voting for welfare benefits and on voter preferences for redistribution; there is also a literature of significant size on why AFDC benefits have declined over time. The analysis here will draw heavily on that literature to adduce reasons for the passage of PRWORA. Indeed, in many ways the analysis here is simply an exposition of what past work has shown, albeit with some special emphasis and examination on the causal factors that produce contractionary voter actions and whether those causal factors happened to turn in a particular direction in the 1980s and early 1990s.

In the first section of the paper, the basic question of whether PRWORA was or was not a break from trend is considered, because an immediate issue is whether the legislation was indeed as dramatic a change from the past as it has been portrayed by both its supporters and opponents. Observers of welfare reform in the United States know that real AFDC benefits, for example, have been falling for many years, and also that many individual states in the 1980s and early 1990s adopted trial changes in their programs by obtaining waivers from federal law to operate different types of provisions. The provisions of those waivers were quite similar in spirit to those later enacted by PRWORA. The section will conclude that PRWORA was a break from the past in most ways, but that an analysis of changes in voter preferences

should probably seek the reasons for changes considerably before 1996 in light of the pre-PRWORA policy movements that had already taken place.

Next, a simple model of voter preferences, drawn from the existing literature, will be outlined to provide a framework for later interpretation of the data and to provide a list of the causal variables that should be examined in a search of explanations for welfare reform. This model will demonstrate that the labor market for low-skilled workers has a role to play in welfare preferences that has not heretofore been recognized. The role of the characteristics of the poor will also be seen to play a role. The following sections then consider data on individual preferences for welfare and redistribution, as well as aggregate data on trends in welfare benefits, in a search for explanations. No new econometric analysis will be conducted; rather, the discussion will be based on analyses from past studies. It will be concluded that plausible arguments can be made that welfare reform in the United States in the 1990s was strongly influenced by (1) increases in public expenditures on welfare in the late 1980s and early 1990s, just before the major contractionary reforms, (2) reductions in real incomes and wages of the poor, and their employment rates as well, over the 1980s, and (3) changes in the characteristics of welfare recipients and the poor, particularly the rise in unmarried single motherhood.

I. WAS PRWORA A BREAK FROM TREND?

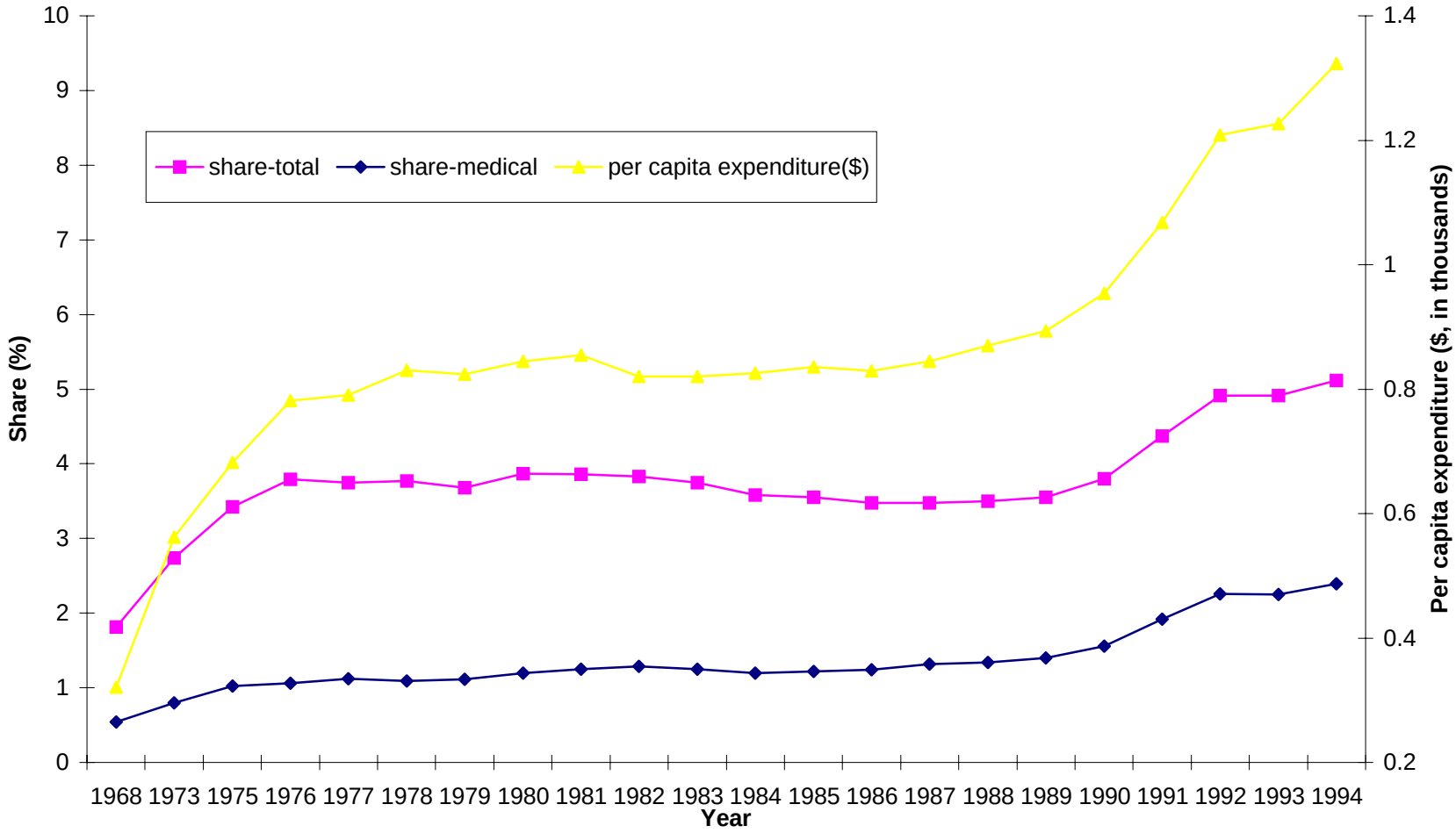
In considering whether PRWORA was a break from trend, it is helpful to begin with a review of the long-term developments in means-tested programs for low-income families over the last 30 years. Prior to 1995, this period can be divided into three phases: an expansionary phase beginning in the 1960s and running through the early or mid-1970s; a contractionary phase beginning in the mid-1970s and running until the mid-1980s; and another expansionary phase running from the mid-1980s to the early 1990s (for discussions, see Burtless, 1994, and Heclo, 1994).

The first phase included an increase in AFDC benefits and the enactment of a major piece of welfare legislation (the 1967 Social Security Amendments), which raised earnings disregards in the program, that is, lowered the tax rate on earnings. It also witnessed the creation of the Food Stamp and Medicaid programs and, later in the period, the Supplemental Security Income (SSI) program. The second phase included a steady decline in real AFDC benefits; enactment of a major piece of AFDC legislation (the 1981 Omnibus Budget Reconciliation Act, or OBRA), which effectively eliminated the earnings disregards enacted in 1967 and consequently cut thousands of families with earnings from the rolls; and an increasing interest in work requirements and mandatory training programs for welfare recipients among federal policymakers. The third phase—which is not always recognized as such, for it is often presumed that the conservative trends in the second phase have continued uninterrupted—saw a dramatic expansion of the Earned Income Tax Credit (EITC); major expansions of eligibility in the Medicaid program, primarily to non-AFDC families; and sizable expansions of the caseload in the SSI program, particularly arising from increased eligibility rules for disabled adults and children. The Family Support Act (FSA) of 1988, although occurring in the third phase and seemingly contractionary—it intended to mandate work and training for AFDC recipients more heavily than in the past—is best viewed as neutral, for not only was it never effectively implemented (Hagan and Lurie, 1992), but it could also be interpreted as expansionary.[1]

These phases are revealed by trends in real per capita spending on means-tested programs in the United States. Figure 1 shows those trends from 1968 to 1994 for the 80 largest means-tested programs

[1]The FSA could be viewed as expansionary because it required, to a considerable extent, that increased resources be devoted to training and educational programs for welfare recipients. PRWORA could, in turn, be argued to reflect a judgment that the training and human capital approach to welfare reform embodied in the FSA, with its attendant investment costs and relatively low rates of return, is both expansionary and ineffective, and is inferior to a simple work strategy. The FSA also mandated AFDC-UP to all states in the country, which must also be regarded as an expansionary feature.

Figure 1
Real Per Capita Expenditures($) on Income-Tested Benefits, and Share of GDP Used for Need-Tested Benefits, Total and Medical, 1968–1994



Sources: Burke (1995, Tables 3 and 7); U.S. Department of Commerce (1996, p. 8).

in the United States (Burke, 1995).[2] The upper line shows the dramatic growth in spending over the late 1960s and early 1970s, followed by a period of stability in overall spending. But spending began to creep up again in the late 1980s, and continued upward at an increasing pace through 1994. The lower lines in the figure show overall spending as a share of GDP, and also the share of spending on medical means-tested programs as a share of GDP. As the figure indicates, the expansion of total spending was accompanied by a rise in its share in GDP as well. The rise of the medical portion especially reflects the Medicaid expansions referred to earlier.

There has been no scholarly attempt to provide a comprehensive and internally consistent explanation of the reasons for this particular pattern of expansion, contraction, and expansion in expenditure growth within a public-choice framework of the type considered below, but this would be an interesting exercise. One simple hypothesis is that voters tend to vote for contractionary policies just after periods of expenditure expansion, which would be consistent with the slowdown of spending in the 1970s—having followed the earlier expansion—and, possibly, with the contractionary policies of the 1990s (which we will be considering here), which followed the expansion of the late 1980s and early 1990s. Indeed, the choice model outlined below will provide a role for lagged caseloads in the utility-maximizing voter's decision-making. However, this paper is not so ambitious, and this section seeks only to ascertain whether these figures suggest that PRWORA was or was not a break from trend. These figures clearly imply that it was a decisive break, because spending in the United States on means-tested programs had grown both in absolute terms and as a percentage of GDP monotonically for 30 years prior

[2]The largest six are AFDC, Food Stamps, Medicaid (including expenditures on the elderly), housing, SSI, and the EITC. Only the credit portion of the EITC is counted, not the reduction in tax liability per se. Note as well that expenditure is scaled by the population, not by the number of welfare recipients or by the poverty population, because the figure is intended to measure general increases in spending, not the well-offness of recipients or the poor. In addition, as the model in the next section will indicate, it is expenditures per capita that are relevant to the taxpayer.

to PRWORA, and had reached an all-time high in 1994. The contractionary period of the late 1970s and early 1980s only slowed the growth of spending, it did not reverse it.

This conclusion is premature, however, for a number of reasons. The most important is that the AFDC program is only a portion of spending shown in Figure 1, and not the largest by any means; yet PRWORA was aimed primarily at AFDC. When we examine instead the three largest means-tested programs that have been in existence for the whole period—AFDC, Food Stamps, and Medicaid—the picture is not quite so clearcut. Figure 2 shows per capita spending on these three programs individually, where it can be seen that while both Food Stamp and Medicaid spending went through roughly the same three cycles of expansion, stability, and expansion as overall spending, the AFDC program is almost missing the third phase.[3] Although there was a slight increase in AFDC spending in the late 1980s, it was minuscule compared with the increase in spending in the other programs and in overall spending. The best characterization of AFDC spending from 1980 to 1995 is stability, not increase. On the other hand, it was not declining either, and in this sense PRWORA may still be viewed as a break in trend, although not as dramatic as it would have been if expenditure had been increasing just prior.[4]

Figure 2 reflects another well-known feature of the history of spending on the poor in the United States, which is the long-term trend of replacing cash transfers by in-kind transfers. Spending on Food Stamps and Medicaid each surpassed spending on AFDC in the early 1990s. The conventional view is that voters—and perhaps the agriculture and health industry lobbies—favor distribution via in-kind transfers rather than cash. This view is not quite correct, however, in light of the significant spending on SSI and the tremendous growth of the EITC, both of which are cash programs. A more accurate view in

