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Has the Decrease in the AFDC Benefit Reduction Rate Increased Work Effort? An Analysis of the California Work Pays Demonstration Project for 12/92 - 6/94

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**HAS THE DECREASE
IN THE
AFDC BENEFIT
REDUCTION RATE
INCREASED
WORK EFFORT?**

**AN ANALYSIS OF THE
CALIFORNIA WORK-PAYS
DEMONSTRATION
PROJECT DATA
FOR 12/92 – 6/94**

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Executive Summary

California Governor Pete Wilson has enacted numerous changes in California's welfare system over the past few years. He believes the changes are helping transform the welfare system from one that "encourages long-term dependency to one that helps people make the transition to self-sufficiency."¹

The reforms include reducing Aid to Families with Dependent Children (AFDC) cash grants in October and December 1992 by 4.5% and 1.3% respectively and again in September 1993 by 2.7%. Governor Wilson also reduced the benefit reduction rate (BRR) that applies to AFDC recipients after they work four months from 100% to 67% in November 1993. Therefore, benefits are no longer reduced by a dollar for every dollar earned, but rather by 67 cents for every dollar earned. In addition, Governor Wilson eliminated the 100-hour rule in December 1992 which prohibited certain AFDC recipients from receiving AFDC if they worked more than 100 hours in a month.

In this paper I ask whether the decrease in the BRR has increased work effort or "self-sufficiency." To answer this question, I analyze data from the California Work Pays Demonstration Project for December 1992 through June 1994. The project includes information from four counties on approximately 10,000 experimental AFDC cases that receive AFDC benefits under the current regulations and 5,000 control cases that receive benefits under the September 1992 regulations.

Since work effort is a function of how many people work and how much work those people do, I address both questions. I also discuss exit rates since some people would not believe that the BRR decrease adequately increased work effort unless more recipients are both leaving and remaining off AFDC.

Percent of Cases With Earnings

To determine whether more people are working, I first compare the number of AFDC cases with earnings in the experimental group to the number in the control group before and after the decrease in the benefit reduction rate.

¹ March 1, 1994 Press Release from the California Governor's Office.

These comparisons are done for both cases with AFDC earnings and cases with Food Stamp earnings. The two types of earnings differ because the programs define earnings in slightly different ways.

The significance tests show that the difference between the percent of cases with AFDC earnings after the decrease in the BRR was not significantly different from before the decrease. For Food Stamp earnings, however, San Joaquin county showed a significant increase in the percent of cases with Food Stamp earnings after the BRR decrease. Since AFDC earnings data is unavailable for San Joaquin County, we cannot directly compare these Food Stamp results with AFDC results to check for consistency. Nonetheless, the charts and graphs of AFDC earnings resemble those of Food Stamp earnings so we can assume that there has also been a statistically significant increase in the percent of cases with AFDC earnings after the BRR was decreased.

Mechanical and behavioral effects explain the significant difference in the percent of cases with earnings for San Joaquin County. Mechanical effects cause differences in AFDC recipients' status through no alteration of the recipients' behavior but rather through their control or experimental classification. For example, an experimental recipient can earn approximately one-third more than a control recipient while receiving AFDC. A comparison of the percent of AFDC cases on Food Stamps with Food Stamp earnings to the percent of all cases on Food Stamps with Food Stamp earnings in our data set reveals that mechanical effects were present in all four subgroups observed.

Although economic theory and a number of experiments indicate that decreasing the BRR will increase work effort, I conclude that the majority of the variation is due to mechanical, not behavioral, effects. This is because recipients are unaware of the changes in work rules. In addition, joining the workforce often cannot be done quickly since many recipients not only must find jobs, but also childcare and transportation.

Average Earnings for Cases

Under the assumption that higher earnings signify that recipients are working more, I examine average earnings for cases with earnings in the experimental and control groups. For cases with AFDC earnings, four of the six subgroups had significant results; for cases with Food Stamp earnings, four of the eight subgroups had significant results. All effects that were significant indicate that earnings were higher after the decrease in the BRR. Therefore, our Food Stamp and AFDC earnings findings are consistent.

A comparison of the Food Stamp earnings for AFDC cases with Food Stamp earnings and the Food Stamp earnings for all cases with such earnings reveals that approximately half of the variation in earnings was due to mechanical effects in three of the four counties.

Percent of Cases that Exit AFDC

Only one of the four subgroups shows that the BRR decrease made a significant difference in the percent of cases that exit AFDC. It indicates that lowering the BRR reduced the number of cases leaving AFDC. It is important to determine whether the reduction is attributed to fewer new exits or more cases off AFDC returning to AFDC. None of the subgroups had a significant difference in new exit rates after the BRR decrease. However, the two subgroups with the largest t-statistics indicate that the BRR decrease reduced the number of new exits. With regard to cases off AFDC that return to AFDC, the subgroup with a significant difference indicated that after the BRR decrease, AFDC recipients who have exited the AFDC program remain off AFDC longer than before the decrease.

I argue that the new exit rate will be higher than the current rate with time. In addition, the rate at which cases off AFDC return to AFDC will be lower over time. Whether the overall percent of cases off AFDC will increase or decrease depends on the combination of the new exit rate and the rate at which cases off AFDC return to AFDC.

Work Effort Increase

There appears to be minimal support that work effort among recipients has increased in some counties because of the decrease in the benefit reduction rate. I conclude that most of the observed increase in recipients with earnings was due to mechanical, rather than behavioral, effects. However, I posit that as time passes behavioral effects will play a larger role in increases in work effort. In addition, there will be greater increases in work effort in all counties.

I conclude by suggesting that Governor Wilson is satisfied with the small increase in work effort or "self-sufficiency" that the decrease in the BRR has produced. This is because I believe Governor Wilson's main objective in welfare reform was not to increase self-sufficiency, but was to cut costs.

Chapter I Introduction

California Governor Pete Wilson has enacted numerous changes in California's welfare system over the past few years. He believes the changes are helping transform the welfare system from one that "encourages long-term dependency to one that helps people make the transition to self-sufficiency."²

The reforms include reducing Aid to Families with Dependent Children (AFDC) cash grants in October and December 1992 by 4.5% and 1.3% respectively and again in September 1993 by 2.7%. Governor Wilson also reduced the benefit reduction rate (BRR) that applies to AFDC recipients after they work 4 months from 100% to 67% in November 1993. Therefore, benefits are no longer reduced by a dollar for every dollar earned, but rather by 67 cents for every dollar earned. In addition, Governor Wilson eliminated the 100-hour rule in December 1992 which prohibited certain AFDC recipients from receiving AFDC if they worked more than 100 hours in a month.

In this paper, I ask whether the decrease in the BRR has increased work effort or "self-sufficiency." To answer this question, I analyze data from the California Work Pays Demonstration Project for December 1992 through June 1994. The project includes information from four counties on approximately 10,000 experimental AFDC cases that receive AFDC benefits under the current regulations and 5,000 control cases that receive benefits under the September 1992 regulations. The demonstration project is described in more detail in **Chapter II**.

Work effort is a function of the number of people who work and how much work these people do. In **Chapter III**, I examine the number of AFDC recipients who work by examining the percent of AFDC cases with earnings. To determine whether more recipients are working due to the reduction in the benefit reduction rate, I compare the percent of AFDC cases with earnings for the experimental groups to the percent with earnings for the control group before and after the reduction in the BRR.

² March 1, 1994 Press Release from the California Governor's Office.

In **Chapter IV**, I examine how much work recipients with earnings do by examining the average earnings of cases with earnings. To determine whether AFDC recipients who work are working more under the new rules, I compare the average earnings of cases with earnings in the experimental group to the control group before and after the reduction in the BRR.

Even if more AFDC recipients are working and recipients that work are working more, some people would not believe that the decrease in the benefit reduction rate has adequately increased work effort unless more recipients were leaving AFDC and remaining off AFDC. This issue is discussed in **Chapter V**.

I synthesize the findings from chapters III-V in the final chapter, **Chapter VI**, to determine whether the decrease in the benefit reduction rate has indeed improved work effort among AFDC recipients. I also address whether the initial effects of the decrease in the BRR on work effort have met the objectives of Governor Wilson's welfare reform.

Chapter II

What Is The Demonstration Project?

The California Department of Social Services initiated a field experiment in December 1992 with control and experimental groups to assess the impact of recent changes in AFDC provisions. Changes include both reducing the size of AFDC benefits and enabling AFDC recipients who work to keep more of their AFDC benefits. Recipients in control cases receive AFDC payments according to September 1992 provisions. Recipients in experimental cases receive payments according to current AFDC provisions.

In this chapter, I will describe the current AFDC provisions. I will then discuss both the recent changes in provisions and the demonstration project.

Current AFDC Provisions

AFDC provides cash payments primarily to needy children who lack parental support or care and to certain others in the households of such children. The AFDC family group (FG) and unemployed parent (U) aid payments assist needy children who live with parents or caretaker relatives. Families receive AFDC-FG payments if a child in the family is deprived of parental support due to absence, death, or incapacity of their mother or father. Families receive AFDC-U payments if a child in the family is deprived of parental support due to the unemployment of the principal wage earner. AFDC-FG cases are often considered one-parent cases; AFDC-U cases are often considered two-parent cases. In this paper "AFDC" will refer to the AFDC-FG and AFDC-U program components only, since the demonstration project is only concerned with these components. FG cases compose approximately 80% of the AFDC caseload while U cases compose approximately 20%.³

Eligibility

A needy child is eligible for AFDC until his or her eighteenth birthday, or nineteenth birthday if the child is a full-time student in a secondary or technical

³ CA-237 Statistical Series from the California Department of Social Services.

school and is expected to complete the program before reaching age 19.⁴ A child is considered needy if his or her assistance unit (AU) passes both a gross and net income test. An AU is composed of parent(s) of a dependent child and any dependent siblings who are in the home.⁵

To pass the gross income test, an AU cannot have a gross income that exceeds 185 percent of the Minimum Basic Standard of Adequate Care (MBSAC) plus the value of any special needs. Special needs, which may be recurring or nonrecurring, include items such as special dietary requirements and expenses caused by catastrophe or eviction.⁶ For the net income test, an AU's net nonexempt income cannot exceed the MBSAC plus the value of special needs. Net nonexempt income is gross income minus all applicable income exemptions and deductions.

Unearned income exemptions include the first \$50 of monthly child support payments, Food Stamps, and educational loans and grants used to cover education costs. Earned income exemptions include the earned income of each dependent child receiving AFDC who is a full-time or part-time student who is not a full-time employee and is attending a school, university, or vocational training course.⁷ Earned income deductions are an initial \$30 in monthly earnings plus one-third of remaining earnings, a \$90 monthly work expense, and a maximum monthly child care allowance of \$175 per child (\$200 for children under age 2).⁸

Benefits

The monthly benefit amount an AU receives is determined by the **smaller** of (1) the Maximum Aid Payment (MAP) plus special needs or (2) the MBSAC plus special needs minus the net nonexempt income amount. The current MAP and MBSAC amounts are shown in Table 1.

⁴ 1994 *Green Book* from the Committee on Ways and Means in the U.S. House of Representatives, p. 326.

⁵ 1994 *Green Book*, p. 327. SSI recipients, stepsiblings, and children receiving foster care maintenance payments or adoption assistance are excluded from the AU.

⁶ 1994 *Green Book*, p. 382.

⁷ 1994 *Green Book*, p. 327.

⁸ 1994 *Green Book*, p. 329.

Table 1: Current MBSAC and MAP Amounts

Size of AU	MBSAC	MAP
1	\$ 355	\$ 299
2	583	490
3	723	607
4	858	723
5	979	824
6	1,101	926
7	1,209	1,017
8	1,317	1,108
9	1,428	1,197
10 or more*	1,551	1,286

* For each additional person, add \$14

Source: California-DSS-Manual-EAS 573, 7/1/94

Recent Changes

The number of AFDC cases in California has been rising at a rapid rate. From 1990 to 1993, the average monthly number of cases increased 32% from 652,070 to 859,284. Total AFDC aid payments increased by approximately 18% from approximately \$5 billion to \$5.9 billion during this time.⁹

Faced with California's fiscal crisis, Governor Wilson sought to decrease total AFDC costs through a package of benefit reductions. Governor Wilson also included work incentives in the package. We now discuss the package's components.

Benefit Reductions

In October and December 1992, the MAP was reduced by 4.5 and 1.3 percent respectively. In September 1993, the MAP was further reduced by 2.7 percent. Table 2 shows the MAPs in September 1992 and currently.

⁹ "AFDC Time Trends for Fiscal Years 1984-1993" from U.S. Department of Health and Human Services.

Table 2: Current and September 1992 MAP Amounts

Size of AU	MAP (Current)	MAP (September 1992)
1	\$ 299	\$ 326
2	490	535
3	607	663
4	723	788
5	824	899
6	926	1,010
7	1,017	1,109
8	1,108	1,209
9	1,197	1,309
10 or more	1,286	1,403

Source: California-DSS-Manual-EAS 9/1/93, p. 573.

Work Incentives

The State increased work incentives through two changes. It extended the \$30 and 1/3 deduction and eliminated the 100-hour rule. The extension of the 30 and 1/3 deduction can be considered a reduction in the BRR from 100% to 67% for recipients after they work four months. In other words, benefits are no longer reduced by a dollar for every dollar earned, but rather by 67 cents for every dollar earned.

As mentioned earlier, when determining net income to be subtracted from the MBSAC to determine a potential AFDC grant, an initial \$30 in monthly earnings plus one-third of remaining earnings can be deducted from gross income. The net income formula follows.

$$\text{Net Income} = \text{Earnings} - \$30 - 1/3 (\text{Earnings} - \$30)$$

Prior to November 1993, the \$30 and 1/3 deduction only applied to the first four months, and the \$30 deduction continued for eight more months. These old provisions result in much lower grant amounts than the current provisions.

To demonstrate the difference between the provisions with respect to potential grant amount, I will calculate grant amounts both ways for a two-person AU unit with an MBSAC of \$583 and earnings of \$300. Under the current provisions, the potential grant would be calculated by $\$583 - [300 - 30 - 1/3 (270)]$ which equals \$403. Under the pre-November provisions, for the first four

months, the benefit would be determined the same way as above. However, for the next eight months, the formula would be $\$583 - [300 - 30]$ which equals $\$313$. For all following months, the formula would be $\$583 - [300]$ or $\$283$. Table 3 summarizes this information.

Table 3: Benefits For a 2-person AU Unit Under Current and October 1993 30 1/3 Provisions. AU Earns \$300 and Has an MBSAC of \$583.

	Benefits (With Current 30&1/3)	Benefits (With October 30&1/3)	Tax (With October 30&1/3)
0-4 months	403	403	180 (60%)
5-12 months	403	313	270 (90%)
12+ months	403	283	300 (100%)

The "100-hour rule" prohibited AFDC-U cases from receiving aid if the principal wage earner worked more than 100 hours in a month. In December 1992 this rule was eliminated for AUs in which the principal earner works more than 100 hours in a month, as long as the earner accepts the work after the AU is authorized aid.¹⁰

The Demonstration Project

In order to enact the recent changes discussed above, the State was required to obtain a Federal waiver because Federal regulations prohibit reducing AFDC payments by the amount the State proposed. One condition on which the Federal government signed the waiver was that after a two-year grace period, the State would reimburse the Federal government for excess costs if the changes were not cost neutral to the Federal government. Another condition was that the State would conduct research on the effect of these provisions on recipients for achieving self-sufficiency. In order to determine whether the changes have been cost neutral to the Federal government and to conduct research, the State established the demonstration project.¹¹

¹⁰ California-DSS-Manual-EAS, 9/1/93, p. 955.

¹¹ "Terms and Conditions for the California Assistance Payments Demonstration Project" from the U.S. Department of Health and Human Services, October 1992.

Sample

The counties in the study are Alameda, Los Angeles, San Bernardino, and San Joaquin. They were chosen because of their distinct characteristics related to geography, populations, welfare caseloads, and welfare departments. Los Angeles and Alameda counties contain major urban centers, and San Joaquin and San Bernardino counties are neighboring non-urban areas. San Joaquin represents an agricultural region, while San Bernardino is part of southern California's desert region. With regard to welfare caseloads, Los Angeles County has the State's largest caseload. San Joaquin had the highest percentage of its population on AFDC in 1990 of all three counties. In addition, San Joaquin has the highest percent of AFDC-U cases of the four counties.¹²

The initial sample was composed of roughly 10,000 experimental cases and 5,000 control cases within these counties. Approximately 4,000 experimental cases and 2,000 control were selected from Los Angeles for the initial sample; approximately 2,000 experimental and 1,000 control cases were chosen from each of the three remaining counties. Current AFDC provisions apply to the experimental group; September 1992 provisions apply to the control group. Since benefits were cut by 4.5% in October 1992 and yet the demonstration project did not begin until December 1992, the 4.5% cut was restored for the control cases in December 1992. All open AFDC cases in the four counties in October 1992 constituted the sampling frame for the initial CWDP sample.¹³

Replacement Cases

Replacement cases are chosen to replace original cases that leave AFDC in an attempt to maintain approximately 5,000 control and 10,000 experimental cases. For the first year of the project, replacement cases were chosen from all AFDC cases for the county which were had not received AFDC in the county since December 1992. After December 1993, replacement cases were selected from cases which had not received AFDC during the prior twelve months. The first replacement cases were selected in March 1993. After March 1993, replacement cases were selected monthly. Replacement samples were drawn using the same sampling fractions that were used to produce the initial sample.¹⁴

¹² "California Work Pays Demonstration Project: Uniform Database, Preliminary Version, 1994 Dataset Codebook" from UC-DATA, p. 2.

