

Focus

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Measuring the effects of the Reagan welfare changes on the work effort and well-being of single parents

In 1981 Congress passed the first major budget of the Reagan administration, the Omnibus Budget Reconciliation Act (OBRA). This act included among its many provisions the first major reforms since 1967 in Aid to Families with Dependent Children (AFDC), the principal program providing cash assistance to needy children and their custodial parents in single-parent families and, in half the states, to two-parent families in which the breadwinner is unemployed (AFDC-UP).

Whereas a slowdown in the growth rate of spending on social welfare programs had begun under Carter, the cuts in welfare which were instituted by Reagan were new. In keeping with a basic tenet of the Reagan administration, the cuts represented a rejection of what has been called “social engineering”—“the use of subtly graduated incentives and disincentives, and sharply focused programs, to affect human behavior and to improve the human condition.”¹

No program reflected social engineering more clearly than did AFDC. Over time it had shifted in focus from a program to provide sustenance to destitute orphans to one designed to supplement the earnings of poor families headed by women. Negative behavioral effects of the program were dealt with by numerous modifications. Thus, when the program was thought to encourage the dissolution of families, a program for two-parent families, AFDC-UP, came into being (in 1961) to obviate the need for families to break up in order to be eligible for welfare.² When AFDC was thought to discourage work, various incentives were put in place, such as (in 1967) the Work Incentive Program (WIN) to provide training and employment placement, and the \$30-and-one-third earned-income disregard, which allowed working recipients to retain each month the first \$30 they earned plus a third of the rest of their earned income. In addition, a recipient’s allowable work expenses did not reduce her AFDC benefits.

Some social scientists argue that the fine-tuning of such a program over the last two decades has been a failure. According to Nathan Glazer:

Social engineering is out of favor with this administration and with the American people, largely because the promises and hopes of twenty years of active federal government have not been fulfilled. But beyond all arguments as to when and whether the federal government should intervene in dealing with social programs, there is the master vision of the Reagan administration as to how societies overcome poverty: They do it on their own, and people do it on their own, and help from government is likely to do more harm than good.³

The changes in AFDC under OBRA were then an attempt both to remove government from meddling in the lives of the poor and to reduce welfare costs and caseloads by concentrating benefits on the “truly needy,” those entirely dependent on welfare for subsistence. The thrust of the changes in the program was thus directed at the small percentage of AFDC families with earnings: 11.5 percent in May 1981.⁴ Welfare recipients with substantial earnings were removed from the rolls so that by May 1982 only 5.6 percent had earnings, and those remaining working recipients received lower benefits than before OBRA.⁵

Critics of OBRA claimed the new regulations would encourage working recipients to cut back their hours of work in order to stay on welfare. They stated that even if work effort remained constant, the changes would increase poverty among families headed by women, families already disproportionately distressed. (In 1980, while the official poverty rate was 13 percent, 27.9 percent of households headed by nonaged white women and 51.2 percent of households headed by nonaged nonwhite women were classified as poor, *after* receipt of AFDC benefits.⁶)

The major provisions of OBRA that affected AFDC work incentives and incomes were the following:

1. The \$30-and-one-third earned-income disregard was eliminated after four months of consecutive employment. Employed recipients faced a 100 percent benefit-reduction rate in that, after four months, their AFDC benefits were reduced by one dollar for every dollar they earned.
2. The size of the \$30-and-one-third earned-income disregard was reduced. In the four months that the disregard was allowed, it was calculated on net income (after work expenses) rather than gross income. This resulted in reducing the amount retained by the worker by approximately one-third.
3. Maximum monthly allowable deductions were set for work expenses (\$75) and child care expenditures (\$160 per child).
4. The eligibility income limit was reduced so that families with incomes above 150 percent of a state's standard of need (a state-determined subsistence income) were made ineligible for benefits.