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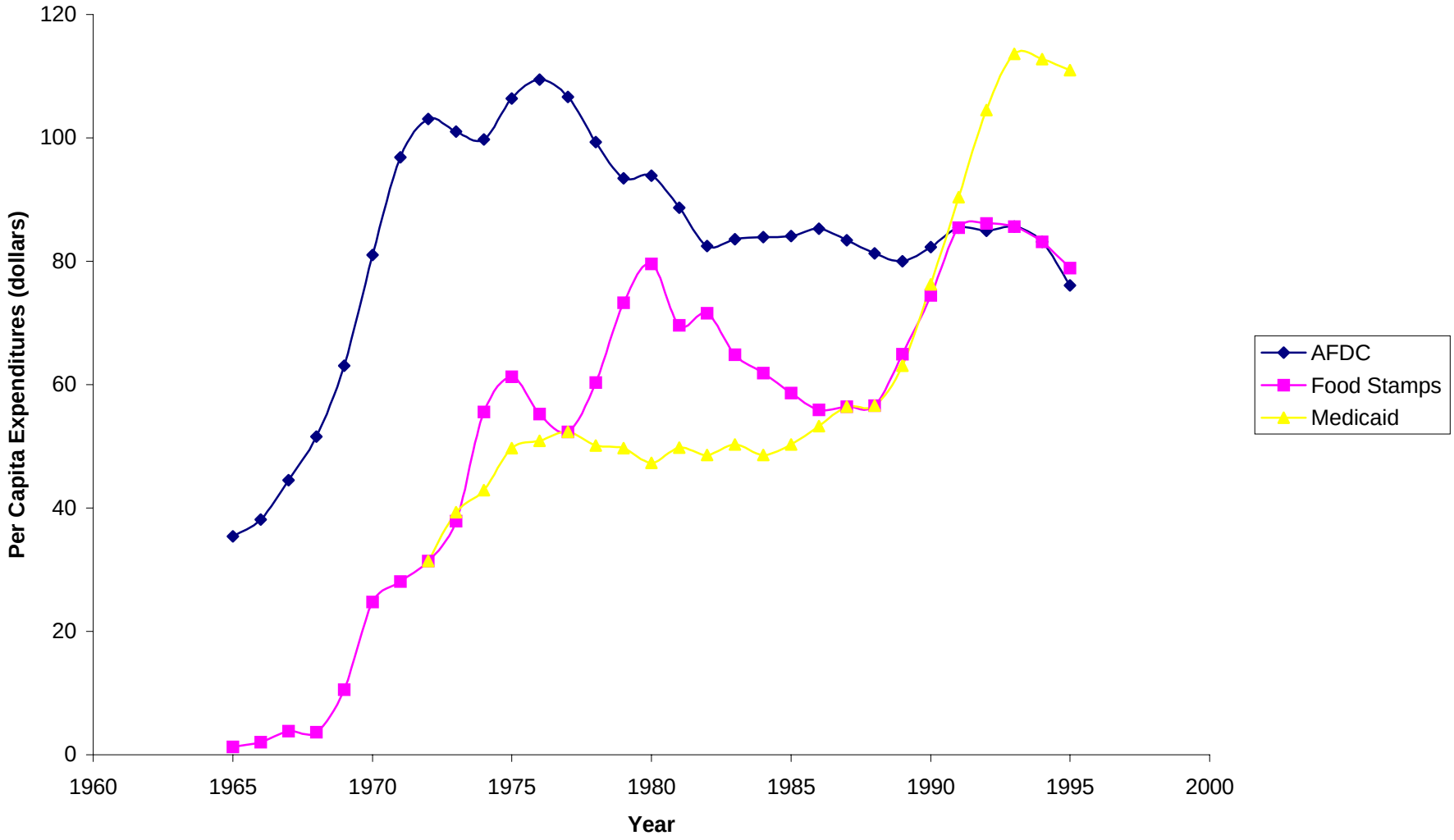
[3]Medicaid spending in this figure excludes the elderly.

[4]Whether PRWORA will indeed result in decreasing expenditure per capita remains to be seen, of course, and thus the question is unanswerable in this sense. Determining the incremental effect of PRWORA on spending will be complicated by the improving economy over the past few years, which has also driven down spending. It may be that the long-term effect of PRWORA on spending will not be known until the next recession and recovery.

Figure 2
Real Welfare Expenditures Per Capita, 1965–1995



Sources: U.S. Social Security Administration (1991, Table 7.E; 1997, Tables 9.G1, 9.H1, 8.E2); U.S. Department of Commerce (1996, p. 8).

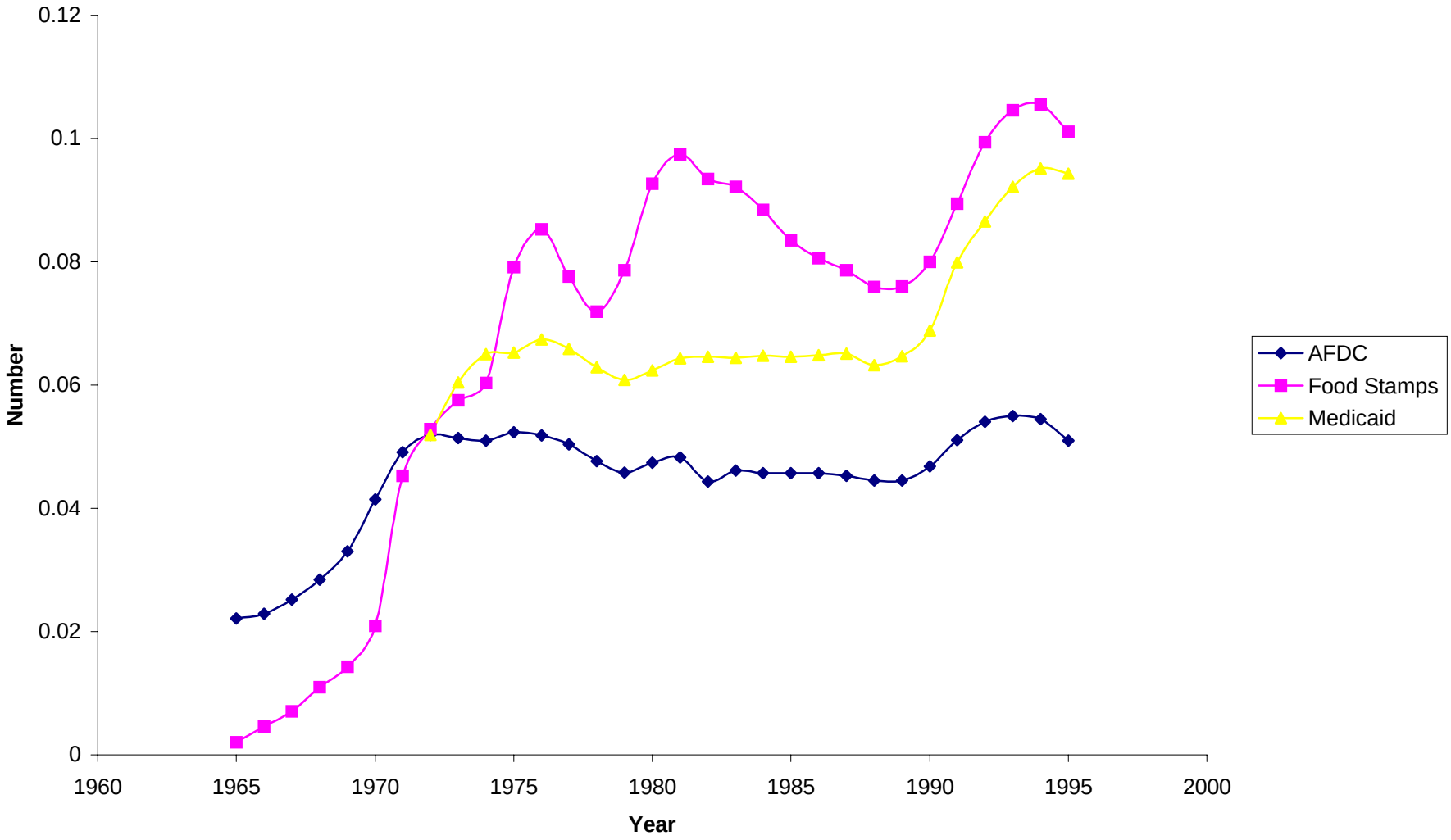
light of these programs is that the voting public cares about the basis for eligibility of the transfer, and looks more favorably on the aged, blind, disabled, and working poor than on nonworking, unwed mothers.

Further insight into the nature of the trends can be gained by disaggregating spending on these three programs into the twin components of caseload growth and spending per recipient, the latter of which roughly proxies the benefit level. Figures 3 and 4 show trends in these two components. As seen in Figure 3, the caseloads in all three programs grew in the late 1960s and early 1970s, flattened out in the mid-1970s to the 1980s, and then grew again in the late 1980s and early 1990s (but all three have fallen more recently because of the expansionary economy). This coincides quite closely with the growth in spending, thereby implying that spending has been primarily caseload-driven rather than benefit-driven. Figure 4, showing trends in benefits per recipient, mostly confirms this for Medicaid and Food Stamps, although spending per recipient in each has experienced some increase in recent years. But AFDC expenditures per recipient have fallen monotonically since the mid-1970s, which is thus the major reason that spending in that program has not risen.[5]

Displacement of AFDC by medical spending and other programs has also occurred at the state level, where most important AFDC spending decisions are made. Figures 5, 6, and 7 show state spending on AFDC, medical programs, and public welfare as a whole, respectively, taken as a share of all state spending. AFDC spending has clearly fallen, not only in absolute terms but as a share of all state expenditure. This implies that the reductions in AFDC spending were not simply a result of declines in overall state expenditure, or what we shall term "income effects" below. Indeed, spending on public welfare in general (including general assistance, social services, energy programs, and many other

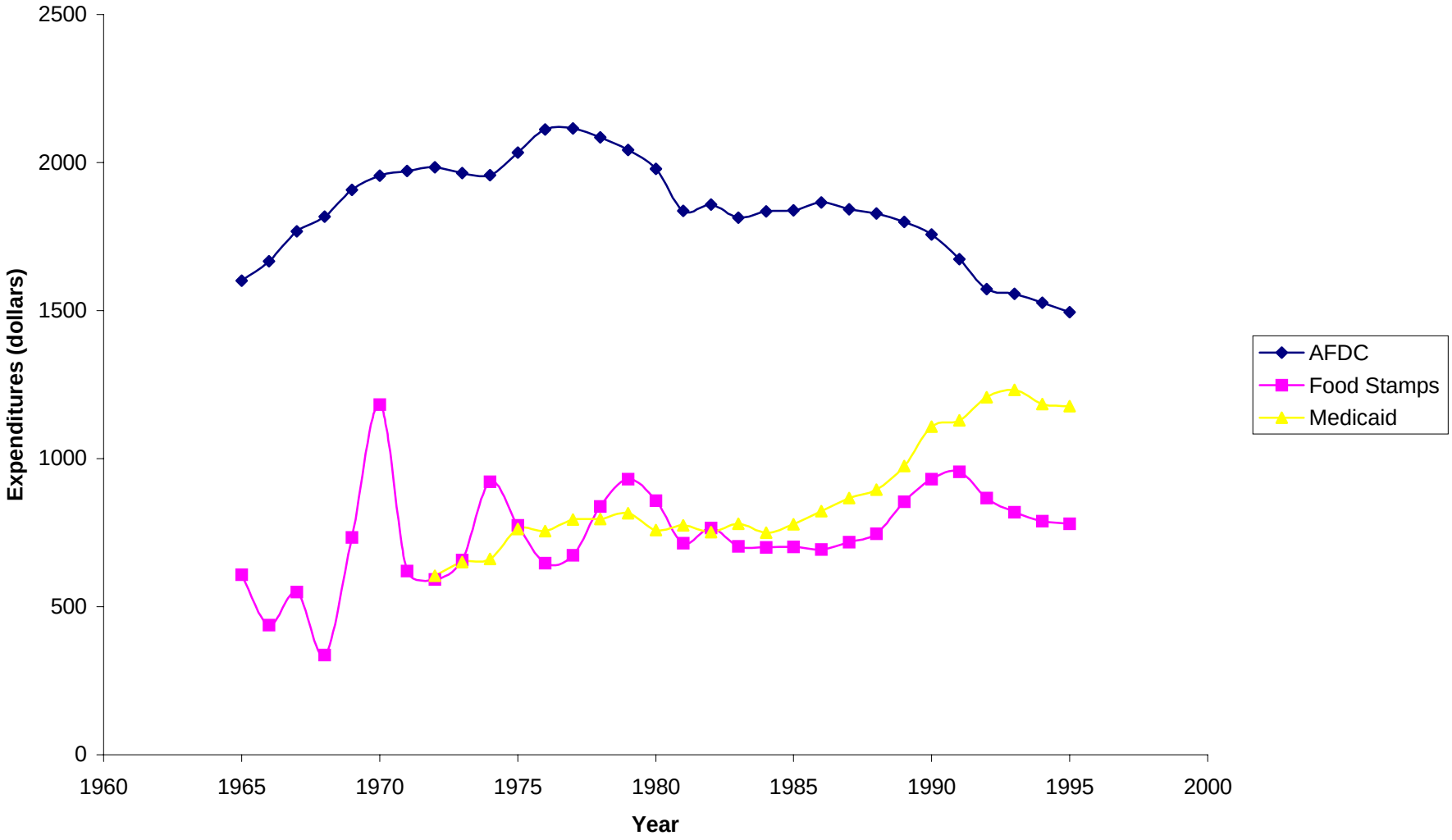
[5]One may further decompose caseload growth into growth in the eligible population, on the one hand, and changes in the participation, or take-up rate, on the other. When this decomposition is conducted, the results show that long-term AFDC caseload growth has arisen almost entirely from growth in eligibles (primarily single-mother families) whereas Food Stamp and Medicaid caseload growth has arisen mostly from expansions in eligibility and hence changes in the take-up rate in the general population (see Moffitt, forthcoming).