¹³ "California Work Pays Demonstration Project: Uniform Database, Preliminary Version, 1994 Dataset Codebook" from UC-DATA, p. 101.

¹⁴ "California Work Pays Demonstration Project: Uniform Database, Preliminary Version, 1994 Dataset Codebook" from UC-DATA, p. 101.

Chapter III

Are More AFDC Recipients Working?

One way to assess whether work effort among AFDC recipients has improved since the \$30 and 1/3 deduction was extended is to compare the percent of AFDC cases with earnings in the experimental group to the percent with earnings in the control group before and after the deduction was extended. Recipients who previously were not working may choose to work because benefits no longer are reduced by \$1 for each \$1 a family earns after four months, but rather by 67 cents.

Percent of Cases with Earnings

Two measures of earnings are included in the Work Pays Demonstration Project data base--AFDC earned income and Food Stamp earned income. AFDC earned income differs from Food Stamp earned income because the programs define earned income in slightly different ways.

Both definitions include wages, salaries, and profits of an employee or self-employed person. However, earnings from a child are excluded from the earned income calculation if he or she is a student at least half time until the child is 19-years-old in the AFDC program, but only until 18-years-old in the Food Stamp program. In addition, the AFDC program, unlike the Food Stamp program, excludes training allowances paid to recipients over the age of 18 in Job Training Partnership Act programs in their earned income calculation.¹⁵

The AFDC and Food Stamp earned income amounts may also vary because different people may be counted as members of a household. A household that has adult children (over the age of 18) who do not have their own children may not be included in the AFDC assistance unit but may be included in the Food Stamp household. Therefore, their income would be contained in the Food Stamp earned income amount but not the AFDC earned income amount. Similarly, unrelated persons may not be included in the AFDC assistance unit but may be considered part of the Food Stamp household.¹⁶ These differences

¹⁵ 1994 Green Book, p. 763.

¹⁶ 1994 Green Book, p. 762.

suggest that average Food Stamp earnings should be higher than average AFDC earnings.

We will examine the percentage of control and experimental recipients with earnings under each income definition. First, we consider the percentage with AFDC earned income.

Percent of Cases with AFDC Earnings

The percent of FG and U cases that have AFDC earned income for both the experimental and control groups for Alameda, Los Angeles, and San Bernardino counties is shown in Charts A1-A6 in the appendix. Such data for San Joaquin County are unavailable. Tables 4 and 5 summarize the results from charts. The tables are divided into two periods--before and after the 30 and 1/3 deduction was extended. The percentages in the table were calculated by summing the number of cases with AFDC earnings for each month in a period and then dividing by the total number of AFDC cases in that period.

Table 4: Percent of AFDC-FG Cases With AFDC Earnings Before and After the 30 and 1/3 Deduction Was Extended

	Percent With AFDC Earnings (Pre Extension)	Percent With AFDC Earnings (Post-Extension)
Alameda		
Experimental	5.1	6.8
Control	3.9	4.9
Difference (E-C)	1.2	1.9
Los Angeles		
Experimental	3.9	5.2
Control	5.0	6.4
Difference (E-C)	-1.1	-1.2
San Bernardino		
Experimental	11.3	16.2
Control	10.9	15.9
Difference (E-C)	0.4	0.3

Table 5: Percent of AFDC-U Cases With AFDC Earnings Before and After the 30 and 1/3 Deduction Was Extended

	Percent With AFDC Earnings (Pre-Extension)	Percent With AFDC Earnings (Post-Extension)
Alameda		
Experimental	13.4	15.8
Control	12.8	14.8
Difference (E-C)	0.6	1.0
Los Angeles		
Experimental	15.8	20.2
Control	15.7	18.8
Difference (E-C)	0.1	1.4
San Bernardino		
Experimental	23.9	30.4
Control	18.7	25.6
Difference (E-C)	5.2	4.8

The following table, Table 6, shows the difference between experimental and control cases with AFDC earnings before and after the 30 and 1/3 deduction was extended. It also shows which differences between the two time periods are statistically significant. T-statistics are in parentheses.

The following formula was applied to determine the t-statistics.

$$t = \frac{(\bar{P}_{E_i} - \bar{P}_{C_i}) - (\bar{P}_{E_f} - \bar{P}_{C_f})}{\sqrt{\frac{\bar{P}_{E_i}(1 - \bar{P}_{E_i})}{N_{E_i}} + \frac{\bar{P}_{C_i}(1 - \bar{P}_{C_i})}{N_{C_i}} + \frac{\bar{P}_{E_f}(1 - \bar{P}_{E_f})}{N_{E_f}} + \frac{\bar{P}_{C_f}(1 - \bar{P}_{C_f})}{N_{C_f}}}}$$

"P" refers to the proportion of cases with earnings. As stated earlier, the proportions were calculated by summing the number of cases with AFDC earnings for each month in a period and then dividing by the total number of cases, or N, in that period. "E" refers to experimental status and "C" to control status. The months before the 30 and 1/3 deduction was extended (December 1992 through October 1993) are represented by "I" for initial, and the months after the deduction (November 1993 through June 1994) are represented by "F" for final.

Since many of the cases observed in one month will also be observed in future months, there are auto-correlation errors. However, since the auto-correlation errors exist in both the control and experimental groups, it is assumed that these errors affect both groups similarly and therefore are ignored.

Table 6: Difference Between Percent of Experimental and Control Cases With AFDC Earnings Before and After the 30 and 1/3 Deduction Was Extended.

	Difference Between E and C Group (FG)	Difference Between E and C Group (U)
Alameda		
Post-Extension	1.9	1.0
Pre-Extension	1.2	0.6
Difference	0.7 (1.38)	0.4 (0.33)
Los Angeles		
Post-Extension	-1.2	1.4
Pre-Extension	-1.1	0.1
Difference	-0.1 (-0.51)	1.3 (1.67)
San Bernardino		
Post-Extension	0.3	4.8
Pre-Extension	0.4	5.2
Difference	-0.1 (-0.09)	-0.4 (-0.31)

* significant at p .05

Analysis

The significance tests show that the difference between the percent of cases with earnings by experimental and control group after the 30 and 1/3 deduction was extended was not significantly different from before the extension. These results combined with the fact that the difference between the experimental and control groups actually decreased after the 30 and 1/3 deduction was extended for a couple of the six subgroups support the notion that the extension has not significantly improved work effort among AFDC recipients.

We will now compare these findings to the findings regarding the percent of cases with Food Stamp earnings.

Percent of Cases with Food Stamp Earnings

Approximately 15% of FG cases and 5% of U cases do not receive Food Stamps. Therefore, when calculating the percent of cases with Food Stamp earnings, we cannot divide the number of cases with such earnings by the total number of AFDC cases. Rather, the number of cases with Food Stamp earnings must be divided by the number of AFDC cases with Food Stamp benefits. Consequently, cases that receive AFDC but not Food Stamps were excluded from our figures.

Cases that may receive AFDC but not Food Stamps include cases in which the household may have unrelated persons with whom they purchase and prepare food and/or adult children (over the age of 18) who do not have their own children. These adult children and unrelated persons may not be included in the AFDC assistance unit but may be in the Food Stamp household, so their income would be included in the Food Stamp earned income amount. If these non-AFDC household members have sufficient earnings, the entire household may be ineligible for Food Stamps. In addition, households in which the head of the household voluntarily quit a job without good cause will be denied Food Stamps for 90 days. Food Stamp eligibility is also denied to persons living in most institutional settings.¹⁷

The percent of FG and U cases that have Food Stamp earned income for both the experimental and control groups for Alameda, Los Angeles, San Bernardino, and San Joaquin counties is shown in Charts B1-B8 in the appendix. Tables 7 and 8 summarize the results from the charts. Findings are divided into two time periods--before and after the 30 and 1/3 extension. Percentages for each time period were calculated by first summing the number of cases that had Food Stamp earnings over the time period. This number was then divided by the total number of all AFDC cases with Food Stamp benefits for the time period.

Table 7: Average Percent of AFDC-FG Cases With Food Stamp Earnings Before and After the 30 and 1/3 Deduction Was Extended.

	Percent With Food Stamp Earnings (Pre-Extension)	Percent With Food Stamp Earnings (Post-Extension)
Alameda		
Experimental	5.2	7.7
Control	4.5	5.9
Difference (E-C)	0.7	1.8
Los Angeles		
Experimental	6.7	7.9
Control	7.9	9.7
Difference (E-C)	-1.2	-1.8
San Bernardino		
Experimental	12.1	15.5
Control	10.1	14.3
Difference (E-C)	2.0	1.2
San Joaquin		
Experimental	10.9	15.7
Control	11.6	12.2
Difference (E-C)	-0.7	3.5

¹⁷ 1994 Green Book, p. 767.

Table 8: Average Percent of AFDC-U Cases With Food Stamp Earnings Before and After the 30 and 1/3 Deduction Was Extended.

	Percent With Monthly Earnings (Pre-Extension)	Percent With Monthly Earnings (Post-Extension)
Alameda		
Experimental	15.8	19.1
Control	15.4	18.0
Difference (E-C)	-0.4	1.1
Los Angeles		
Experimental	26.6	30.1
Control	24.1	27.3
Difference (E-C)	2.5	2.8
San Bernardino		
Experimental	20.0	25.0
Control	15.4	19.4
Difference (E-C)	4.6	5.6
San Joaquin		
Experimental	24.9	30.9
Control	20.6	21.2
Difference (E-C)	4.3	9.7

The following table, Table.9, shows the difference between experimental and control cases with Food Stamp earned income before and after the 30 and 1/3 deduction was extended. It also shows which differences are statistically significant.¹⁸ T-statistics are in parentheses.

Analysis

The difference between the percent of cases with Food Stamp earnings by experimental and control group after the 30 and 1/3 deduction was extended was significantly different from before the extension for two of the eight subgroups. The two subgroups were San Joaquin County's FG and U cases. The significant difference in the subgroups supports the notion that the 30 and 1/3 deduction extension has increased the number of recipients on AFDC.

¹⁸ Significance was determined by the formula on page 14.

Table 9: Difference Between Experimental and Control Cases With Food Stamp Earnings Before and After the 30 and 1/3 Deduction Was Extended

	Difference Between E and C Group (FC)	Difference Between E and C Group (U)
Alameda		
Post-Extension	1.8	1.1
Pre-Extension	0.7	0.4
Difference	1.1 (1.93)	0.7 (0.55)
Los Angeles		
Post-Extension	-1.8	2.8
Pre-Extension	-1.2	2.5
Difference	-0.6 (-1.17)	0.3 (0.31)
San Bernardino		
Post-Extension	1.2	5.6
Pre-Extension	2.0	4.6
Difference	-0.8 (-0.96)	1.0 (0.69)
San Joaquin		
Post-Extension	3.5	9.7
Pre-Extension	-0.7	4.3
Difference	4.2* (5.10)	5.4* (3.30)

* Significant at $p=.05$

Reconciliation of Results

We cannot directly compare the results from San Joaquin County with the AFDC earned income results to check for consistency since there were no data on AFDC earned income for San Joaquin. However, from the graphs and charts, it is evident that the size and trends of the difference in the percent of cases with AFDC earned income by control and experimental status are quite similar to the size and trends in the percent with Food Stamp income. Therefore, we can assume that in San Joaquin there has also been a statistically significant increase in the percent of cases with AFDC earned income after the benefit reduction rate was decreased.

We will now discuss why there is a larger percentage of AFDC recipients working after the 30 and 1/3 deduction was extended than before it was. The analysis will focus on what Orley Ashenfelter has termed "mechanical" reasons as well as "behavioral" ones.¹⁹

¹⁹ Moffitt, Robert, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, March 1992, 30, p. 1.

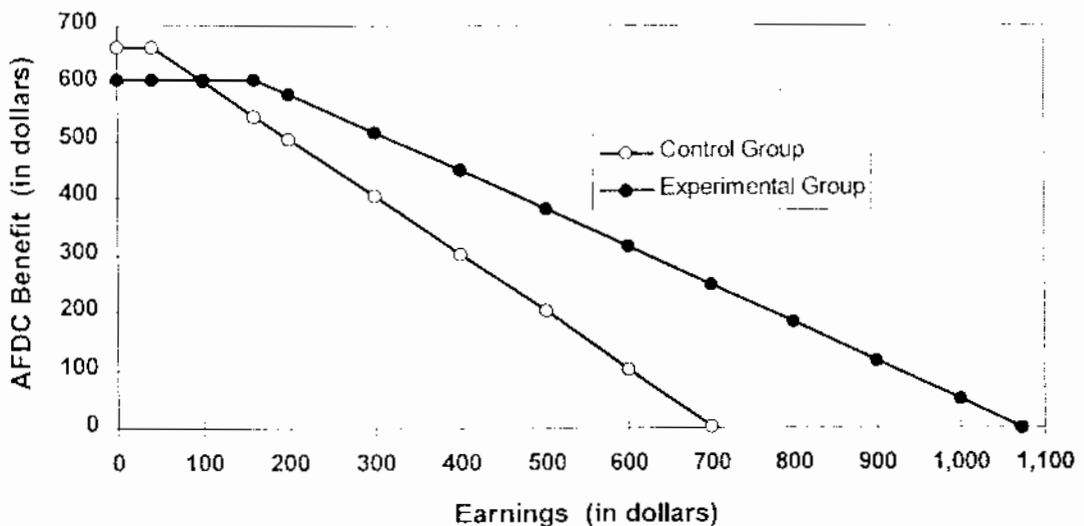
Mechanical Effects

Mechanical effects cause differences in AFDC recipients' status through no alteration of the recipients' behavior but rather through their control or experimental classification. For example, a recipient who works could remain eligible for AFDC longer solely because she or he was in the experimental group rather than the control group. This is because of the 30 and 1/3 deduction extension.

If a control recipient earns more than \$30 plus the MBSAC amount after four months of earnings, she or he loses AFDC eligibility. However, an experimental recipient can earn up to \$30 and one and one-third of the MBSAC and still retain eligibility. This is because after the \$30 deduction, benefits are reduced by 67 cents for each \$1 rather than \$1.

The following chart, Chart 1, demonstrates for a family of three in the control group that benefits would be terminated after the family earned \$703, the MBSAC amount, beyond the \$30 deductible and has been working for more than four months. However, the same family under the experimental condition could earn up to \$1073 beyond the \$30 deductible, or \$370 more, and still receive benefits.

Chart 1: Benefit Reduction Rates for Experimental and Control Cases (AU Size = 3)



As displayed in the graph, benefits only begin to drop for the control cases after they earn \$60 beyond the \$30 disregard and for experimental cases after they earn \$162 beyond the \$30 disregard. This is because the MAP is lower than the MBSAC minus net income before those amounts, and the grant amount is always determined by the lower amount.

This purely mechanical effect will have the effect of increasing the percentage of recipients with earnings in the experimental group compared to the percentage in the control group even though there is no behavioral change in either group.

To assess the magnitude of these mechanical effects, we can compare the percent of AFDC cases on Food Stamps with Food Stamp earnings to the percent of all cases on Food Stamps with such earnings in our data set. This is possible because UC-DATA continues to receive information on all cases in the sample even if they leave AFDC, as long as they continue to receive some form of public assistance. This latter data set will include most of the control recipients who would have stayed on AFDC under experimental rules since the income of most of these recipients would still qualify them for Food Stamps. For example, a mother in Pennsylvania with two children with daycare expenses can earn no more than approximately \$7,000 a year and remain on AFDC, but can earn up to approximately \$15,000 a year and remain on Food Stamps.²⁰ The interaction between California's AFDC and Food Stamp programs is similar.

Researchers at UC-DATA indicate that the data on cases that have left AFDC are only reliable for Los Angeles and San Bernardino counties. This is because their code for Alameda and San Joaquin counties has not been extracting cases with earnings that have left AFDC. Due to the unreliability of the data for these two counties, this analysis will only focus on Los Angeles and San Bernardino counties.

The following table, Table 10, shows the difference between the percent of experimental and control cases with Food Stamp earnings before and after the 30 and 1/3 deduction extension for AFDC cases with Food Stamps and all cases with Food Stamps. It is important to realize that the difference in the number of cases between the two universes may be small in some subgroups so outliers can largely skew results.

²⁰ 1994 *Green Book*, p. 335.

Table 10: Difference Between Percent of Control and Experimental Cases with Food Stamp Earnings for Cases on AFDC and all Cases that Receive Food Stamps

	Difference (FC)	Difference (U)
Los Angeles		
AFDC Cases	-0.6	0.3
All Cases	-0.8	-0.3
Difference	0.2	0.6
San Bernardino		
AFDC Cases	-0.8	1.0
All Cases	-1.0	0.3
Difference	0.2	0.7

The results indicate that mechanical effects are present in each subgroup. This can be concluded because for the two subgroups in which the percent of recipients who are working in the experimental group exceed those in the control group by more after the decrease in the BRR, the difference between the two groups is lower when all cases with Food Stamps are considered. Similarly, for the remaining subgroups in which the experimental group trailed the control group by more after the decrease in the BRR, the experimental group trails the control group by even more when all cases are considered.

For the four groups, mechanical effects appear to result in a .2 to .7 percent increase in recipients with earnings. Thus, mechanical effects seem to explain part of the variation between the groups, but not all of it. Therefore, we examine the other side of the equation, behavioral effects, which also contribute to the increase in the percentage of recipients with earnings in San Joaquin county.

