

Executive Summary

The sudden and dramatic increase in the growth rate of the caseload in the Aid to Families with Dependent Children (AFDC) program in the late 1960s and early 1970s remains the most important historical change in the caseload of our most well-known cash transfer program. The caseload in the program grew from about 1.3 million to about 2.5 million in the three years between 1967 and 1970, and increased steadily thereafter into the mid-1970s. At that point the caseload growth rate slowed and, in more recent times, has leveled off. Much of this growth resulted simply from an increase in the number of female heads of household in the United States, but this was not the only cause. Among female heads, participation rates in AFDC rose dramatically from 1967 to 1973, then grew more slowly, and have been falling since around 1979.

The question considered in this report is whether this pattern of increase and decline, particularly the period of increase, can be attributed to measurable forces: changes in the benefit levels and work incentives in the AFDC program; changes in the education, age, and other characteristics of female heads; changes in the labor market (e.g., the unemployment rate or potential earnings); changes in the level of other income available to female heads; and so on. The primary question is whether these variables can explain much of the time-series trend in AFDC participation rates. Other questions then follow. If so, which ones are more important? If not, does this constitute evidence that the "structure" of the AFDC participation decision has changed? The issue here is an old one: how much of the time-series change in AFDC participation rates has been a result of changes in economic and demographic

forces, and how much has been a result of the whole set of noneconomic forces so frequently discussed--changes in attitudes, reductions in stigma, and changes in eligibility requirements for AFDC (such as elimination of residency and man-in-the-house rules)? Such changes are almost impossible to quantify, so the approach taken here is only indirect: the shift in participation rates over time is decomposed into that portion due to the measurable economic forces and that portion due to all else, and the latter category is interpreted as an approximation of the magnitude of the noneconomic forces.

The answers to these questions are not merely of historical interest, but are highly relevant to current policy questions and to our current ability to manage the AFDC program. At issue is whether we have the capability to accurately forecast changes in the AFDC caseload in response to policy alterations (changes in the level of benefits, for example) that might be instituted. Clearly it is desirable to be able to specify with some certainty the determinants of AFDC participation rates, and we can do so only by determining whether the past experience accords with our estimates of the effects of those determinants.

The evidence obtained here provides a strong answer to the main question, for virtually all of the evidence adduced indicates that there was a major structural shift in the AFDC participation equation between 1967 and 1973. Neither AFDC benefits, earnings deductions, the characteristics of the labor market, nor characteristics of female heads can explain much of the time-series change. There is a large, unexplained residual that is plausibly ascribed to the noneconomic forces mentioned above. However, the evidence does show that AFDC participation rates are

somewhat responsive to simple manipulation of AFDC benefit parameters-- i.e., benefit levels and earnings deductions.

It is also shown in this report that this finding sheds light on the rather different issue of work incentives in AFDC. One of the puzzles in the evidence on work incentives in the program is the sharp reduction in work-effort levels of female heads following the provision of the 30-and-one-third earnings deductions in 1967--a provision that would have been expected to increase work effort because it permitted workers to keep more of their earnings. It is shown in the report that more than 80 percent of the reduction in the level of work effort among female heads from 1967 to 1973 can be explained by the surge of women onto the AFDC rolls, an event that (according to the main findings of the report) was unrelated to AFDC benefit parameters. The 30-and-one-third deduction itself increased participation rates slightly by raising the AFDC break-even level and thus increasing eligibility, but very little of the increase in participation rates was a result of this factor.