5. The assets eligibility limit was lowered, eliminating from the rolls families with assets above \$1000.

Robert Moffitt, in a paper on measuring the various effects of OBRA (see box, p. 5), catalogs those effects that can be predicted with certainty and those that cannot. It is obvious, for example, that the AFDC caseload would drop, since all the program changes served either to restrict entry or to discourage continued participation in the program. It was equally obvious that remaining AFDC recipients would have fewer hours of work, lower employment rates, and lower income. At the same time average per capita benefits would rise, because the recipients who had the highest earnings and hence the smallest benefits would be dropped from the program. Though theoretically possible, it was thought to be highly unlikely that the benefit increase would cause costs to rise; therefore it was expected that costs as well as caseloads would fall.

But OBRA differentially changed the work incentives for working and nonworking recipients. Women no longer on the rolls as a result of the elimination of the \$30-and-a-third rule faced a lower tax rate than before OBRA because they now faced only income and payroll taxes. Those who remained on the rolls faced a higher benefit-reduction rate (now 100 percent). Economic theory predicts greater work effort in response to a lower tax rate, but less work in response to a higher rate, all other things equal. In addition, all working recipients lost benefits, and theory predicts that work would increase to offset this loss. The net effects of OBRA on the work effort of all who were affected therefore could be known only through empirical study. The effects of OBRA on income of those terminated from AFDC could also be known only from empirical evidence, since income depends on how successful women are in raising their earnings to make up for lost benefits.

First assessments of costs and caseloads reflected the anticipated results. According to Robert J. Rubin, an Assistant Secretary of the U.S. Department of Health and Human Services, 408,000 families lost eligibility and 299,000 lost some benefits nationwide. The changes saved the federal and state governments about \$1.1 billion in 1983.⁷

However, finding out what the effects of OBRA have been on work effort and income has proved no easy task, though many studies have been initiated.

Problems in designing studies of the effects of OBRA

Measuring OBRA's effects is difficult for a number of reasons. At the time it passed, other events were taking place which were bound to influence the work effort and income of women heading households. The most important of these was the 1981-82 recession, the worst in 45 years. Furthermore, in addition to cyclical macro events such as recessions, long-term trends continuously affect hours of work,

income, and participation rates in social welfare programs, regardless of any changes brought about by legislation. (For example, labor force participation rates of all women, including women heading households, had been drifting upward throughout the 1970s.) So many concurrent events make it difficult to obtain reliable estimates of the effects of OBRA soon after its implementation. But long-range effects may be impossible to obtain because the legislation itself has been changed. Through the Deficit Reduction Act of 1984 (DEFRA), Congress has already acted to ameliorate some restrictive provisions of OBRA as related to working AFDC mothers.⁸ In this welter of change is it possible to measure what the effects of a program are? According to Moffitt, estimates of OBRA effects—though extremely tentative—can be made.

Moffitt claims that the best way to examine the effects of OBRA is to compare independent cross sections of a population of individuals large enough to embrace not only those directly affected by the legislation (i.e., working women on AFDC) but all those who could possibly be affected (i.e., recipients of AFDC and nonrecipients; workers as well as nonworkers). And in the absence of a counterfactual (a control group) these cross sections would have to be examined over a number of years, in order to observe, and statistically cancel out, any changes resulting from macroeconomic events and trends. A study using successive cross sections of women heading households could, for example, provide answers to the following pertinent questions related to labor supply: How has the size of the AFDC caseload changed? How have AFDC participation rates of all female household heads changed? What changes have occurred in the labor supply and employment rates of AFDC participants, both those working before OBRA and those who were not working? What changes have occurred in the labor supply of the total population and various different population subgroups (such as low-income women)?

What a cross-sectional study cannot do is follow the effects of OBRA on particular individuals. The net numbers revealed by a cross-sectional study may mask a number of specific effects. An unchanged percentage of families applying for welfare may, for example, result from great increases in the applications of some groups of women balanced by great decreases in the applications of others. And reductions in the AFDC caseload could result from any—or all—of the provisions in OBRA. Information on specific effects of OBRA may be more accessible from panel studies, which follow the same individuals over time (in this instance from their pre-OBRA situations to their post-OBRA situations).

