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Economic Effects of Means-Tested Transfers in the U.S.  
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### **ABSTRACT**

The system of means-tested transfers in the U.S. has evolved in important ways over the last decade, with significant expansions of Medicaid, the Earned Income Tax Credit, and the Supplemental Security Income program, and with significant contraction in Aid to Families with Dependent Children, now titled the Temporary Assistance for Needy Families program. To determine where we are in our understanding of each of these programs, as well as the other major programs in the system of means-tested transfers, a volume is under preparation by the National Bureau of Economic Research that surveys the current structure and historical evolution of each of these programs and that synthesizes the results of the research that has been conducted on their economic effects. In addition to the AFDC-TANF, Medicaid, EITC, and SSI programs, reviews have been conducted for the Food Stamp program and for housing, child care, job training, and child support programs. This paper summarizes the results of those reviews and highlights the large number of important findings from existing research.

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Reform of the system of means-tested transfers in the U.S. continues to be an important topic for public policy as well as an area of continued research by economists. Policy and research interest have been kept particularly high by significant transformations in the means-tested transfers system over the last decade. The most important structural changes have taken place in three programs. One is the Aid to Families with Dependent Children (AFDC) program--now named the Temporary Assistance for Needy Families (TANF) program--whose generosity has been significantly reduced and whose eligibility conditions have been restricted to those who can and are willing to comply with work requirements and other new rules. A second is the Medicaid program, which has been significantly expanded to cover more families and children off the AFDC-TANF program. The third is the Earned Income Tax Credit (EITC), whose benefits have greatly expanded and whose expenditures now exceed those in the traditional AFDC-TANF program. A fourth program which has undergone significant expenditure and caseload expansion, although without major structural change, is the Supplemental Security Income (SSI) program.

To determine where we stand in our understanding of each of these programs, as well as the other major programs in the system of means-tested transfers, a volume is under preparation by the National Bureau of Economic Research that surveys the current structure and historical evolution of each of these programs and that synthesizes the results of the research that has been conducted on their economic effects (Moffitt, forthcoming). In addition to the AFDC-TANF, Medicaid, EITC, and SSI programs, reviews have been conducted for the Food Stamp program

and for housing, child care, job training, and child support programs. This paper summarizes the results of those reviews.

The paper first provides a brief background discussion of trends in expenditures on means-tested transfers as a whole. It then goes on to discuss each of the major programs individually.

### **Overall Trends in Expenditures in Means-Tested Transfer Programs**

Figure 1 shows trends since 1968 in per capita expenditures in the eighty largest means-tested transfer programs in the country. The figure reveals that there have been four phases of spending growth: an expansionary phase beginning in the 1960s and running through the early or mid-1970s; a contractionary (or stationary) phase beginning in the mid-1970s and running until the mid-1980s; another expansionary phase running from the late 1980s to the mid 1990s; and another contractionary (or stationary) phase beginning in the mid-1990s.

The first phase saw an increase in AFDC benefits; enactment of a major piece of welfare legislation--the 1967 Social Security Amendments--which raised earnings disregards in the program (i.e., lowered the tax rate on earnings); and witnessed the creation of the Food Stamp and Medicaid programs and, later in the period, the Supplemental Security Income program. Caseloads grew rapidly in all four of these programs. This period was later termed the era of the “welfare explosion” and set the modern framework of means-tested transfers.

The second phase saw a steady decline in real AFDC benefits; enactment of a major piece of AFDC legislation--the 1981 Omnibus Budget Reconciliation Act--which effectively

eliminated the earnings disregards enacted in 1967 and consequently cut thousands of families with earnings from the rolls; and witnessed an increasing interest in work requirements and mandatory training programs for welfare recipients among federal policy-makers. Declining real AFDC benefits were accompanied by slow but steady growth in the number of single-mother families, and the offsetting effects of these two forces left AFDC expenditures more or less unchanged in real terms.

The third phase--which is not always recognized, for it is often presumed that the system has been in steady contraction since the 1970s--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, arising mostly from increased numbers of disabled adults and children. The Family Support Act of 1988, although occurring in the third phase and seemingly contractionary--it mandated 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 but it also could be interpreted as expansionary inasmuch as it required new expenditures on work programs for AFDC recipients. The runup of expenditures in this period, although not quite as large in magnitude as that resulting from the welfare explosion of the late 1960s and early 1970s, occurred much more quickly--essentially occurring in a five-year period between 1990 and 1995.

The fourth phase, which is continuing at this writing, is a combined result of 1996 welfare legislation which contracted the AFDC-TANF program, as well a robust economy which has led to declining caseloads in many programs, thereby slowing expenditure growth. The

Food Stamp and Medicaid programs have seen declining caseloads as well as AFDC-TANF.<sup>1</sup>

Table 1 shows, in more detail, the sources of expenditure growth in the third, expansionary period. AFDC expenditures actually declined, presaging the further decline which has occurred subsequent to the 1996 legislation. The Food Stamp program expanded by 42 percent, however, indicating robust growth. A very large percentage expansion occurred in the Medicaid program, which grew by 88 percent. As will be discussed further below, the Medicaid program covers different types of recipients and the growth over this period came from not only expansions of expenditures for single mothers and their children, but also from increased expenditures on the disabled. While single mothers and their children represent the largest fraction of the Medicaid caseload, expenditures are greater for the disabled because of their greater medical needs. The largest percentage expansion in Table 1, however, occurred in the EITC program, whose expenditures almost tripled over the period. As will be discussed below, major expansions of the size of the credit resulted in this growth. Housing programs grew modestly during the period but the SSI program grew by a large amount, 59 percent, reflecting, as in Medicaid, increases in expenditures on the disabled.<sup>2</sup>

The last row of Table 1 shows the shares of total expenditure growth in the largest eighty means-tested transfers from 1990 to 1996 accounted for by each of these six programs.

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<sup>1</sup> The unemployment rate appears to have started to increase in late 2000 or 2001, possibly indicating the beginning of a recession. Whether this will signal the beginning of a fifth phase or a modification of the fourth remains to be seen, and will depend on legislative developments and on the course of expenditure growth over the next few years.

<sup>2</sup> If medical care prices are used to deflate Medicaid expenditures instead of a general price index, Medicaid expenditure growth amounted to only 34 percent. Which index should be used depends on whether the goal is to value expenditures from the point of view of the taxpayer or the recipient.

Medicaid expenditure growth, while not the largest in percentage terms, is the largest in dollar terms and accounts for the largest fraction, 60 percent. The EITC and SSI together account for another 23 percent. Altogether, these six programs accounted for 93 percent of the overall increase in means-tested expenditures in the 1990-1996 expansionary phase.

Finally, Table 2 shows the expenditures and caseloads in the ten largest means-tested transfer programs in FY 1997. The largest is Medicaid, as expected, and the next five--SSI, EITC, Food Stamps, TANF, and subsidized housing--are of the same general magnitude but at a large distance from Medicaid. The TANF program, which in the 1960s was the largest of the six, is now a distant fifth in rank.

The evolution of means-tested transfers which has led to the ranking in Table 2 reflects several trends. One is the gradual decline of unrestricted cash transfers like AFDC relative to in-kind transfers like Medicaid, Food Stamps, and housing. Voters and legislators appear to prefer to make transfers tied to specific consumption items rather than open-ended cash transfers. A second is the increasing narrowness of the targeting of transfers, for the programs which have seen the largest growth in the last decade are tied to specific eligibility groups. The EITC is specifically targeted to families with earnings, the SSI program is targeted to the disabled and elderly, and Medicaid is targeted to the disabled and--in the expansions that have occurred--mainly to single mothers and their children off TANF. This development represents a continued, if not increased, categorization of the nation's welfare population into a system in which different demographic groups are judged to be needy not just on the basis of income but on the basis of some other specific characteristic that leads them to be deserving in the eyes of the public. This also explains why the EITC and SSI programs, which provide tied cash

transfers, have expanded while the AFDC-TANF program has not. As a consequence of these developments, the great expenditure expansion of the late 1980s and early 1990s increased total transfers to the low income population but also changed the distribution of those transfers. Families off welfare with earnings and the disabled gained, for example, relative to low income single mother families as a whole, particularly those on welfare or not working.

The transfer programs reviewed in the forthcoming NBER volume include the six largest programs shown in Table 2. In addition, several smaller but important programs are covered. These include child care programs (approximate FY 1999 expenditures of \$17 billion across all programs), programs for child support enforcement (\$3 billion in 1996), and job training programs for the disadvantaged (expenditures of \$4 billion in 1998).

These nine programs will be discussed in this chapter roughly in order of their total expenditures. For each program, the discussion first covers the structure and rules of the program and its historical evolution, followed by a discussion of trends in expenditures and caseloads and recipient characteristics, then followed by a review of research findings.

