WELFARE DYNAMICS AND THE NATURE OF NEED

Greg J. Duncan and Saul D. Hoffman

I. Introduction

In debating welfare reform—whether to adopt a more universal scheme as proposed more than two decades ago or to move to the draconian restrictions in vogue today—it is critical to have an accurate perception of the nature of need in our society and the nature of experience with existing programs. It is, of course, the impressions gained from personal experience or colorful case studies that remain most vivid in our minds. The danger with individual cases, however, is that they may not even remotely represent the circumstances of the larger groups with which they are identified. Is Susan Sheehan's account of a three-generation welfare family in New York City in *A Welfare Mother* a depiction of the typical welfare family? Do the individuals in Ken Auletta's *Underclass* typify persistently poor people in the United States today?

When nationally representative data are used to substantiate one view or another in the welfare debate, they are typically drawn from the snapshot pictures of the status of the population provided by the Census Bureau's Current Population Surveys. Each year, the bureau selects and interviews a different set of families, gathering information about family income and poverty status, welfare use, and family structure. Analysts have placed these snapshots side by side to show aggregate changes in the number of poor families, the number of

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Greg J. Duncan is Program Director at the University of Michigan's Survey Research Center and Saul D. Hoffman is Associate Professor of Economics at the University of Delaware. Preparation of this paper was supported in part by a grant from the Ford Foundation. Earlier drafts benefited from comments by Richard Coe, Dorothy Duncan, David Ellwood, Martha Hill, Robert Hutchens, William Prosser, Daniel Weinberg, and Doug Wolf. Neither the Ford Foundation nor any of these individuals is responsible for anything contained in this paper.

families in "latent" poverty (that is, those who would be poor had they no income from cash transfer programs), the economic conditions of families defined by characteristics such as race or female headship, and the size and composition of the welfare population.

The most interesting policy questions about the nature of poverty and the efficacy of transfer programs are dynamic, not static, and thus require a different kind of data from that provided by the Census Bureau. Turnover in the poverty and welfare populations and the duration and correlates of poverty and welfare experiences are examples of phenomena that simply cannot be addressed with cross-sectional data. The temptation to infer dynamics from static data is strong and some analysts have succumbed to it. For example, in his book *Welfare,* Martin Anderson observed that welfare benefits persistently reached about one-tenth of the nation's households, and concluded that the welfare system had "created a new caste of Americans—perhaps as much as one-tenth of this nation—a caste of people almost totally dependent upon the state, with little hope or prospect of breaking free. Perhaps we should call them the Dependent Americans" (p. 56). A moment's thought will show that evidence such as this cannot be used to demonstrate long-term dependence. Indeed, the fact that one-tenth of the nation receives welfare in two consecutive years is consistent with either no turnover in the welfare population or with complete turnover. Nothing in the data he presents justifies a conclusion about the duration of welfare experiences.

The constraints imposed by Census Bureau snapshots are clearly recognized by Charles Murray in *Losing Ground.* "What we would really like," he writes, "is a longitudinal sample of the disadvantaged" (p. 54). By longitudinal he means a study that tracks the *same* individuals and families over time.

Fortunately, the past 20 years have witnessed major investments in a number of longitudinal data projects. Best known are the Negative Income Tax experiments, with their lessons about the likely work disincentives and family structure changes that might result from changing current welfare programs to a simpler and more universal income maintenance scheme. But these samples were limited to the low-income population living in a small number of areas. Not as widely known, nor as easily grasped, are lessons about the dynamic nature of poverty and the current welfare system learned from nonexperimental data sources, in particular two of the major, nationally representative longitudinal survey projects that were begun in the late 1960s.

In this paper we focus on recent poverty and welfare research based on these nonexperimental data sets. We begin with a sketch of the dynamic nature of poverty and then summarize some of the important recent findings about the characteristics of the welfare system and the welfare population. We conclude with an assessment of the behavioral effects of welfare.

II. The Nature of Need

Census Bureau tabulations of the incidence of poverty are based on a comparison of a family's annual cash income and the annual poverty threshold applicable to that family. According to Census Bureau figures, poverty rates fell more or less continuously during the 1950s and 1960s, changed little during the 1970s, and rose sharply during the early 1980s. The relatively modest year-to-year changes in the fractions of the population who are poor are taken by many to indicate that there is little turnover in the poverty population. Indeed, the sharp recession of the early 1980s was often characterized as having added to the "old" poor a new class of the poor who had recently lost their jobs.