According to Moffitt, a panel study, if properly designed, can provide all the information that a cross-sectional study furnishes. However, to be properly designed, such a study must be drawn from a joint population (that is, a data set that is a representative sample of all those who could, under any circumstances, be affected by OBRA) at three points in time—pre-OBRA, during the OBRA period, and during a subsequent period—to determine transitions on and off the

program, without which the net effects of OBRA on work effort cannot be obtained. Even more points in time must be measured if macroeconomic events are to be discounted. Unfortunately, the panel studies carried out to date are all flawed, by Moffitt's standards, because they are not of such design. They cannot measure all transitions onto and off of AFDC, nor their net effects, and hence cannot provide some of the numbers readily obtained from a cross-sectional study. They do, nevertheless, provide much of a revealing nature. The critical review of the following panel studies is taken from Moffitt's paper, as is Table 1, which compares the studies that have measured the effects of OBRA on work effort.

Panel studies of work effort

Research Triangle Institute

A panel study carried out by the Research Triangle Institute (RTI) (1983, see box) made use of two national probability samples of the AFDC caseload, one drawn in September 1980 and one in September 1981. Each sample was tracked for twelve months through the examination of AFDC case records to determine whether sample members stayed on AFDC and whether they were employed or not. Because each initial sample consisted of recipients of AFDC rather than all eligibles, or some even broader population, the study can provide estimates only of the effect of OBRA on transitions from reciprocity status (working and nonworking) to nonreciprocity status, and not vice versa. Nor does the design allow an estimation of macroeconomic effects. The two cohorts may reflect differing economic conditions over the two periods as well as the effects of OBRA.

The study found that OBRA had no effect on either the probability that a working AFDC recipient would move to being a nonworking recipient or on the probability that a nonworking recipient would become a working recipient. For both cohorts, about 18 percent of those who were working and on AFDC in the base month were on AFDC but not working one year later. (One would expect that fewer would be working in the second cohort, not only because the OBRA changes reduced income from earnings, but because the unemployment rate in 1981–82 increased more rapidly than it did in 1980–81.)

There are limitations to the RTI study. We cannot learn, for example, the extent to which those who lost their jobs and came onto the rolls of AFDC as nonworkers failed to look for or accept part-time work because of the benefit-reduction rate. Nor can the study tell us anything about workers who were not AFDC recipients, but could have been, had they reduced their hours of work. Also, the employment rate of those who left AFDC at the end of the first cohort was not determined for comparison with the OBRA cohort. So the effect of OBRA on the work effort of those who did not come back on the rolls cannot be determined.

Institute for Research on Poverty

Another study, carried out by IRP researchers Steven Cole, Sandra Danziger, Sheldon Danziger, and Irving Piliavin with support from the Wisconsin Department of Health and Social Services (see box), was in some respects an improvement on, and in some respects less satisfactory than, the RTI study, according to Moffitt's criteria.

The IRP study drew a sample from the population of working AFDC recipients in December 1981, shortly before the OBRA provisions were implemented in the state. From February to May 1983 a telephone interview of the sample was conducted.

Like the RTI study, the IRP one was limited to following a panel of AFDC recipients defined at a single point in time. It was even more restricted than the RTI study in that it included only those on the AFDC rolls who were working when the sample was drawn. (The RTI study included nonworkers. An analysis of nonworking recipients in Wisconsin is now under way.) Although the original IRP study did not include an earlier cohort, one was added later to make it possible to compare OBRA effects with changes in a pre-OBRA period.⁹ By excluding those terminated from the rolls solely on the basis of the change in the assets test, this study avoids confounding that particular OBRA provision with those provisions that reduce income from earnings, though of course it remains impossible to ascertain what the specific effects of specific changes in AFDC have been.

Most of the working recipients in the IRP sample continued to work after OBRA. Among those terminated from AFDC by OBRA, only 3.6 percent reported that they had quit their jobs, were not working, and had received AFDC in some post-OBRA month. Among those whose benefits were reduced, the comparable percentage was 12.5. Seventy-five percent of those terminated from AFDC and 61 percent of those who had their benefits reduced were still working at the same job they held when OBRA was implemented. Of those who were either terminated or had their benefits cut, 17 percent were not working and on AFDC at the time of the interview.¹⁰ Despite the fact that this study was carried out in one state and the RTI used national probability samples, the 17 percent is surprisingly close to the 18 percent found in the RTI study, a return rate no greater than that which occurred in the pre-OBRA, prerecession period.