Behavioral Effects

As I stated earlier, more recipients may choose to work under the new regulations because their benefits will no longer be taxed at 100%. Economic theory supports this idea. Economist Robert Moffitt used an economic model to determine how much work effort would increase for single mother families if the benefit reduction rate was reduced when the benefit guarantee level is set at the poverty line. He determined that if the BRR was reduced from 100% to 75, 50, and 25%, work effort would increase by 2.3, 3.0, and 3.4 hours per week respectively if recipients had low income and substitution elasticities. It would

increase by 0.6, 2.0, and 3.2 hours per week if the recipients had high elasticities.²¹

There has been some evidence to support these theories. The results from a large-scale Seattle-Denver negative income tax experiment indicate that work effort increased by approximately 3% for single-mother families and 11% for two-parent families as the benefit reduction rate decreased from 70% to 50%.²² In addition, with regard to the increase in the AFDC BRR from 67% to 100% nationwide in 1981, Moffitt argues that the increase in the BRR appeared to decrease work by approximately .7 to .9 hours a week.²³ In addition, Moffitt states that negative work effort only began to surface two to three years after the increase.

Just as Moffitt determined that changes in work effort due to the decrease in BRR in 1981 did not appear for a couple of years, it is likely that significant behavioral effects on the percent of recipients with earnings will not surface until later also. The lag can be attributed to the fact that it may take a while for many recipients to find jobs, childcare, transportation, and/or work clothes before entering the work force. Other recipients may need to improve their self-esteem. Part of the lag can also be attributed to lack of knowledge of the new work rules.

Awareness of Rules

To evaluate whether AFDC recipients are aware of the decrease in the benefit reduction rate, the UC-DATA Process Team observed 39 AFDC eligibility interviews. In only approximately 15% of the interviews, caseworkers offered information about work rules, deductions, or transitional programs. When asked about their communication with recipients, 26 of the 29 caseworkers interviewed said that they only discuss the impact of work on AFDC benefits if the client asks or starts a new job.²⁴

Another indication that many recipients are unaware of the changes is the lack of knowledge recipients exhibit about the brochures that explain the rule changes. Counties were directed by the State Department of Social Services (DSS) to send brochures that discussed the decrease in the benefit reduction rate

²¹ Moffitt, Robert. "A Problem with the Negative Income Tax," *Economic Letter*, 1985a, 17, p. 263.

²² Keeley, Michael C., Philip K. Robins, Robert G. Spiegelman, and Richard W. West, "The Estimation of Labor Supply Models Using Experimental Data," *The American Economic Review*, December 1978b, 8, p. 873.

²³ Moffitt, Robert, "Work Incentives in the AFDC System: An Analysis of the 1981 Reforms," *American Economic Review*, May 1986a, 76(2), p. 222.

²⁴ "Communication of Work Incentives. UC-DATA Process Evaluation, November 1994," p. 3.

in the monthly mailing of the welfare check. However, when the Quality Control team of the DSS conducted interviews of 298 AFDC recipients throughout the state, 48% percent of respondents claimed not to have received a brochure at all. Of the recipients who said they did receive it, approximately 27% said that they did not understand it. Over 75% of those who did not understand it said it was because English was not their primary language or the wording was too complex.²⁵

Due to this lack of awareness of the change in rules, along with the fact that changing work effort often cannot be done immediately, it is doubtful that many recipients have entered the work force in response to the decrease in the BRR during the first eight months of the implementation.

Conclusion

The only county with a statistically significant difference between the percentage of cases with earnings before and after the BRR was reduced showed a positive difference. Indeed, San Joaquin's results indicated that the reduction in the BRR increased the number of recipients that work in the county. This data provides very minimal support for the notion that the extension of the 30 and 1/3 deduction has increased the number of people who are working.

What portion of this increase is due to increased work effort among recipients is unclear. My analysis of the difference between the percent of AFDC cases with Food Stamp earnings and the percent of all cases with Food Stamp earnings maintains that mechanical effects may not account for all the variation between cases. Nonetheless, I conclude that it is unlikely that much of the variation is due to behavioral effects. This is because of the lack of awareness of the new work incentives and the time it takes to modify behavior.

I posit, however, that as more recipients learn about the rules and have time to modify their work behavior, behavioral effects should begin to play a larger role in the increase the percent of cases with earnings. In addition, we should expect to see increases in the percent of cases with earnings compared to the control group across all counties.

²⁵ "Communication of Work Incentives. UC-DATA Process Evaluation, November 1994," p.15.

Chapter IV

Are AFDC Recipients Earning More?

Another way to assess whether work effort among AFDC recipients has improved under the 30 and 1/3 deduction extension is to compare the earnings of AFDC cases with earnings in the experimental group to the earnings in the control group. This is based on the assumption that an increase in earnings signifies that recipients are working more hours or working in higher wage jobs.

Recipients may choose to increase the number of hours or work in higher wage jobs for the same reasons that more recipients who previously were not working may choose to work. Benefits are no longer reduced \$1 for each \$1 earned after four months, but rather by 67 cents.

We will examine both monthly AFDC earnings and monthly Food Stamp earnings. The difference between these two measures of earnings is discussed on page 12. First, we consider AFDC earnings.

AFDC Earnings for Cases

Average monthly AFDC earnings for FG and U cases with AFDC earnings for Alameda, Los Angeles, and San Bernardino counties are shown in Chart C1-C6 in the appendix. Such data is unavailable for San Joaquin County. Tables 11 and 12 summarize the results from the charts. The tables are divided into two time periods--before and after the 30 and 1/3 deduction was extended. Averages were calculated by summing the earnings for each recipient with earnings in the time period and then dividing by the number of recipients with earnings in the period.

Table 13 shows the difference between experimental and control cases' level of earnings before and after the 30 and 1/3 deduction was extended. It also shows which differences between the two time periods are significant. The t-statistics are in parentheses. The following formula was used to determine significance.

$$t = \frac{(E_F - \bar{C}_F) - (E_I - \bar{C}_I)}{\sqrt{\frac{\sigma_{E_F}^2}{N_{E_F}} + \frac{\sigma_{C_F}^2}{N_{C_F}} + \frac{\sigma_{E_I}^2}{N_{E_I}} + \frac{\sigma_{C_I}^2}{N_{C_I}}}}$$

Table 11: Average Monthly AFDC Earnings of AFDC-FG Cases With AFDC Earnings By Experimental and Control Status

	Average AFDC Earned Income (Pre-Extension)	Average AFDC Earned Income (Post-Extension)
Alameda		
Experimental	388	398
Control	437	393
Difference (E-C)	-49	5
Los Angeles		
Experimental	344	419
Control	380	383
Difference (E-C)	-36	36
San Bernardino		
Experimental	482	498
Control	433	439
Difference	49	59

Table 12: Average Monthly AFDC Earnings of AFDC-U Cases With AFDC Earnings By Experimental and Control Status

	Average AFDC Earned Income (Pre-Extension)	Average AFDC Earned Income (Post-Extension)
Alameda		
Experimental	319	376
Control	346	341
Difference (E-C)	-27	35
Los Angeles		
Experimental	349	391
Control	357	350
Difference (E-C)	-8	41
San Bernardino		
Experimental	447	516
Control	462	439
Difference	-15	77

Table 13: Difference Between Average Monthly AFDC Earnings of AFDC Cases With AFDC Earnings Before and After the 30 and 1/3 Deduction Was Extended

	Difference Between E and C Group (FG)	Difference Between E and C Group (U)
Alameda		
Post-Extension	5	35
Pre-Extension	-49	-27
Difference	54 (1.46)	62* (2.41)
Los Angeles		
Post-Extension	36	41
Pre-Extension	-36	-8
Difference	72* (3.67)	49* (4.13)
San Bernardino		
Post-Extension	59	77
Pre-Extension	49	-15
Difference	10 (0.3)	92* (3.03)

* Significant at $p=.05$

Analysis

The differences after the benefit reduction rate decrease compared to before the decrease in four of the six subgroups are significant. In all six subgroups, earnings are higher in the experimental group compared to the control group after the 30 and 1/3 deduction extension. This provides support for the belief that the BRR reduction increased earnings.

Since three of the four significant subgroups consist of U cases, it appears that the deduction increased the work effort of recipients in U cases more than in FG cases. This is likely because it is often easier for two-parent families to increase work effort than one-parent families due to increased flexibility. For example, one parent can take care of the children while the other works.

We will now compare these findings to the findings regarding average Food Stamp earnings.

Food Stamp Earnings for Cases

The average monthly Food Stamp earnings for cases with Food Stamp earnings for the control and experimental group for Alameda, Los Angeles, San Bernardino, and San Joaquin counties are shown in Charts D1-D8 in the appendix. Tables 14 and 15 summarize the results from the charts.

Table 14: Average Monthly Food Stamp Earnings for AFDC-FG Cases With Food Stamp Earnings By Experimental and Control Status

	Average Food Stamp Earned Income (Pre-Extension)	Average Food Stamp Earned Income (Post-Extension)
Alameda		
Experimental	405	392
Control	410	408
Difference (E-C)	-5	-14
Los Angeles		
Experimental	364	416
Control	357	350
Difference (E-C)	7	66
San Bernardino		
Experimental	419	484
Control	381	401
Difference	38	83
San Joaquin		
Experimental	404	444
Control	385	434
Difference	19	10

Table 15: Average Monthly Food Stamp Earnings for AFDC-U Cases With Food Stamp Earnings By Experimental and Control Status

	Average Food Stamp Earned Income (Pre-Extension)	Average Food Stamp Earned Income (Post-Extension)
Alameda		
Experimental	328	359
Control	332	330
Difference (E-C)	-4	29
Los Angeles		
Experimental	297	354
Control	317	327
Difference (E-C)	-20	27
San Bernardino		
Experimental	384	483
Control	398	388
Difference	-14	95
San Joaquin		
Experimental	404	437
Control	385	364
Difference	19	73

The following table, Table 16, shows the difference between the Food Stamp earnings of the experimental and control cases before and after the 30 and 1/3 deduction was extended. It also shows which differences between the two time periods are significant. The t-statistics are in parentheses.

Table 16: Difference Between Average Monthly Food Stamp Earnings of AFDC Cases With Food Stamps and Earnings Before and After the 30 and 1/3 Deduction Was Extended

	Difference Between E and C Group (FG)		Difference Between E and C Group (U)	
Alameda				
Post-Extension	-14		29	
Pre-Extension	-5		-4	
Difference	-11	(-0.32)	33	(1.47)
Los Angeles				
Post-Extension	66		27	
Pre-Extension	7		-20	
Difference	59*	(3.30)	47*	(4.38)
San Bernardino				
Post-Extension	83		95	
Pre-Extension	38		-14	
Difference	45	(1.76)	109*	(4.26)
San Joaquin				
Post-Extension	10		73	
Pre-Extension	19		19	
Difference	-9	(-0.41)	54*	(3.01)

* Significant at $p < .05$

Analysis

The decrease in the benefit reduction rate has had a significant effect on earnings in half of the subgroups. In these subgroups, the monthly earnings were higher for the experimental group compared to the control group after the extension of the 30 and 1/3 deduction than before it. This indicates that the extension increased the work effort of the recipients in those subgroups. This notion is further supported by the fact that the experimental group in six of the eight subgroups with Food Stamp earnings experienced a larger increase earnings compared to the control group after the deduction extension than before it. Similar to AFDC earnings, it appears that the deduction increased the work effort of recipients in U cases more than FG cases since three of the four subgroups with significant effects consist of U cases.

Reconciliation of Results

The finding that the extension somewhat increases Food Stamps earnings is consistent with the AFDC earnings results. Three of the four groups that showed a significant increase in AFDC earned income due to the decrease in the BRR also showed a significant increase in Food Stamp earned income. In addition, three of the four significant effects regarding AFDC earned income and Food Stamp earned income were found among the U cases.

The evidence that AFDC recipients have higher earnings since the extension of the 30 and 1/3 deduction does not necessarily suggest that recipients are working more hours or in higher-wage jobs. Rather, the higher earnings could occur with no change in behavior among recipients. As discussed on page 19, recipients in the experimental group are able to earn approximately one-third more than recipients in the control group and still remain on AFDC. This experiment component has the effect of increasing the earnings of recipients in the experimental group compared to the control group even if there is no behavioral change.

To assess the magnitude of these mechanical effects, the average Food Stamp earnings for AFDC cases with such earnings is compared to the average Food Stamp earnings for all cases with such earnings in the data set. This latter group should include most of the control recipients who would have stayed on AFDC under experimental rules since the income of most of these recipients would qualify them for Food Stamps.

Currently, there is only reliable data for all cases with Food Stamp earnings for Los Angeles and San Bernardino counties for the reasons discussed in Chapter III, p. 20. Consequently, we will only evaluate data for these two counties. The following table, Table 17, shows the difference between the average Food Stamp earnings for AFDC cases and for all cases with Food Stamp earnings.

The data indicate that mechanical effects are present because the increase in the average monthly earnings for the experimental group exceeds the earnings for the control group after the deduction by more for AFDC cases than for all cases. In three of the four groups, it appears that approximately 50% of the increase in earnings can be attributed to mechanical effects.

Table 17: Difference Between Average Monthly Food Stamp Earnings for Control and Experimental Cases with Food Stamp Earnings for Cases on AFDC and for all Cases

	Difference (FG)	Difference (U)
Los Angeles		
AFDC Cases	59	47
All Cases	26	23
Difference	33	24
San Bernardino		
AFDC Cases	45	109
All Cases	37	52
Difference	8	47

From this rough estimate of the magnitude of the mechanical effects, it appears that about half of the increase in earnings can be attributed to behavioral effects. Therefore, it seems that behavioral effects play a larger role in the variation in earnings than in the variation in the percentage of AFDC recipients with earnings. This is likely because it is undoubtedly easier to increase the number of hours one works if one is already in the work force than it is to move into the work force when one is outside it. For example, many recipients would need to find a job, child care, and transportation before entering the work force.

Conclusion

There appears to be some support that the decrease in the benefit reduction rate has significantly increased the average earnings of AFDC recipients in a number of counties. However, how much of this increase in earnings is attributed to mechanical effects and how much to behavioral effects is unclear. Our rough analysis indicated that in three of the four groups approximately half of the variation in earnings is due to mechanical effects.

As more recipients learn about the rules and have time to alter things to modify their work behavior, we would expect to see behavioral effects to play a larger role in the increase in the earnings. In addition, earnings should rise even more above the controls in all counties.

Chapter V

Are More AFDC Recipients Exiting AFDC and Remaining Off AFDC?

We have considered whether the decrease in the AFDC benefit reduction rate has increased the number of AFDC recipients who work and increased the average earnings of recipients who work. A third variable in the work effort equation that must be examined is exit rates. Even if more recipients work and average recipient earnings are higher, if more recipients do not also begin to leave the welfare system and remain off the system, some people will not believe that the decrease in the benefit reduction rate has adequately increased work effort.

To determine whether more AFDC recipients are leaving the welfare system and remaining off the system, we will consider the percent of experimental and control cases in our sample that exit AFDC, the percent that are new exits each month, and the percent that return to AFDC after exiting the program.

Percent of Cases that Are Off AFDC

The first numbers we must compare are the percent of experimental and control cases in our sample that have left AFDC. I considered a case off AFDC for any month in which the data file shows that the case did not receive an AFDC payment in that month.

This exit measure undoubtedly overstates the number of cases that actually exit each month for two reasons. If a case worker forgets to input in the computer how much aid a recipient received one month, the blank will be interpreted incorrectly as an exit. In addition, if a recipient does not turn in paperwork on time, the record will show that he or she did not receive a payment that month. This is the case even when the recipient retroactively receives the missed payment. These blanks would also be interpreted incorrectly as exits.

An alternative exit measure would be to consider a case an exit only if it did not receive an AFDC payment for a number of consecutive months, such as three months. A drawback of this measure is that cases that exit for less than three months would be missed. These are important cases because they represent recipients who are trying to leave the system but cannot for a number of reasons.

More administrative errors are expected in the experimental data than the control data in Alameda and Los Angeles counties. This is because the workers assigned to administer the control cases in these counties are higher-skilled workers than those assigned to administer the experimental cases.²⁶ Higher-skilled workers are less likely to make administrative errors. These errors should not bias the results, however, because they should be present in the experimental data both before and after the benefit reduction rate was decreased. For the remaining two counties, the amount of administrative errors should be equally distributed between the control and experiment groups.

The percent of FG cases that are off AFDC each month in Los Angeles and San Bernardino counties is shown in Charts E1 and E2 in the appendix. Charts E3 and E4 show the percent for U cases. This data is currently unavailable for Alameda and San Joaquin counties.

The findings in the charts are divided into the time periods of before and after the reduction in the benefit reduction rate in Tables 18 and 19. Percentages were calculated by first dividing the total number of cases that do not receive an AFDC payment in our sample by the total number of cases (both cases receiving and not receiving AFDC) in the sample for each month. The sum of these percentages was then divided by the number of months.

Table 20 shows the difference between the percent of experimental and control cases that are off AFDC before and after benefit reduction rate was decreased. It also shows which differences between the two time periods are statistically significant.²⁷ The t-statistics are in parentheses.

²⁶ "Assistance Payments Demonstration Project: Project Evaluation--Welfare Reform in California: Phase I" from UC-DATA Process Team, p. 15.

²⁷ Significance was determined by the formula on page 14.