## **Medicaid**

The Medicaid program, as noted by Gruber (forthcoming), is really four separate programs rolled into one. One supports the medical expenses of low income single mothers and their children. The other three provide public insurance for portions of medical expenditures not covered by Medicare for the low-income elderly, support medical expenses for the low income disabled, and provide coverage of nursing home expenditures of the institutionalized elderly. The first program has a majority of the recipients but the other three programs are responsible for



a majority of the expenditures.

Medicaid was created in 1965 by the same legislation that created the Medicare program. It is administered by the states which must operate under federal regulation, and the federal government pays a fixed share of state expenditures (the state share, determined by a formula involving various state characteristics including median income, is approximately 43 percent). The program was initially aimed at providing medical benefits to traditional welfare populations—low income single mothers and children, and the aged, blind, and disabled. However, over time eligibility has been expanded to other groups. Early in the program some coverage was extended to low income children in two-parent families and a Medically Needy program was instituted which provided care for low income families (usually single mother families) with income too high for welfare eligibility, albeit with numerous restrictions on eligibility. Beginning in 1984, and accelerating after 1987, more significant expansions were first allowed, and then mandated, requiring states to cover children in families with incomes below 133 percent of the poverty line, or higher at state option. Pregnant women were also covered but otherwise there was no expanded coverage for adults. These expansions are part of the reason for the expenditure increase discussed in the last section. A further major expansion took place in 1997 with the creation of the Children’s Health Insurance Program, which provides a capped federal match for state creation of programs to cover groups outside of existing Medicaid eligibility or with higher incomes. Some states have chosen to expand their Medicaid programs while others have created wholly new programs to cover these additional groups.

Medicaid mandates a specific list of services that states must provide to all “categorically needy” recipients. States may go beyond this at their option, but few do and, when they do, most

states cover the same types of extra services; as a result, there is considerable uniformity in the service package across states. Reimbursement rates, on the other hand, are given much more leeway and there is major cross-state variation. Reimbursement rates are generally quite low and below those of Medicare and private payers. States are allowed waivers to experiment with different options for care provision, and the major direction states have pursued is the use of managed care for their Medicaid caseloads. By 1998, 54 percent of Medicaid recipients were in managed care plans.

Gruber shows that both expenditures and enrollment in the Medicaid program have increased enormously over the last decade, as indicated in the background discussion above. The major enrollment growth has been among the disabled and among children under 21. Enrollment growth has slowed in recent years, possibly because of 1996 federal welfare reform legislation which contracted the AFDC-TANF program. Calculations of participation rates in the Medicaid program have only been computed for children and pregnant women because they are the only groups for which eligibility has been calculated; no estimates are available for the elderly and disabled. Eligibility has expanded greatly, as already noted, but takeup has slipped behind significantly, resulting in declines in participation rates. Whereas participation rates among eligible children were close to 100 percent prior to 1989, by 1996 they had fallen to 73 percent.

There has been a great deal of research by economists on the Medicaid program. One issue concerns reasons for the declining participation rates just noted. Research has shown that much of the explanation is that the increased eligibility arising from coverage expansions was to groups with higher than usual incomes, groups with less need for insurance; to groups outside the

AFDC program and who therefore do not have the relatively easy institutional access to the program that welfare recipients do; and to groups who already are covered by other forms of insurance. This last finding is related to a significant area of research on Medicaid “crowdout,” which occurs when Medicaid expansions result in substitutions of Medicaid coverage for private insurance coverage. There are a variety of empirical estimates of the extent of crowdout, with some indicating relatively small effects but others estimating quite large effects. For example, in the latter category estimates have indicated that approximately 50 percent of those who have taken up Medicaid would have been privately covered otherwise. Research continues in this area in an attempt to resolve the differences in the magnitude of the effect.

Another area of research concerns the effect of the Medicaid expansions on health and health outcomes. The studies which use nationwide data rather than data from individual states typically show significant positive effects of the Medicaid expansions on infant mortality, prenatal care utilization, child preventative care, and that they lead to more hospitalizations (but fewer “avoidable” ones). Research also indicates that the positive impacts are larger for those in demographic groups with typically worse health, such as black families, immigrants, and those with low educational levels. Effects are also larger for ‘targeted’ expansions which are aimed at low income mothers and children than for ‘broad’ expansions which reach further up the income distribution.

The effect of the Medicaid program on the labor supply of recipients and on their AFDC-TANF participation decisions has been another focus of research, concentrating on single mothers and their children rather than the elderly and disabled. While there is a range of research using different methodologies, virtually all research shows that the close historical tie of

Medicaid eligibility to AFDC receipt tended to increase AFDC participation rates, and that the Medicaid expansions which loosened that tie also tended to reduce AFDC participation rates. Also, because AFDC has some negative work disincentives, the historical link has tended to decrease labor supply, while the Medicaid expansions have tended to increase it. While the magnitudes of these effects are not precisely estimated in the literature, the direction of effect is supported by most studies. Related work on the effect of Medicaid expansions demonstrates that they lowered savings and increased consumption, consistent with the notion that welfare recipients engage in less precautionary saving when they know that the program will support them should their income decline.

Finally, there has been research on the impacts of reimbursement policy and long-term care provision in Medicaid. The literature on physician reimbursement rates usually shows that higher reimbursement rates lead to somewhat increased participation by physicians in the program, increased access to care, and occasionally better health outcomes, although the linkage between reimbursement policy and utilization and health is far from simple. In terms of long-term care, research indicates that Medicaid recipients are often on long waiting lists and have less access to care than private pay patients, but also that increases in subsidies to nursing home care raises overall nursing home utilization. Some other research raises the issue of whether nursing home quality might be reduced as nursing homes increase the percentage of their patients who are minimum-pay Medicaid recipients.

## **The Supplemental Security Income Program**

As described by Daly and Burkhauser (forthcoming), the SSI program is a federal program which pays cash benefits to low income individuals who are 65 or older, or who are blind or disabled. It was enacted in 1972 and was to a large extent a product of the proposals by the Nixon administration for a negative income tax. Eligibility requires not only low income and assets but also, for the blind and disabled, a medical test. The test is most complex for disabled adults and involves a multistep process meant to insure that the individual is incapable of working, for the goal of the program is to serve only those who are totally disabled. Assessments by medical examiners as well as more general determinations of the nature and severity of the disability and capacity for employment are conducted. An earnings test is also used, which requires that applicants earn less than a fixed dollar amount. All in all, about 63 percent of the applicants are denied by this process.

Eligibility determination for children is different because the employment test is less appropriate and need is instead based on the presence of a severe functional limitation. In 1990, a court decision (the Zebley decision) required that children also be given a particular additional functional assessment test which, when later implemented, effectively lowered eligibility standards by allowing children onto the rolls who did not pass the more formal medical tests. In the same 1996 legislation that restructured the AFDC program, Congress narrowed the basis for SSI child eligibility and moved it back towards the pre-1990 standard in terms of breadth. The legislation also denied SSI eligibility for noncitizens.

The SSI has work incentive features that reflect its origins in discussions of a negative income tax. After eligibility has been established and individuals begin receiving benefits, earnings (after disregards) are reduced by only 50 cents for every extra dollar of income, thus

providing some incentives to work. However, despite these incentives, the percent of SSI recipients with earnings has always been very low. Only 4.4 percent of the caseload had earnings in 1996, and the percent had never exceeded 4.7 percent in the history of the program. In addition, special incentives allowing working beneficiaries to retain Medicaid coverage after their incomes had exceed normal eligibility levels has been taken up by only 1.3 percent of the caseload. Consequently, work incentives are still a major issue in the program and mechanisms for increasing work are still under active discussion.

Caseload and expenditure growth in the program has been positive since its inception in 1974 but was exceptionally high in the early 1990s, as noted previously. This growth was disproportionately concentrated in those portions of the caseload composed of the blind and disabled, children, and noncitizens (rather than the elderly). Growth in the number of recipients who qualified on the basis of mental impairments saw particularly strong growth. Since the 1996 welfare legislation, the child and noncitizen caseloads have declined. Nevertheless, despite the strong caseload growth in the 1990s, there has been continued concern that many eligibles do not participate in the program. Estimated participation rates among the eligible elderly population, for example, range from 45 to 60 percent.

Research on the SSI program has focused on a number of issues. One of the most heavily studied focuses on the reasons for the caseload growth. Much of this research has examined historical fluctuations in applications and awards for the nonelderly. These fluctuations, shown in Figure 2, have been very large. Increases in applications in the late 1970s, subsequent declines in the early 1980s, and revived growth in the mid-1980s can be explained largely by administrative changes in screening stringency over the period which were perceived by the

eligible population. The rise in applications in the late 1980s and early 1990s, and a portion of the decline after 1994 have been shown to be heavily affected by the business cycle. This is an important finding because it establishes that labor market participation is a realistic alternative to many disabled individuals, contrary to the notion that only those incapable of working are in the program. The business cycle is also responsible for much of the very large increase in applications in the early 1990s, but only for some eligibility groups. Caseload growth among the disabled with mental health and musculoskeletal (e.g., back pain) conditions, and among children, were equally the result of relaxation of screening and eligibility rules. Declines in applications subsequent to 1996 can also be partly attributed to the 1996 federal legislation as well as the business cycle.