General Accounting Office

The General Accounting Office (GAO) both analyzed OBRA's effects on national AFDC caseloads and outlays and evaluated its effects in greater detail at five sites: Boston, Dallas, Memphis, Milwaukee, and Syracuse. This panel study (see box) consisted of an analysis of AFDC case records in a base period (before OBRA), in an OBRA period, during which the changes were implemented, and in a subsequent period. Like the RTI study, this study included working and nonworking recipients but did not extend to nonrecipients.

Table 1
Results of Studies of Effect of OBRA on
AFDC Recipients with Earnings

	Status of Cases One Year Later after Initial (Base) Month ^a		
	On AFDC		Not on AFDC
	Not Working	Working	
Research Triangle Institute			
OBRA cohort	18%	27%	55%
Pre-OBRA cohort	18	54	28
Institute for Research on Poverty			
OBRA cohort	15	25	60
Pre-OBRA cohort ^b	25	62	14
General Accounting Office			
OBRA cohort	15-27	7-21	57-75
Pre-OBRA cohort	17-28	32-58	20-38
New York City/HRA			
OBRA cohort	16	25	59
Pre-OBRA cohort	18	45	37
Minnesota			
OBRA cohort	16	12	72

Sources: (See box for full references.) Moffitt, Table 2; RTI, Table 31, pp. 3-8; Cole et al., pp. 7-9; U.S. GAO (1984), Table 12, p. 31; City of New York (1983); Table 12, p. 23 (150% and 30 and 1/3 groups weighted 25%-75%); Moscovice and Craig, Figure 2, p. 12 (64%-32% weighted average of terminees and reductees).

^aTime interval varies by study: RTI, 12 months; IRP, 14 months; GAO, 12 months; NYC/HRA, 12 months; Minnesota, 12 months.

^bSupplied by Dan Feaster.

On a national level the GAO found that AFDC costs were reduced \$93 million a month, or 9.3 percent, and caseloads were reduced by 493,000, or 13.7 percent.¹¹ (In Wisconsin the comparable figures were 6.3 percent and 9.5 percent.¹²) Working AFDC recipients were no more likely to stop work and increase their reliance on AFDC after OBRA was implemented than they had been in the prior year. Table 1 shows that among working AFDC recipients, 15-27 percent of the OBRA cohort were on AFDC and not working after a year, compared to 17-28 percent before OBRA. For those who returned at any time in the year after OBRA, the rates were 11-30 percent across the five sites.¹³

City of New York

A panel study of the effects of OBRA in New York City was conducted by that city's Human Resources Administration (1983, see box). Data were collected for about a year on three samples of ADC (the New York program is called Aid to Dependent Children) employed recipients: (1) recipients terminated from the program because their gross income exceeded 150 percent of the ADC standard of need; (2) employed ADC recipients who lost benefits or whose cases were closed because of the loss of the \$30-and-one-third

income disregard after four months; and (3) a comparison group of employed recipients receiving ADC nine months before the cuts were implemented. Table 1 shows that whereas before OBRA 18 percent of those on ADC and working were on ADC and not working a year later, after OBRA the percentage had dropped to 16. The conclusion drawn by the Human Resources Administration on the basis of their data was that ADC recipients who were employed prior to the cutbacks did not quit work as a result of OBRA.

After OBRA, employed ADC recipients dropped from 5.9 percent of the caseload (in December 1981) to 2.9 percent (by the end of 1982). Only 61.5 percent of this drop was attributed to the cases closed as a result of changes in the earned-income disregard and the gross-income limitation.¹⁴ It is not known what caused the further decline in the employment of ADC recipients. Among the possibilities is the work disincentive for nonworking recipients created by the OBRA regulations.

Minnesota study

Using a panel of working AFDC recipients in Hennepin County, Minnesota, Ira Moscovice and William Craig (1983, see box) followed them from January 1982 through January 1983. This study lacked a pre-OBRA cohort. It also depended entirely on interviews, which are more likely to be inaccurate than are caseload records.