Table 18: Percent of FG Cases that Are Off AFDC Before and After the Decrease in the Benefit Reduction Rate

	Percent of Cases Off AFDC (Pre-Decrease)	Percent of Cases Off AFDC (Post-Decrease)
Los Angeles		
Experimental	2.9	4.2
Control	2.8	3.7
Difference (E-C)	0.1	0.5
San Bernardino		
Experimental	2.7	4.2
Control	4.4	6.2
Difference (E-C)	-1.7	-2.0

Table 19: Percent of U Cases that Are Off AFDC Before and After the Decrease in the Benefit Reduction Rate

	Percent of Cases Off AFDC (Pre-Decrease)	Percent of Cases Off AFDC (Post-Decrease)
Los Angeles		
Experimental	3.0	4.2
Control	3.9	6.0
Difference (E-C)	-0.9	-1.8
San Bernardino		
Experimental	3.8	6.5
Control	4.9	9.0
Difference (E-C)	-1.1	-2.5

Table 20: Difference Between Percent of Experimental and Control Cases that Are Off Before and After the Benefit Reduction Rate was Decreased.

	Difference Between E and C Group (FG)	Difference Between E and C Group (U)
Los Angeles		
Post-Decrease	0.5	-1.8
Pre-Decrease	0.1	-0.9
Difference	0.4 (1.25)	-0.9* (-2.16)
San Bernardino		
Post Decrease	-2.0	-2.5
Pre-Decrease	-1.7	-1.1
Difference	-0.3 (-0.50)	-1.4 (-1.89)

* Significant at p=.05

Analysis

The 30 and 1/3 deduction extension only appears to have had a significant effect in one of the subgroups, FG cases in Los Angeles County. In this subgroup, the percent of control cases that exit AFDC each month exceeds the percent of experimental cases by a greater amount in the months following the benefit reduction rate decrease than before it. This indicates that the extension of the 30 and 1/3 deduction has caused AFDC recipients to remain on AFDC longer.

The fact that in two of the three other subgroups the percent of control cases that exit AFDC also exceeds the percent of experimental cases by a greater amount in the months following the benefit reduction rate decrease than before it provides some additional support for the theory that the decrease has caused AFDC recipients to remain on AFDC longer.

It is important to determine whether the differences in the percent of recipients off AFDC between the control and experimental group are attributed mainly to differences in the rate of new exits or in the rate of return to AFDC. This distinction is crucial because even if AFDC recipients exit AFDC at a slower rate under the benefit reduction rate decrease, if these recipients are not returning to AFDC as quickly as before the decrease, many would still consider the policy successful. First we will consider new exits.

Cases that Are New Exits

A case was considered a new exit in any month in which it did not receive an AFDC payment but did receive a payment in the previous month. The percent of cases off AFDC are new exits in each month for Los Angeles and San Bernardino counties by FG and U status are shown in Charts F1-F2 and Charts F3-F4 respectively in the appendix. The information in the charts is divided into the time periods of before and after the decrease in the benefit reduction rate in Tables 21 and 22. Percentages for each time period were calculated by first summing the number of cases that were new exits over the time period. This number was then divided by the total number of all cases off AFDC for the time period.

Table 21: Percent of FG Cases Off AFDC that Are New Exits Each Month In Los Angeles and San Bernardino Counties

	Percent of Cases that Are New Exits (Pre-Decrease)	Percent of Cases that Are New Exits (Post-Decrease)
Los Angeles		
Experimental	52.2	28.5
Control	52.5	28.5
Difference (E-C)	-0.3	0.0
San Bernardino		
Experimental	49.8	24.7
Control	38.6	24.1
Difference (E-C)	11.2	0.6

Table 22: Percent of U Cases Off AFDC that Are New Exits Each Month in Los Angeles and San Bernardino Counties

	Percent of Cases that Are New Exits (Pre-Decrease)	Percent of Cases that Are New Exits (Post-Decrease)
Los Angeles		
Experimental	47.0	23.9
Control	40.2	15.3
Difference (E-C)	6.8	8.6
San Bernardino		
Experimental	49.3	23.2
Control	39.3	22.6
Difference (E-C)	10.0	0.6

The following table, Table 23, shows the difference between the percent of new exits by experimental and control status before and after the 30 and 1/3 deduction was extended. It also shows which differences between the two time periods are significant.²⁸ The t-statistics are in parentheses.

²⁸ Significance was determined by the formula on page 14.

Table 23: Difference Between Percent of Experimental and Control Cases Off AFDC that Are New Exits Before and After the Benefit Reduction Rate Was Decreased

	Difference Between E and C Group (FG)	Difference Between E and C Group (U)
Los Angeles		
Post-Decrease	0.0	8.6
Pre-Decrease	-0.3	6.8
Difference	0.3 (0.09)	1.8 (0.41)
San Bernardino		
Post-Decrease	0.6	0.6
Pre-Decrease	11.2	10.0
Difference	-10.6 (-1.97)	-9.4 (-1.47)

* Significant at p=.05

Analysis

The 30 and 1/3 deduction extension has not had a statistically significant effect on the number of new exits in any of the subgroups. However, the subgroups with the largest t-statistics indicate that the percent of control cases that are new exits exceed the percent of experimental cases by more in the months following the benefit reduction rate decrease than before it. This provides very minimal support for the notion that the 30 and 1/3 deduction extension in the short-run may decrease the number of new exits.

Due to the mechanical effects discussed earlier, it is expected that the experimental cases would have fewer exits in the months immediately after the deduction was extended. This is because experimental recipients that have the same earnings as control recipients will be eligible for AFDC longer solely because of the deduction extension. There is also chance that some recipients may decrease their work effort more than they would have under the old rules solely to stay on AFDC now that they can maintain a higher standard of living while working and receiving AFDC under the new rules.

Cases that Return to AFDC

The percent of cases off AFDC that return to AFDC in each month for Los Angeles and San Bernardino counties by FG and U status is shown in Charts G1-G2 and Charts G3-G4 respectively. A case is considered to have returned to

AFDC in any month in which it received an AFDC payment but did not receive a payment in the previous month. The information in the charts is divided into the time periods of before and after the decrease in the benefit reduction rate in Tables 24 and 25. Percentages for each time period were calculated by first summing the number of cases that returned to AFDC over the time period. This number was then divided by the total number of all cases off AFDC for the time period.

Table 24: Percent of FG Cases Off AFDC that Return to AFDC Each Month in Los Angeles and San Bernardino Counties

	Percent of Cases that Return to AFDC (Pre-Decrease)	Percent of Cases that Return to AFDC (Post-Decrease)
Los Angeles		
Experimental	45.3	26.4
Control	45.0	27.7
Difference (E-C)	0.3	-1.3
San Bernardino		
Experimental	44.4	26.1
Control	30.5	24.4
Difference (E-C)	13.9	1.7

Table 25: Percent of U Cases Off AFDC that Return to AFDC Each Month in Los Angeles and San Bernardino Counties

	Percent of Cases that Return to AFDC (Pre-Decrease)	Percent of Cases that Return to AFDC (Post-Decrease)
Los Angeles		
Experimental	38.8	22.3
Control	31.1	13.0
Difference (E-C)	7.7	9.3
San Bernardino		
Experimental	37.7	22.2
Control	29.7	20.9
Difference (E-C)	8.0	1.3

The following table, Table 26, shows the difference between the percent of new exits by experimental and control status before and after the 30 and 1/3 deduction was extended. It also shows which differences between the two time periods are significant.²⁹ The t-statistics are within the parentheses.

²⁹ Significance was determined by the formula on page 14.

Table 26: Difference Between Percent of Cases Off AFDC that Return to AFDC Before and After the 30 and 1/3 Deduction Extension

	Difference Between E and C Group (FG)	Difference Between E and C Group (U)
Los Angeles		
Post-Decrease	-1.3	9.3
Pre-Decrease	0.3	7.7
Difference	-1.6 (-0.34)	1.6 (0.34)
San Bernardino		
Post-Decrease	1.7	1.3
Pre-Decrease	13.9	8.0
Difference	-12.2* (-2.19)	-6.7 (-0.99)

Analysis

The 30 and 1/3 deduction extension has only had a statistically significant effect on one of the subgroups, U cases in San Bernardino County. In this subgroup, the percent of control cases off AFDC that return to AFDC each month exceeds the percent of experimental cases by a greater amount in the months following the benefit reduction rate decrease than before it. This indicates that after the extension of the 30 and 1/3 deduction, AFDC recipients who have exited the AFDC program remain off AFDC longer than before the extension.

The fact that two of the three remaining subgroups show a similar pattern provides a bit more support for the notion that after the decrease, AFDC recipients who exit AFDC remain off AFDC longer than before the decrease.

Some of this decrease may be attributed to mechanical effects. If the recipients that go off and on AFDC in short periods of time are often the ones that barely earn enough to be ineligible for AFDC when they are off AFDC, the percent of control cases that return to AFDC should be higher than experimental cases. This is because the experimental rules would keep the recipients described above on AFDC until they earn approximately a 1/3 more of the amount that would disqualify them under the old rules. Recipients with 1/3 more earnings than before would be expected to be better able to remain off AFDC since they have higher earnings to support themselves.

Conclusion

The results provide very minimal support for the notion that the extension of the 30 and 1/3 deduction has caused AFDC recipients to exit at a lower rate. None of the differences were significant; however, the two subgroups with the highest t-statistics indicated that the decrease in the BRR has reduced the rate of new exits. It is likely that in the long-run the exit rate will be higher than it is currently. This is because more recipients on AFDC will have earned 1/3 more of the income than they could have earned under the control rules and still receive AFDC so more experimental recipients will become ineligible for AFDC.

With regard to the rate at which recipients return to AFDC, the results provide minimal support for the notion that the decrease in the BRR has decreased the rate at which recipients return to AFDC. The result of one of the subgroups was a significant decrease in the percent of cases off AFDC that return to AFDC after the extension of the 30 and 1/3 deduction. Two of the three other subgroups showed a similar pattern, although they did not have significant differences. It is likely that the rate will decrease even more with time as more recipients who exit will have exited after earning 1/3 more of the income than they could earn under control rules and still receive AFDC. This is because these recipients are more likely to be better able to remain off AFDC since they have higher earnings to support themselves.

Although there appears to be a little support that the decrease in the BRR may have reduced both the number of new exits and the number of cases off AFDC that return to AFDC, no real conclusions can be made at this time. Since exiting AFDC is a lengthy process for many recipients, the real impact of the rule change on exit rates cannot be determined yet. However, the preliminary evidence does support the notion that the rule change will increase the percent of cases off AFDC that do not return to AFDC. The evidence is less clear on what the effect on new exits will be. Therefore, the overall effect on exit rates and caseload is unclear.

It is important to note that even if the rule change causes an overall drop in the exit rate, both the recipients and the State may still be in a better situation. This could occur if the total grant amount recipients received from lower benefits for a greater number of months was less than the amount they would receive if they received higher benefits for fewer months. Recipients who previously did not work would receive lower benefits since their net income would be subtracted for the grant amount.

Chapter VII

Has the Decrease in the AFDC Benefit Reduction Rate Improved Work Effort?

The preceding analysis provides minimal support that the decrease in the AFDC benefit reduction rate has improved work effort within the first eight months of implementation. Chapter III concluded that the decrease in the BRR has significantly increased the number of AFDC recipients that are working in one of the four experimental counties. Chapter IV determined that the BRR has significantly increased the earnings of AFDC recipients that work in half of the experimental subgroups among the four counties.

Before the observed increases in work effort can be quantified, mechanical effects must be separated from behavioral effects since mechanical effects should not be interpreted as increases in work effort. My rough numerical analysis determined that mechanical effects were present in the increase in the percent of cases with earnings and the increase in earnings.

I concluded that most of the increase in the percent of recipients with earnings was due to mechanical, rather than behavioral, effects. This was based on the fact that it often takes time to modify work effort and that many recipients are unaware of the changes in work rules. Approximately half of the increase in earnings seemed to be due to behavioral effects. I argue that as time passes behavioral effects will play a larger role in increases in work effort. In addition, I believe that we will see greater increases in work effort.

Whether the exit rate will decrease is unknown. However, even if the exit rate decreases, the State and recipients may be better off. This could occur if the total grant amount recipients received from lower benefits for a greater number of months was less than the amount they would receive if they received higher benefits for fewer months. Recipients who previously did not work would receive lower benefits since their net income would be subtracted for the grant amount.

Broader Context

When the extension of the 30 and 1/3 deduction is considered alone, it appears to be a policy that is meeting with success. After the deduction was extended, work effort among recipients slightly increased and is expected to increase even more in the future. However, when this policy is considered in light of Governor Wilson's stated welfare reform objectives, the success of the policy seems less clear.

The extension of the 30 and 1/3 deduction was only one change in a welfare reform package that Governor Wilson said would transform the welfare system from one that "encourages long-term dependency to one that helps people make the transition to self-sufficiency."³⁰ The major other components were benefit cuts that totaled over 8%. Governor Wilson helped sell this reform package by stating that recipients would be making up the reduction in the benefits by working more in response to the decrease in the BRR.

As we have seen in the analysis of the results, it appears that some recipients are working to take advantage of the decrease in the BRR and/or to compensate for the reduction in benefits. In addition, some probably are having an easier transition to self-sufficiency because of the decrease in the BRR. However, for the majority of recipients, the cuts in benefits have not been offset by earnings. The reforms have not helped the majority achieve self-sufficiency.

Although I do think work effort will increase more as time passes, I do not think it will increase by a substantial amount. Currently, approximately 14% of FG cases and 30% of U cases have earnings. I doubt that under the most optimistic conditions, we can expect these figures to double to 28% and 60% of cases with earnings. It is doubtful that these numbers will increase further because many recipients have enormous obstacles to overcome before they can work. These include lack of skills, self-esteem, child care, transportation, and available jobs. Larger increases in work effort are also not expected because they have not been found in other studies of responses to reductions in the BRR.

If Governor Wilson wanted the change in the benefit reduction rate combined with the benefit cuts to help a large number of recipients obtain self-sufficiency, the reform has been unsuccessful since there has been little increased work effort. However, if his prime objective through welfare reform was simply to cut costs in California's fiscal crisis, the reforms have been a success. Judging from his other actions as Governor, I believe he considers the reforms a success.