Another factor in the growth of the child caseload identified in the research is the relationship between SSI and AFDC benefit levels. For AFDC families with children who can qualify for SSI, the greater benefit levels in SSI as compared to AFDC provide an incentive to move children from the latter program to the former. The gap between benefits has also been growing over time. Research has shown that this has made some contribution to the growth in the child SSI caseload. In addition, related research has shown that work disincentives for single mothers accompany this shift, as the availability of SSI benefits allows single mothers to participate less in the labor market than they otherwise would.

Some research has also been conducted on exploring reasons for the low participation rates of SSI-eligible elderly. Lack of information about the program does not seem to be a factor, but financial need does, for many nonapplicants have alternative sources of income. Nevertheless, the research on this subject has failed to clarify sufficiently why so many eligibles

fail to apply for the program.

Research on the work incentives of the SSI program has yielded rather discouraging results to date for the disabled. Disabled SSI recipients appear to be relatively unresponsive to financial incentives, and experimental tests of programs which offer financial and other incentives to undergo additional training or vocational rehabilitation have experienced very small takeup. In addition, as noted previously, very few recipients take advantage of the less-than-one-for-one benefit reduction rate in the program. A major and continuing policy challenge in the program is the search for mechanisms to encourage and allow disabled recipients to fulfill their employment potential.

### **The Earned Income Tax Credit**

The EITC, as noted by Hotz and Scholz (forthcoming), has been one of the fastest-growing means-tested tax programs in the country. Its popularity stems from its emphasis on rewarding families that have significant levels of employment and earnings. The program provides a refundable tax credit to families with earnings which can be as high as \$3,800 a year (1999). A small credit to childless families is also available. The program was introduced into the tax code in 1975 but did not see significant expansion in terms of generosity until the 1980s, when the size of the subsidy was increased and then indexed to inflation. Tax bills in 1990 and 1993 increased the amount of subsidy greatly and have led to the sizable growth in expenditures in the 1990s which was noted earlier.

Receipt of the subsidy is obtained by filing a tax return and reporting the number of qualifying children in the household and the earnings of the father and mother. The size of the



tax credit is proportional to earnings up to some maximum level, and then is phased out as earnings increase. In 1999, for example, a two-child family could receive a credit equal to 40 percent of their earnings up to an annual earnings level of \$9,540, and the credit was phased out at a 21 percent rate until the credit fell to zero, which occurred at an earnings level of \$30,580. Thus families fairly high in the income distribution were eligible for benefits. Fourteen states and the District of Columbia have state EITCs which provide for further tax credits.

An issue in the administration of the EITC has been overpayment of subsidies, which in 1995 were estimated to be 25 percent of tax expenditures. Most of these result from inaccuracies in the claim for qualifying children. While the overpayments are high, it is often noted that 17 percent of taxes are not paid to the IRS overall and more than 25 percent of taxes are not paid for some forms of capital income and income from the informal sector. In addition, despite the overpayments in the EITC, participation rates of EITC eligibles appear to be less than 100 percent, sometimes much less so. For example, participation rates among eligible single mothers, who historically have low tax filing rates, have been estimated to be in the range of 42 to 54 percent.

Much of the research on the EITC has concerned its effects on work incentives, since this is one of the main appeals of the program. While the EITC should increase labor force participation, 77 percent of families eligible for the credit fall into the flat or phaseout region of the credit, where there are more likely to be work disincentives than work incentives. Most studies have indicated that there is a strong and significant positive effect on the labor force participation rates of single mother households. The participation rates of such households have risen markedly over the last decade, and the EITC is one of the leading causes of that increase.

At the same time, however, research has suggested that the program may have had a slight negative effect on the employment rates of married women, for many women are married to men who earn sufficiently high wages that additional earnings from the wife fall into the phaseout region of the EITC (that is, the region where additional earnings actually reduce the amount of the credit). In addition, there is some evidence that, while increasing employment rates overall, the EITC may have dampened hours of work of men and women in two-earner families.

There has also been some concern that the EITC may discourage marriage because men and women in certain earnings ranges can receive a greater EITC sum by not marrying and filing separate returns than by marrying and filing joint returns. The empirical evidence to date, however, suggests little effect of this incentive on actual patterns of marriage.

There has also been some research on the advance payment option in the EITC by which recipients can receive their credit over the tax year in question, as they earn wages, rather than in a lump sum at the end of the year or in the following Spring. Some observers believe that the work incentives of the EITC would be greater if recipients could see the link between their earnings and the credit more quickly and immediately. Hotz and Scholz point out the high administrative costs of making this option more widespread, however, and describe the potential for noncompliance and fraud which would make monitoring procedures necessary. The advance payment option is used in the United Kingdom in a somewhat different program, but it appears that little monitoring for noncompliance is conducted there.

## **Food and Nutrition Programs**

As discussed by Currie (forthcoming), the Food Stamp Program (FSP) is only one among several programs that support food expenditure and nutrition among low-income families. The Food Stamp program is the largest, but also important are the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), the National School Lunch Program (NLSP), and the School Breakfast Program (SBP). Expenditures on the latter three programs are over 50 percent of those of the FSP, thus constituting a sizable additional amount of spending. All of these programs are federally financed and uniform across the states. Also, there are many other smaller programs that support food and nutrition in the U.S., even though they cover fewer individuals and more specialized populations.

The FSP provides food assistance to families and individuals, regardless of family structure, who meet income and asset conditions. Families on TANF, SSI, or general assistance are automatically eligible. The nominal tax rate on earnings in the program--the amount by which benefits are reduced for each dollar increase in income--is 30 percent, although this rate is affected by the presence of deductions and exemptions. Benefits have historically been paid by the issuance of paper coupons but have recently been increasing paid by electronic transfers using debit cards. This change has been thought to reduce the incidence of fraudulent selling of paper coupons, although the extent of that activity has never been accurately determined. The FSP began as a small pilot program in 1961 and was gradually expanded over time, finally being mandated for all counties in 1974. It was indexed to inflation in the 1970s, thus preventing the decline in real benefit amounts experienced in the AFDC program. The program was largely untouched by the 1996 federal welfare legislation that restructured AFDC, although work

requirements and eligibility for certain categories of single adults as well as immigrants were restricted.

The WIC, NSLP, and SBP are quite different. WIC provides financial assistance for the purchase of nutritious foods, nutrition education, and access to health services for pregnant or lactating women and children under 5. It is thus aimed specifically at improving nutrition among women and young children. Eligibility requires not only low income and assets but also that the women and children be at “nutritional risk,” such as having inadequate or inappropriate nutritional intakes, specific nutrition-related health deficiencies, large weight-for-height, or a number of other measures that are set by the states. The NLSP and SBP allow children in low-income families to receive reduced-price or free school lunches or breakfasts. They are thus like the FSP in subsidizing food expenditure per se but like the WIC in having a specific target population. In addition, the meals provided to the children must meet USDA nutritional guidelines, although there has been some concern recently that the meals remain high in fat and low in certain nutrients. The NLSP is the far larger program of the two, having almost five times larger expenditure than the SBP.

Caseloads in the FSP rose in the late 1980s and early 1990s, but have fallen since the enactment of 1996 welfare reform legislation. The data show that this is partly the result of an improving economy as well, but partly a result of the decline in AFDC-TANF caseloads, for participation rates among eligibles have also declined. Expenditures and caseloads in the WIC and NSLP programs, on the other hand, although having risen in the late 1980s and early 1990s, have continued to rise in the mid 1990s, albeit at a slower rate.

There has been a considerable amount of research on the FSP, WIC, and NLSP programs.

One area of research has focused on the effects of these programs on food expenditures, nutrient availability, and nutrient intake. Research indicates unequivocally that the FSP increases food expenditures, although not dollar-for-dollar, implying that recipients reduce some food expenditure out of their own income and spend it on other goods. It also appears that the program increases nutrient availability--that is, the nutritional content of the foods purchased or brought into the home--but there is much weaker evidence on nutritional intake (i.e., taking account of wastage and food eaten away from home). Evidence on the WIC program generally indicates favorable effects on child birthweight but also that the program tends to discourage breastfeeding, which is generally preferable to using infant formula. The latter effect arises because the WIC program gives free formula to participating mothers. The effect of WIC on infant outcomes is more variable, but the evidence does indicate increases in nutrient consumption and reductions in the incidence of anemia. Research on the NLSP indicates that it improves nutrient intake.