The Panel Study of Income Dynamics (PSID) was begun in the late 1960s in order to provide representative information on *changes* in the economic status of the population across time, as well as richer detail on factors that may account for the observed changes. The National Longitudinal Surveys (NLS) were begun at the same time with a similar design, but with a focus on labor market phenomena. Our review of the dynamic aspects of poverty focuses on data from the PSID. Evidence on welfare dynamics, reviewed in Section III below, is provided by both surveys as well as caseload records.

The simplest extension of descriptive cross-sectional information on poverty provided by Census Bureau surveys is the description of poverty patterns for a group of individuals over a fixed time period longer than a single year. Coe (1978), Hill (1981), and Duncan et al. (1984) all rely on this method and reach common conclusions:

- Movement into and out of poverty is quite widespread. Persistent poverty is by no means insignificant, but it is much smaller than single-year figures would indicate.
- In contrast to the stereotype of an urban underclass, the persistently poor are more likely to be found outside of large urban areas and include surprisingly large numbers of the elderly.

Typical poverty patterns are shown in Table 1. The time period covers 10 years, from 1969 through 1978, and poverty is determined by the official definition. Nearly one-quarter of the U.S. population is estimated to have experienced poverty in at least one year out of the 10, but only about one person in 20 was poor for most of the

TABLE 1

INCIDENCE OF SHORT- AND LONG-RUN POVERTY, 1969–78

	Percentage of U.S. Population
Poor in 1 or more years, 1969–78	24.4
Poor in 5 or more years, 1969–78	5.4
Poor, excluding cash welfare income, in 1 or more years, 1969–78	25.8
Poor, excluding cash welfare income, in 5 or more years, 1969–78	8.5

Note: "Welfare" is defined as AFDC, General Assistance and other welfare, SSI, and food stamps received by the head or wife.

SOURCE: Duncan et al. (1984, p. 163).

decade. Turnover among the poverty population is thus widespread; indeed, nearly one-third of the poor in a given year escape from poverty by the next. Bane and Ellwood (1982) have estimated that over half of all continuous poverty spells last less than three years. Even adverse macroeconomic conditions reduce turnover rates by only a few percentage points; many escape even during quite severe recessions. Of course, some of those who escape do not rise very far above the poverty line, but a surprising number do enjoy large gains.

Subtracting income from cash assistance programs produces a measure of latent poverty, consisting of individuals who would be poor in the absence of transfer programs (and also in the absence of labor market or other adjustments to the reduced income). The bottom half of Table 1 shows that without welfare income the number of individuals who would have been poor for most of the decade would have been 50 percent higher than it actually was, but the fraction of the population experiencing poverty at least once would have changed little. The targeting of assistance programs to the persistently needy produces this difference.

Some upward mobility may conform to the Horatio Alger stereotype, but a more useful view is that it often results from other kinds of labor market events and from family composition changes. Bouts of unemployment produce many short-term periods of need; but such changes in family composition as divorce or separation have even more adverse effects on the economic position of the women and children involved. But while these events produce spells of hardship, reemployment or remarriage will often produce beneficial income changes that are as large as for the detrimental events. Thus, unstable employment and family situations can create numerous situations of temporary need for a surprisingly large portion of the population.

It is possible to overstate the extent of economic mobility evidenced in these data. The *Wall Street Journal* used the evidence on mobility to counter the Catholic bishops' claim, based on single year data, that capitalism produces a very unequal distribution of income: "Under what other system do we see families so unequal at the start leaping up and crashing down, reflecting varying drives and talents?" Expanding the accounting period over which income is measured does indeed equalize the income distribution, but by less than might be expected. Hoffman and Podder (1976) found that the top fifth account for 42.3 percent of the 1973 income distribution. Averaging income over the seven-year period from 1967 to 1973 drops the share going to the top fifth only slightly—to 39.8 percent.

The numbers who do not experience upward mobility are far from insubstantial. Bane and Ellwood (1982) estimate that poverty spells for about one-sixth of the individuals who become poor last more than eight years. Duncan and Rodgers (1985) estimate that the average black child spends over 5 of his first 15 years below the poverty line; the comparable duration for white children is about 9 months. Persistent poverty is not randomly distributed among the larger group of ever-poor. Poverty among the elderly and blacks and in rural areas tends to be more persistent than among other groups and in other areas, in part because of fewer labor and marriage market alternatives.

