

POVERTY AND WELFARE: THE GAO REPORT

From time to time we have reported on the state of the social science research on poverty, race, and welfare. The Government Accounting Office recently issued a report summarizing the results of over a hundred studies. We are reprinting the portion of the report that we believe has the greatest relevance to the on-going debate about the welfare system.*

WORK/DEPENDENCY

It is sometimes charged that welfare removes the need and desire to work. Research indicates the present system has design features that could reduce incentives to work. The effect of these features on work behavior, however, is unclear. While research does not clearly support the contention that welfare creates a disincentive to work, it appears that welfare has done little to actively encourage work. Legislation passed in 1981, however, has allowed states the option of establishing new work programs. We are studying these new work programs to determine how effective they are in helping recipients become independent of welfare. Our previous work found some work demonstration projects had encouraging results, but the long-term prospects for reducing welfare dependency, and thus the welfare rolls, remain unclear.

Researchers have found movement on and off AFDC is widespread and that most AFDC recipients depend on welfare for less than 8 years. Studies of welfare dependency have centered on AFDC recipients and have consistently found that they fall into three groups: (1) short-term users (1 to 2 years), (2) moderate users (3 to 7 years), and (3) long-term users (8 or more years). Based on a single period of time on AFDC, research shows that about one-half to two-thirds of all AFDC recipients are short-term users, one-fourth to one-third are moderate users, and only a few are long-term users. Research allowing for multiple periods of time on AFDC has found that the percentage of long-term users increases to about 30 percent of all AFDC recipients.

The research shows that likely long-term recipients can be pre-

* Government Accounting Office, Welfare: Issues to Consider in Assessing Proposals for Reform (Feb. 1987) (GAO/HRD-87-51BR).

dicted by certain characteristics, such as never-married status for younger women and low education level for older women. For example, one researcher found that never-married mothers under age 26 with a child under three constituted about one-third of all long-term recipients and they averaged over 10 years on welfare.

The perceived problems reported in the research of welfare's impact on recipient work efforts are

- welfare with no work requirement allows able-bodied recipients to receive welfare rather than work,
- eligibility and benefit factors of welfare programs create work disincentives, and
- the system does not adequately address the obstacles preventing recipients from becoming independent.

Researchers have studied these problems by evaluating (1) the impact guaranteed income payments have on work efforts, (2) the effects on recipient behavior of benefit loss due to earnings, (3) the effects of benefits more generous than earnings, and (4) the effectiveness of work programs designed to reduce dependency.

IMPACT OF GUARANTEED INCOMES

Fears that welfare with no work requirement would reduce work efforts were supported by the results of a large-scale income maintenance experiment run in the late 1960s and early 1970s. Called the Seattle-Denver Income Maintenance Experiment, or SIME/DIME, and sponsored by the Department of Health, Education and Welfare, the experiment tested the thesis that guaranteed income payments paid through a "negative income tax" would cause recipients to reduce work efforts significantly. A negative income tax payment guarantees a minimum cash income to families with no income, and reduces the cash payment according to a specified tax rate for each dollar of income.

The experiment consistently showed the guaranteeing income reduced work efforts by a small amount. Thus, fears of a sizable dependent population created by large-scale withdrawals of the working poor from the labor force were discounted. The results of the experiment are still debated. One debate centers on the effect mandatory work requirements would have had on the experiment's outcome. The experiment had no mandatory work or job search requirement. One researcher argued that had the experiment included a mandatory work requirement, the outcome would have shown increased instead of decreased work efforts.

**EFFECTS OF BENEFIT LOSS DUE TO EARNINGS AND OF
BENEFITS MORE GENEROUS THAN EARNINGS**

Researchers argue that welfare may discourage work as a result of

- excessive loss of benefits caused by earned income (high benefit reduction rates),
- abrupt loss of some benefits rather than a gradual tapering off (the notch effect),
and
- generous benefits that make welfare more attractive than a job.

Studies provide inconclusive evidence of the effect these perceived disincentives have on recipient work efforts.

Benefit reduction rates are the rates at which welfare benefits are lost due to earned income. Researchers argue that high benefit reduction rates reduce work efforts because recipients gain very little by working. There is a general dilemma over establishing benefit levels that provide adequate benefits, keeping benefit reduction rates low enough so as not to be a work disincentive, and still keeping welfare costs low enough to be politically acceptable.

The effect of benefit reduction rates is illustrated in table 2—as hours worked increase welfare benefits decrease.

**Table 2:
Benefit Reduction Rates Caused
by Increased Work (January 1980)^a**

<u>Benefits received</u>	<u>Weekly average hours of work at minimum wage</u>			
	<u>0 to 10</u>	<u>11 to 20</u>	<u>21 to 30</u>	<u>31 to 40</u>
<u>Example 1</u>				
AFDC, Food Stamp, EITC	34%	44%	44%	51%
<u>Example 2</u>				
AFDC, Food Stamp, EITC, Public Housing	45%	61%	61%	69%

^a The reduction rates shown here are before changes to the AFDC program by the 1981 Omnibus Budget Reconciliation Act. Under these changes, the reduction rates would be higher.