There have also been a number of studies of the determinants of participation rates in the FSP, for such rates are generally in the range of 60 percent and thus not all eligibles are in the program. The research indicates that three factors are important in explaining nonparticipation in the program: lack of information about eligibility for the program, transactions costs which make participation onerous, and the stigma of being a welfare recipient. Research on the WIC program indicates that administrative barriers to participation is an important factor in explaining lack of takeup. In the NLSP, an additional factor is the nutrient content of the lunches offered, for it appears that students are less likely to participate, the higher that nutritional content. Steps to make the school lunches both nutritious and appealing to students have been discussed.

Two other areas of research on these programs concern whether the FSP should be “cashed out”—that is, whether cash should be provided to recipients instead of food coupons—and whether the programs have a negative effect on work incentives. The first of these issues is motivated in large part by the rather low levels of FSP coupons relative to private food expenditures of the poor, suggesting that the coupons simply substitute for private food spending and hence are no different than cash welfare to the recipient. Interestingly, both econometric evidence and evidence from cashout demonstrations indicate that Food Stamp coupons have a greater effect on food expenditures than does cash, creating a puzzle that has not been adequately explained. The second of these questions concerns the traditional issue of whether a welfare program such as the FSP, which provides assistance even to those who do not work, has work disincentives. The several studies on this issue show relatively little labor supply response to the program, perhaps because its benefits are small relative to the magnitude of other forms of income received by the household.

### **The AFDC-TANF Program**

Despite its decline in terms of caseloads and expenditures to a point where it is only the fifth-largest means-tested program in the country, the AFDC-TANF program continues to receive the most attention from policy-makers, the general public, and researchers. In his review of past and current research developments in the program, Moffitt (forthcoming) charts the growth and decline of the program over the last three decades and reviews the research conducted on it. The program was created by the 1935 Social Security Act and was targeted at low-income children

living with only one biological parent, and was intended to support widows with children. The caseload grew slowly through the 1950s and then accelerated in the 1960s and early 1970s. Subsequent to the 1970s, benefit levels in the program declined in real terms and an emphasis on work requirements grew steadily. The 1988 Family Support Act mandated employment programs in all states but required a human capital, education-and-training emphasis to be part of the program mix. But the 1996 Personal Responsibility and Reconciliation Act (PRWORA) changed the program in more fundamental ways, by devolving the responsibility of major program design elements as well as financing to the individual states, imposing strict work requirements in order to qualify for federal aid, and imposing lifetime limits on the number of years of benefit receipt which could be paid to a parent out of federal funds.

Table 3 shows the major elements of the 1996 Act and how they changed the program. The legislation converted the previous matching grant to a block grant and removed much of the federal regulatory authority over the design of the program, leaving the states free to set the benefit level, tax rate, income limits, asset requirements, and even the form of assistance (cash or in-kind services). In addition, no federal definition of who is to be included in the assistance unit is imposed; states can cover two-parent families at their own discretion, for example. The entitlement nature of the program is abolished and states are not required to serve all eligibles. At the same time, however, the law imposed new federal authority in a few specified areas. Federal funds are not to be used to pay adults for more than 60 months of TANF benefits over their lifetimes (although states are allowed an exemption from this requirement for 20 percent of their caseloads) and new work requirements are imposed which require that states engage much greater fractions of the caseload and which exempt many fewer families (as many as 50 percent

of single mother recipients and 90 percent of two-parent families must comply). Recipients involved in general education and training cannot be counted toward these participation requirements; most activities require direct work.

The most important new features are the time limit and work requirement provisions. Lifetime time limits are a new concept in U.S. transfer programs and are based on a quite different philosophy of the aims of public assistance than has been the case heretofore, namely, that families are only entitled to temporary assistance. States have embraced time limits with vigor, for half of them have chosen to adopt time limits even shorter than the federal five-year maximum. The work requirements in the new legislation are much stronger than in previous law and change its orientation from education and training to work per se. Indeed, most states have adopted a "Work First" approach in which recipients and new applicants for benefits are moved as quickly as possible into work of any kind, with an deemphasis on education and training. The law also allows states to impose sanctions on recipients for failure to comply with the work requirements, sanctions which are much stronger than in past law and which have been actively enforced. With the aim of reinforcing the effect of these work requirements on employment, states have generally lowered their tax rates to encourage work as well, a feature that historically has been strongly supported by economists who believe they will provide work incentives.

Another new goal of welfare programs in the 1990s has been to reduce the rate of nonmarital childbearing and to encourage marriage. Although there were few provisions of the PRWORA legislation that were directly aimed at these family structure outcomes, the provisions aimed at reducing the amount of government assistance and encouraging women to sustain themselves off welfare were thought to implicitly encourage marriage and discourage nonmarital



childbearing.

As shown previously in Table 1 and as discussed earlier, caseloads in the AFDC-TANF program have been falling for several years and real expenditures have been declining. The per capita TANF caseload is now below what it was in 1970. The decline began prior to 1996 but accelerated thereafter. Expenditures have also changed in composition, as a smaller fraction is devoted to traditional cash expenditures and a larger fraction is devoted to noncash expenditures on services such as child care and other social services, reflecting a preference by states to support families in those ways. Real benefits also fell from the 1970s until the mid-1990s, when the decline abated and benefit amounts leveled off. It is important to note that the recent reforms have contracted the program in many ways but reductions in benefit amount have not been one of them.

The characteristics of AFDC-TANF recipients have changed in some ways over time but not dramatically. The one major change has been a shift in the types of single mothers on the rolls. Whereas the program began with a caseload composed mostly of widows, it shifted in the 1960s and 1970s to one composed mostly of divorced women. It then shifted again in the 1980s to one composed mostly of never-married single mothers who have had children out of wedlock. These trends partially parallel larger trends in the society. They may also partially explain the decline in popularity of the program among voters.

Economic research on the AFDC and TANF programs has been large in volume. The most heavily researched issue is the effect of the programs on labor supply and work effort. The research on this issue indicates that transfer programs like AFDC which provide open-ended support reduce work effort and that providing unrestricted benefits to those who do not work has

work disincentives. At the same time, research on the effect of reducing tax rates on recipients--by increasing earnings disregards--shows it to have a much smaller effect on overall labor supply than expected, because tax rate reduction has the offsetting effect of drawing additional women onto the rolls and inducing them to decrease their work effort. One way to reduce this offset is to provide additional work incentives to those off welfare as well as on, that is, to provide a more universal work subsidy (to low income families) that is not tied to welfare. The EITC is one program of this kind. Other programs that have been proposed allow women to "take" their subsidy off the rolls and to continue to obtain earnings supplements afterward.

Under TANF, most states have increased their earnings disregards but the existing evidence therefore suggests that this will have little effect on overall work effort. However, the new work requirements are more likely to have a positive effect. Theoretical research on work requirements strongly suggest they will increase work effort, as should be expected, with a possible cost if some recipients who need assistance cannot comply and leave the welfare rolls. However, work requirements require that the welfare system be converted to a categorical program which divides recipients into those who can and cannot work, and imposes the work requirements only on the former. Dividing the caseload up in such a way is difficult and opens the door to possible inequitable treatment as borderline cases are assigned to one group or another and either gain or lose as a consequence. The theoretical literature in this area cannot answer the practical question of how well categorization can be implemented but it does highlight the tradeoff between better targeting of assistance--that is, providing work requirements to some recipients but benefits without requirements to others--and the costs of making that separation.

Another area of economic research has focused on the relative merits of the Work First approach embodied in TANF and more education, human-capital oriented approaches. There have been a long series of evaluations of different types of employment and training programs in the AFDC program which, overall, show that modest positive effects on earnings can be achieved with relatively low-cost job search and job assistance programs even for the very unskilled population that the program covers. Typical gains, for example, are in the range of \$300-\$600 per year. Research to date on Work First programs indicates that they have a more immediate impact on employment and earnings than human capital programs, but one which fades out over time. Human capital programs appear to have effects that are more long-lasting. No clear winner emerges in this comparison, and many researchers have taken the rather different tack of investigating whether different programs might be tailored to different individuals, commonly called a “mixed strategies” approach, in which some recipients are deemed sufficiently job-ready that a Work First approach is best while others are seen to be in more need of basic skills training.

The other major feature of TANF, time limits, has also been the subject of considerable research attention. Researchers have noted that, while time limits should eventually force recipients off the welfare rolls with consequent increases in employment and earnings, recipients may also take action to leave the rolls early in order to “bank” their benefits for a later time when they are most in need of them. Indeed, the most important development thus far is how few recipients have hit time limits. The massive reduction in the caseload, whether it has been the result of a good economy or of welfare reform, and regardless of whether some of it has been the result of banking behavior, has had the result that many families have not used up their years of

eligibility even though five years have passed since 1996. However, this may change as the economy slows down and as states with five-year time limits experience more families hitting those limits.