The demographic characteristics of persistently poor individuals stand in marked contrast to those raised in discussions of the "underclass" (Corcoran et al. 1985). Although usually defined loosely by behavioral deviancy—drug addiction, mental problems, criminal activities, welfare dependence—the underclass were equated with the persistently poor by Auletta (1982). PSID data show how little overlap there is between the two groups. Most of the persistently poor live outside of large urban areas, nearly half live in families where the head is disabled, and many are beyond their early adult years (Duncan et al. 1984). This is not to minimize the potential importance of the underclass; rather it suggests that we ought not to have an underclass stereotype in mind when debating policies directed at persistent poverty.

Such facts suggest that need in our society is rather heterogeneous, with much of it temporary but some of it persistent. The dynamic characteristics of welfare receipt and the performance of the welfare system in matching these needs is the subject of the remainder of the paper.

III. Evidence on the Nature of Welfare Receipt

Inferences about turnover in the welfare rolls and the duration of welfare experiences require longitudinal information on the *same* households or welfare cases over time. As with poverty, the simplest extension of descriptive welfare information gathered in a cross-sectional survey for a single point or over a single calendar year is the description of use patterns over a fixed multiyear accounting period. Harrison (1977), Rein and Rainwater (1978), Coe (1981), and Duncan et al. (1984) all rely on this method using data from the PSID. Although each explores different aspects of welfare dynamics, two important findings are common to all of this work:

- Movement on and off of welfare rolls is widespread. Occasional welfare receipt is common; persistent welfare receipt is not.
- Annual and multiyear income "packages" of welfare families often contain more income from other sources than from welfare, with labor income being mixed with welfare income to a surprising degree.

Shown in Table 2 are patterns of receipt when the accounting period runs for 10 years, from 1969 through 1978, and "welfare" is defined as AFDC, General Assistance and other welfare, Supplemental Security Income, and the cash value of food stamps. More than one-quarter (25.2 percent) of the U.S. population is estimated to have lived in families where some form of welfare income was received in at least one year between 1969 and 1978, but only 6.5 percent of individuals lived in families that received income from welfare sources in more than half of the 10 years. These figures provide an exceedingly large bracket around the 8.1 percent of the population that is estimated to have lived in families in which welfare income was received during a single-year accounting period—1978 in this case. They suggest a great deal of turnover in the welfare rolls over fixed accounting periods, a fact confirmed by direct turnover calculations.

A second important finding of these studies is the extent of mixing of income from welfare with income from other sources. Shown in the bottom three rows of Table 2 are the corresponding fractions of the U.S. population that lived in families in which more than half of

TABLE 2

INCIDENCE OF SHORT- AND LONG-RUN WELFARE RECEIPT, 1969–1978

	Percentage of U.S. Population	Percentage of Black Children
Receiving welfare in 1 or more years, 1969–78	25.2	73.3
Receiving welfare in 6 or more years, 1969–78	6.5	42.8
Receiving welfare in 1978	8.1	—
Receiving at least 50 percent of family income from welfare in one or more years, 1969–78	8.7	45.8
Receiving at least 50 percent of family income from welfare in 6 or more years, 1969–78	2.8	16.3
Receiving at least 50 percent of family income from welfare in 1978	3.5	—

Note: "Welfare" is defined as AFDC, General Assistance and other welfare, SSI, and food stamps received by the head or wife.

SOURCE: Coe (1981, p. 163).

the total family income came from welfare sources in at least one year, in six or more years, and in 1978. All of the figures are considerably lower than the corresponding figures in the first three rows and so suggest substantial mixing of welfare income with other income over a single calendar year and over 10 years. Rein and Rainwater (1978) and Harrison (1977) examine family income "packaging" in greater detail and find that much of the nonwelfare income comes from the labor market.

The extent of welfare receipt and dependence varies widely across demographic subgroups. Black children have the highest recipiency rates: nearly three out of every four of them lived in families in which welfare was received at least once during the 10 years (Table 2, column 2). But, as with the larger population, there is a much smaller set of black children (one-sixth in all) living in families that counted heavily on welfare for most of the period.

Welfare Spells

A second approach to analyzing welfare experience with longitudinal data involves the identification of spells of welfare use, that is, contiguous months or years of welfare receipt by a household. This provides information on the distribution of completed spells of welfare use, which yields more direct evidence on whether welfare use for recipients with various demographic characteristics (age, presence of children, race, etc.) tends to be short- or long-term. It is also possible to identify the events that appear to lead to the initiation and termination of these spells. Clearly, this is information that can only be obtained from longitudinal data collected over a long period, and it is crucial for evaluating issues concerning dependence and the design of policy.