Figure 3
Number of Welfare Recipients Per Capita, 1965–1995



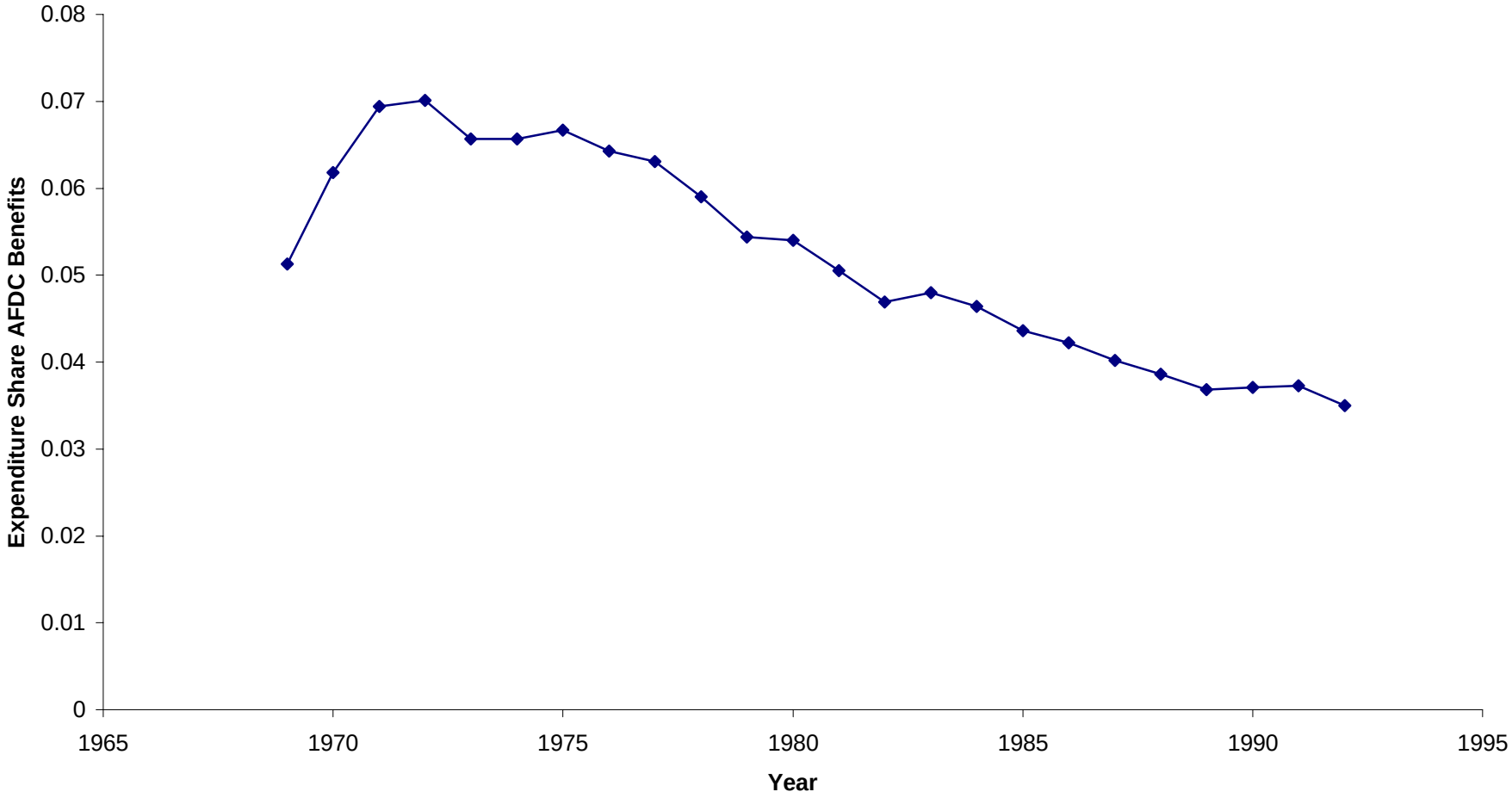
Sources: U.S. Social Security Administration (1991, Table 7.E; 1997, Tables 9.G1, 9.H1, 8.E2); U.S. Department of Commerce (1996, p. 8).

Figure 4
Real Welfare Expenditures Per Recipient, 1965–1995



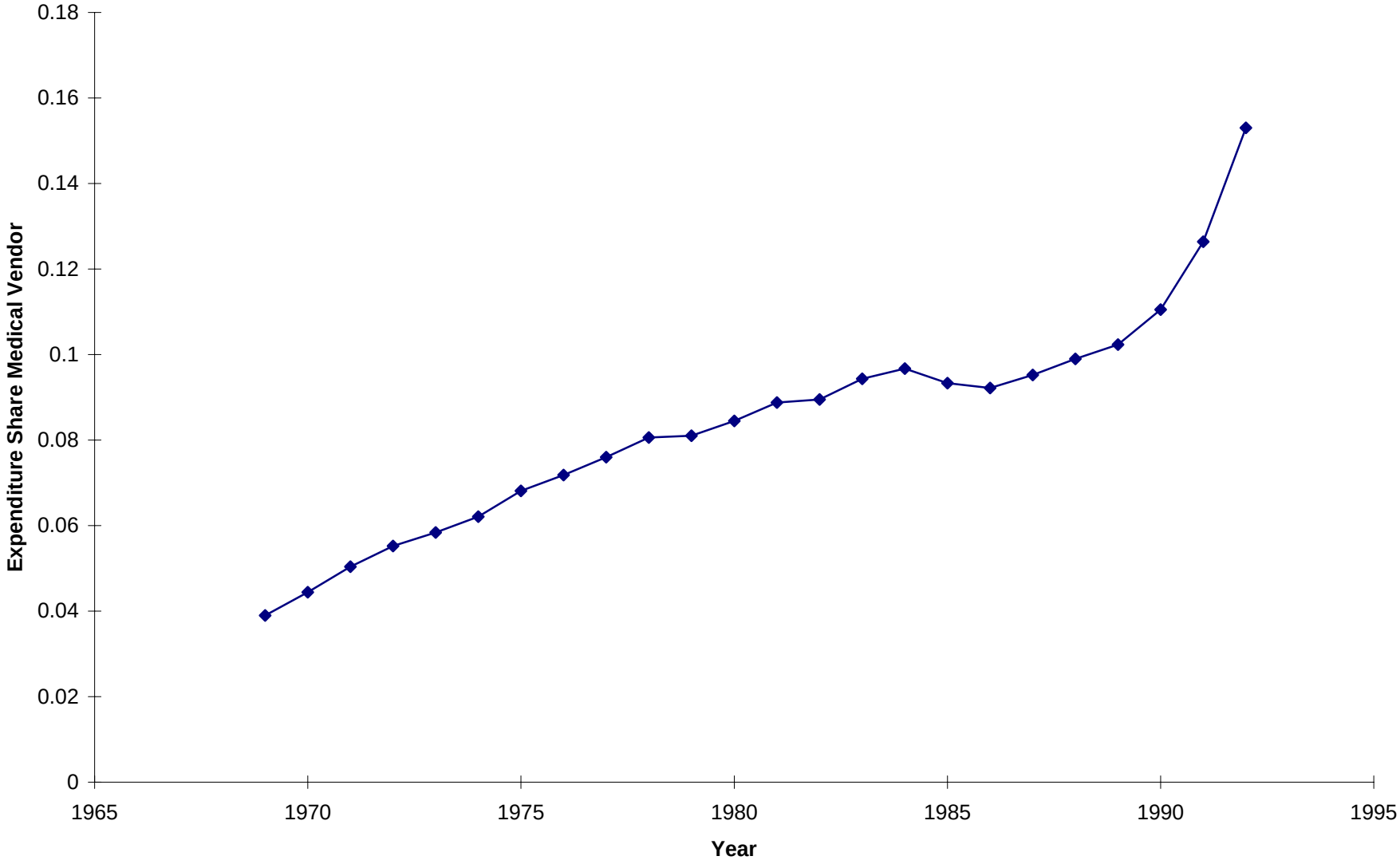
Source: Derived from Figures 2 and 3.

Figure 5
Share of State Expenditure Going to AFDC Benefits, 1969–1992



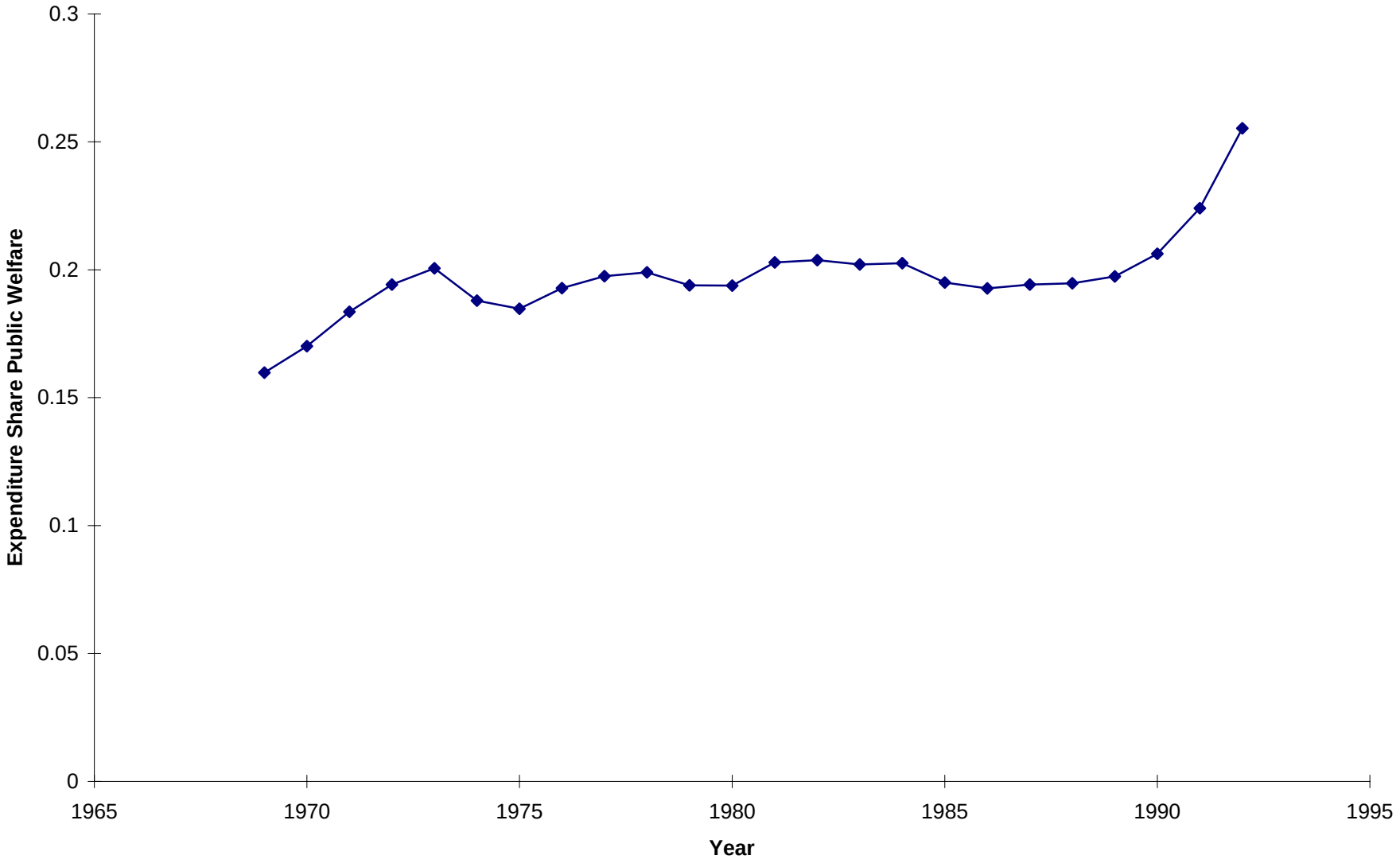
Source: U.S. Census Bureau, *State Government Finances,* various issues.

Figure 6
Share of State Expenditure Going to Medical Vendor Payments, 1969–1992



Source: U.S. Census Bureau, State Government Finances, various issues.

Figure 7
Share of State Expenditure Going to Public Welfare, 1969–1992



Source: U.S. Census Bureau, *State Government Finances,* various issues.

miscellaneous programs) has risen, as has medical spending as a share of total spending. Thus, state legislatures have clearly let AFDC decline relative to other cash and in-kind programs; there appears to be something special about AFDC.