A large volume of research has been devoted to estimating the overall effects of the 1996 PRWORA legislation and of the creation of the TANF program. Descriptive evidence, for example, reveals that employment rates of single mothers have increased and that the incomes of all but a small lower tail of the distribution have risen since the legislation. A sizable body of research has sought to disentangle the effects of the economy from those of welfare reform in explaining these trends. The majority of results from this literature indicate that the law has indeed had a significant and large additional effect beyond that of the strong economy. Prima facie evidence for this view is that, after 1996, the decline in the national unemployment rate slowed but the decline in the AFDC-TANF caseload accelerated.

Another area of research has focused on the effect of welfare reform on marriage, fertility, and other demographic outcomes. There is a large body of research on the effects of AFDC on these outcomes, which has gradually moved, over the past decade, to a consensus that there are some nonzero effects of this kind--that is, that variation in AFDC benefits across states, provided primarily only to single mothers and not to two-parent families, tends to be positively correlated with the rate of single motherhood. Research into the causes of the time-series increase in single motherhood, on the other hand, suggests that that increase is primarily the result of deeper economic and social forces such as the rise in female job opportunities and the decline in unskilled male wages. The TANF program, while having few direct provisions relating to marriage or fertility (aside from family caps), nevertheless was intended to have a positive effect

on marriage and a negative effect of nonmarital fertility. The research evidence to date, however, is mixed at best in its results. There is little sign in the data of a strong effect of welfare reform per se on these outcomes, again, perhaps, because they are so driven by larger social, cultural, and economic forces.

While the research evidence on the overall effects of welfare reform is by now reasonably large in volume and has yielded important new findings, most of the research on the effects of detailed individual provisions of TANF--time limits, work requirements, and so on--has unfortunately foundered on difficulties of evaluating their effects. By and large, researchers have not been successful in using the variation in programs across states to isolate the independent effects of these individual components of reform, and to estimate how much of the overall effect would have occurred if all elements of reform had been enacted except each of these components, in turn. The cross-state variation under TANF is sufficiently great, and the types of program variation so complex, that the effects of the components per se have not thus far been sufficiently isolated. Random-assignment evaluations could in principle do better, for they could be designed to alter each component while holding the others fixed, but they have not been designed in that way thus far.

Finally, there has been considerable research attention paid to the effects of the block grant system put in place by PRWORA. The conventional view based on existing research on the effects of matching grants, which were used for AFDC, and block grants, which are in place for TANF, is that they have different price effects because the latter does not subsidize state expenditures above the block grant at all, whereas the former does. This should curtail spending over the block grant amount. Theoretical research has also shown the possibility of a “race to

the bottom,” as states facing a high price of expenditures lower their benefits to avoid immigration of the poor from other states, causing a cascading series of benefit reductions by all the states. However, to date none of these effects have occurred because the block grant allocations made to the states are generally much in excess of what states are spending, primarily because of the marked decline in the caseload and consequent reduction in state spending. Ascertaining whether the block grant structure will lead to restricted state spending or to benefit reductions around the country will have to await a period when welfare spending rises up to the block grant level, where it will become binding.

### **Housing Programs**

The set of housing programs for low-income families in the U.S. constitute a complex mix of programs with different features. Over time, new programs have been added to the system and the rules of existing programs have changed frequently (Olsen, forthcoming). These programs are much more expensive than commonly realized because they rely to a much greater extent than other welfare programs on indirect subsidies that do not appear in the records of the administering agency.

Programs divide up into those that are project-based, either owned by the government or by private contractors who are subsidized by the government, and tenant-based programs in which eligible families receive subsidies to defray the rent in private housing. The public housing program, begun in the 1930s, is the best known project-based program. It offers rental units to low-income families in newly constructed projects owned and operated by the

government. Beginning in 1954, the government began in addition to contract with private parties to construct low-income housing or to rehabilitate existing housing for this purpose, in most cases insuring the mortgages of the contractors. The Section 8 New Construction Program established in 1974 is the largest program of this type. Under this program, the government subsidized the construction costs of privately built housing for low-income families and provided monthly rental payments. In 1983, Congress halted additional commitments under HUD's new construction programs except for small programs for the elderly and disabled. Today the largest housing subsidy program is tenant-based. The Housing Choice Voucher Program enacted in 1998 consolidated the two variants of the Section 8 Existing Housing Program that had operated simultaneously for fifteen years. This program pays a portion of the rent of eligible low-income households who locate housing in the private market that meets the program's minimum housing standards. Although HUD or USDA programs have produced few new units in recent years, the IRS's Low Income Housing Tax Credit, enacted in 1986, will soon become the second-largest housing program in the country and it is growing much more rapidly than any other program.

Eligibility for these housing programs is based on a number of factors, the first being the requirement that adjusted family income fall below certain thresholds determined by family size and the median income in the locality. However, because fixed budgets are authorized for these programs and there is excess demand for subsidies, they must be rationed; that is, housing programs are not entitlement in nature. Local housing authorities and owners of private projects, operating under general guidelines from Congress, determine their "preferences" by giving weight to characteristics of the families in granting assistance to individual families. Once assistance is granted, families in project-based programs are offered specific units and families in

tenant-based programs are authorized to locate eligible units in the private market. A substantial majority of assisted families participate in programs that require families to pay 30 percent of their income toward rent. However, many assisted families pay rents that are independent of their income.

Research on housing programs has addressed a number of different topics. One concerns the cost-effectiveness of different program types. The studies are unanimous in finding that tenant-based assistance provides housing equal in quality to that of project-based assistance at a much lower total cost. Another key issue is whether the programs indeed increase the housing consumption of their recipients, certainly a main goal of the program but not one guaranteed to occur, at least for project-based housing. The literature indicates indeed that housing consumption is raised--that is, that families occupy higher quality housing than they would in the absence of the program--both in housing projects and housing occupied by voucher recipients. There appears to be some leakage in the subsidy, for consumption of non-housing goods arises as well, although this should be expected if part of the goal is to enable families to reduce what are often very high housing expenditures. The housing programs also appear, according to the research, to increase housing consumption more than would a pure cash grant, consistent with the rationale for housing assistance.

The Housing Allowance Supply Experiment conducted in the 1970s studied the market effects of an entitlement housing voucher program similar to the limited enrollment Section 8 Voucher Program that operated between 1983 and 1998. The Supply Experiment operated for ten years in two small metropolitan areas with very different initial vacancy rates and minority populations. About 20 percent of the families in the two counties were eligible to receive



assistance. Participation rates of eligibles never exceeded 50 percent, partly because subsidies for those with moderately high incomes were not large enough to outweigh the costs of moving and participating in the program. The results showed that an entitlement program of tenant-based assistance would produce a substantial increase in the supply of dwelling units meeting minimum housing standards but would have little effect on rent levels.

There have been a few research studies on other topics as well. Some examine the work disincentives of housing programs, on the presumption that, like all welfare programs, the reduction in the subsidy with an increase in earnings will reduce the incentive to work. The results show that such work disincentives probably exist but that they are quite small. Another set of studies examine the relative effects of public housing and tenant-based housing on the choice of neighborhood, finding that public housing exacerbates economic and racial segregation while tenant-based subsidies ameliorate them to some extent. Findings from the recent Moving to Opportunity Experiment that offered randomly selected families in public housing vouchers on the condition that they move to neighborhoods with very low poverty rates indicate improvements in the educational attainment of the children involved and reductions in their violent criminal behavior. It also increases the earnings of adults in these families.

### **Child Care Programs**

Blau (forthcoming) describes the structure of means-tested child care programs in the U.S. He notes that such programs have at least three different goals, not always mutually compatible. One is to increase the rate of employment of low income women, particularly when

operated through the AFDC-TANF program or when aimed at assisting low-income parents in general to work. A second is to increase the quality of child care for low income children, and a third is to assist in the development of disadvantaged children through early education programs such as Head Start. These goals may conflict, as they would for programs which encourage low-income women to work through the provision of inexpensive child care.

A variety of programs serve one or more of these goals. One of the largest is the Child Care and Development Fund (CCDF), which provides funds to states to subsidize child care for low income families and is intended to support employment of low income parents. It was created in 1996 by Congress and consolidated a number of prior programs, some of which had served primarily the AFDC population and some of which had served the “working poor,” meaning low income families not on AFDC. When requiring such consolidation, Congress also required that minimum percentages of the grant be spent on the AFDC-TANF-based population (not only current recipients but also families who had recently left AFDC or are at risk of going on) and that minimum percentages be expended on the working poor. A second program, the Title XX Social Services Block Grant, provides states with funds to expend on a variety of social services for the poor, including child care; states spend approximately 15 percent of their funds on that service. The Dependent Care Tax Credit, a nonrefundable tax credit in the federal income tax, also provides a subsidy for child care which declines as income rises. Finally, three programs are intended for early education and child development, and are not tied to parental employment. These include the Head Start and Title I-A programs, which provide early education for disadvantaged children, and the Child Care and Adult Food Program, which provides subsidies for nutritious meals in child care settings for low income children. All the

programs are federally financed and have uniform national rules except the CCDF and Title XX Social Services Block Grant, which give considerable discretion to the states on operation within federal guidelines.