Of those in the sample, two-thirds had their grants terminated and one-third had their grants reduced by OBRA. After a year 72 percent of the sample were not on AFDC, 16 percent were on AFDC and unemployed, while 12 percent were on AFDC and employed (see Table 1). Among those whose grants were terminated, 85 percent were off AFDC and working a year later.¹⁵ Of those who had their grants reduced, 36 percent were off AFDC and working, 28 percent were on AFDC and working, and 30 percent were on AFDC and not working.¹⁶

Center for the Study of Social Policy

Three additional studies were coordinated by the Center for the Study of Social Policy (1984, see box). In Georgia, Michigan, and New York City, families whose benefits had been terminated or reduced as a result of OBRA were interviewed 12 to 18 months after the new law came into effect. The group selected had a strong attachment to the work force in that most had worked at least 21 of the 27 months preceding their interview.

At the time of the interview 38 percent of the Georgia families, 24 percent of the Michigan families, and 27 percent of the New York City families had come back on the rolls at some point following termination.¹⁷ Because the status of cases one year later is not presented in the study, data cannot be provided in Table 1.

Studies of Effects of OBRA on AFDC Recipients

Center for the Study of Social Policy. "Working Female-Headed Families in Poverty: Three Studies of Low-Income Families Affected by the AFDC Policy Changes of 1981." Center for the Study of Social Policy, 236 Massachusetts Ave., N.W., Washington, D.C., 20002, March 1984.

City of New York, Human Resources Administration. "Effects of Federal Budget Cutbacks on Employed ADC Parents." Human Resources Administration, Office of Policy and Program Development, 250 Church Street, New York, N.Y., 10013, 1983.

Cole, Steven, Danziger, Sandra, Danziger, Sheldon, and Piliavin, Irving. "Poverty and Welfare Reciprocity after OBRA: Some Preliminary Evidence from Wisconsin." IRP mimeo, October 1983.

Danziger, Sandra. "The Impact of the Reagan Budget Cuts on Working Welfare Mothers in Wisconsin." IRP Discussion Paper no. 761-84, November 1984.

Feaster, Dan, Gottschalk, Peter, and Jakubson, George. "Impact of OBRA on AFDC Recipients in Wisconsin." IRP Discussion Paper no. 763-84, November 1984.

General Accounting Office. "An Evaluation of the 1981 AFDC Changes: Initial Analyses." GAO/PEMD-84-6, Washington, D.C., 1984.

Hutchens, Robert. "Changing the AFDC Program: The Effects of the Omnibus Budget Reconciliation Act of 1981." IRP Discussion Paper no. 764-84, December 1984.

Moffitt, Robert. "Assessing the Effects of the 1981 Federal AFDC Legislation on the Work Effort of Women Heading Households: A Framework for Analysis and the Evidence to Date." IRP Discussion Paper no. 742A-84, June 1984.

Moscovice, Ira, and Craig, William. "The Impact of Federal Cutbacks on Working AFDC Recipients in Minnesota." University of Minnesota, Minneapolis, Minn., mimeo, December 1983.

Research Triangle Institute. "Final Report: Evaluation of the 1981 AFDC Amendments." Research Triangle Park, North Carolina, 1983.

Moffitt's cross-sectional study

Having pointed out the narrower range of questions addressed by the various panel studies, Moffitt analyzed eight independent cross sections of all female heads of households with at least one child under the age of 18. He drew his data from the public use micro files of the March Current Population Surveys for 1977 to 1983, surveys which are annual random samples of about 60,000 households. He generated a time series from 1976 to 1982 containing data on the number of weeks worked the previous year, employment status the week of the survey, real earnings over the previous year, and participation in AFDC over the previous year. He hoped to demonstrate how a cross-sectional study can improve on panel studies by distinguishing OBRA effects from macroeconomic effects, even though a consistent time series of these variables (Table 2) is so short.

He found that in the two-year period 1981–82, weeks worked by female heads of households dropped from 27.9 to 26.3. This large drop by historical standards was accompanied by a large rise in the unemployment rate, from 7.6 percent to 9.7 percent. Using regressions to determine the relationship between these variables, Moffitt estimated that the number of weeks worked by female household heads after OBRA, and their employment status (whether employed), were both lower than he predicted on the basis of historical trends. The results suggest a slight negative effect of OBRA, but one that is not significant. His time-series data further suggested that OBRA may have had a positive effect on real earnings, but caused no significant change in AFDC participation rates.