Source: Congressional Research Service

The table also illustrates how participating in multiple programs can result in higher benefit losses. In the second example the benefit reduction rate is higher because the recipient is in public housing. Earned income reduces benefits in varying amounts in the various programs. AFDC benefits are reduced dollar for dollar after subtracting allowable deductions. Food Stamp benefits are re-

duced by 30 cents for each dollar of countable earned income. Recipients enrolled in more than one program have higher reduction rates because the same dollar of income reduces benefits in several programs.

Recipients can experience an abrupt loss of benefits rather than a gradual tapering off when they increase their earnings. An AFDC parent receiving benefits due to unemployment loses all AFDC and Medicaid benefits if he or she works 100 or more hours in one month. If the parent works 99 hours or less, he or she remains eligible for benefits. This is called the "notch effect" because 1 hour of work can terminate eligibility.

Some researchers have suggested that benefits in some jurisdictions may be too generous. A study of the New York City welfare system showed that in the early 1970's, the combined benefits from AFDC, Medicaid, Food Stamp, and free school lunches were more than what could be earned from many of the city's low-skilled jobs.

WORK REQUIREMENTS

Since 1981 the focus of AFDC work program policy has shifted from passive incentives to active interventions and stringent requirements. At that time the administration proposed mandatory "workfare," which would have required employable recipients to work off their benefits. Instead of a mandatory program, the Congress, through the Omnibus Budget Reconciliation Act of 1981 and subsequent legislation, made workfare and several other approaches optional to the states.

The principal types of programs established were:

- Work Incentive (WIN) demonstration projects*, which usually offer a mixture of components, such as education, job search, work experience, classroom, and on-the-job training. The projects differ from regular WIN programs because they are administered by the state AFDC agency rather than the state employment agency. They also give the state more flexibility in designing the program.
- Community Work Experience Program* (known as workfare), in which AFDC recipients are required to work on public projects in exchange for their AFDC benefits.
- Job Search*, which requires participants to look for a job in a structured manner, either individually or as part of a group in a "job club."
- Work Supplementation*, sometimes called Grant Diversion, which allows the participants' welfare grant to be diverted to subsidize an on-the-job training position, often in the private sector, which may become unsubsidized employment.

The potential of reducing welfare dependency through mandatory work requirements is unknown because work demonstration projects are in their infancy and few useful evaluations of completed projects are available. In an August 1985 report *Evidence Is Insufficient to Support the Administration's Proposed*

Changes to AFDC Work Programs (GAO/HRD-85-92), we reported that while some of 37 projects reviewed showed encouraging interim results in enhancing employment and earnings of recipients, their success depended partly on such factors as high economic growth and adequate financial support, making replication difficult. On January 29, 1987, we issued a report on our study of work programs begun since 1981.

FAMILY UNIT

Research does not support the view that welfare encourages two-parent families to break up, or that unmarried women have children in order to become eligible for benefits.

ARE FAMILIES ADVERSELY AFFECTED?

Concerns over welfare's impact on family stability have stemmed largely from the single-parent focus of AFDC. The conventional wisdom in the 1970's held the single-parent focus of the welfare system might be contributing to marital dissolution. At the time, AFDC was largely confined to one-parent families because the unemployed father program was not available in every state and, where available, was so restrictive that few men participated. It was believed that extending coverage to two-parent families would help stabilize marriages. Currently about half the states have elected the option of providing AFDC to two-parent families when the principal wage earner is unemployed.

According to a 1979 report by the University of Wisconsin's Institute for Research on Poverty, existing evidence indicates that providing aid to two-parent families in the AFDC-Unemployment Parent program appeared to actually increase marital instability rather than stability. The research did not indicate why.

Additional concerns about welfare's impact on family stability were raised in the 1970's by the Seattle-Denver Income Maintenance Experiment, which provided minimum guaranteed incomes to selected families. Initial analysis of the experiment data showed that families receiving a guaranteed income—similar to cash welfare payments—had higher dissolution rates than did other families. Although Department of Health and Human Services analysts cautioned that the study findings were not clearly understood and may not apply to welfare families, many researchers continued to cite the experiment as a basis for concern about welfare families' dissolution. However, recent analysis of the experiment data demonstrated that the experimental families did not have higher dissolution rates.

Some researchers assert that welfare contributes to the increasing numbers of unmarried mothers because women with few economic prospects can achieve a measure of financial independence by having a child. The few studies of this problem, however, indicate that welfare has little impact on the childbearing rates of unmarried women, even young unmarried women.

It appears, however, that welfare does affect living arrangements because it gives young mothers an incentive to form their own households. Research shows that single mothers in high-benefit states are more likely to live independently, while single mothers in low-benefit states who are not living with a partner are likely to live in the home of a parent. Research indicates that living at home may be better for some single mothers because they are more likely to remain in school or go to work.