In terms of expenditure on low income families, the CCDF and Head Start programs are currently the largest at about \$5 billion each, followed by the Dependent Care Tax Credit at approximately \$3 billion. The number of children served is the largest in the Dependent Care Tax Credit, followed by the CCDF; Head Start is one of the smallest. Expenditures per child are essentially inversely related to size: the Dependent Care Tax Credit gives \$720 per child while Head Start expends \$5,759 per child.

Eligibility in the three federal early education programs is related to various measures of low income and are nationwide, while eligibility in the CCDF and Title XX Grant are set by the states within federal guidelines. Title XX funds must be spent on child in families with income below entirely state-chosen limits, while CCDF funds must be spent on families with income no greater than 85 percent of state median income. States are free to set a wide variety of subsidy mechanisms in their CCDF-funded programs, with fees that have maximums and minimums or which are waived for certain groups, with vouchers or direct contracts with providers, and with flexibility in setting reimbursement rates for providers. Child care facilities must meet state licensing and regulatory requirements.

Research on the effects of child care programs has been concentrated on a few selected issues. One is whether child care subsidies in general increase the employment of mothers. Based both on evidence from demonstrations and random-assignment trials as well as nonexperimental studies which use variation in child care price to estimate employment

responsiveness, the literature strongly indicates that child care subsidies have a positive impact on employment and hours of work. However, the magnitude of the effect is quite uncertain and varies considerably across studies. In his review, Blau finds that the studies with the best data and which account most realistically for the child care market find relatively low price elasticities of employment response, but ones that are still statistically significant.

Research on several other issues has been conducted as well. One study of the effect of price on the quality of care chosen by parents using formal day care centers found that child care subsidies led parents to use more care but care at lower quality centers, as measured by child-staff ratios and staff training. Another study examined the effect of child care subsidies on the probability that single mother would be on AFDC, and found that such subsidies lower that probability, presumably by allowing AFDC mothers to go off welfare and work. Blau also reviews the large literature on the effect of early childhood education on child outcomes, finding that the evidence supports an effect of such education on some outcomes for some programs. Whether the effects fade out over time or persist is more controversial, although some studies do show persistent effects.

### **Employment and Training Programs**

As discussed by LaLonde (forthcoming), the main omnibus employment and training program in the U.S. at the present time is the Workforce Investment Act (WIA). Passed by Congress in 1998 and taking effect on July 1, 2000, WIA replaced the Job Training Partnership Act (JTPA), which was the main program for employment and training in the U.S. from 1982 to

1998. WIA provides block grants to the states to fund employment and training programs for adults and youth. WIA contains several titles with different programs and different services. These include Title I.B.5, which covers adults; Title 1.B.4, which covers youth; and Title 1.C, which covers the Job Corps, a high-cost training program for disadvantaged youth.

Except for the Job Corps program, states have great freedom to design their own WIA-funded programs, but must meet certain federal requirements. The adult programs are not restricted to low income individuals but priority must be given to cash welfare recipients. Training programs for youth, on the other hand, both the Job Corps as well as other youth programs, do require that the individual have low income and other measures of economic disadvantage. All adults are eligible for job search assistance but more comprehensive services require that the individual be unemployed and be unable to find a job or otherwise need intensive services to maintain employment. Training is primarily provided through "individual training accounts" which allow the individual to choose from a list of acceptable providers, and thus retains some features of a voucher. A system of "one stop shopping" is required by the legislation, allowing WIA enrollees to go to only one agency, provider, or location to be directed to all services.

There are three generic types of training programs typically provided. One general category is aimed at enhancing skill development, and includes both classroom training and on-the-job training. A second is "work experience," which involves temporary placement in an actual job. A third general category is employability development, which includes job search assistance and career counseling. The first is aimed at increasing the individual's long run labor market skill level, while the second and third are aimed more at encouraging immediate

employment. Typically an individual's needs are first assessed and then he or she is assigned to one of these types of programs.

There is no research on the WIA program because it has been put in place so recently. However, there is a large body of research on JTPA and related training programs which should still be quite relevant to WIA, given that the basic types of programs are unlikely to change markedly. The majority of the research surveyed by LaLonde is from random-assignment evaluations, where the effects of the training program in question are measured as the difference in outcomes--usually earnings and employment--between an experimental group and a control group. These experiments typically estimate training effects separately for adult women, adult men, and youth. Adult women are always separated because they include a high fraction of welfare recipients and, indeed, many of the training programs are explicitly targeted at that group.

The findings are quite different by group. For adult women, there is consistent evidence of positive impacts from a variety of types of training programs on employment and earnings. The programs include welfare-to-work programs tested by individual states on their welfare recipients, high cost programs for disadvantaged women in general such as Supported Work, and the JTPA program. The impacts persistent for several years and occur for all program types (job search assistance, work experience, and employability development). For the job search assistance programs, the magnitudes of the impacts are modest in size--ranging up to \$500 per year, typically--but are also very modest in terms of cost, leading to very favorable cost-effectiveness ratios. Impacts of programs that provide classroom instruction or add work experience on top of job search assistance have somewhat greater impacts. The high-cost

programs, such as Supported Work, have even greater impacts, ranging up to \$1,000 per year. Whether they are cost effective depends crucially on whether these impacts are permanent or whether they fade over time. In the favorable event that they are permanent, even these programs have strong cost-effectiveness ratios (e.g., 15 percent rates of return).

The impact estimates for adult men and youth are more mixed. For men, most evaluations show essentially little impact on employment and earnings overall. Some programs appear to have positive impacts for certain subgroups of men, but the pattern does not have any clear explanation. For youth, impacts estimated in the Supported Work experiment as well as JTPA and other training programs reveal that these services have no impact. However, based on past evaluations, the high-cost Job Corps has traditionally been thought of as the main program showing favorable impacts for youth.

A new experimental evaluation of the impact of the program confirms that impacts on employment and earnings are positive, thus supporting the general wisdom about Job Corps. By four years after enrollment, annual earnings impacts were on the order of 12 percent. The higher impacts of Job Corps as compared to some of the other youth programs are thought to arise from the comprehensive nature of its training services as well as, compared to some other programs, its relatively high cost. However, LaLonde also shows that subgroup analyses present a mixed picture of Job Corps impacts, which vary by age and ethnicity markedly. Indeed, for some subgroups (e.g. Hispanic 16 - 24 years olds) the program appears to have no impact. There also is some support in the data for impacts being greater for young adults rather than teenagers, but even this is not completely uniform.

LaLonde concludes his review emphasizing the positive nature of the findings for adult

women and youth. For adult women, low-cost training programs have a fairly large impact relative to cost and constitute what appears to be a worthwhile investment. He notes that the cost of these programs is far less than the cost of a year of formal schooling, for example, and should not be expected to have dramatic impacts as a result. Higher-cost programs may be cost-effective as well, but this depends on the size of their long-term impact, about which little is known. For youth, it appears that only high-cost comprehensive training programs are likely to be productive social investments. The U.S. spends far less than other countries on training programs, and this evidence suggests that a greater expenditure in these directions could increase the earnings of many groups in the disadvantaged population.

### **Child Support**

The child support system in the U.S., while not formally a means-tested program or a public transfer program at all, nevertheless plays an important role in discussions of transfer policy to the low income population and to single mothers in particular. Lerman and Sorensen (forthcoming) note that the Child Support Enforcement (CSE) system, the governmental program aimed at enforcing private child support obligations, is concentrated on the low income population. In their chapter, Lerman and Sorensen review the structure of the present system and the research that has been conducted on it.

The CSE program was established by Congress in 1975 to provide matching funds to states to collect child support obligations, establish paternity, and obtain support awards. States were required to provide child support enforcement services to AFDC recipients and to any non-



AFDC family that requested them. The statute also required that AFDC recipients assign their child support rights to the state--that is, that any child support payments they received be taken by the state and used to compensate for the AFDC benefit--and to cooperate in establishing paternity and securing support. Thus reducing welfare costs as well as increasing child support were both goals of the system, goals that have remained to the current time.

Through legislation, Congress has steadily increased pressure on the states to strengthen the child support enforcement system in many ways since 1975. In 1988 it set numeric goals for the states to establish paternity for children, and later required that states establish voluntary paternity acknowledgement procedures in hospitals. In 1984 and again in 1988, Congress increased pressure on states to require judges to adhere to state child support guidelines governing the setting of child support awards, which are generally tied to the income of the non-custodial parent. This was aimed at preventing judges from setting child support awards that were too low. Over the 1980s, Congress also increased requirements on states to use wage withholding to obtain payments from non-custodial parents, and in 1996 went further by requiring that every new hire be reported to the CSE agency in order to locate such non-custodial parents who were delinquent in their payments and had not been locatable by the agency.