By restricting data to those female household heads whose income was below twice the break-even level for AFDC, Moffitt found that the positive effects of OBRA (increases in weeks worked and in real earnings, and decreases in AFDC participation rates) were greater at lower income levels. He found in fact that at successively lower income levels, the estimated positive effects of OBRA became ever larger. Moffitt's conclusion was that the time-series data show, at best, no evidence of any work disincentive of OBRA.

Effects of OBRA on the well-being of single parents

Some of the panel studies also included data on the income effects of the OBRA changes in AFDC. These have been gathered together by Steven Cole in Table 3. The results are unequivocal: women were much worse off financially than they had been in the pre-OBRA period.

In Wisconsin the incomes of women whose AFDC benefits were reduced or terminated declined by about 17 percent. Despite the recession, the average monthly earnings of affected women increased from \$522 per month pre-OBRA to \$559 post-OBRA, an average increase of \$37 a month.¹⁸ This small aggregate increase combines large increases in the earnings of those who stayed off of AFDC the entire time and large declines for those who were not working and were back on AFDC. Yet increased earnings and increased food stamp benefits failed to compensate for the loss of AFDC benefits.

Table 2
Trends in Mean Labor Supply

	All Women Heading Households with Children under 18					AFDC Recipients			National		
	Weeks Worked	Nominal Earnings	Real Earnings	AFDC Partic.	Employ. Status	Weeks Worked	Nominal Earnings	Real Earnings	Unemploy. Rate	CPI	Real AFDC Guarantee ^a
1976	25.6	\$3653	\$2143	.392	N.A.	10.9	\$1063	\$623	7.7	1.71	\$170
1977	26.0	4065	2240	.375	.527	10.6	1061	585	7.1	1.82	166
1978	27.2	4572	2340	.376	.557	12.3	1310	670	6.1	1.95	162
1979	28.5	5518	2538	.344	.558	12.0	1636	753	5.8	2.17	154
1980	28.1	5917	2397	.335	.575	10.2	1375	557	7.1	2.47	142
1981	27.9	6385	2344	.341	.572	10.2	1667	612	7.6	2.72	130
1982	26.3	6798	2351	.337	.555	7.3	1302	450	9.7	2.89	131
1983	N.A.	N.A.	N.A.	N.A.	.516	N.A.	N.A.	N.A.	9.6	2.98	N.A.

Source: Moffitt, Table 4.

Note: Employment status refers to whether employed or not in the week of the survey; AFDC participation is defined by receipt of and AFDC income received in previous year.

^aFor a family of four, per month.

Table 3
Results of Studies of Effects of OBRA on AFDC Recipients:
Changes in Total Monthly Income

	Women's Average Monthly Income ^a		
	Pre	Post	% Change
Institute for Research on Poverty	841	701	-17
General Accounting Office ^b			
Boston	924	861	-7
Dallas	745	560	-25
Memphis	653	495	-24
Milwaukee	1,008	891	-12
Syracuse	874	767	-12
Minnesota	847	781	-8
Center for Study of Social Policy ^b			
Georgia	609	554	-9
Michigan	822	775	-6
NYC	858	677	-21

Source: Table prepared by Steven Cole from the various studies.

^aCurrent dollars.

^bTerminated cases only.

In the General Accounting Office study, the income loss was also found to be substantial, ranging from a 7 percent reduction in total monthly income in Boston to close to 25 percent in Dallas and Memphis. Some earners who lost AFDC benefits also lost food stamp benefits. The GAO conducted interviews in August 1982 and found that the average reported monthly income of families who lost AFDC as a result of OBRA was lower than the 1983 poverty level for 28 to 41 percent of the families in Boston, Milwaukee, and Syracuse, and for 75 to 86 percent of the families in Dallas and Memphis.¹⁹

In Minnesota all of those who had their AFDC income terminated or reduced suffered a loss of income over the year. The average monthly net income of respondents dropped from \$847 to \$781, or by 7.7 percent (see Table 3). According to the authors of this survey all groups spent a greater proportion of their income on basic needs after OBRA came into effect: 44 percent were short of food at some time, and 30 percent had a utility cut off or threatened to be cut off.²⁰ Of those who were terminated from AFDC and thereby lost their eligibility for Medicaid, one-fourth of the respondents and one-third of their children had no health insurance coverage in January 1983.²¹ The economic status of all respondents was clearly reduced.