The first truly comprehensive study of welfare spells using national data was conducted by Bane and Ellwood (1983) with the PSID.[1] Since then, O'Neill et al. (1984) have analyzed the NLS and case records, and Ellwood (1985) has reanalyzed the PSID. Despite differences in the definition of a welfare spell and the use of different samples, the studies are in remarkable agreement about the duration of welfare spells. As shown in Table 3:

- A majority of welfare spells are short-term, lasting two years or less, while fewer than one-sixth can be thought of as long-term, lasting eight or more years.
- However, at any single point, half of all welfare recipients are in the midst of long-term spells.

These seemingly paradoxical findings, stressed particularly in Bane and Ellwood (1983), highlight a crucial element of welfare dynamics. The short-term nature of most welfare spells is reflected in the figures in the first four columns of the table. They are based on individuals who began welfare spells at any time between the mid-1960s and the late 1970s. They show that between one-half and two-thirds of these welfare spells lasted one or two years, and fewer than one-sixth of the spells lasted eight or more years.

Viewed in this way, it seems clear that long-term welfare receipt is relatively uncommon; it certainly does not accurately reflect the welfare experience of the majority of recipients. The fifth column presents estimates of completed spell lengths for recipients observed at a given point in time. For this group, the distribution of welfare spell lengths is nearly the opposite of that shown in the first four columns. Here, short spells characterize only one-sixth of current recipients, while half are in the midst of quite long spells, lasting eight or more years.

[1]Most notable among prior work are Rydell (1974), Boskin and Nold (1975), Rein and Rainwater (1978), Hutchens (1981), and Plotnick (1983).

TABLE 3

DISTRIBUTION OF LENGTH OF AFDC SPELLS AND TOTAL TIME ON WELFARE

	Distribution of Length of Spell					Total Time on Welfare[c]	
	Persons Beginning a Spell[a]				Persons on AFDC[b]	Persons Beginning a Spell[a]	Persons on AFDC[b]
			AFDC Case Records				
	PSID	NLS	1965 Cohort	1975 Cohort	PSID	PSID	PSID
1–2 Years	48	61	59	69	15	30	7
3–7 Years	35	27	25	26	36	40	28
8 or More Years	17	12	16	7	49	30	65
All	100	100	100	100	100	100	100

[a]Percent of persons beginning AFDC spell.
[b]Percent of persons on AFDC at a point in time.
[c]*Includes multiple spells.*

SOURCES: Cols. 1, 5–7: Ellwood (1985); cols. 2–4: O'Neill et al. (1984).

While the large difference between the ever-begun and point-in-time welfare groups may seem paradoxical, it is easily explained and, indeed, characteristic of spells of poverty and unemployment as well. It occurs because the probability of being on welfare (poverty, unemployment) at a given time is necessarily higher for longer-term recipients than for those who have shorter welfare (poverty, unemployment) spells. The point-in-time welfare sample is thus a biased sample of all welfare recipients.

An example of spells of hospitalization will help to establish this point (Bane and Ellwood 1982). Consider a 13-bed hospital in which 12 beds are occupied for an entire year by 12 chronically ill patients, while the other bed is used by 52 patients, each of whom stays exactly one week. On any given day, a hospital census would find that about 85 percent of patients (12 of the 13) were in the midst of long spells of hospitalization. Nevertheless, viewed over the course of a year, short-term use clearly dominates: Out of the 64 patients using hospital services, about 80 percent (52 of the 64) spent only one week in the hospital. Exactly the same kind of dynamics of use accounts for the results shown in columns 1–5 of Table 3. One of the most important lessons from the longitudinal evidence is that while the welfare population at any point is composed predominantly of long-term users, the typical recipient is a short-term user.

Which way of describing welfare experiences is correct? Not surprisingly, the answer depends on the nature of the question one wants to answer. On the one hand, the experience of the current population of recipients is the best guide for assessing whether short-term or long-term users account for most of the costs of the welfare system (long-term recipients do). On the other hand, for assessing the nature of welfare use, especially in the context of welfare dependency, the over-time sample is clearly the relevant one.