The percent of low income custodial mothers who receive any child support at all was only 24 percent in 1997 and, of those that receive child support, and even fewer receive the full amount that has been awarded by the court. These low figures, despite the years of increased stringency of child support enforcement, attest to the difficulty of the problem. The percent receiving any support is, however, larger than it was twenty years earlier, when it was only 17 percent. The increase over the period has arisen from a greater percentage of poor custodial

mothers who actually have an award, which is no doubt partly a result of governmental efforts at paternity establishment and encouraging awards. The increase would have been larger had it not been for a decline in the fraction of mothers who actually received anything even if they have an award. Part of the reason for this decline, though not all, has been a shift in the composition of poor custodial mothers from those who are divorced or separated to those who are never married; the latter have always received less support than the former. The percent of single mothers on AFDC receiving child support is approximately 17 percent, even lower than that of all poor custodial mothers.

Research on child support issues has focused on several issues. One is aimed at determining the income levels of poor noncustodial fathers in order to determine how much they are capable of paying. This is a difficult task because there is no ready data set to identify noncustodial fathers and their incomes, so most estimation is indirect. Estimates indicate that, overall, noncustodial fathers could pay 3 to 4 times more than they are actually paying, given their incomes and given customary guidelines for how child support awards are based on income. However, no estimates are available for low income fathers alone. Evidence from ethnographic studies indicate that poor noncustodial fathers have high rates of nonemployment, low levels of education, little work experience, poor levels of health, and often have criminal histories and unstable housing arrangements.

Another area of research focuses on the effect of child support collections on AFDC participation and on the work effort of welfare mothers. Because states collect most of all child support received by women on AFDC, an increase in child support paid by the noncustodial father has no impact on a woman's income while on welfare, but it increases income off welfare.

This should therefore decrease AFDC participation and increase labor supply. Although the evidence is not as strong as it could be, the evidence does suggest that this is the case. Increases in CSE reduce AFDC caseloads, according to the evidence, and increases in child support reduce rates of AFDC participation and increase employment rates. However, there is also some evidence that increases in child support reduce the work effort of custodial mothers not on AFDC, for in this case the extra income allows them to reduce their hours of work or work effort overall.

Research in this area suggests that, in principle, child support payments and CSE in particular might reduce the work effort of non-custodial fathers, as they are required to pay a percent of their income toward support. However, the little empirical evidence available indicates little response of this kind. This may be because non-custodial fathers have inelastic labor supply curves, but it may also arise because courts update award amounts as incomes of fathers change in only a minority of cases. Typically, award amounts are set in relation to income at the time of the initial court judgement, but no further adjustments are made thereafter. Nevertheless, ethnographic evidence does suggest that child support enforcement tends to drive many men into the underground economy, where income is not reported. Indeed, much of the research discussion of the incentives faced by noncustodial fathers focuses on the lack of incentives to pay child support given the fact that all payments go to the government instead of to the children if the mother is on welfare. An additional problem is that many men have accumulated large amounts of child support debt which are very difficult to work off.

There has also been attention paid to the effects of child support payments on marriage, divorce, remarriage, and nonmarital childbearing. The predictions of the effect are in most cases

ambiguous because, while increased child support gives men an incentive not to marry, remarry, or have child out of wedlock, it increases the custodial mother's incentives in the other direction (relative to the current situation) by making single motherhood less financially onerous. The little evidence on the issue suggests that there are indeed effects in this direction, with child support appearing to reduce remarriage, non-marital childbearing, and divorce, but whose magnitudes are uncertain.

Finally, there has been considerable research on the effectiveness of child support enforcement policy itself on increasing paternity establishment, award rates, and payment of child support. The evidence suggests that it has had an effect, particularly on the first of these. This is consistent with the time series evidence mentioned earlier. Thus CSE policy has been shown to have an effect and for this reason it continues to enjoy strong support as a public policy.

## **Conclusions**

Economic research on the effects of the nation's system of means-tested transfers has yielded a large volume of important findings. One of the most basic is the repeated finding that the programs are, by and large, attaining their central goals of increasing the consumption of low-income families of medical care, food, housing, child care, and other targeted goods. Another is that there has been an increased redirection of support toward the disabled, both adults and children, both for the receipt of cash support as well as medical assistance, and toward needy children off TANF, another worthy goal. A third is that the EITC has been successful in raising the employment rate of low income single mothers, a long-sought goal of transfer policy in the

U.S.

At the same time, research has demonstrated that the attainment of other goals of these programs is still a challenge. Designing the transfer programs to provide strong work incentives which are acted on is still an issue in the SSI program, for example, and the EITC has some work disincentives for groups other than single mothers. The AFDC-TANF reforms have been successful in raising employment among single mothers, but the effects on their incomes are less unambiguously positive. The child support system in the U.S. has made great improvements in increasing support for low income children, but too little support is still received by low income mothers yet the burden on low income fathers is already onerous by many accounts. Effects of all transfer programs on family structure has become an important topic but no program has been successful in having a major impact on such outcomes. Designing reforms to address these and other issues will continue to make this a fruitful area for research.

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Table 1

Change in Real Expenditures in Six Major Programs, FY 1990 to FY 1996  
(in millions of 1996 dollars)

|                         | AFDC     | Food<br>Stamps | Medicaid | EITC    | Housing  | SSI      |
|-------------------------|----------|----------------|----------|---------|----------|----------|
| 1990                    | \$24,758 | \$20,654       | \$84,658 | \$8,092 | \$16,922 | \$20,125 |
| 1996                    | 23,677   | 27,344         | 159,357  | 24,088  | 19,877   | 32,065   |
| Pct change from<br>1990 | -4%      | 42%            | 88%      | 198%    | 17%      | 59%      |
| Share of growth         | -1%      | 7%             | 60%      | 13%     | 4%       | 10%      |

## Notes:

EITC amounts include reduction in tax liability, not just refundable portion

Housing is the sum of expenditures on public and section 8 housing

Federal and state combined totals shown

Sources: Burke (1993, Table 15), Burke (1999, Table 3,12).



Table 2

## Annual Expenditures and Caseloads in Ten Largest Transfer Programs, FY 1997

|  | Expenditures<br>(millions) | Caseloads<br>(thousands) | Expenditures<br>per Recipient |
|--|----------------------------|--------------------------|-------------------------------|
| Medicaid   | \$167,359                  | 40,446                   | \$4,138                       |
| SSI  | 32,395                     | 6,984                    | 4,638                         |
| EITC   | 28,800                     | 58,143                   | 495                           |
| FS   | 24,772                     | 24,200                   | 1,024                         |
| TANF   | 23,179                     | 10,936                   | 2,120                         |
| Subsidized Housing   | 19,336                     | 4,315                    | 4,481                         |
| Medical Care for<br>Veterans without<br>service disability | 9,220                      | 153                      | 60,261                        |
| Foster Care  | 6,794                      | 289                      | 23,509                        |
| Social Service   | 6,400                      | NA                       | NA                            |
| Federal Pell Grants  | 5,660                      | 3,665                    | 1,544                         |

Source: Burke (1999, Table 12).