Returning to the issue of whether PRWORA was a break from trend, these figures imply that it still was, although perhaps not as strongly as might have been supposed from looking at total spending trends. AFDC spending was essentially stable over the period 1980–1995, as already noted, and PRWORA must therefore be regarded as a break from that stability. On the other hand, AFDC spending per recipient had been falling for some time (see Figure 4), although the rate of decline slowed in the early 1990s.[6] Here, however, it could still be argued that PRWORA represented a break from trend because it was much more than simply another reduction in benefit levels. The shift from benefit reductions to time limits, work requirements, and sanctions, for example, represents a more contractionary policy than merely reducing the benefit.

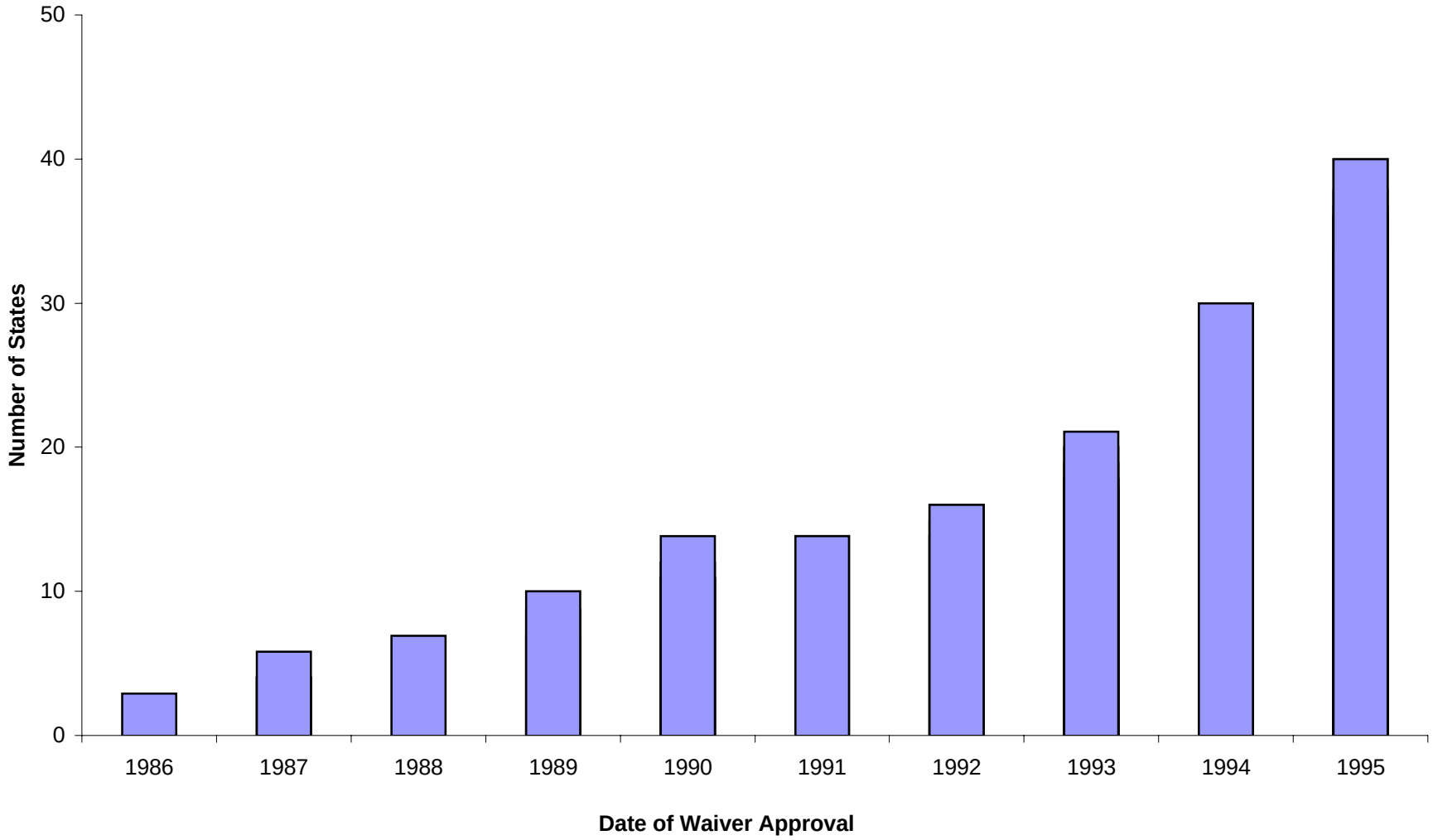
Finally, we may return instead to the approach of defining a break from trend in terms of legislation or programmatic developments, rather than in terms of spending. As noted previously, statutorily the late 1980s and early 1990s were an expansionary period in these terms. But, again, when AFDC itself is examined, the period of the early 1990s was almost certainly a contractionary period. The relevant policy development in this respect was the significant growth in state-level experimentation with AFDC programs which deviated from those ordinarily required by federal law, and occurred when states obtained waiver authority from the federal government. Waiver authority had existed for some time prior to the 1980s but was particularly encouraged in the 1981 OBRA legislation, which was followed in the

[6]Figure 2 shows expenditure per recipient, not the statutory benefit level for a family with a given family size and income. Thus the expenditures could be driven by changes in family size or income, for example. However, the statutory benefit level has also declined over this period, and at similar rates (Blank, 1997a, p. 107). With the rise of waiver programs and PRWORA, however, it is questionable whether the statutory benefit will any longer be an adequate measure of program generosity, for many of the new welfare reform provisions will require more, not less, expenditure per recipient.

mid-1980s by a small number of tests of strengthened work programs in the states (the so-called OBRA, or "WIN," demonstrations). But these programs were small in scale and ended with the 1988 FSA, which replaced them with the JOBS program. However, the Bush Administration began encouraging states to seek waivers again in the early 1990s (Wiseman, 1993), and the Clinton Administration continued to encourage states to do so. By 1996 the Clinton Administration had granted AFDC waivers of one kind or another to 43 of the 51 states (including the District of Columbia). Further, the waivers sought during this period became increasingly statewide in nature, affecting the entire program across the state and all recipients rather than just those in one or two counties or other local areas. The waivers were also increasingly composed of multiple components that sought, in their combination and entirety, to change the basic structure of the program in most major respects (Boehnen and Corbett, 1996). Figure 8, which shows the number of state waivers granted from 1986 to 1996, clearly illustrates an acceleration after 1993. In addition, these waivers were in many respects precursors for provisions of PRWORA. Of the 43 states with approved waivers, 30 strengthened work requirements, 34 imposed some form of time limits, and 36 strengthened sanctions for noncompliance (U.S. Department of Health and Human Services, 1997).

Relative to this state-level welfare reform activity, PRWORA still must be regarded as a major additional step. The time limits in PRWORA as well as the work requirements and sanctions were stricter than had been proposed in most (though not all) state waiver plans, and the requirements for work participation among recipients were higher than in most of those plans. In addition, the block grant provisions of PRWORA, which could be argued to be its most important structural reform, were a significant break from past policy. Nevertheless, if the sources of PRWORA are sought in voter preferences or the determinants of voter attitudes, it is likely that those sources will be found not in 1995 but rather in the 1980s, just before the latest round of waivers began, because the waivers were clearly part of the same political development that led to PRWORA.

Figure 8
Number of States with Waivers, by Approval Date



Source: Boehnen and Corbett (1996, Table 1)

II. A MODEL OF VOTER PREFERENCES FOR REDISTRIBUTION

The economic literature on preferences for redistribution largely concentrates on voter preferences, and this paper will follow that approach. In a democracy, voter preferences determine who is elected and what policies are carried out. The conventional model of voter preferences posits a utility function of the form

$$U(C_{SELF}, C_{POOR}) \quad \textbf{(1)}$$

where C_{SELF} is the consumption level of the voter in question and C_{POOR} is the consumption level of the poor. Utility function 1 is assumed to be positive in both arguments and to have the same concavity properties as well-behaved preference functions in general. This utility function is considered to be that of nonpoor taxpayer-voters; that of poor voters is ignored on the assumption that a poor voter will never be the decisive voter, either because that voter has median income (which is typically above the poverty line) or for some other reason.

Utility function 1 assumes redistribution to be motivated by altruism, but there are alternative motivations. One is a self-interest, self-insurance motivation based on a voter's understanding that there is some positive probability that he will be poor at some point in his lifetime and hence will be in need of aid (Varian, 1980). This explanation may work for voters just above the poverty level but is not plausible for voters far above it, for the variance of transitory income is not large enough for high-income voters to have a nontrivial probability of being poor. A second alternative explanation is that voters view welfare benefits as the price of assuaging the poor and reducing the probability of violence, rebellion, and extralegal appropriation, an idea embodied in Bismarckian policies and which has been discussed in past work (Piven and Cloward, 1971; Grossman, 1995). This explanation may be plausible for the welfare expansions of the late 1960s and early 1970s but seems strained for the expansions of the late 1980s.

Even with the assumption of altruism, there is an issue of what variables enter the taxpayer's utility function. Some have posited that the utility of the poor enters, rather than their consumption. However, the strongly paternalistic nature of U.S. redistribution, in particular the strong preference for in-kind transfers, suggests that specific consumption goods enter, rather than utility levels. In addition, some have suggested (Orr, 1976) that the number of welfare recipients enters the voter's utility function, on the presumption that voters gain utility by higher aggregate transfers, not just by the average transfer. However, it is difficult to argue that nonpoor voters obtain higher utility by having more poor people in the first place.

Proceeding, therefore with the conventional utility function 1, we add the two constraints

$$C_{POOR} = Y_{POOR} + B \quad \textbf{(2)}$$

$$C_{SELF} = Y_{SELF} - T \quad \textbf{(3)}$$

where Y_{POOR} and Y_{SELF} are the nontransfer income and before-tax income of the poor and nonpoor, respectively; B is the benefit level per welfare recipient; and T is the tax payment per person needed to finance the welfare benefits. Both income levels are taken as exogenous for the moment. Assuming a head tax,

$$T = BR^{*}/P = BR \quad \textbf{(4)}$$

where R* is the number of welfare recipients and P is the size of the nonpoor population, hence R is implicitly defined as the per capita recipiency rate, also called the participation rate or the take-up rate (taken over the entire nonpoor population, but this is equal to the rate over the entire population times a scale factor and hence moves monotonically with it). A proportional income tax or other type of tax

would give a slightly different formula. Substituting equation 4 into equation 3, the budget constraint facing the taxpaying voter becomes

$$C_{SELF} = Y_{SELF} - BR. \quad \textbf{(5)}$$

The variable B is the choice variable for redistribution in this model. However, our aim here is to make B a stand-in for contractionary policies in general, and not just a literal reduction in benefits. Some of the features of the model as it is developed below will lead to specific types of contractionary policies (e.g., work requirements), but in general the model will not be specific enough to generate specific mixes of programmatic features.

Maximizing utility function 1 subject to equations 2 and 5 with regard to B yields the marginal condition for optimal B:

$$\frac{U_2(C_{SELF}, C_{POOR})}{U_1(C_{SELF}, C_{POOR})} = R. \quad \textbf{(6)}$$

Hence the basic model of redistribution implies that the price of increasing B by one dollar is R, the recipiency rate. Thus this simple model immediately allows a role for the recipiency rate to affect the preferred benefit and predicts a decline in redistribution in response to an increase in that recipiency rate. As noted earlier, this association is revealed by the simple time-series relationships in some periods.

With the assumption that $U_1(C_{SELF},C_{POOR})$ is sufficiently decreasing in C_{SELF} and that $U_2(C_{SELF},C_{POOR})$ is sufficiently decreasing in C_{POOR}, we also have the implication that B is positively affected by Y_{SELF} and negatively affected by Y_{POOR}. Increases in taxpayer income lead taxpayers to vote for more benefits ("income effects"), while increases in the incomes of the poor lead to a reduced need for redistribution and a decline in benefits.

The major difficulty with this formulation is that R itself is endogenous. The conventional model of welfare take-up posits that welfare participation is decided on the basis of a tradeoff between the benefit level, on the one hand, and earning and other income opportunities off welfare, on the other hand, possibly with the stigma of welfare receipt present as an additional discouragement to take-up (Moffitt, 1983). A large econometric literature on the determinants of welfare take-up strongly confirms it to be positively affected by benefits and negatively affected by the potential wage level of eligibles (Moffitt, 1992). In the terms here, this implies a recipiency function of the form

$$R = R(B, Y_{POOR}) \tag{7}$$

with $R_1 > 0$ and $R_2 < 0$.

The recipiency function in equation 7 thus becomes a third constraint, in addition to equations 2 and 5, binding the voter's choice of B. It might be questioned whether voters perceive the recipiency function in equation 7, but there is no direct evidence on the issue. However, the view that welfare recipients respond to behavioral incentives of all types—that childbearing, work effort, and other behaviors are all positively affected by the benefit—has long been a staple of the U.S. media and, indeed, increased in public discourse in welfare discussions of the 1990s. Hence it is reasonable to assume that voters do make the connection between the caseload and the benefit level.

