Cash assistance and self-sufficiency: Causal evidence on the AFDC/TANF, the EITC, and UBI

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Big changes in cash assistance in last 20 years: Move from out-of-work to in-work benefits

• Large EITC expansions in mid 1990s, child tax credits in late 1990s
• Around the same time, AFDC changes to TANF, block granted, sanctions, state flexibility
Cash assistance for low-income families 20 + years after welfare reform

- Temporary Assistance to Needy Families is a fixed (nominal) block grant
- Time limited cash assistance (5 years for adults), work requirements, sanctions
- States have to track hourly work activities (huge additional administrative cost of work requirements)
- Little evidence in systematic review by Grogger, Karoly, & Klerman of large impacts of work requirements
- States have flexibility to use TANF funds for other purposes than cash, most states have repurposed much of these funds away from cash assistance
- Cash part of program is no longer is counter-cyclical
TANF is reaching fewer families.
States are repurposing funds: Hard to constrain despite lots of effort in PRWRORA

• Original law tried to tie the hands of states in how they spent the money
• Expect when you change the relative price of state spending, should get the state spending less on what the Feds want with block grants
Average spending on TANF/MOE

TANF and MOE Spending and Transfers by Activity, FY 2015: United States

* Total Funds = $31,688,988,321

Basic Assistance: 24.6%
Child Welfare Services*: 7.3%
Refundable Tax Credits: 8.1%
Program Management: 10.0%
Pre-Kindergarten/Head Start: 6.0%
Child Care: 16.9%
Work, Education, & Training Activities: 6.7%
Out-of-Wedlock Pregnancy Prevention: 3.2%
Transferred to SSBG: 3.7%
Other: 4.0%
Services for Children & Youth†: 1.9%
Work Supports & Supportive Services†: 2.8%
Non-Recurrent Short Term Benefits: 2.7%
Authorized Solely Under Prior Law §: 1.8%
Fatherhood & Two-Parent Family Programs: 0.4%

* Including Foster Care/Child Welfare authorized solely under prior law.
† Including Financial Education and Asset Development.
‡ Including Home Visiting.
§ Excluding Foster Care/Child Welfare authorized solely under prior law.

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TANF and MOE Spending and Transfers by Activity, FY 2015: Arizona

Total Funds = $468,866,557

- Child Welfare Services*: 48.6%
- Program Management: 12.4%
- Transferred to SSBG: 4.3%
- Non-Recurrent Short Term Benefits: 6.4%
- Work, Education, & Training Activities: 1.6%
- Basic Assistance: 5.8%
- Other: 20.0%

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TANF and MOE Spending and Transfers by Activity, FY 2015: Arkansas

Total Funds = $144,312,179

- Out-of-Wedlock Pregnancy Prevention: 63.4%
- Program Management: 10.9%
- Work, Education, & Training Activities: 11.0%
- Basic Assistance: 6.4%
- Child Care (Spent or Transferred): 0.3%
- Fatherhood & Two-Parent Family Programs: 1.6%
- Authorized Solely Under Prior Law §: 5.0%
- Work Supports & Supportive Services†: 1.5%

† Including Financial Education and Asset Development.
§ Excluding Foster Care/Child Welfare authorized solely under prior law.


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TANF and MOE Spending and Transfers by Activity, FY 2015: California

Total Funds = $6,638,290,041

- Basic Assistance: 42.8%
- Work, Education, & Training Activities: 9.8%
- Child Care (Spent or Transferred): 13.5%
- Program Management: 12.2%
- Transferred to SSBG: 5.5%
- Out-of-Wedlock Pregnancy Prevention: 6.5%
- Work Supports & Supportive Services†: 6.1%
- Authorized Solely Under Prior Law §: 3.6%

† Including Financial Education and Asset Development.
§ Excluding Foster Care/Child Welfare authorized solely under prior law.

TANF and MOE Spending and Transfers by Activity, FY 2015: Illinois

Total Funds = $1,374,816,777

- Child Care (Spent or Transferred) 63.1%
- Child Welfare Services* 16.9%
- Refundable Tax Credits 3.1%
- Program Management 5.5%
- Basic Assistance 5.0%
- Work Supports & Supportive Services† 0.7%
- Services for Children & Youth‡ 0.4%
- Work, Education, & Training Activities 1.5%
- Out-of-Wedlock Pregnancy Prevention 0.1%
- Transferred to SSBG 0.1%
- Pre-Kindergarten/Head Start 3.4%
- Non-Recurrent Short Term Benefits 0.1%
- Transferred to SSBG 0.1%
- Non-Recurrent Short Term Benefits 0.1%

* Including Foster Care/Child Welfare authorized solely under prior law.
† Including Financial Education and Asset Development.
‡ Including Home Visiting.


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Block grant is not countercyclical

• Tested in Great Recession
SNAP Responded to Changes from 2007-2009 in State Unemployment Rates

Scatter plot of % change in FS caseload vs. change in unemployment rate, 2007-09
TANF Did Not Respond to Changes from 2007-2009 in State Unemployment Rates

Scatter plot of % change in TANF caseload vs. change in unemployment rate, 2007-09
Earned Income Tax Credit: In-Work Assistance

• EITC and work/earnings/income
  • Lots of evidence that the EITC induces single mothers to work, some evidence that it leads to lower hours for those on the phase-out (e.g., Eissa & Liebman, Hoynes & Eissa)
  • Lots of transfers to low-income working families (Hoynes & Patel)

• EITC countercyclical? No
  • Evidence worst-off fall out off the program when bad times hit, countercyclical for married/skilled families (Bitler, Hoynes, & Kuka)

• EITC and kids
  • Evidence that the EITC improves test scores (Dahl & Lochner; Lundstrom; Chetty et al.; Bastian & Michelmore), education for children (Bastian & Michelmore) and health at birth (e.g., Hoynes, Miller, & Simon)
  • Only effects at birth control for fact that program also changes maternal work
Distribution of families by ratio of private income to FPL: Some are left out (Bar at bottom)
Recent tax benefits (EITC, CTC, Exemptions) compared to proposed universal child benefit

Distribution of Benefits: All Families with Children

Families with children, including non-citizen children
Universal Basic Income

• Lots of policy attention to this concept, pilots by Stockton, Y-combinator, Finland, Ontario (NIT)
• Hoynes & Rothstein (2018) great summary of what we know/what to expect from a true UBI (unconditional cash transfer); note a NIT is different
• Very expensive if enough to cover basic living costs ($12000 per adult=3 trillion)
• Short-run evidence on labor supply, hours from other settings: At the bottom, a 12K UBI would lead to a 2-3% decline in hours, with a phaseout adding some LS declines
UBI

• Long-run effects may be positive (evidence from rollout of the War on Poverty)
  • Positive effects on self sufficiency for disadvantaged women and metabolic syndrome for disadvantaged men and women if exposed to FSP in early life (Hoynes, Schanzenbach, & Almond); positive effects on earnings using administrative data for women exposed in early life (Bitler & Figinski)
  • No effects from SIME/DIME test of NIT-not UBI (Price & Song)

• Medium-term evidence from Alaska Permanent Fund (synthetic controls, Jones & Marinescu) and payments to the Eastern Band of Cherokee (DDD, several papers by Akee et al.)
  • Smaller transfers than UBI (1-2 K for AK, 4 K for the EBC)
  • AK and EBC: No effect on depressing employment
  • EBC: For children, more educational attainment, less crime, improvements in emotional and behavioral disorders; one mechanism is parenting