The Center for the Study of Social Policy found that the condition of those who had their benefits cut or were terminated from the rolls reflected hardship. Average incomes dropped between 6 and 21 percent (see Table 3). In Georgia 81 percent of the sample had cash incomes (not counting

food stamps) below the poverty level before OBRA and the percentage rose to 88.5 after the cuts. In New York City, looking at income one month before and one month after OBRA, the cuts almost doubled the number of families below the poverty line (from 28 percent to 52 percent).²²

Since the federal budget cuts took effect, many of these families are still experiencing hardship today. Half of the Michigan and New York City families and one-third of the Georgia families had run out of food completely within the last year; over 80 percent of the Georgia and Michigan families had run out of money; and over one-third of each of the samples had bills more than two months overdue. The loss of Medicaid coverage was the most serious problem for many of these families; one-quarter of the Georgia sample and one-third of the Michigan families had overdue medical bills averaging \$492 and \$432 respectively. Nearly half of the Georgia and Michigan mothers and 21 percent of the New York City mothers stated they could not always afford needed health care for themselves and their children.²³

A study carried out by Sandra Danziger (1984, see box) adds a psychological dimension to the effects of the OBRA changes on well-being. She found that the sense of security and well-being of women who combine work and welfare has declined. Not only do they see themselves as worse off than women who have left the welfare rolls entirely, they actually perceive themselves as slightly worse off than welfare mothers who do not work. In the past, women combining work and welfare felt better off than those who were completely dependent, and it is thought that they used AFDC in much the same way that other workers use Unemployment Insurance—to fill gaps when major interruptions of income occurred. OBRA has taken this option away from them. Although they have been unable to offset their reduced benefits by earning higher wages or working longer hours, these women can only hope that continued employment will eventually translate into high enough wages to spell freedom from welfare.

The value of the results

Both panel studies and cross-sectional studies have their place in determining the effects of such program changes as those incorporated in OBRA. Even panel studies that are less than optimally constructed may be informative, since the information in cross sections—net changes in the costs of AFDC, the labor supply of women who head households, and their earnings—tell only part of the story. To the extent that net numbers cancel out movements in opposite directions, valuable information may be lost. On the other hand cross-sectional studies, or, in any event, studies that explore the changes within a historical perspective, are obviously required to separate out the effects of a legislative reform from macroeconomic trends and events. Perhaps more important than the type of study selected is the type of questions explored.

Early studies of OBRA have dealt chiefly with effects on the work effort of working AFDC recipients, but, as mentioned earlier, these are but a small proportion of the AFDC caseload. It is therefore a matter of great import to examine the effects of the new OBRA regulations on the nonworking majority of AFDC recipients. Are they discouraged from taking part-time work? If so, the OBRA reform may have long-range negative repercussions on the dependency of these women.

Researchers at the Institute for Research on Poverty are now looking into the question of how nonworking AFDC recipients reacted to OBRA. Preliminary results suggest that nonworking AFDC recipients followed the same pattern as working recipients in that the net effect of OBRA was to shorten their stay on AFDC. Even if some of them chose not to work, this effect was swamped by such program changes as the assets limit and the lowering of the break-even point. Although the proportion of nonworking AFDC recipients increased after OBRA, this could be explained by the fact that many of those who would have worked while on AFDC were eliminated from the program by the rule changes. Thus the rise in the proportion of nonworking recipients does not necessarily indicate a behavioral response.²⁴

Panel or cross-sectional, the astonishing thing about the studies that have been done so far is that they show remarkable unanimity in their results. OBRA seems to have had little or no net effect on the work effort of single women who head households. Those terminated from AFDC because of the changes in the rules are no more likely (even in a recession) to be jobless and back on AFDC at a later date than were women who left AFDC before OBRA was implemented. Robert Hutchens, who is in the process of examining studies of OBRA for IRP and the Urban Institute, concurs: "OBRA did not increase the propensity for AFDC recipients to become or remain nonworking recipients."²⁵