With equation 7 as an added constraint, optimal benefits now must meet the condition

$$\frac{U_2(C_{SELF}, C_{POOR})}{U_1(C_{SELF}, C_{POOR})} = R(1 + \eta) \tag{8}$$

where $\eta = d\ln(R)/d\ln(B)$ is the elasticity of the recipiency rate with regard to the benefit.

The marginal condition in equation 8 has two new implications. First, the price of benefits, $R(1 + \eta)$, is now higher than before, assuming $\eta > 0$, and hence the benefit will be lower than what it would

have been otherwise. Second, because R is now an endogenous variable in the model, as is B, the only exogenous variable in the price is Y_{POOR}, and it is this variable, therefore, that determines the price at a point in time and which is the forcing variable that determines its movement over time. The derivative of $R(1+\eta)$ with regard to Y_{POOR} is $[(1 + \eta)R_2 + R(\partial\eta/\partial Y_{POOR})]$. Because $R_2 < 0$, the derivative will also be negative unless η is strongly positive in Y_{POOR}, which seems implausible (in fact, it is more plausible that it is also negative). Hence it is almost certain that the derivative is negative and that the price of benefits is negatively related to the income of the poor.

This result, recently noted by Moffitt, Ribar, and Wilhelm (1998), has not been subjected to much discussion in the literature on redistribution. However, it offers a role for the low-wage labor market that is very different from that ordinarily supposed. Typically, models presume that altruism implies that a downturn in the low-wage labor market, by increasing poverty rates, will lead to increased redistribution. The model here also contains that implication, as noted above by the positive relationship between preferred B and Y_{POOR}. However, a decline in Y_{POOR} also raises the caseload, and this tends to lower the level of preferred B. The net effect of these two opposing influences is ambiguous in sign and, therefore, could quite possibly lead to a positive relationship between redistribution and the pretransfer incomes of the poor.

The discussion thus far has proceeded under the assumption that both the utility function and the recipiency function are stable. If either were to shift, however, this would clearly also affect optimal B. A shift in the voter's preference function that lowered the utility of redistribution would, of course, explain why contractionary policies are enacted, but it is not very useful to simply posit that preferences have arbitrarily shifted, because this could explain any pattern of policy in its entirety. Some more concrete theory of preference determination is needed for preference shifts to be useful as an explanatory mechanism. The approach taken here will be to assume a stable function of more deep-seated values

toward redistribution, but to allow this function to contain as arguments variables—preference shifters—that can change over time.

Shifts in the recipiency function are also possible, but here it is more likely that such shifts arise because there are other variables in equation 7 that have not been identified, and these can change over time, inducing a change in the recipiency rate. This can more plausibly generate exogenous changes in R which lead to changes in B. A good example for welfare is the secular increase in single-mother families which, while arguably somewhat related to B and Y_{POOR} based on the research evidence to date, seems to have arisen partly as well from larger social forces related to the decline in marriage rates. This opens up a larger set of possible contributors to a change in redistributive policy based on the reasons for the change in the recipiency rate in a particular time period; this will be discussed below.

As for preference shifters, several obvious shifters appear to be in the preference functions of U.S. voters. One is the value put on work and the resulting preference against nonwork ("leisure") on the part of welfare recipients. But work may not appear only in the preference function; it is responsive both to benefits and to wage rates in the low-skill labor market as well. Thus, once again both preferences and constraints are affected by this introduction. Letting H_{POOR} be some measure of the work effort level of the poor (e.g., hours of work or employment-population ratios), W_{LOW} the wage rate in the low-skilled labor market, and N_{POOR} the nontransfer unearned sources of income for the poor (hence $Y_{POOR} = W_{LOW}H_{POOR} + N_{POOR}$), we have a new voter preference function and an additional constraint:

$$U(C_{SELF}, C_{POOR}, H_{POOR}) \quad \textbf{(9)}$$

$$H_{POOR} = H(W_{LOW}, B, N_{POOR}) \quad \textbf{(10)}$$

with $U_3 > 0$, $H_1 > 0$, $H_2 < 0$, $H_3 < 0$. To be consistent with the endogeneity of labor supply, equation 7 should be slightly modified to

$$R = R(W_{LOW}, B, N_{POOR}) \quad \textbf{(11)}$$

with $R_1 < 0$, $R_2 > 0$, $R_3 < 0$. The recipiency function and the labor supply function in equations 11 and 10, respectively, are mirror images of one another and hence have opposite signs for each of their arguments. The voter's optimal choice of B leads to the first-order condition

$$\frac{U_2}{U_1} = R(1 + \eta) - H_2 \left[\frac{W_{LOW} U_2 + U_3}{U_1} \right]. \quad \textbf{(12)}$$

Since $H_2 < 0$ and all utility partials are positive, equation 12 shows that the price of B is incremented relative to what it was previously. Thus optimal B will fall, as should be expected once work effort itself is introduced, since it falls as B rise. This provides another channel through which the low-wage labor market can affect B, because a decline in W_{LOW} will lead to a decline in H_{POOR} which will lead to a decline in B.

In this case we can imagine that the response to this issue would take the specific form of heightened work requirements. Work requirements obviously address the work effort issue in general. Like a decrease in B, an increase in work requirements increases H_{POOR}; however the latter is more likely to increase C_{POOR}. Work requirements also have a cost that arises from the administrative cost to implement them, which is nontrivial and has, in the past, been a barrier to their use. Work requirements are therefore not costless and there is a tradeoff which must be faced by the taxpayer, just as tradeoffs exist for choosing B as well.

Once a variable like work effort is allowed to affect voter preferences, this opens up a more general set of variables relating to behavioral characteristics of the poor that might be hypothesized to

affect voter attitudes toward redistribution. First among these is the extent of single motherhood and out-of-wedlock childbearing. As we shall show below, there is concrete evidence that voters care about this set of characteristics. Yet other factors that may affect voter preferences are the latent, but exogenous, socioeconomic characteristics of the poor themselves, including their racial composition.

These considerations lead into yet another theory of redistribution, namely, that desires for redistribution are negatively affected by social and economic "distance" (e.g., Kristov, Lindert, and McClelland, 1992). Distance is generally interpreted as meaning similarity of characteristics between the voter and the recipient. Not only race but also gender, family structure, education, and even income may be hypothesized to fall into the distance metric. According to the income metric, for example, the most sympathetic voters are those of moderate income and those least sympathetic are those with high income. Applied to other variables, we should expect according to this hypothesis that those who have more sympathetic preferences toward the poor are women, other single mothers, those with low education, and so on.[7,8]

To summarize, this section has posited a series of variables that may affect the generosity of a redistributing society. These include the recipiency rate, the income of the taxpayers, the income of the recipients, low-skill wages, the nonlabor income of the poor, work effort and work levels of the poor, single-motherhood rates, and the sociodemographic and economic characteristics of the poor, possibly in relationship to those of the taxpayers. Since our concern here is with whether there were trends prior to the welfare reforms of the 1990s in these variables that could explain those reforms, our interest is only partly in whether these variables affect preferences for redistribution in general; we are more concretely

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[7]The social distance hypothesis is difficult to distinguish from the self-interest hypothesis if the latter includes insurance motivations. By definition, characteristics that make the voter closer in type to the poor simultaneously increase the probability of welfare receipt.

[8]The arguments in this section are related to a literature suggesting that there is a negative relationship between the level of inequality and the level of redistribution in a country (Peltzman, 1980; Lindert, forthcoming; Boadway and Keen, forthcoming, p. 100). Many of the reasons posited for such a relationship are related to those given here.

interested in whether these various determinants shifted during the 1980s. This issue is addressed in the next section.

III. EVIDENCE

Three different types of evidence can be assessed in a search for explanations for welfare reform in the 1990s: (1) time-series evidence over the period on wages, employment, single-motherhood rates, and other possible explanatory variables; (2) regression evidence on the determinants of state-level AFDC benefits, using U.S. states as natural laboratories that generate assumed exogenous cross-sectional variation; and (3) microevidence on individual preferences toward welfare obtained from survey questions on attitudes about welfare spending and welfare recipients.

Aggregate Time-Series Evidence

The time-series evidence demonstrates that some of the possible explanators listed at the end of the last section changed in the 1980s and others did not. The first and perhaps simplest variable to discuss is income, for if income turned down in that period, simple income effects might explain welfare reform in the 1990s. However, there is relatively little evidence for income per se as a strong explanator. Secularly, real per capita income did not decline over the 1980s and 1990s in the United States, but rather rose. There was a recession in the late 1980s and early 1990s—the aggregate unemployment rose from 1989 to 1992—but many recessions had occurred previously, both in the early 1980s and the mid-1970s, without any welfare reforms occurring on the same level as those of the early 1990s. States did experience considerable fiscal difficulty in the late 1980s as well (Poterba, 1994), but, as shown in Figure 5 previously, AFDC spending fell as a share of all state spending. This latter result is, indeed, the major evidence against income effects per se explaining major AFDC welfare reform.

Although the substitution of non-AFDC spending for AFDC spending is a clear alternative hypothesis, the more direct effect of the AFDC caseload itself should be considered first. As noted previously, the AFDC caseload (or recipiency rate) is the primary price variable in the AFDC benefit model, although ideally one should look for an exogenous shock in that caseload to avoid incorrectly interpreting caseload changes as a cause of benefit changes when they may instead be the result of such changes. As already discussed in Section I and shown in Figure 3, the AFDC caseload rose in the late 1980s, in a departure from the stability of the prior decade. However, that rise was rather modest by historical standards. Whether that size of increase is sufficient to induce the major contractionary welfare reform the United States experienced is questionable, although a large elasticity could conceivably make it an important contributor. The next section will assess the econometric evidence on caseload elasticities and come to a judgment as to whether the elasticity is indeed sufficiently large; for now the AFDC caseload will be retained as a possible explanator. It may also be asked whether the AFDC caseload increase was itself a result of benefit increases, but the evidence thus far is that this was not the case (Blank, 1997b).

The substitution hypothesis suggested by the discussion in Section I is that the increases in Food Stamp and Medicaid caseloads in the late 1980s, which were much larger in magnitude than that in AFDC, led to an even greater desire than had been the case historically to reduce AFDC spending. At the state level, Food Stamp spending is immaterial to budgets but not to voter preferences, and hence would have led to such an increased substitution. Medicaid spending, while partly under the control of state legislatures, has many features mandated by the federal government, including most of the eligibility expansions of the late 1980s and early 1990s.[9] As shown in Figures 6 and 7, Medicaid spending at the state level rose as a share of all expenditures, as did non-AFDC public welfare spending. Of course, one

[9]U.S. state governors during this period were extremely vocal on their concerns over rapidly rising Medicaid expenditures.

may ask why the federal government could not have reduced Food Stamp expenditures directly, and why both the federal and state governments could not have directly reduced Medicaid expenditures. The appeal to the traditional preference for in-kind over cash transfers may be the reason, although there is presumably some limit to such substitution and it would be surprising if it were dollar for dollar.[10] There is also cross-sectional econometric evidence on the substitution hypothesis which will be considered below.

The next set of factors to be considered concerns the income, wages, and labor force commitment levels of the poor population, and whether those changed over the 1980s. Here the major development in the United States has been the marked rise in household income inequality and individual wage inequality which began in the 1970s and continued into the 1980s (Gottschalk and Smeeding, 1997). Moreover, real wage rates for unskilled workers have dropped not only relative to those of higher-skilled workers but also in absolute terms. The conventional wisdom is that these inequality trends accelerated during the 1980s.

Figure 9 confirms this conventional wisdom. Real wage rates at the 10th and 20th percentile declined in real terms beginning around 1980. The figure shows that the decline accelerated during the early 1980s, slowed down, then accelerated downward again around 1989, and leveled off around 1993. The slowdown between 1985 and 1989 is the most significant evidence against wages as a contributor to early 1990s contractionary welfare reform, but the acceleration after 1989 is evidence that goes the other way. In addition, it is unclear that the slowdown was perceived by voters, who instead may have adopted a general view of the 1980s as a period of declining wages of unskilled workers. The cross-sectional regression evidence below will provide more formal evidence on this question.