³⁰ March 1, 1994 Press Release from the California Governor's Office

Appendix A: Percent of AFDC Cases with AFDC Earnings

Chart A1: Percent of AFDC-FG Cases with AFDC Earnings for Alameda County

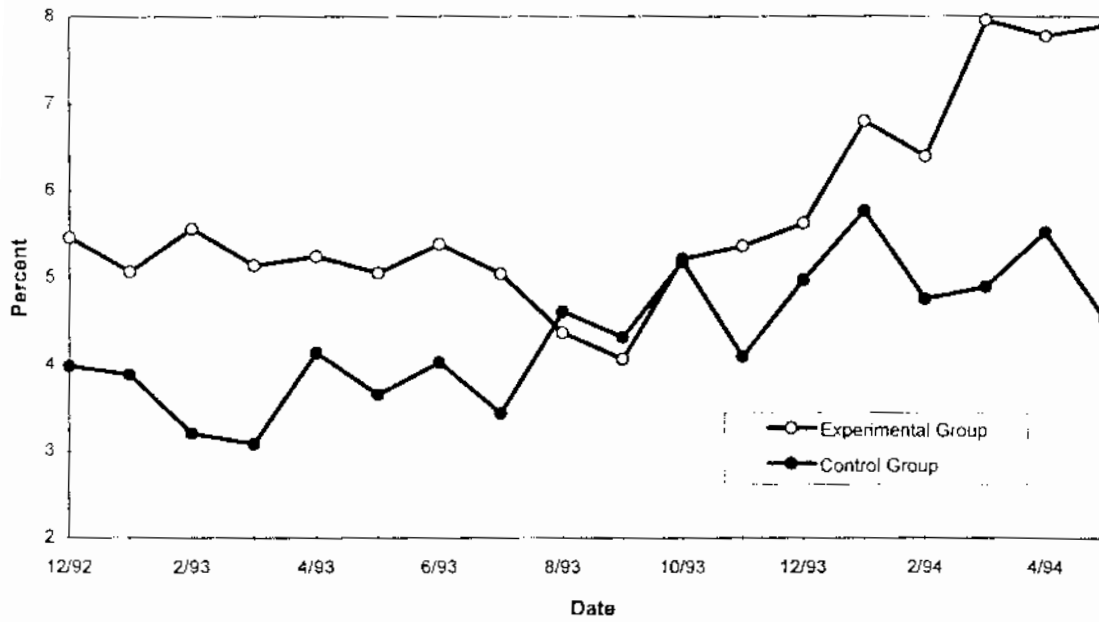


Chart A2: Percent of AFDC-FG Cases with AFDC Earnings for Los Angeles County

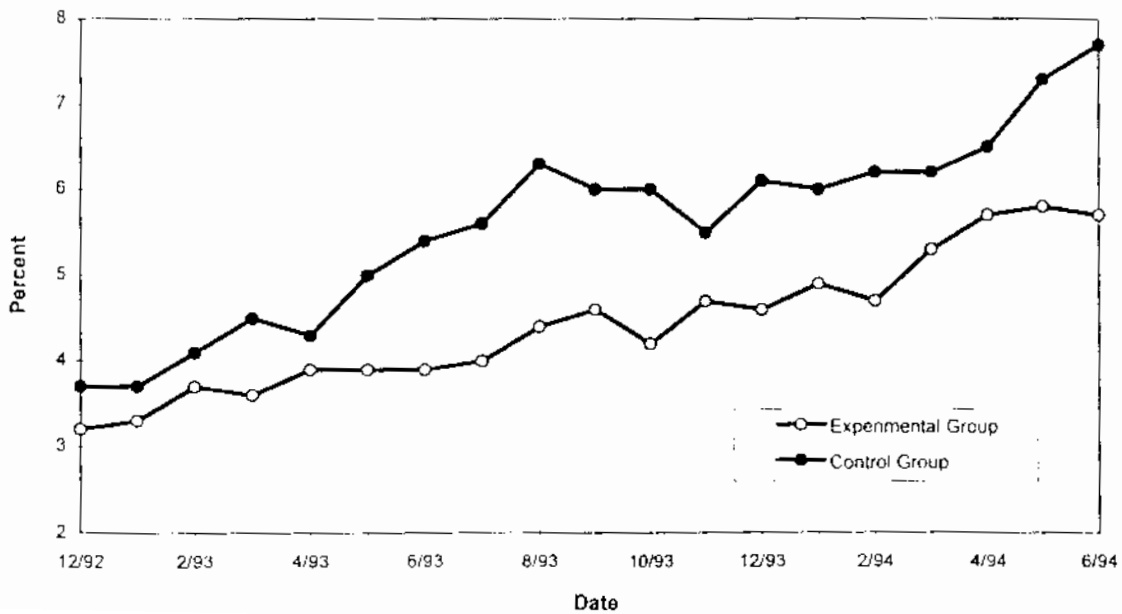


Chart A3: Percent of AFDC-FG Cases with AFDC Earnings for San Bernardino County

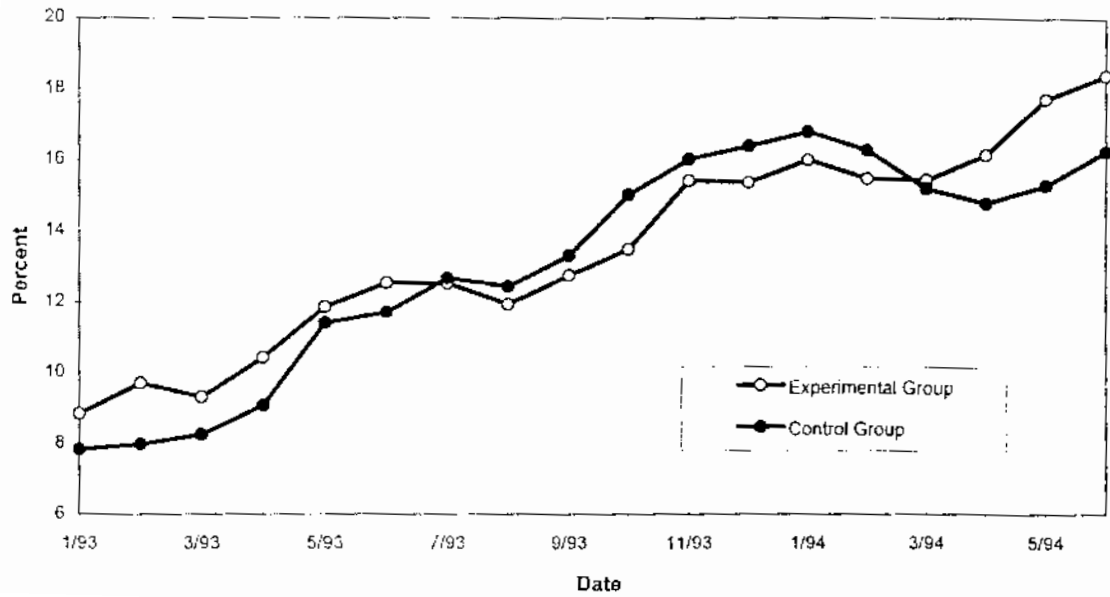


Chart A4: Percent of AFDC-U Cases with AFDC Earnings in Alameda County

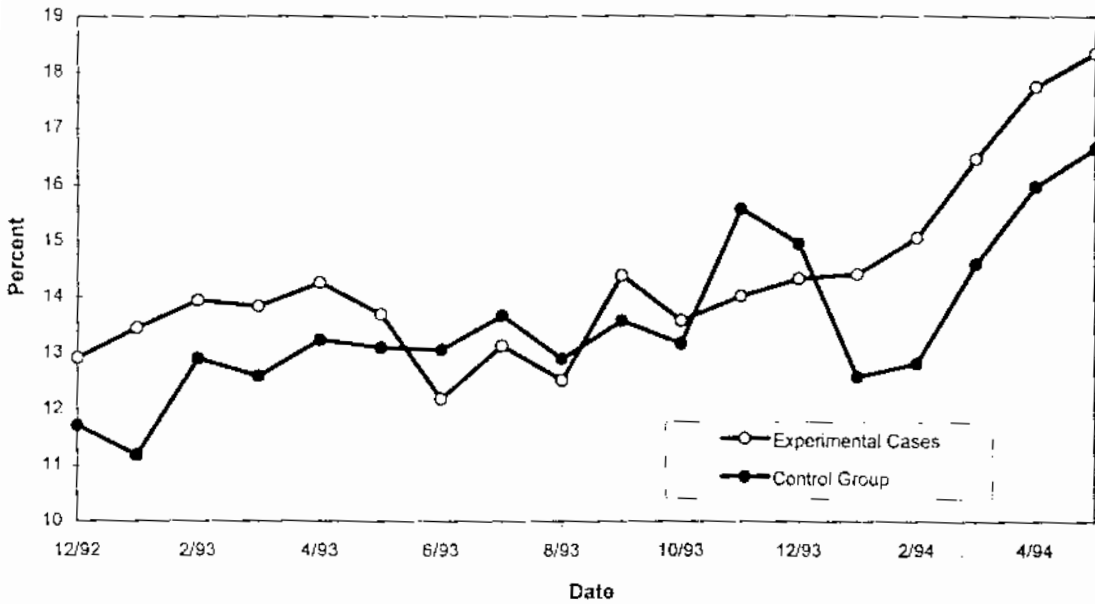


Chart A5: Percent of AFDC-U Cases with AFDC Earnings in Los Angeles County

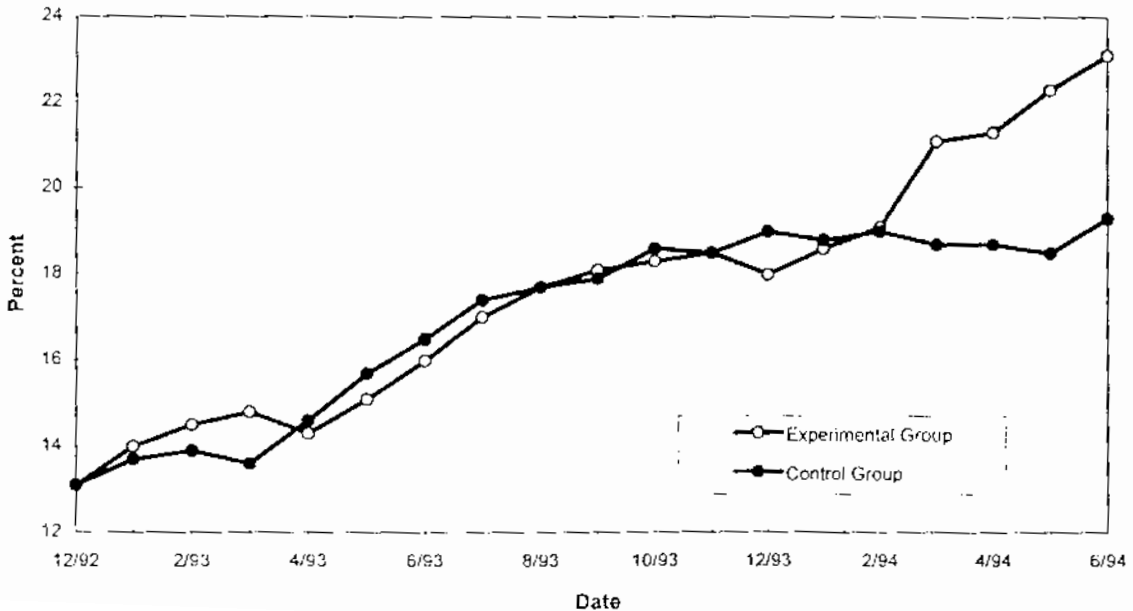
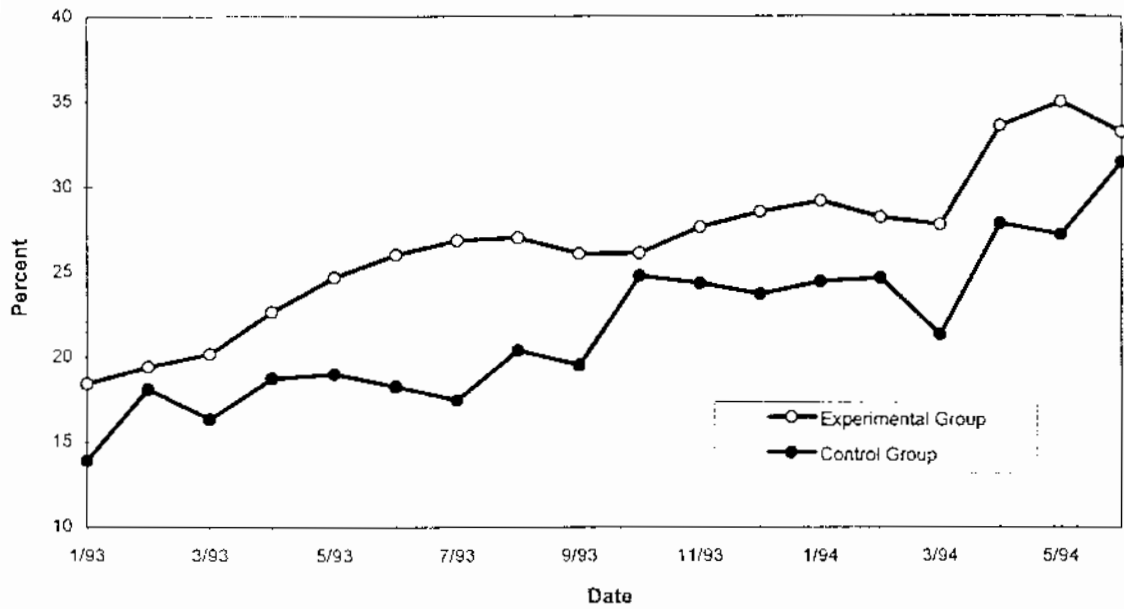


Chart A6: Percent of AFDC-U Cases with AFDC Earnings in San Bernardino County



Appendix C: Average AFDC Earnings for Cases with AFDC Earnings

Chart C1: Average AFDC Earnings for AFDC-FG Cases with AFDC Earnings for Alameda County

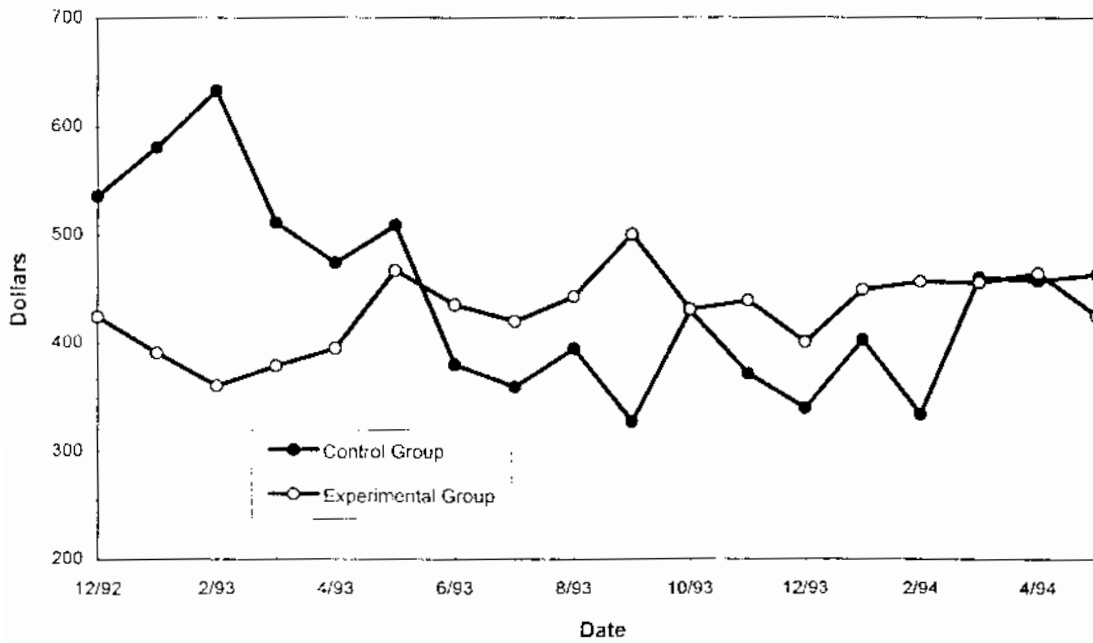


Chart C2: Average AFDC Earnings for AFDC-FG Cases with AFDC Earnings for Los Angeles County

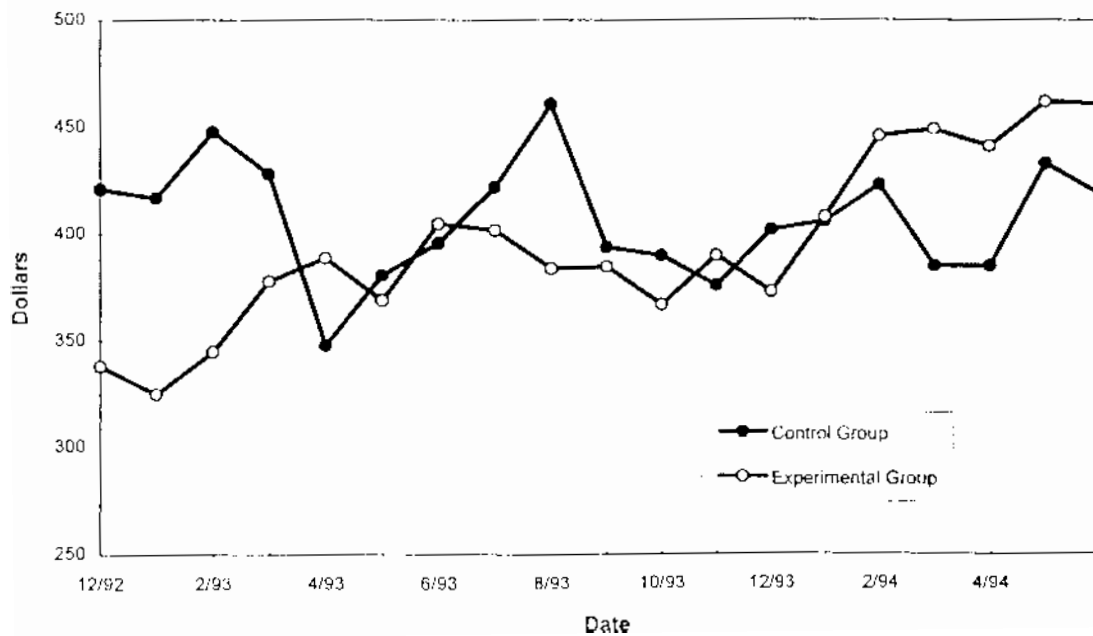


Chart C3: Average AFDC Earnings for AFDC-FG Cases with AFDC Earnings for San Bernardino County

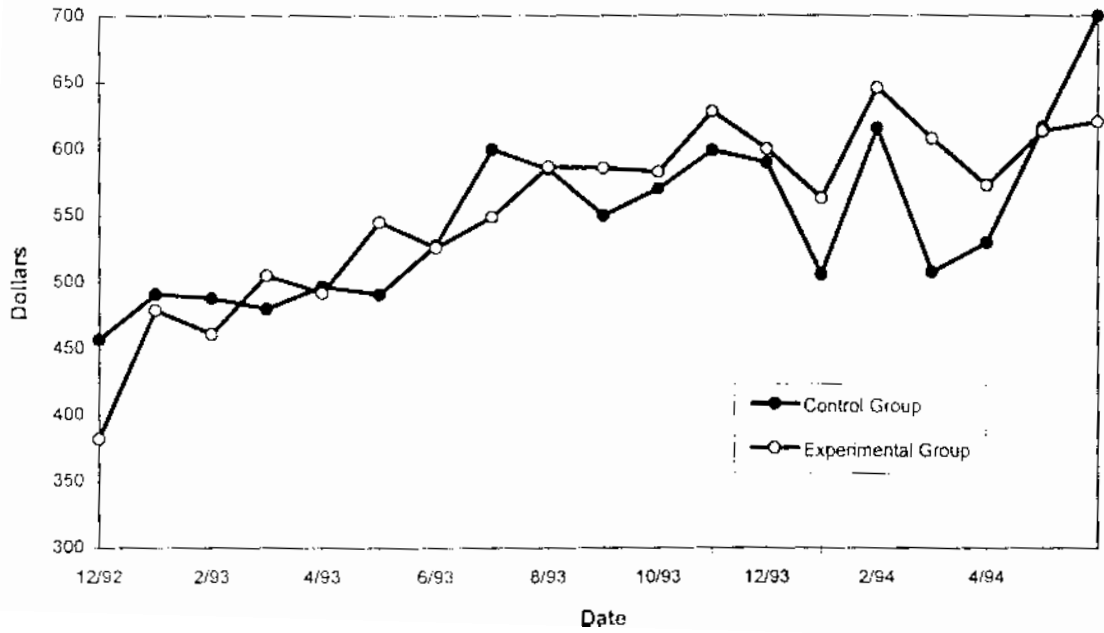


Chart C4: Average AFDC Earnings for AFDC-U Cases with AFDC Earnings for Alameda County