OBRA has, at the same time, reduced the incomes of most AFDC women who were working when it was implemented. Despite increased earnings during a recessionary period, these women failed to compensate for lost AFDC benefits. Again Hutchens concurs: "There is solid evidence that the average pre-OBRA working recipient suffered a decline in income during the year after OBRA's implementation."²⁶

The discovery that many working women on welfare, when faced with the choice between work and welfare, choose work is not surprising to those who are familiar with the results of the Supported Work Demonstration.²⁷ The discovery that many of these women have suffered large cuts in their incomes, though not surprising either, is certainly alarming. The principal purpose of welfare is to provide support for impoverished children. In 1982, 21.9 percent of the children in this country were poor. In single-parent families 47.3 percent of the white children and 70.5 percent of the black children were poor.²⁸ These poverty rates are not likely to fall much as the economy recovers.

Some analysts (e.g., George Gilder) have argued that in the long run the motivation and achievement of children who grow up on welfare will be lower because of the psychology of dependence. OBRA is thus seen as having long-run positive effects because it reduced the number of children receiving welfare.²⁹ But others counter that the money saved today may be lost in later years—on health care, prisons, and the reduced productivity of adults who experienced deprived childhoods. Unfortunately, we do not yet have the evidence with which these opposing hypotheses can be tested. ◻

¹Nathan Glazer, "Reagan's Social Policy: A Review," *The Public Interest*, Spring 1984, pp. 83–84.

²AFDC-UP is operated at the option of the states. Only about half of all states have such a program.

³Glazer, p. 94.

⁴Committee on Ways and Means, U.S. House of Representatives, *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means* (Washington, D.C.: U.S. GPO, 1984), p. 325.

⁵Ibid., p. 319.

⁶Sheldon Danziger, "Budget Cuts as Welfare Reform," *American Economic Review*, 73 (May 1983), p. 66 (IRP Reprint 467).

⁷Committee on Ways and Means, pp. 324–325.

⁸The ceiling for qualifying for AFDC has been raised to 175 percent of a state's standard of need. Part-time as well as full-time workers will now receive the full \$75 a month deduction for work expenses. (Under OBRA the size of the deduction was related to the number of hours worked.) Rather than have the entire \$30-and-one-third earnings disregard expire after four months of employment, the \$30 disregard has been extended to cover a 12-month period. Those who lose AFDC when their disregards expire will continue to receive Medicaid coverage for nine months, and individual states will be allowed to extend the coverage for an additional six months beyond the nine. This extension covers families who lost AFDC after DEFRA came into effect (October 1, 1984) as well as those dropped from the rolls before that date if they would have continued to be eligible for AFDC with the benefit of the disregards (Children's Defense Fund, "The Deficit Reduction Act of 1984," CDF, 122 C Street, N.W., Washington, D.C., 20001, pp. 1–3).

⁹Feaster, Gottschalk and Jakubson (see box).

¹⁰Cole et al. (see box), p. 10 and Table 3.

¹¹General Accounting Office (see box), pp. 3–4.

¹²Cole et al., Table 1.

¹³GAO, p. 5.

¹⁴City of New York (see box), p. 6.

¹⁵Moscovice and Craig (see box), Fig. 1.

¹⁶Ibid.

¹⁷Center for the Study of Social Policy (see box), p. ii.

¹⁸Cole et al., Table 8.

¹⁹GAO, p. 6.

²⁰Moscovice and Craig, pp. 38–39.

²¹Ibid., p. 26.

²²Center for the Study of Social Policy, p. 53.

²³Ibid., p. ii.

²⁴Feaster, Gottschalk, and Jakubson, pp. 9–11.

²⁵Hutchens (see box).

²⁶Ibid.

²⁷See Robinson G. Hollister, Peter Kemper, and Rebecca A. Maynard, eds., *The National Supported Work Demonstration* (Madison: The University of Wisconsin Press, 1984).

²⁸*Background Material on Poverty*. Prepared by the staff for the Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, October 17, 1983 (Washington, D.C.: U.S. GPO), p. 14.

²⁹See "The Dynamics of Dependency," *Focus* 7:2.