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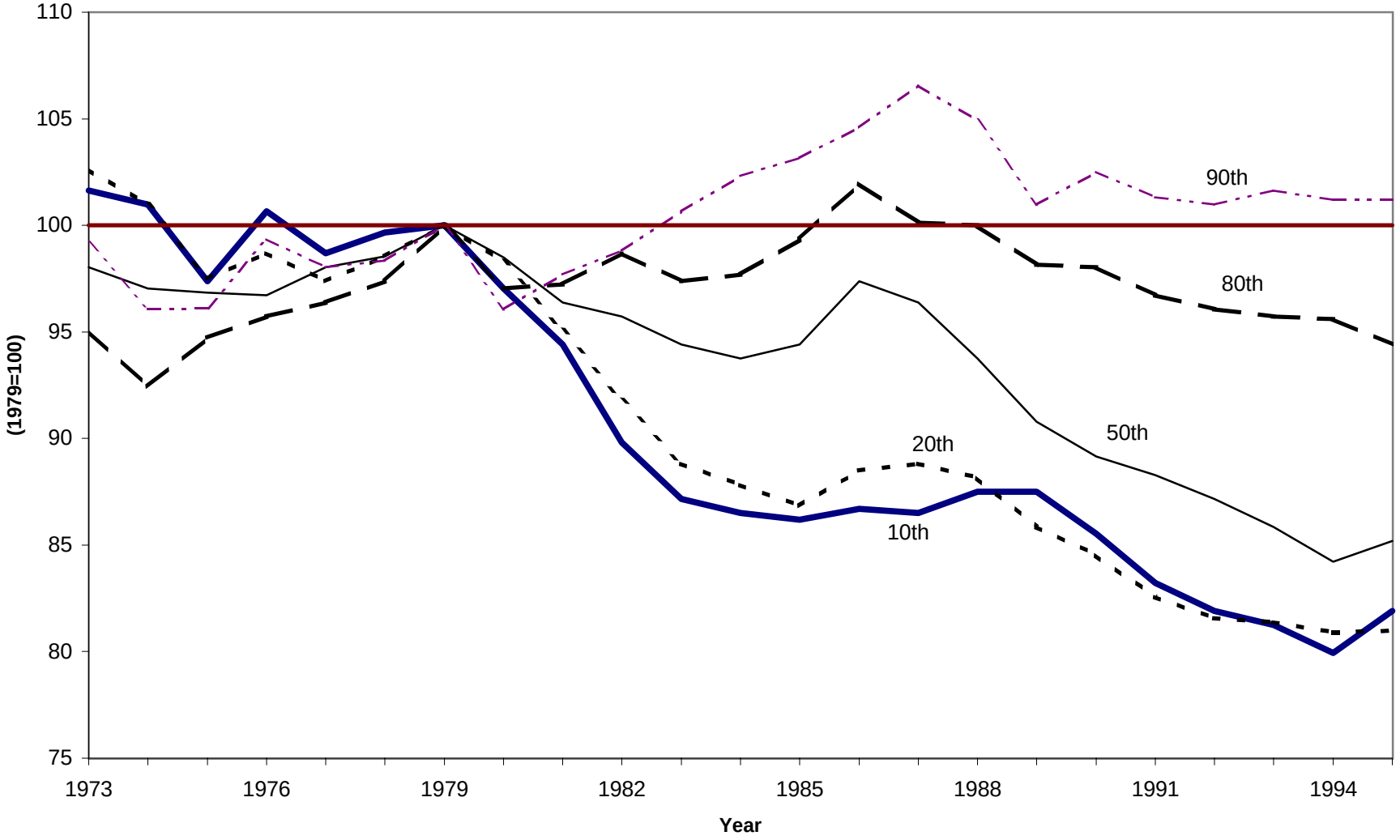
[10]As noted in the introduction, there were indeed some reductions in Food Stamp expenditures in PRWORA. Medicaid, however, was largely untouched.

Figure 9
Real Hourly Wage for Men by Wage Percentile, 1973–1995



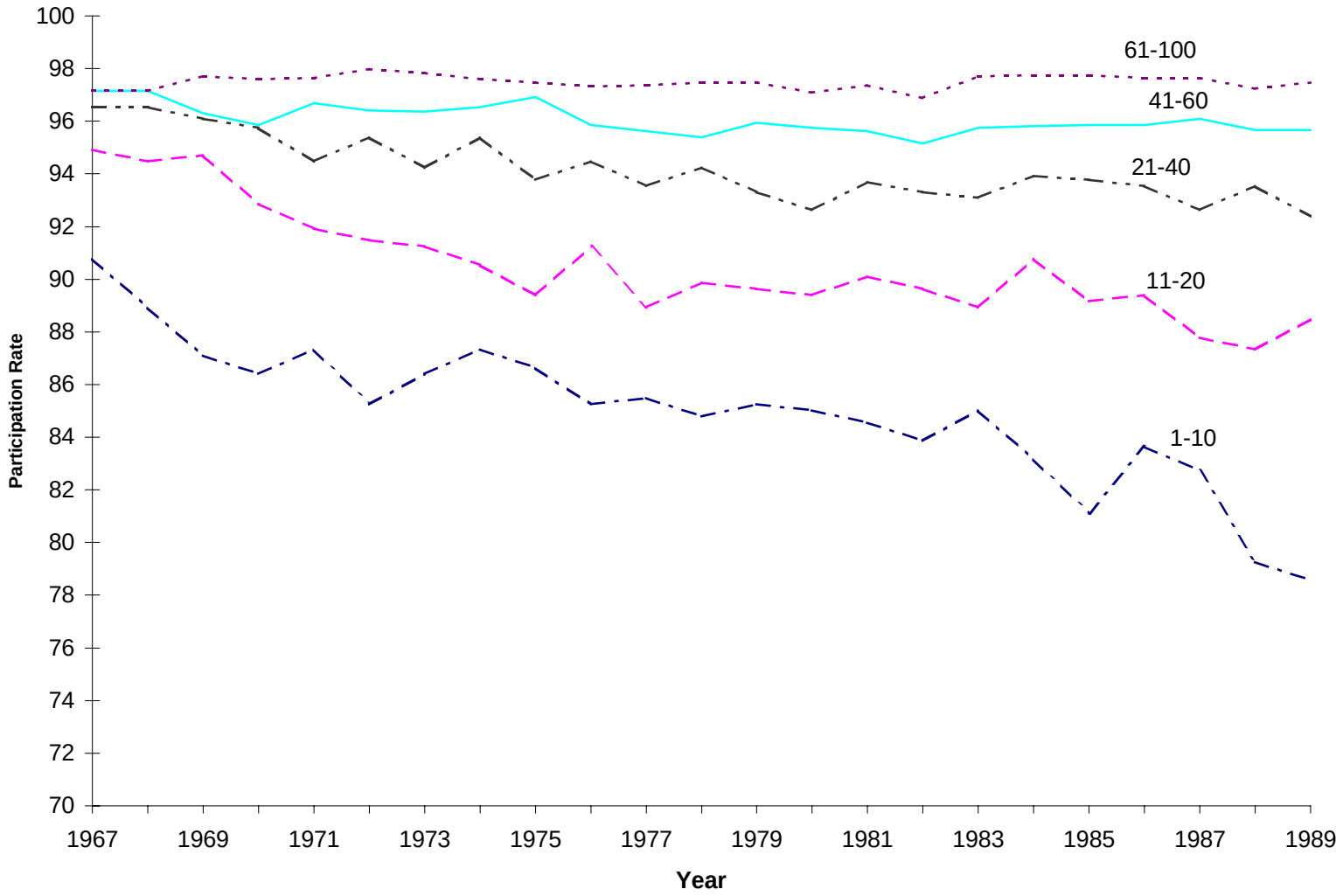
Source: Mishel, Bernstein, and Schmitt (1997, p. 145).

Turning to employment levels, the aggregate times-series evidence provides support for a role of this factor as well. Figure 10 shows the trends in the labor force participation rates of male workers in the United States by wage decile over the last few decades, where participation is defined as either working or looking for work during a year. It is thus an indicator of particularly low levels of attachment to the labor force. As the figure shows, rates of participation fell for those in the lowest 10 percent of the wage distribution and, at a slower rate, for those in the 11–20 percent decile of the wage distribution. For the former group, the fall in participation rates clearly accelerated during the 1980s. This evidence, therefore, is suggestive of a connection to welfare reform.

The best explanation for the fall in participation rates is, in fact, the declining real wage rates noted earlier (Juhn, Murphy, and Topel, 1991). Together with the evidence on wages, it suggests that the 1980s were a period of declining real wages and declining employment among the poor and the unskilled, and that this may have led to a decline in voters' favorable perception, or increase in unfavorable perception, of their "deservingness" of aid.

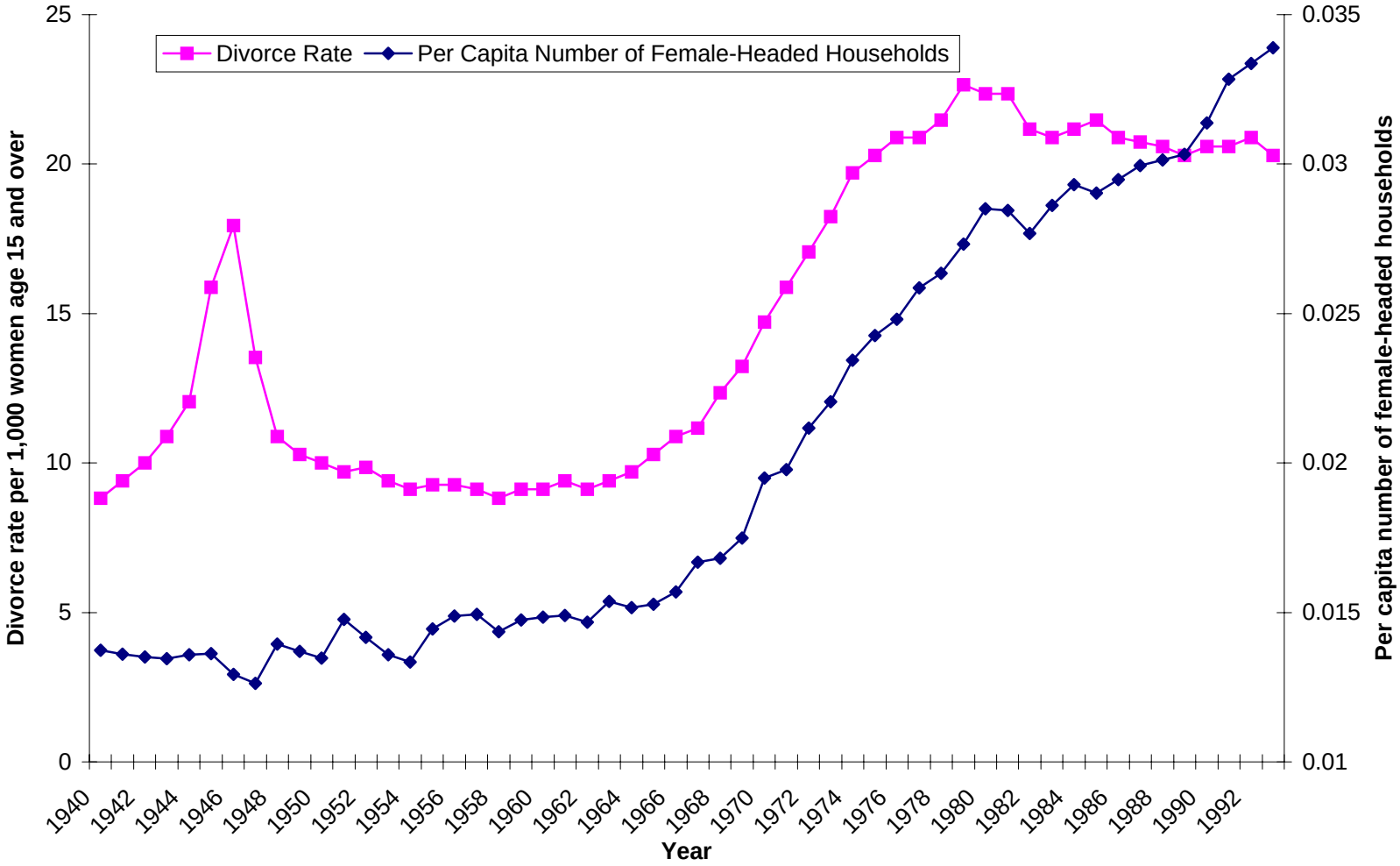
Finally, we may consider whether other characteristics of the poor or of welfare recipients changed in the 1980s in a direction that would have caused AFDC recipients to be viewed more unfavorably than in previous periods. The rise in single motherhood is the most obvious candidate. Figures 11 and 12 show the relevant time-series trends. Figure 11 shows the overall growth of per capita rates of female headship in the United States, combining divorced and separated women, widows, and unmarried single mothers. The rate of growth has been steady and upward but shows no sharp acceleration in the 1980s. However, the composition of that growth did not change so steadily. Figure 11 also shows the divorce rate in the United States, which flattened out in the late 1970s after a long rise. Figure 12 shows the pattern of birth rates for unmarried women, and here the acceleration in the 1980s is particularly marked, especially for young women. Moffitt (forthcoming) shows that this increase in unmarried motherhood was responsible for approximately 50 percent of the increase in the AFDC

Figure 10
Male Labor Force Participation Rates, by Percentile of the Real Hourly Wage Distribution