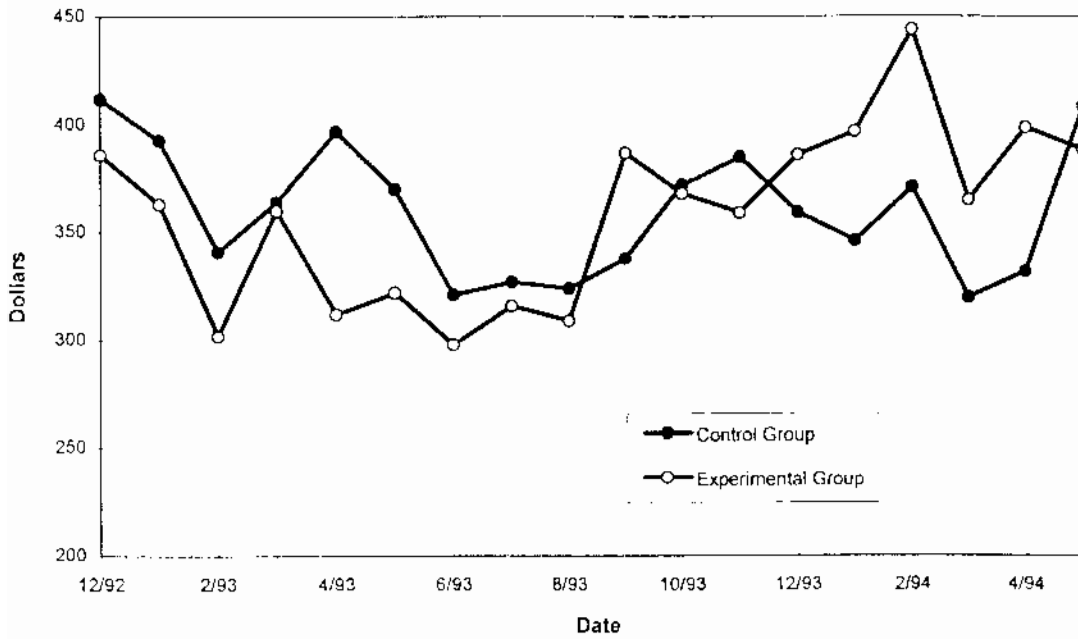


Chart C5: Average AFDC Earnings for AFDC-U Cases with AFDC Earnings for Los Angeles County

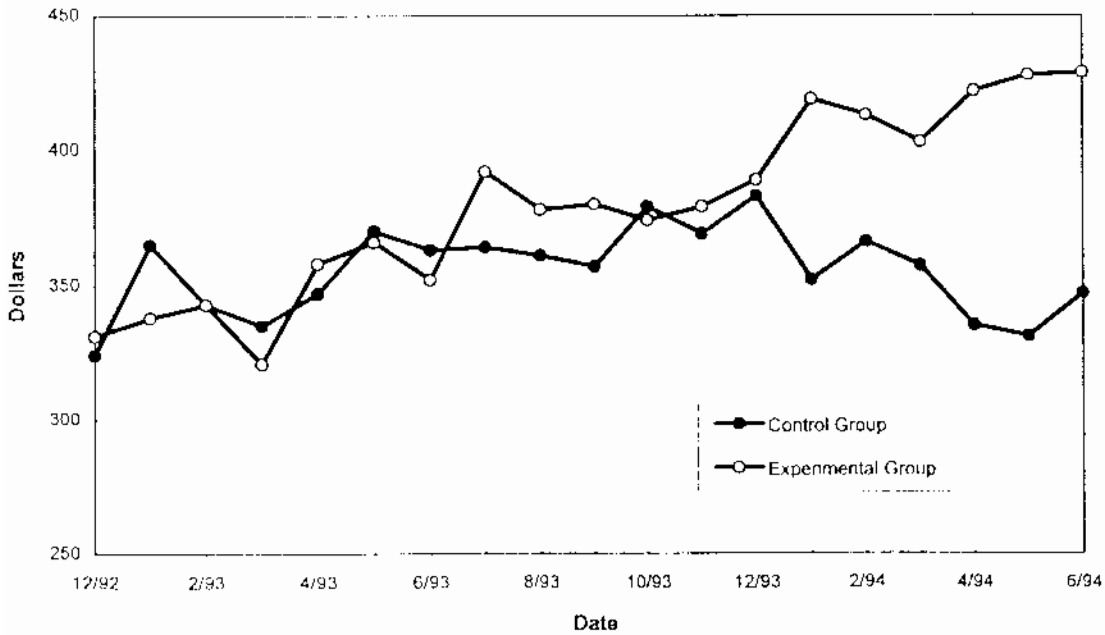
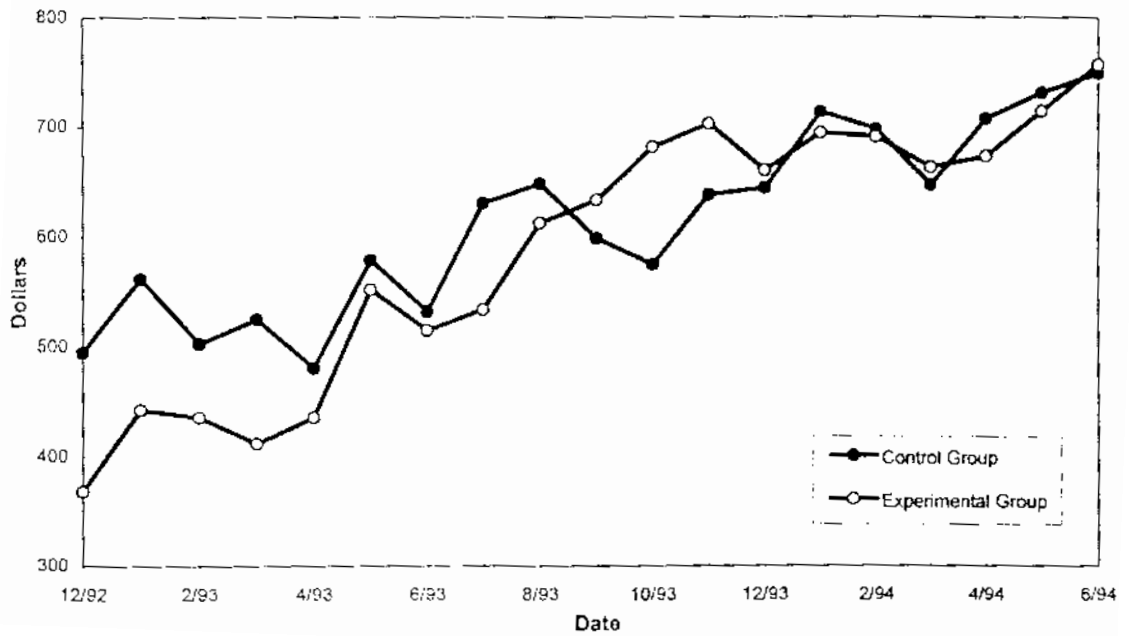


Chart C6: Average AFDC Earnings for AFDC-U Cases with AFDC Earnings for San Bernardino County



Appendix D: Average Food Stamp Earnings for Cases with Food Stamp Earnings

Chart D1: Average Food Stamp Earnings for AFDC-FG Cases With Food Stamp Earnings for Alameda County

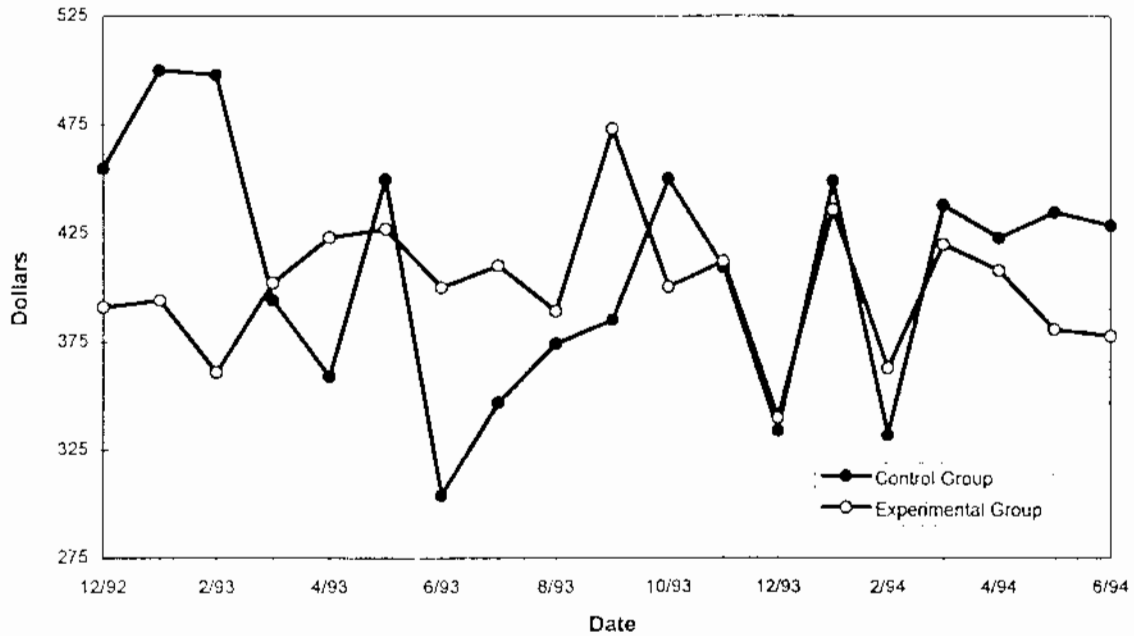


Chart D2: Average Food Stamp Earnings for AFDC-FG Cases With Food Stamp Earnings for Los Angeles County

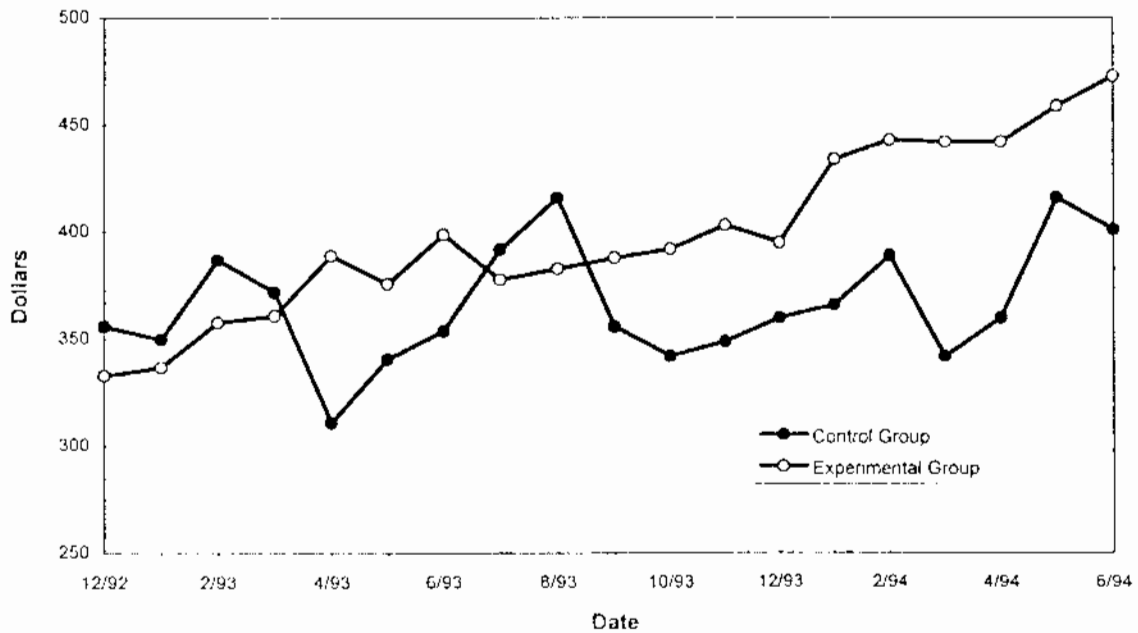


Chart D3: Average Food Stamp Earnings for AFDC-FG Cases With Food Stamp Earnings for San Bernardino County

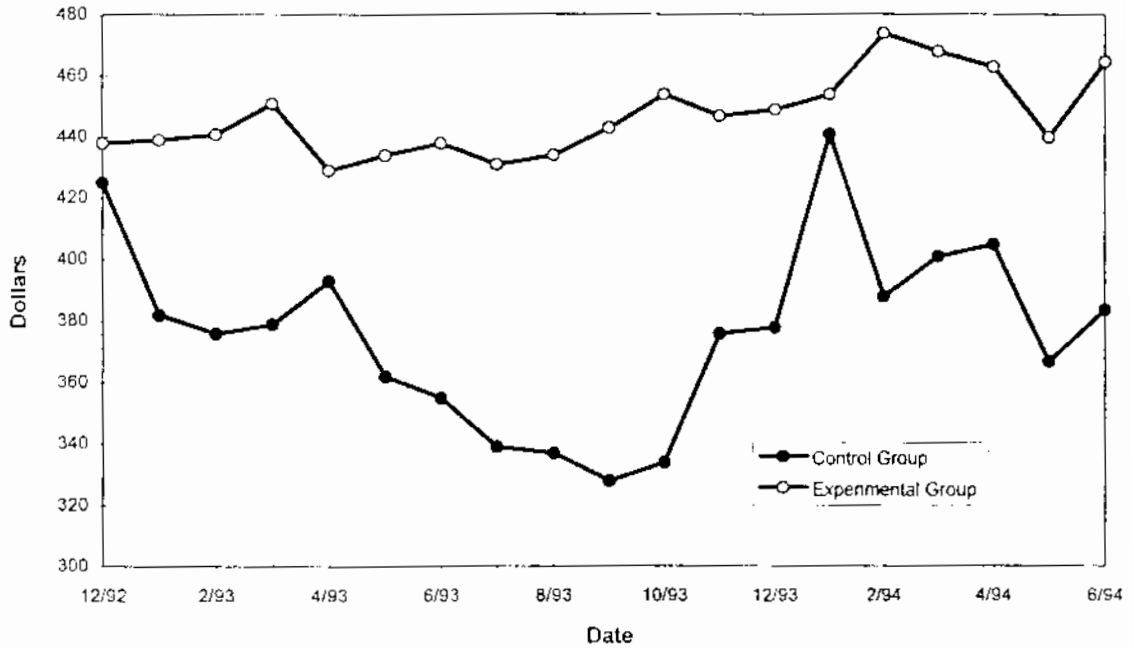
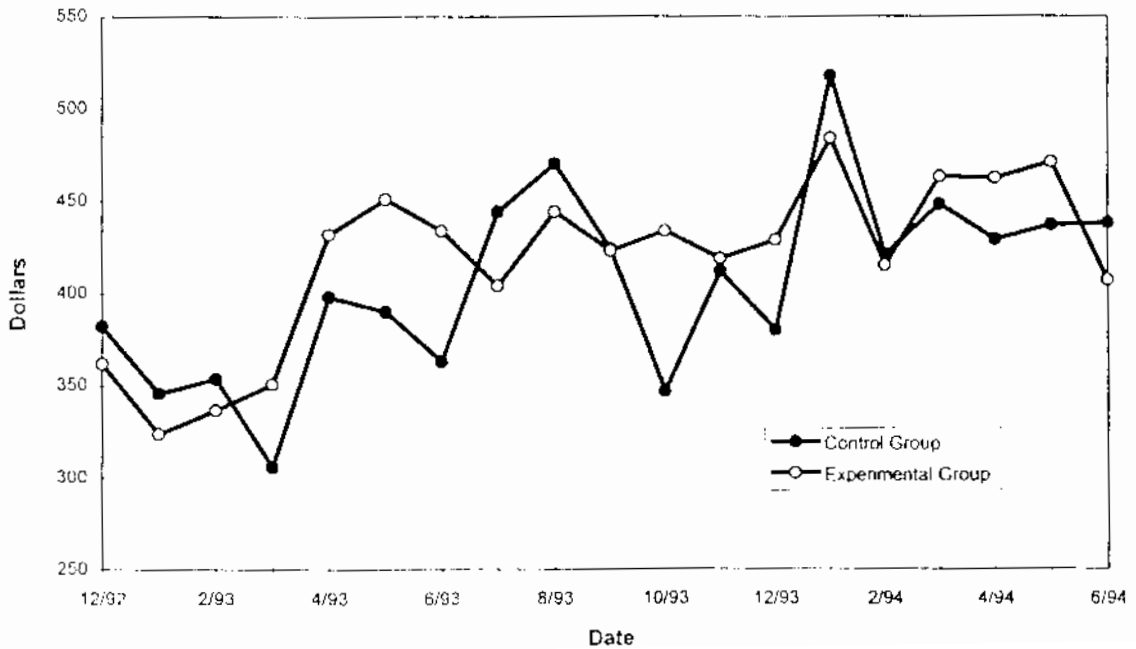
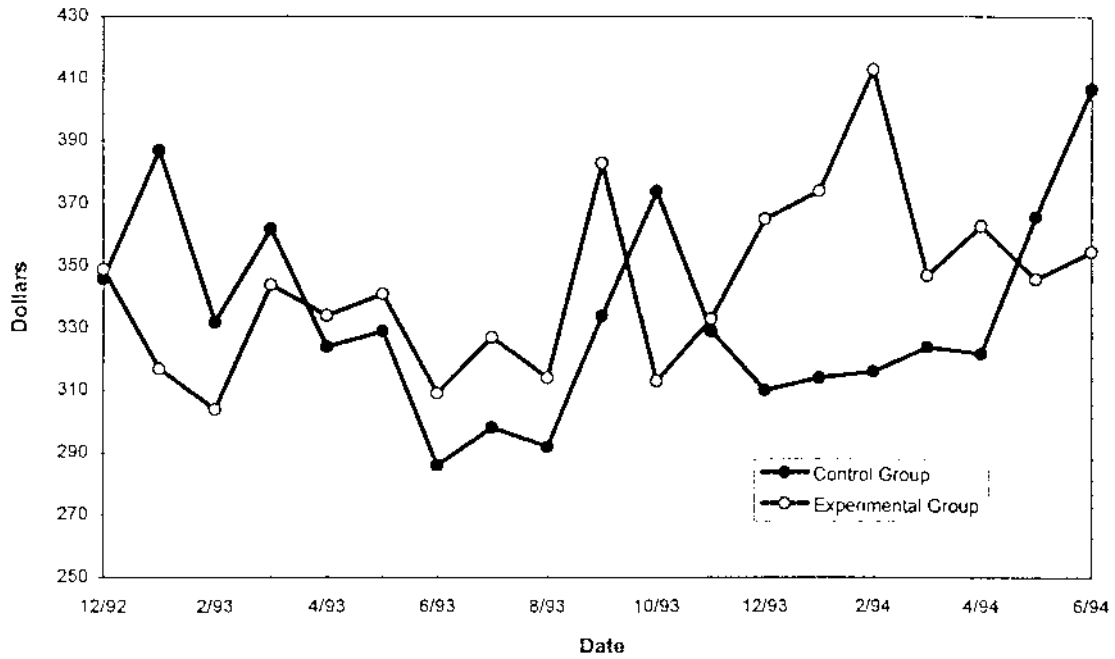