Table 3

## Comparison of the AFDC and TANF Programs

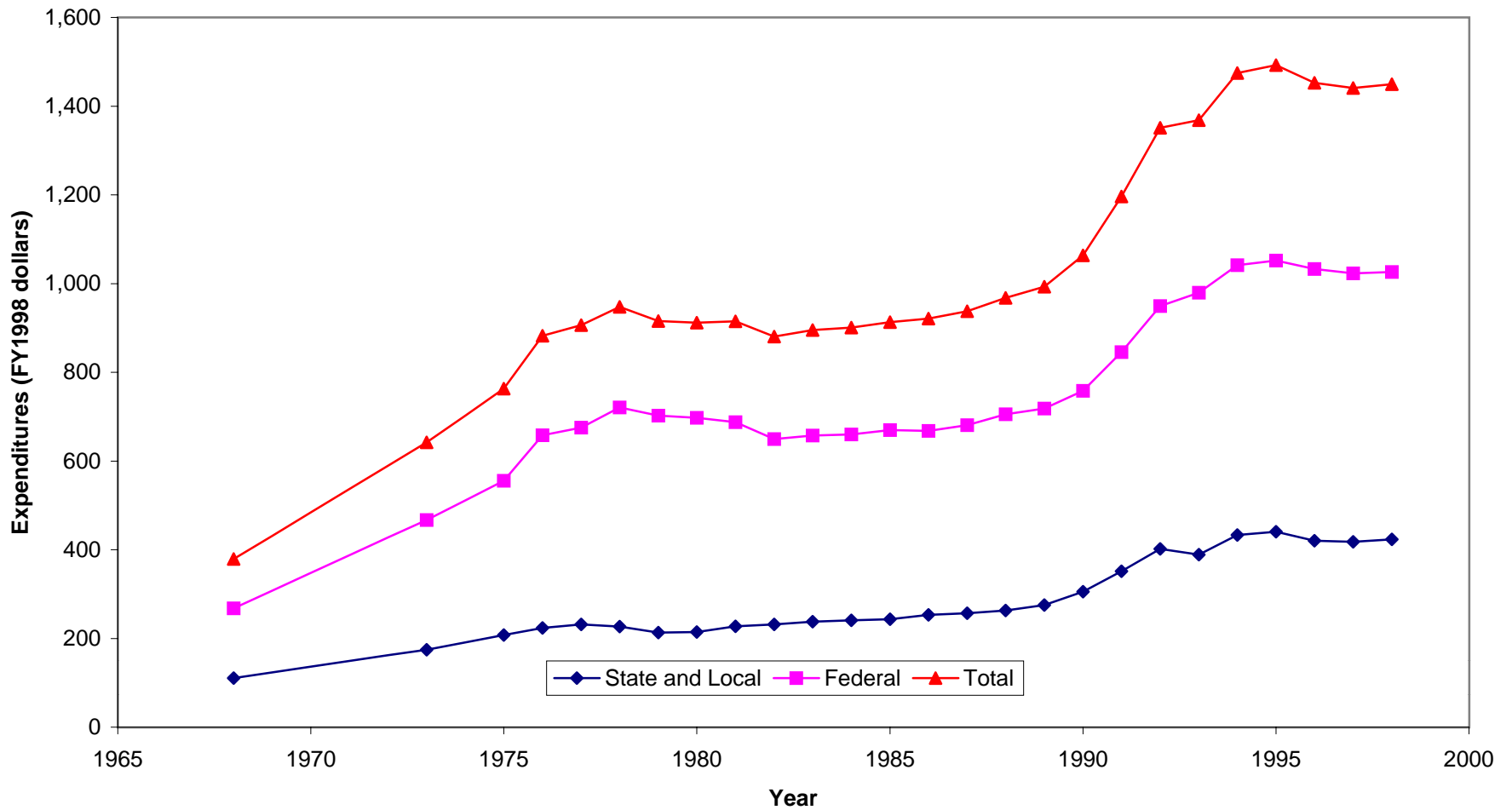
| Item                             | AFDC   | TANF   |
|----------------------------------|--|--|
| Financing                        | Matching grant   | Block grant  |
| Eligibility                      | Children deprived of support of one parent or children in low-income two-parent families (AFDC-UP)           | Children in low-income families as designated by state; AFDC-UP abolished. Minor mothers must live with parents; minor mothers must also attend school |
| Immigrants                       | Illegal aliens ineligible  | Aliens ineligible for five years after entry and longer at state option  |
| Form of Aid                      | Almost exclusively cash payment  | States free to use funds for services and non-cash benefits  |
| Benefit Levels                   | At state option  | Same   |
| Entitlement Status               | Federal government required to pay matched share of all recipients   | No individual entitlement  |
| Income Limits                    | Family income cannot exceed gross income limits  | No provision   |
| Asset Limits                     | Federal limits   | No provision   |
| Treatment of Earnings disregards | After 4 months of work, only a lump sum \$90 deduction plus child care expenses; and nothing after 12 months | No provision   |

Table 3, continued

| Item  | AFDC  | TANF  |
|---|---|---|
| Time Limits                                 | None  | Federal funds cannot be used for payments to adults for more than 60 months lifetime (20 percent of caseload exempt)  |
| JOBS program                                | States must offer a program that meets federal law  | JOBS program abolished  |
| Work Requirements                           | Parents without a child under 3 required to participate in JOBS                               | Exemptions from work requirements are narrowed and types of qualified activities are narrowed and prespecified (generally excludes education and classroom training) and must be 20 hours/week rising to 30/week for single mothers |
| Work Requirement Participation Requirements | JOBS participation requirements   | Participation for work requirements rise to 50% by FY 2002  |
| Child Care                                  | Guaranteed for all JOBS participants  | No guarantee but states are given increased child care funds  |
| Sanctions                                   | General provisions  | Specific provisions mandating sanctions for failure to comply with work requirements, child support enforcement, schooling attendance, and other activities   |
| Child Support                               | States required to allow first \$50 of child support received by mother to not reduce benefit | No provision  |

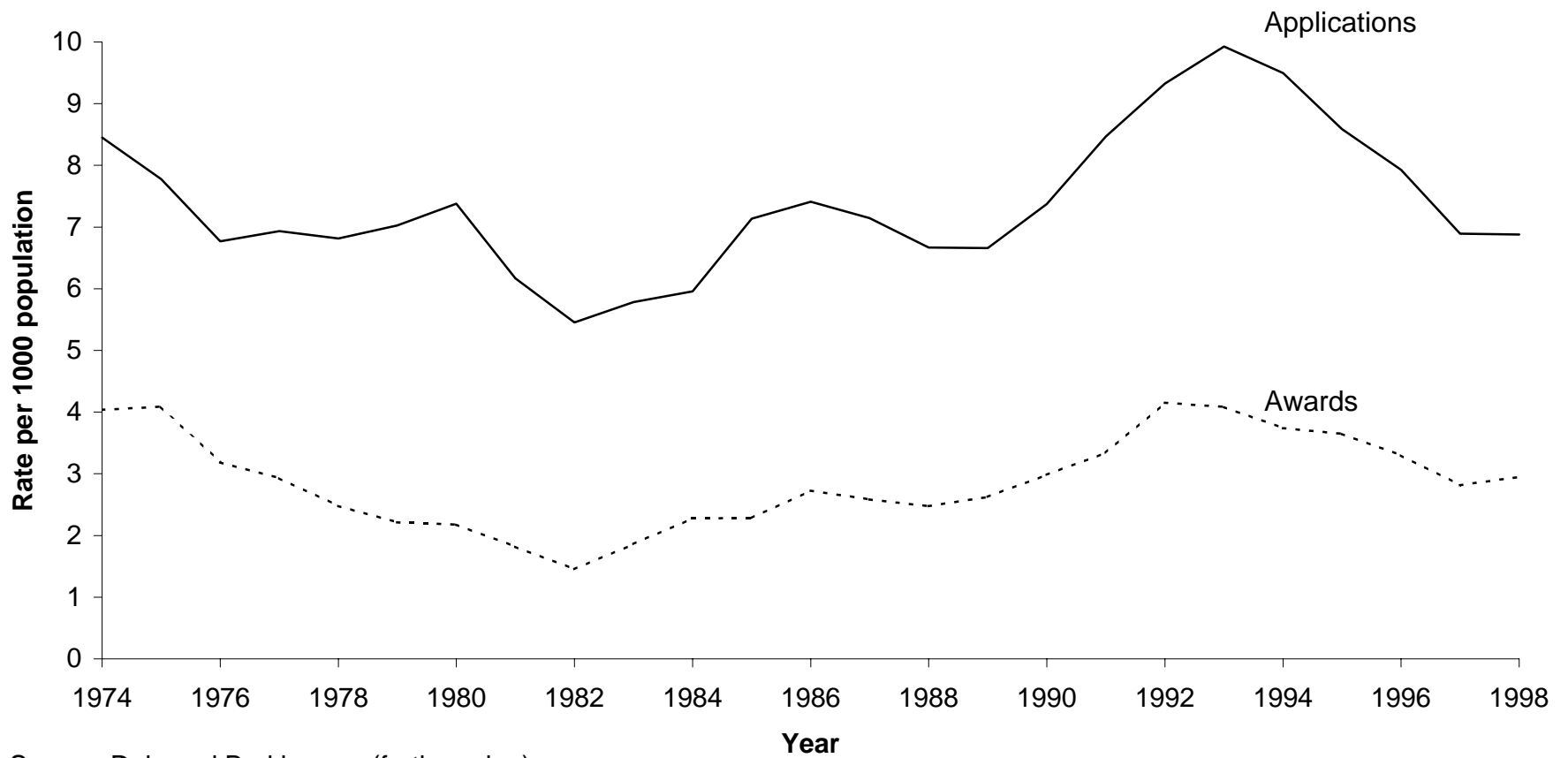
Source: Burke (1996)

**Figure 1: Real Per Capita Expenditures on Means-Tested Transfers, 1968-1998**



Sources: Burke (1999, Tables 4 and 5), U.S. Dept. of Commerce (2000, Table 2, Population).

Figure 2: SSI Applications and Awards Among Population 18-64  
(per 1000 in population)



Source: Daly and Burkhauser (forthcoming).