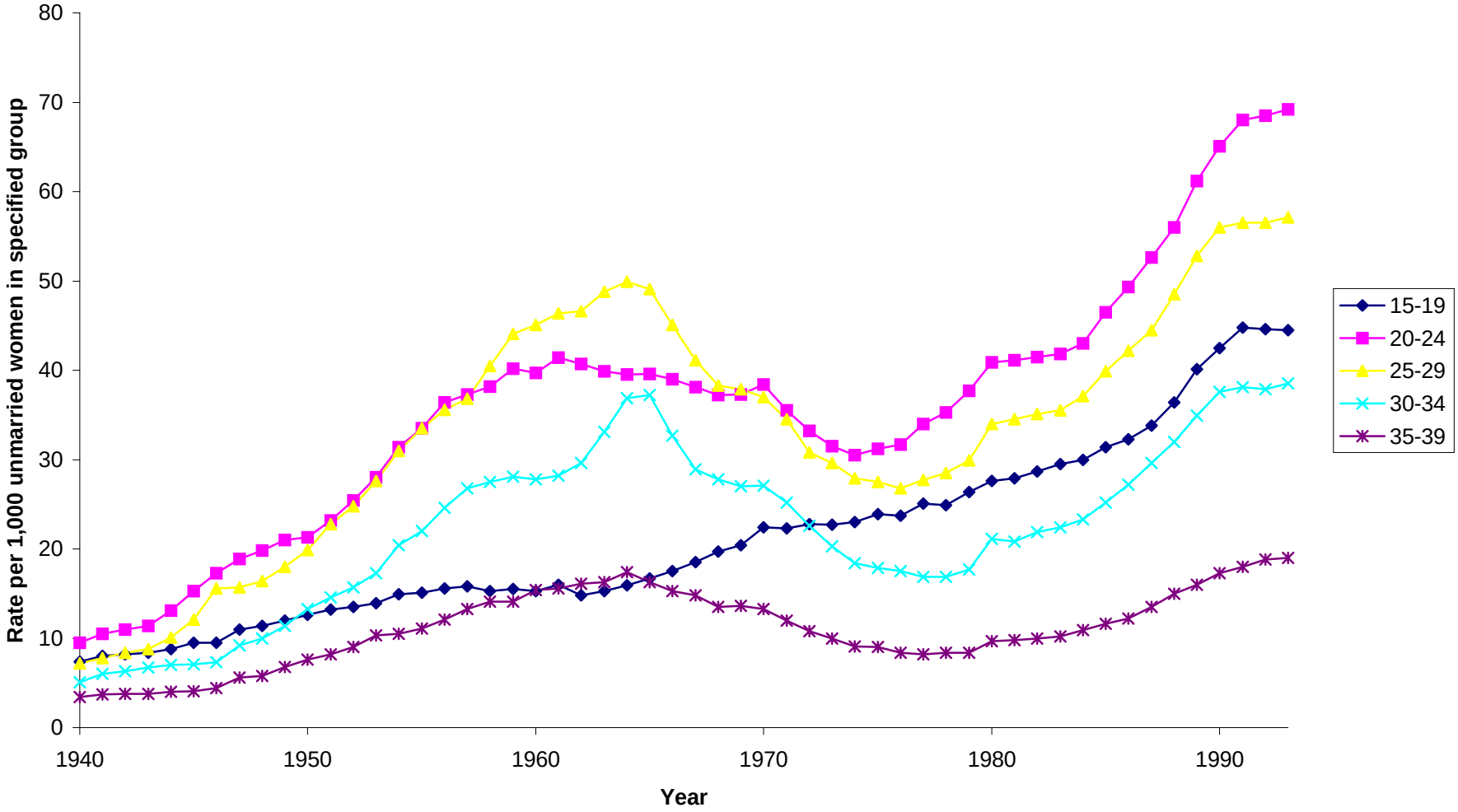
Source: Juhn, Murphy, and Topel (1991, p. 99).

Figure 11
Divorce Rate and Per Capita Number of Female-Headed Households



Sources: U.S. Department of Health and Human Services (1995, pp. 26, 62); U.S. Department of Commerce (1996, p. 8).

Figure 12
Birth Rates for Unmarried Women by Age, 1940–1993



Source: U.S. Department of Health and Human Services (1995, p. 88).

caseload in the late 1980s and early 1990s. If voters react more negatively to unmarried mothers than to divorced and separated mothers, then this change in demographic trend could have been a contributor to welfare reform.

Thus the time-series evidence, while necessarily crude and providing at best suggestive evidence, is consistent with a number of explanations for welfare reform in the 1990s. The rise in the Food Stamp and Medicaid caseloads, coupled with a more modest rise in the AFDC caseload, occurred just before the wave of contractionary welfare reform. Declining real incomes, real wage rates, and employment rates among the low-income population in the United States also occurred at times, although sometimes only roughly, just before the 1990s welfare reform initiatives. Increasing rates of unmarried childbearing also accelerated in or near the period just before the 1990s welfare reform activism, thus lending credibility to its playing a role.

State-Level Regression Evidence on AFDC Benefits

There is a sizable body of research on determinants of the level of AFDC benefits across states. Though the welfare reforms of the early 1990s did not take the form of benefit reductions per se, the general determinants of benefit levels are likely to be determinants of other types of reforms as well (although it is fair to ask why contractionary policy shifted from benefit reductions to nonbenefit policies at this particular time). Pauly (1973) is usually credited with proposing that redistribution policy be modeled at the state rather than the federal level, and that it be considered a function of voter preferences within states. Orr (1976) presented the first well-known empirical study of AFDC benefits at the state level, again based on a public-choice model of benefit determination. Since then many additional studies have been published, some of which focus specifically on explaining the time-series decline in AFDC benefits in the United States but most merely examining benefit determination in general. There have been studies of Food Stamp and Medicaid substitution as well as of the influence of the level of unskilled wages. Most econometric studies in recent years have employed state fixed-effects methods, essentially

comparing the changes in AFDC benefits across different states to the differentials in how a variety of explanatory variables have changed across those same states. See Ribar and Wilhelm (1999) for a review of many of the studies.

One issue of relevance in this literature is the size of the price elasticity, which determines the effect of exogenous changes in the AFDC caseload on benefits.[11] This literature is reviewed by Ribar and Wilhelm (1999) and Chernick (1998), whose papers find a very dispersed set of price elasticity estimates. Ribar and Wilhelm also conduct a sensitivity analysis of the price elasticity and conclude that it is quite low for the specifications that survive most specification tests—no greater than .08 at most, and possibly near-zero.[12] If elasticities are this small, the modest AFDC caseload increase experienced in the late 1980s in the United States is unlikely to have generated any significant pressure for welfare spending reductions. Thus the cross-sectional evidence does not support much of a role for 1990s welfare reform as a reaction to the late 1980s AFDC caseload increases.

But, as noted previously, the possibility that Food Stamp or Medicaid caseload increases could have crowded out AFDC remains. Here, however, the cross-sectional evidence is surprisingly weak. Chernick (1998) also reviews this literature and finds that estimates of both Food Stamp and Medicaid substitution effects vary tremendously in the literature. The strongest evidence against a strong Medicaid substitution effect is a relatively weak cross-state correlation between the magnitude by which AFDC benefits in a state have declined and the magnitude by which Medicaid spending has increased. However, the increases in Medicaid generosity of the late 1980s are not included in these econometric studies, which were all conducted on earlier data. Further, while the econometric results on Food Stamps are

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[11]The price variable also contains a term for the rate at which the federal government matches federal expenditures, as well as features of the marginal tax rate faced by the voters if that rate varies across voters. Thus in most studies the price elasticity is identified by variables in addition to the caseload. Most studies have attempted to deal with the endogeneity of the caseload through instrumental variables procedures of one type or another.

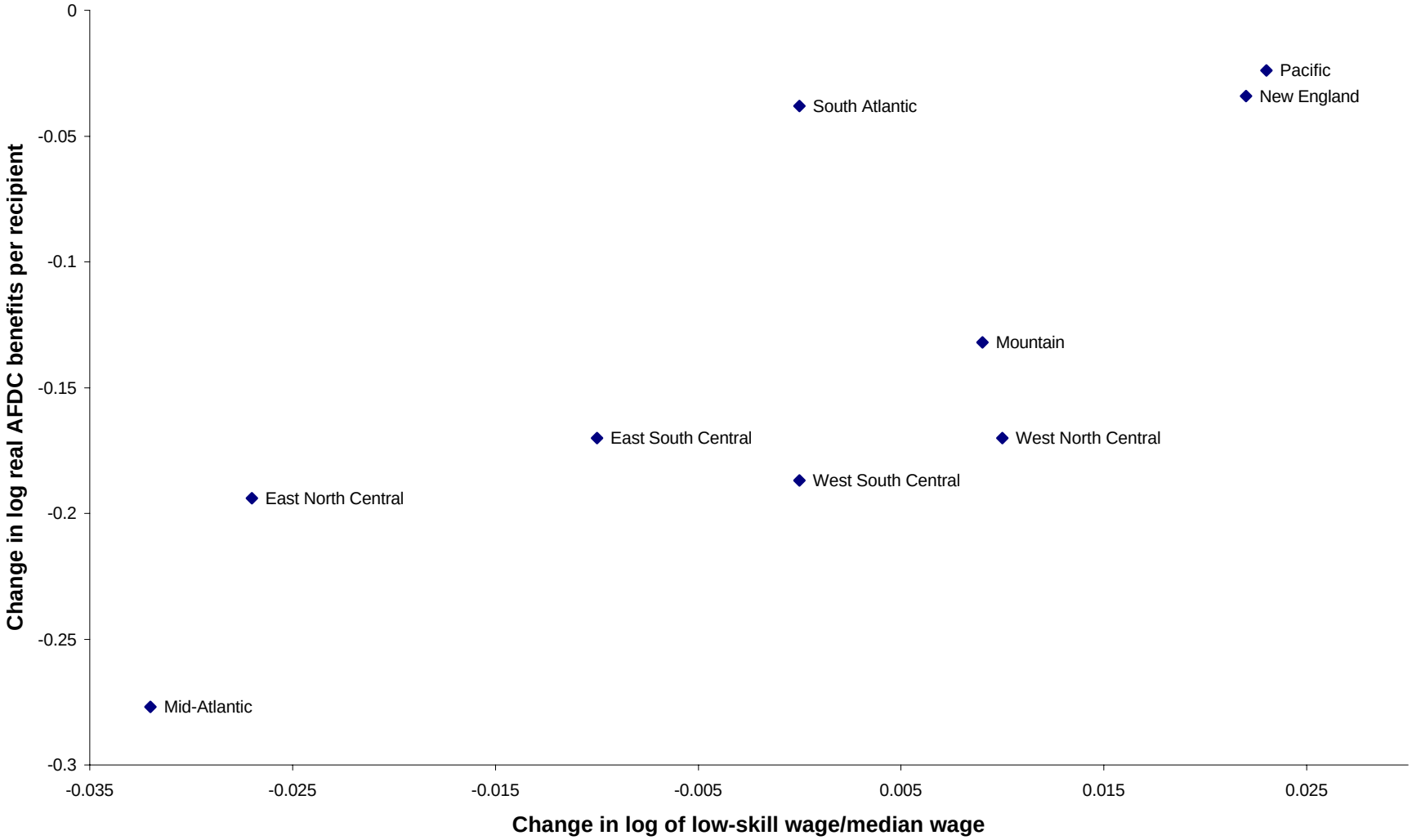
[12]Chernick concludes that price elasticities are probably higher, but he is more interested in the effects of matching rates than caseload effects and argues that the effects of the latter are not well identified in the data.

similarly mixed, estimating the effect of Food Stamp substitution is problematic because the program is nationwide and hence does not vary cross-sectionally. Thus, the cross-sectional evidence is not conclusive at this time. Moreover, the strong aggregate time-series evidence reviewed above strongly suggests that substitution should be given positive weight. Chernick (p. 228) concludes that the weight of most evidence supports at least some Food Stamp and Medicaid substitution.

The effects of the decline of real incomes, wages, and employment rates among the low-skilled and disadvantaged population on AFDC benefits have been examined only by Moffitt, Ribar, and Wilhelm (1998), who found a positive correlation between the change in the unskilled wage in a state and the rate at which AFDC benefits declined in a model including state fixed effects and controlling for other price and income determinants of AFDC benefit choice. The relationship in the data was strong enough to be visible in the unadjusted correlation between inequality growth and AFDC benefit decline across regions, and is illustrated in Figure 13. Inequality growth was greatest over the 1970s and 1980s in the mid-Atlantic states (New York, Pennsylvania) and the East North Central states (Ohio, Michigan)—all of which are traditional manufacturing areas—and AFDC benefits also declined the most in those regions. In addition, inequality actually declined in the Pacific and New England states, and in those states AFDC benefit decline was the weakest. Although these simple correlations could have other explanations—inequality growth might be correlated with state income growth, for example—the multivariate analysis conducted by Moffitt, Ribar, and Wilhelm indicated that the relationship held up when other factors were controlled. Their evidence only concerned wage effects, however, and income levels and employment rates of the poor were not examined.