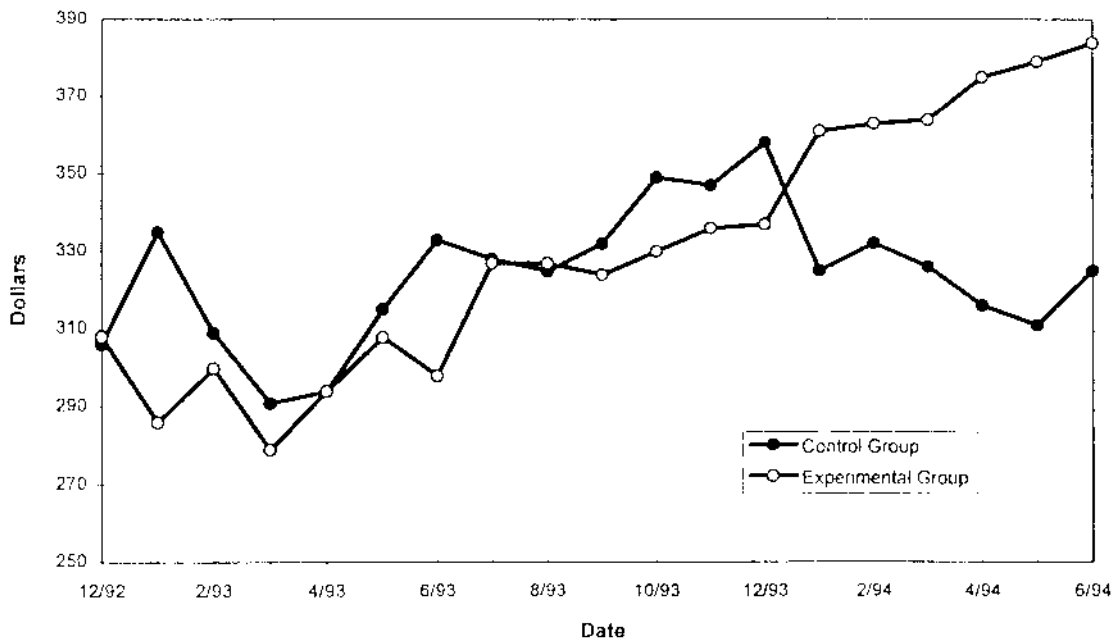
Chart D4: Average Food Stamp Earnings for AFDC-FG Cases With Food Stamp Earnings for San Joaquin County



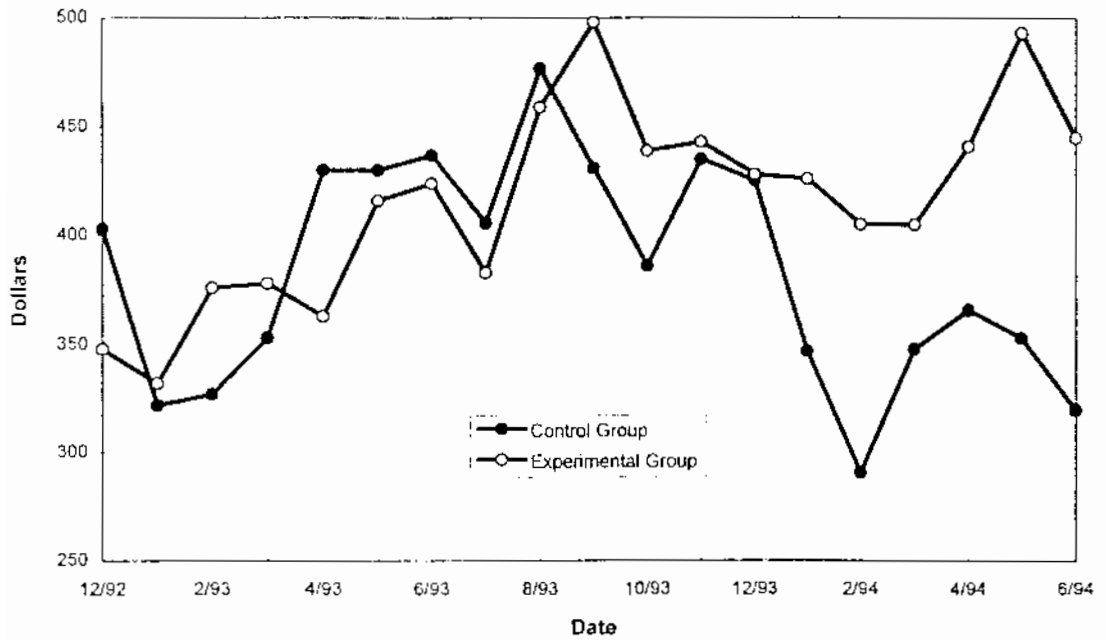
**Chart D5: Average Food Stamp Earnings for AFDC-U Cases
With Food Stamp Earnings for Alameda County**



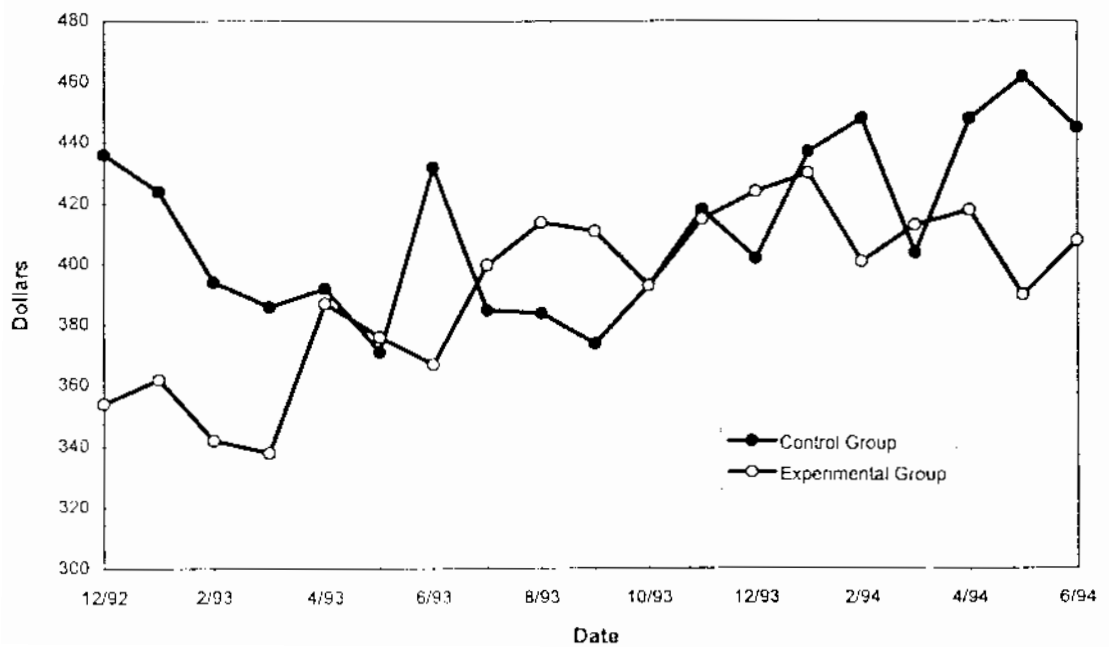
**Chart D6: Average Food Stamp Earnings for AFDC-U Cases
With Food Stamp Earnings for Los Angeles County**



**Chart D7: Average Food Stamp Earnings for AFDC-U Cases
With Food Stamp Earnings for San Bernardino County**



**Chart D8: Average Food Stamp Earnings for AFDC-U Cases
With Food Stamp Earnings for San Joaquin County**



Appendix E: Percent of Cases Off AFDC

Chart E1: Percent of FG Cases Off AFDC in Los Angeles County

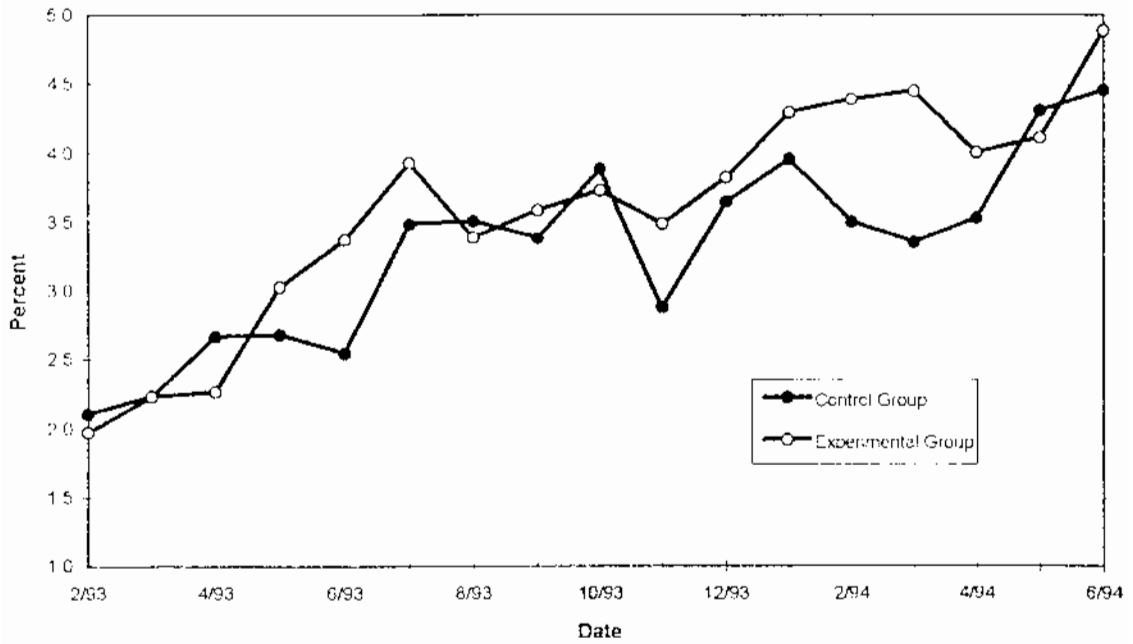


Chart E2: Percent of FG Cases Off AFDC in San Bernardino County

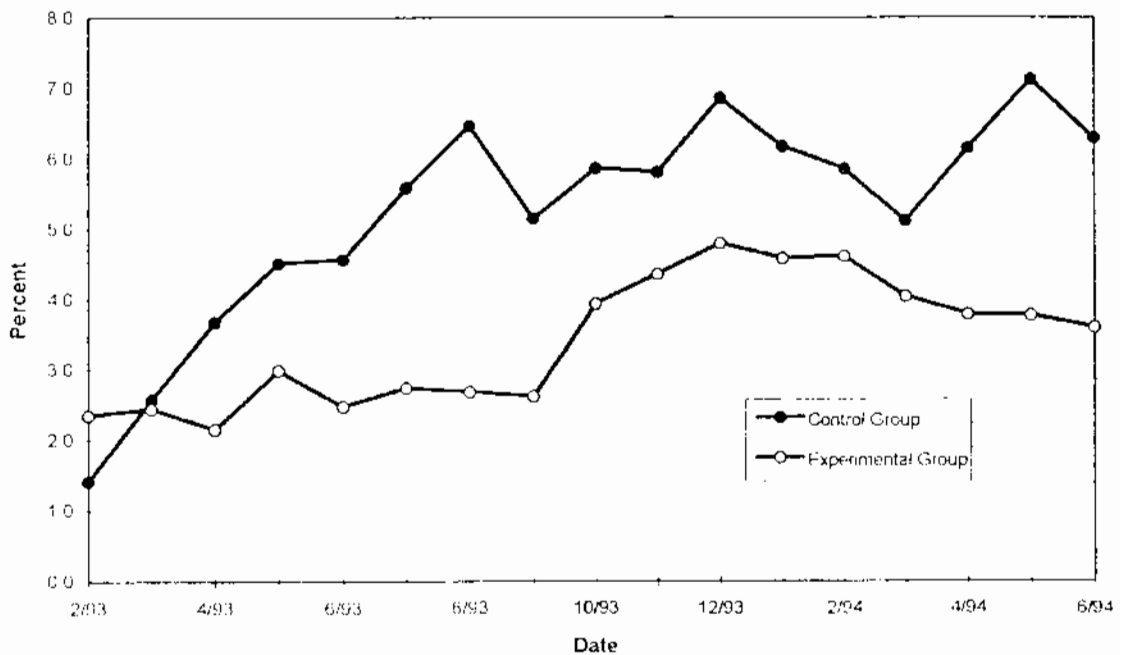


Chart E3: Percent of U Cases Off AFDC in Los Angeles County

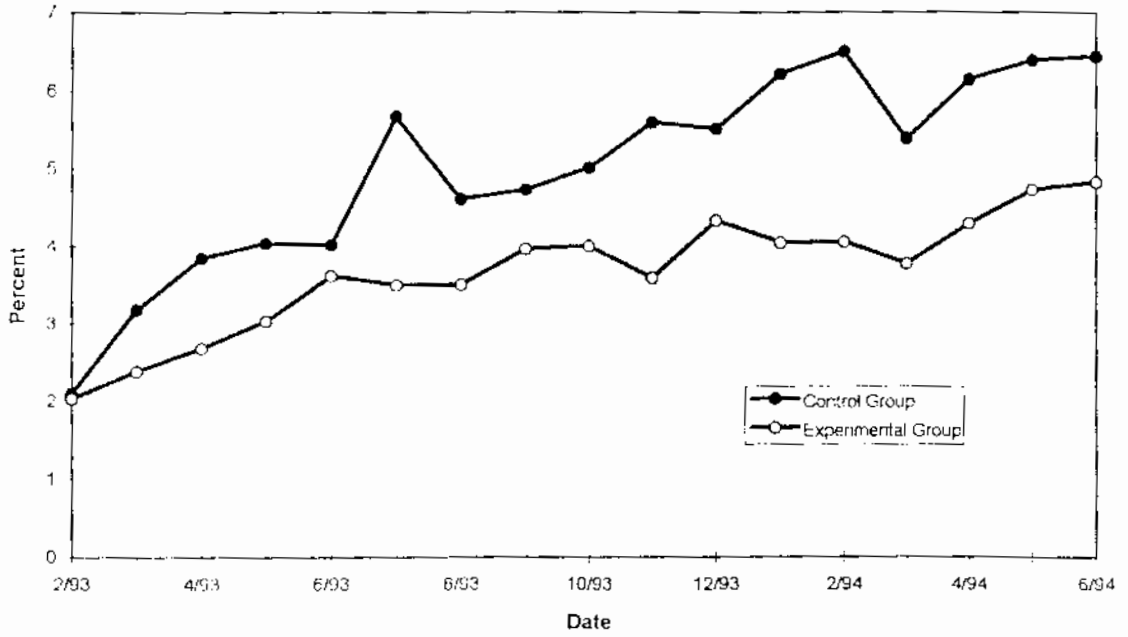
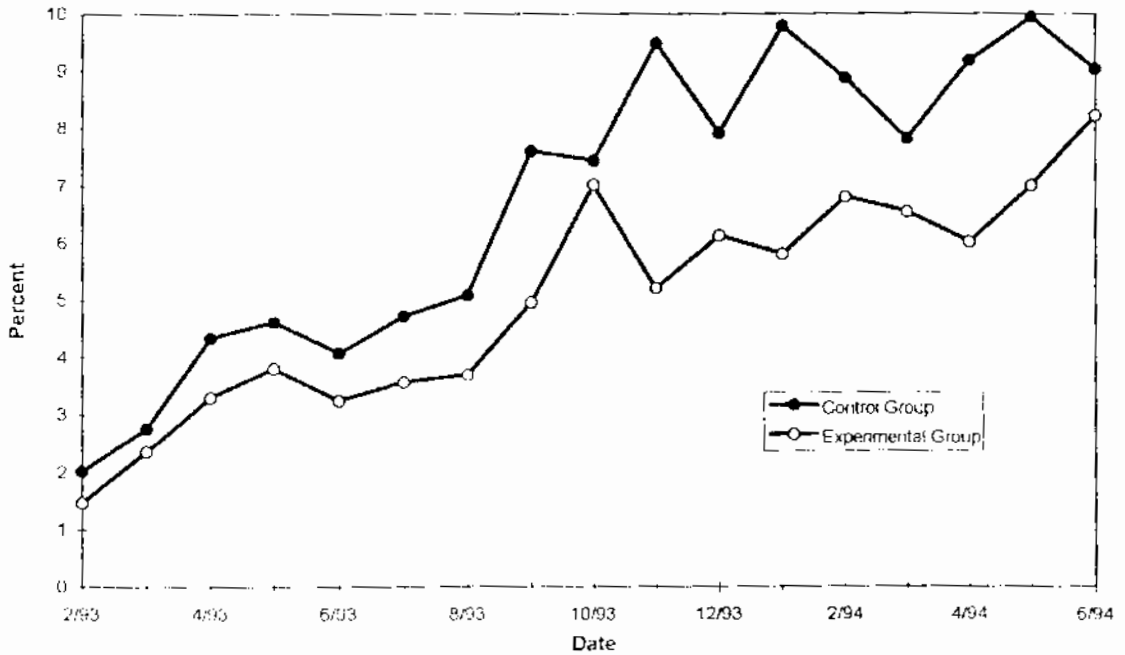