The role of other factors in explaining AFDC benefit decline—in particular, the role of the growth of unmarried mothers—has been little examined in this literature, for the estimated models have been quite parsimonious. Some studies have, nevertheless, found that the fraction of the population that is either nonwhite or black has a negative effect on benefit levels (Orr, 1976; Ribar and Wilhelm,

Figure 13
Change in Benefits and Real Hourly Wages from 1970s to 1980s, by Region



Source: Moffitt, Ribar, and Wilhelm (1998, p. 435).

1999; and many others). Also, the percentage of the population over 65 generally has a negative effect on benefits as well (Ribar and Wilhelm, 1999). Unlike the race variable, however, this effect is generally interpreted as representing a characteristic of the voting, donor population rather than of the recipient population, although ultimately these are difficult to separate. Shroder (1995), one of the few to attempt a proxy for the fraction of the welfare caseload that is unmarried, finds that variable also to have a negative effect on benefits.

A more directly relevant study to 1990s welfare reform is that of Winkler (1998), whose dependent variable is not AFDC benefits but rather whether a state adopted a time-limit waiver program in the late 1980s or early 1990s. In a cross-sectional analysis, Winkler found a number of state characteristics to be associated with the likelihood of adopting a time limit waiver, including recent growth in the state AFDC caseload (leading to a higher probability of a time-limit waiver) and the percentage of never married families on AFDC (also leading to a higher probability).

Thus the cross-sectional regression literature provides little support for a major role for the effect of the rising AFDC caseload, but some role for cross-program substitution and for declines in the wages of the poor in leading to 1990s welfare reform, and for the influence of out-of-wedlock childbearing.

Determinants of Welfare Preferences

Although economists have not often used such data, information does exist on attitudes toward welfare spending and welfare recipients from survey questions that can be used to examine the determinants of welfare preferences among the population. These data have been analyzed more heavily by political scientists and sociologists, and an extensive literature on explaining these preferences has grown up (for recent studies see Barabas, 1998; Cook and Barrett, 1992; and Page and Shapiro, 1992, pp. 123–127).[13]

[13]Attitudinal questions toward public spending have been asked in other countries as well. For an analysis of questions in a British survey, see Preston and Ridge (1995) and Hall and Preston (forthcoming).

Perhaps the best evidence over a long period comes from questions on the General Social Survey (GSS), which has asked a representative sample of respondents in the United States since 1972 a consistently worded question inquiring whether welfare spending is "too much," "too little," or "the right amount." Figure 14 shows the time series of responses to these questions. Opinion toward welfare spending took a sharp dive after 1975, consistent with the subsequent decline of AFDC benefits in the late 1970s and with the notion of a reaction against the previous caseload increase. Attitudes began a favorable trend around the 1980s, about the time that Ronald Reagan was elected President, and continued to increase during Reagan's presidency, possibly as a reaction to his welfare-retrenching policies. This trend is consistent with the later expansion of welfare spending on Medicaid, the EITC, and SSI, as noted at the beginning of this paper, if a lag is permitted between attitudinal change and policy change (the same lag could be speculated to have occurred between the 1975 downturn and the contractionary policies of the early 1980s).[14] A sharp move in public opinion against welfare is evident in the data beginning in 1991, presaging the contractionary welfare reforms of the 1990s.

Table 1 shows coefficients in an ordered probit regression of these questions on a set of respondent characteristics, thereby illustrating how attitudes are affected by donor characteristics.[15] Income is negatively related to spending preferences, somewhat contrary to the presumption that welfare is a normal good which increases with income, but consistent with social distance explanations.[16] Preferences for welfare spending are greater among unmarried individuals and single mothers, black respondents, the nonemployed, urban residents, and those with more children. These all suggest either

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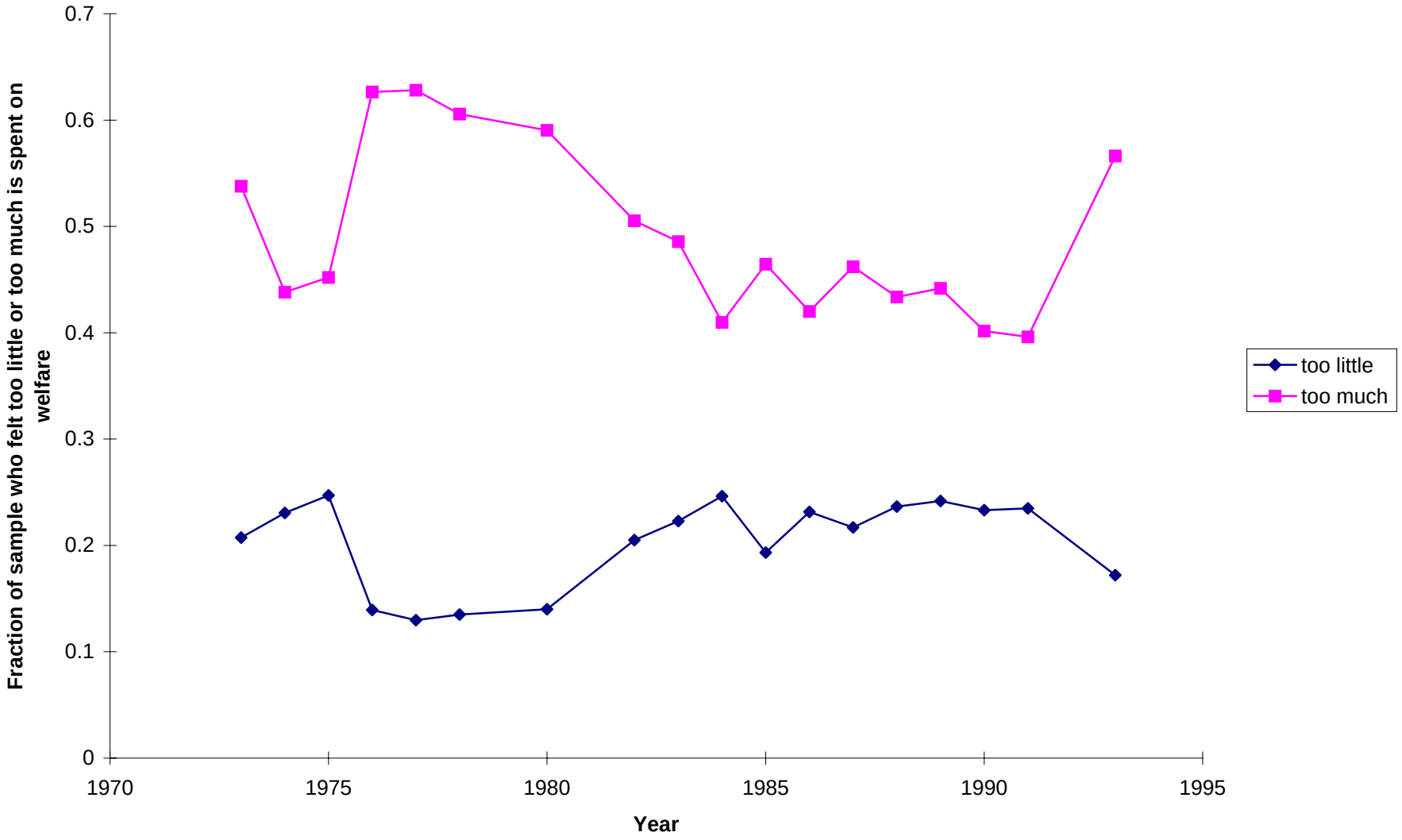
[14]Attitudes toward education and health spending, and toward "assistance to the poor" in general, also rose in the 1980s, all the way through 1988 or 1989 (Bobo and Smith, 1994).

[15]The three categories of the question are ordered with "too little" being the highest and "too much" the lowest, so that the latent index in the ordered probit reflects positive rather than negative views toward welfare spending.

[16]Moffitt, Ribar, and Wilhelm (1998) propose a resolution of this puzzle by showing that state fixed-effects models for the AFDC benefit reverse this sign and lead to positive income effects.

Figure 14
Public Opinion on Welfare Expenditure 1973–1993



Source: Moffitt, Ribar, and Wilhelm (1998, p. 439)

TABLE 1
Individual-Level Analysis of the Determinants of Welfare Demand in the GSS

Variable	Ordered Probit Coefficients
Income ≤ $20,000	-3.220***
	(0.221)
Income ≥ $20,000	-0.415***
	(0.074)
Married	-0.120***
	(0.025)
High school	-0.148***
	(0.025)
Associate	-0.183***
	(0.060)
College	0.016
	(0.039)
Graduate	0.298***
	(0.052)
Black	0.707***
	(0.033)
Age	-0.452
	(0.359)
Age-squared	-0.222
	(0.380)
Female	-0.056**
	(0.023)
Employed	-0.100**
	(0.050)
Unemployed	0.069
	(0.058)
Hours worked	-0.004***
	(0.001)

(table continues)

TABLE 1, continued

Variable	Ordered Probit Coefficients
Blue collar	0.057
	(0.035)
Service worker	0.048
	(0.034)
Farmer	-0.165*
	(0.097)
Rural	-0.095***
	(0.031)
Number of adults	0.097***
	(0.013)
Number of children	0.027***
	(0.009)
Single mother	0.071
	(0.045)

Source: Moffitt, Ribar, and Wilhelm (1998, Table 5).

Notes: Maximum likelihood estimates of ordered probit models of welfare demand from GSS question on preferences for welfare spending. The data are from the GSS 1973–1990. The functional form of income is a linear spline with a single knot placed at $20,000; the models are estimated with income expressed in $100,000s. All equations include a full set of year*state dummies. Asymptotic standard errors appear in parentheses.

*Significant at .10 level.

**Significant at .05 level.

***Significant at .01 level.

self-interest motivations for welfare spending—namely, these characteristics are positively associated with the probability of welfare receipt itself—or with social distance interpretations, namely, that donors are more sympathetic to others like themselves. The two explanations are not separable with this type of data. Going in the opposite direction is the effect of education, which increases spending preferences. This is the only major indicator of altruistic preferences in the results. Other analyses of these same data show that welfare preferences are greater among those who have ever been unemployed or who have ever received government aid, consistent with self-interest interpretations; and lower among those who think that premarital sex is wrong, for example, consistent with negative attitudes toward unmarried mothers (Moffitt, Ribar, and Wilhelm, 1998, Table 6).[17]

These results do not bear directly on the validity of any of the hypotheses discussed previously because they provide evidence only on the effect of the characteristics of the donor, rather than of the recipient, on preferences for welfare. The factors suggested previously in the paper for explaining welfare reform generally relate to the characteristics of the recipient. Nevertheless, the finding of strong self-interest/social-distance forces in explaining welfare preferences is consistent with the some of the time-series and cross-sectional regression results—namely, that an increase in income inequality and a rise in single motherhood would lead to a decline in preferences for redistribution. Thus it is fair to say that this attitudinal evidence is consistent with the hypotheses previously maintained.

IV. SUMMARY

Contractionary welfare reform in the United States began in the early 1990s in the individual states and led to major 1996 legislation at the national level. Welfare reform was concentrated on the AFDC program. This analysis has sought to discover factors occurring the 1980s that might plausibly

[17]In an analysis of a different GSS question, Fong (1998) finds that the self-employed are more opposed to welfare, and interprets this relationship as reflecting the higher emphasis put on work effort by this group.

have led voters to prefer such contractionary policies. An inspection of aggregate time-series evidence, cross-sectional regression research, and studies of attitudes toward welfare spending and welfare recipients led to the identification of three types of factors.

First, the late 1980s witnessed a major expansion of the U.S. welfare system in terms of expenditures and caseloads, an expansion equal to or greater than that of the legendary welfare explosion of the late 1960s in terms of these two variables. Formal modeling of voter preferences, as well as common sense, suggests that voters will react negatively to unexpected increases in expenditures by seeking retrenchments in the system. However, though there was a minor increase in AFDC caseloads and expenditures in the late 1980s, most of the expansion occurred in programs other than AFDC. Consequently, for this explanation to work requires cross-program substitution to have occurred and for voters to prefer expenditures on programs other than AFDC.

Second, the 1980s witnessed a decline in the well-being of the disadvantaged population in both relative and real terms. Inequality in household and individual wages increased, and real individual wage rates declined in absolute terms as well. A formal model of voter preferences suggests that there are tendencies for voters to react to such trends with contractionary reforms, both because those trends tend to drive up caseloads and costs and because they increase social distance from the poor and, more generally, result in a decline in the perceived “deservingness” of the poor. A decline in the employment rates of the low-income population, itself partly a result of declines in labor market opportunities, plausibly exacerbated voter reactions and is consistent with the strong emphasis on work requirements in the welfare reform legislation.

Third, although there was no marked increase in female headship rates in the 1980s, the composition of female headship took a sharp turn toward single mothers with out-of-wedlock children. Cross-sectional regression evidence and attitudinal studies suggest that voters, on average, dislike that

characteristic. The timing of this trend is also consistent with its having played a role in 1990s welfare reform.

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