Chart E4: Percent of U Cases Off AFDC in San Bernardino County



Appendix F: Percent of Cases Off AFDC that Are New Exits

Chart F1: Percent of FG Cases Off AFDC that Are New Exits in Los Angeles County

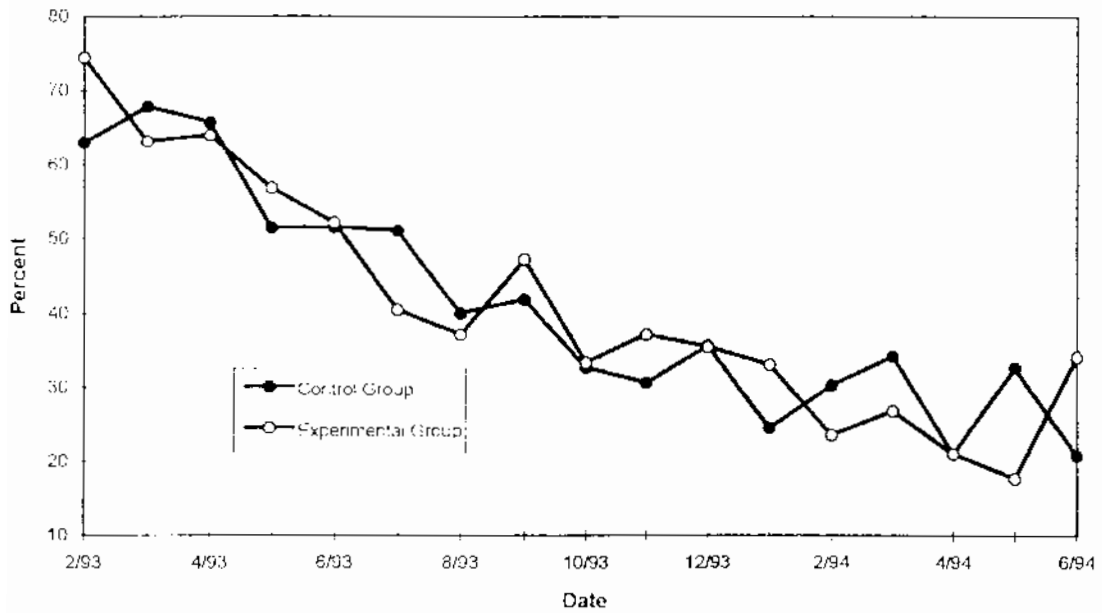


Chart F2: Percent of FG Cases Off AFDC that Are New Exits in San Bernardino County

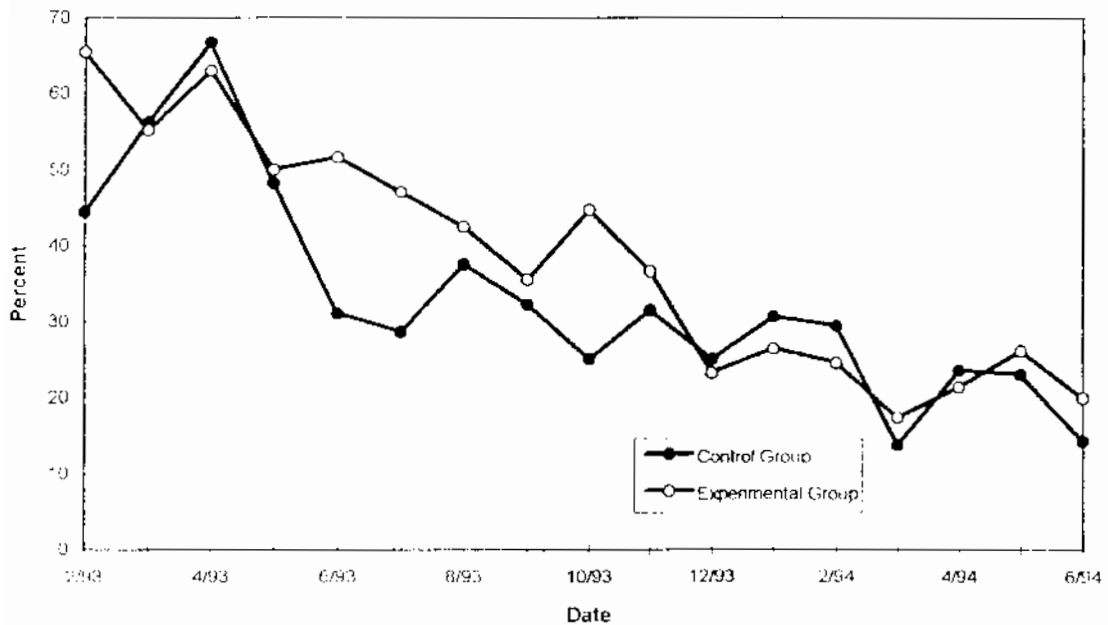


Chart F3: Percent of U Cases Off AFDC that Are New Exits in Los Angeles County

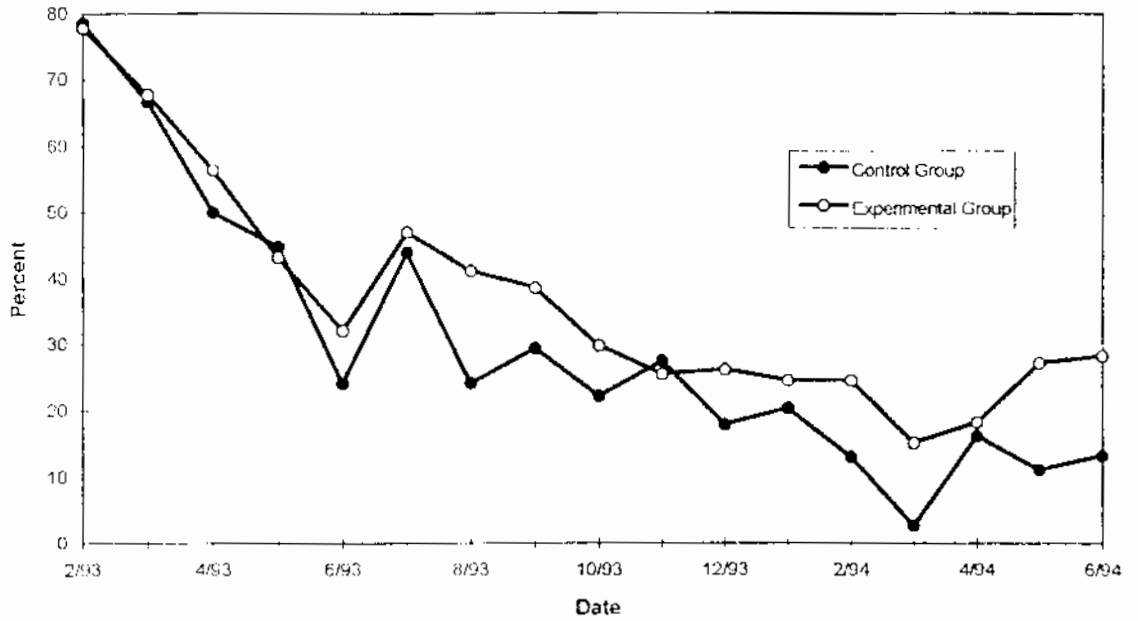
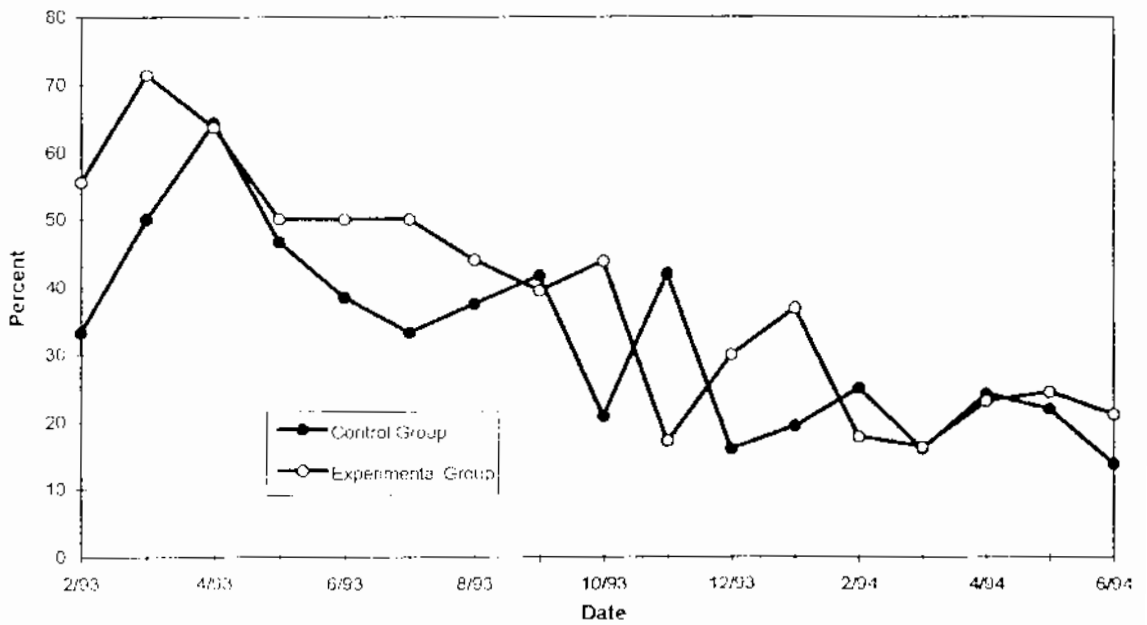


Chart F4: Percent of U Cases Off AFDC that Are New Exits in San Bernardino County



Appendix G: Percent of Cases Off AFDC that Return to AFDC

Chart G1: Percent of FG Cases Off AFDC that Return to AFDC in Los Angeles County

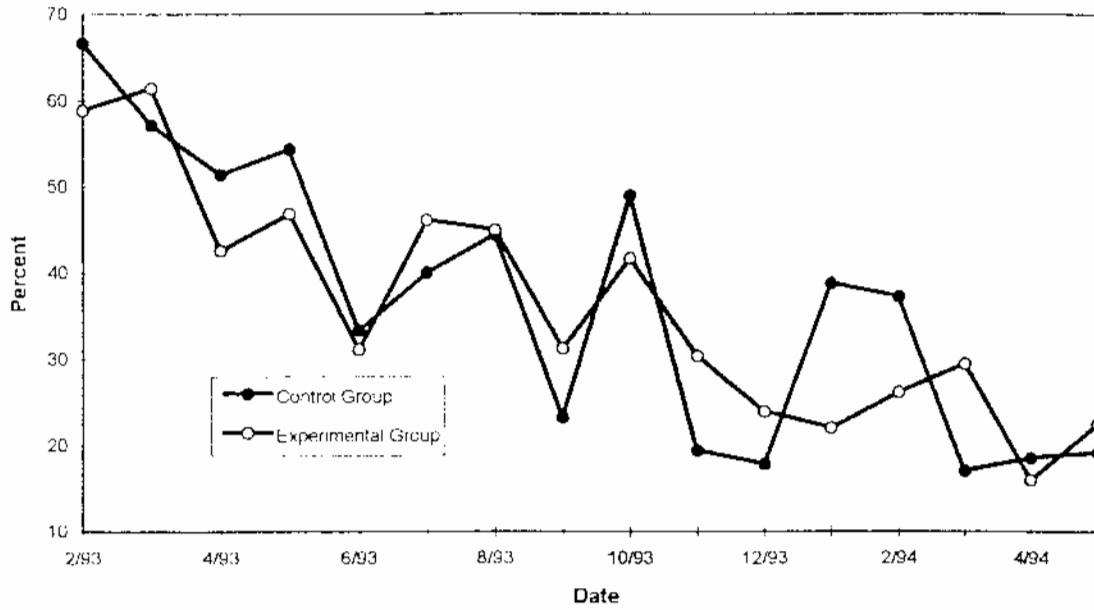


Chart G2: Percent of FG Cases Off AFDC that Return to AFDC in San Bernardino County

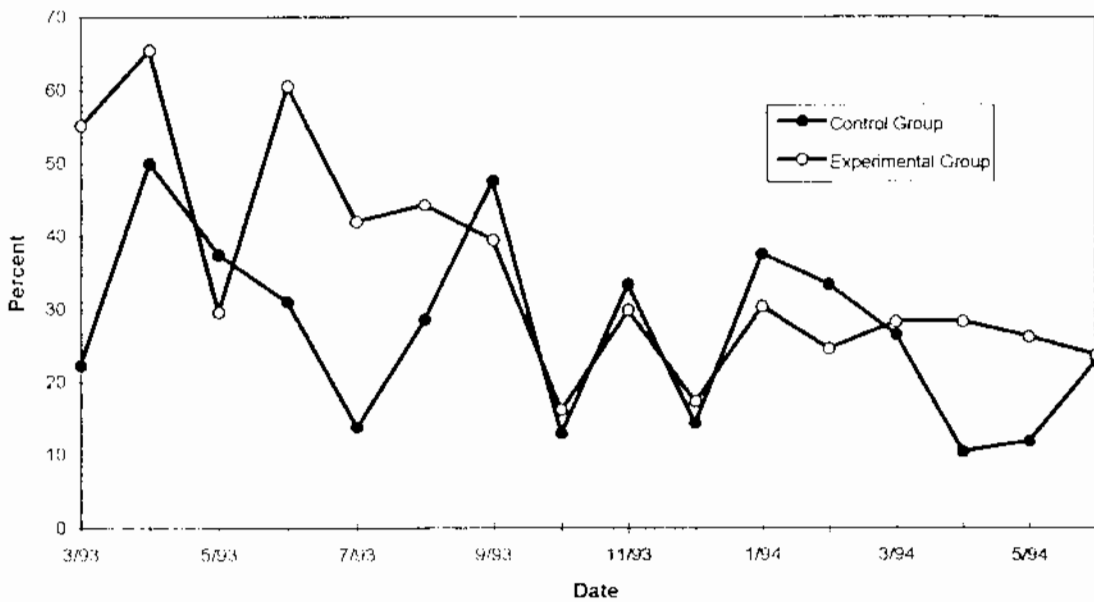


Chart G3: Percent of U Cases Off AFDC that Return to AFDC in Los Angeles County

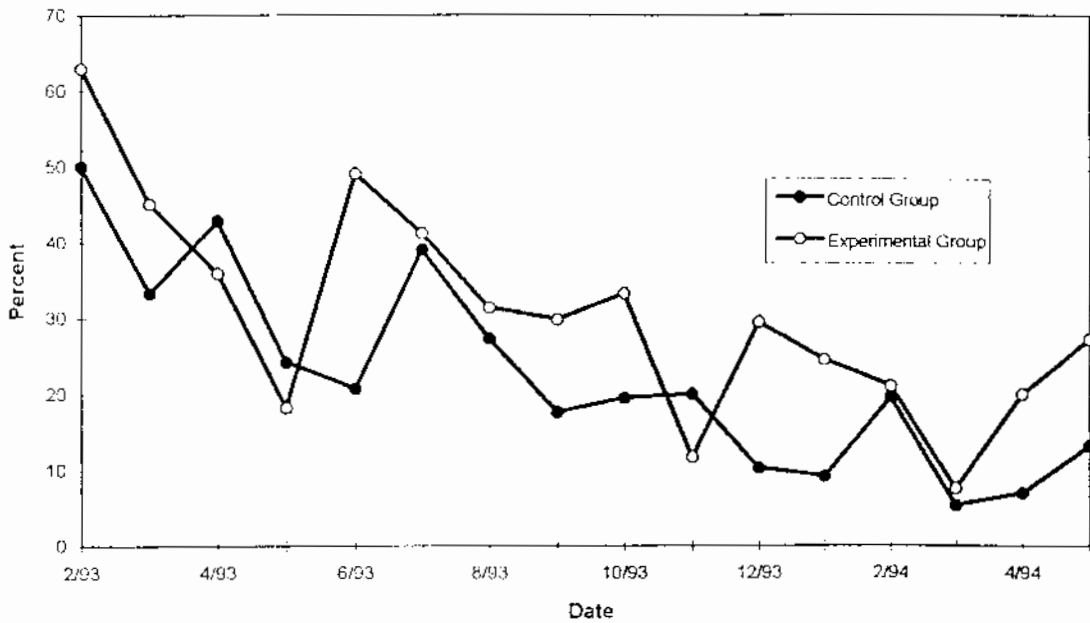


Chart G4: Percent of U Cases Off AFDC that Return to AFDC in San Bernardino County