Spell-level analyses are also useful in showing the events that are most closely linked to the beginnings and endings of welfare receipt. Bane and Ellwood (1983) and Ellwood (1985) are again the best sources of this information; their work is used to provide the information in Table 4. A major surprise is the dominance of family composition changes over labor market events in influencing changes in welfare status. Nearly half of all AFDC spells begin with a divorce or separation; more than one-third of them end with marriage. In contrast, only about one-eighth of the spells begin with a drop in the earnings of the head of an intact female-headed household and, most surprisingly, only one in five spells ends with a major increase in labor income. O'Neill et al. (1984) found with NLS data that marriages accounted for more spell exits than any other event. This result held

TABLE 4

EVENTS ASSOCIATED WITH THE BEGINNINGS AND ENDINGS OF AFDC SPELLS

Beginnings (%)		Endings (%)	
Divorce/Separation	45	Marriage	35
Childless, unmarried woman becomes a female head with children	30	Children leave parental home	11
Earnings of female head decreased	12	Earnings of female head increased	21
Earnings of others in family decreased	3	Earnings of others in family increased	5
Other income fell	1	Transfer income increased	14
Other (including unidentified)	9	Other (including unidentified)	14
	100		100

SOURCES: "Beginnings": Bane and Ellwood (1983, p.18), using PSID data. "Endings": Ellwood (1985, p.46), using PSID data.

for both black and white women, although exits via marriage were considerably more frequent for whites. Clearly, family composition changes are more important than labor market events for much of welfare dynamics.

One potential weakness of conventional spell analysis is its emphasis on completed spells of welfare rather than on the cumulative welfare experience of individuals over time. For example, an individual could spend a high proportion of his adult years receiving welfare and yet have short welfare spells by being off welfare occasionally for a year or two. If such "recidivism" were common, the conclusion about the relatively short length of most welfare spells would need to be qualified, since what is ultimately at issue is the amount of time individuals spend on welfare and not the length of each completed spell.

The research of Bane and Ellwood (1983) and Ellwood (1985) confirms that multiple spells of welfare receipt are common. Bane and Ellwood estimate that one-third of all welfare spells are followed by subsequent spells; Ellwood estimates that 40 percent of first welfare spells are followed by subsequent spells. Allowance for multiple spells alters the distribution of welfare experiences substantially. Ellwood constructs an estimate of the total expected time on welfare for individuals first beginning a welfare spell and individuals on welfare at any given point. His estimates, shown in the final two columns of Table 3, indicate that about 30 percent of new recipients can expect to experience only one or two years of total receipt, while a similar proportion will have eight or more total years of receipt. Similarly, the point-in-time estimates are more heavily skewed toward longer-term recipients than is true for estimates (in column 5 of Table 3) based on individual spells.

Intergenerational Transmission of Welfare Dependence

There is great interest in intergenerational aspects of welfare receipt—especially whether and why children growing up in households that receive welfare may themselves be more likely to receive welfare when they establish their own households. Theories of poverty have often posited such an intergenerational component. For example, in his writings on the culture of poverty, Lewis (1968) describes a process in which children who grow up in slums absorb subcultural attitudes that prevent them from taking advantage of future opportunities.

Less frequently examined but also important are the possible beneficial effects of welfare receipt on children. Does it improve health, promote human capital investment, and, more generally, measurably equalize opportunities of lower- and higher-income children? The ideal set of data to address these questions would span two generations, and contain information about the economic position and welfare experiences of the parental household during the entire period of childhood matched with comparable information about the children during the entire time when they are raising their own children in independent households. No existing body of longitudinal data covers a sufficiently long period to provide all of this information, and retrospective information about one's parents' welfare experience cannot be recalled reliably. However, the PSID sample does contain a representative subsample of children observed first for several years as members of their parents' household and then later in their own households. It thus provides a substantial portion of the necessary intergenerational information.

In a series of articles, Hill and Ponza estimate models of intergenerational transmission of welfare receipt and dependence using 14 years of data from the PSID on young adults and their parents. The data provide yearly measures of the economic well-being, including welfare receipt, of the parental household while the children lived at home, as well as measures of the young adult's economic experiences over the period after leaving home. Observations on the parents are typically averaged over a seven-year period, as are observations on the children in their own households. The children were age 10 to 16 in 1968, the first year of the PSID study, and between the ages of 24 and 30 by 1982, the most recent year of data available to Hill and Ponza.

The transmission of welfare use was investigated by relating the young adult's welfare dependence to parental welfare dependence and a set of parental background measures such as parental education levels, number of siblings, and religion. In this case, the simple bivariate relationship between the welfare dependence of parent and child, shown in Table 5, is descriptive of the results based on more sophisticated statistical techniques. The results are surprising:

- Only a minority of black and white women growing up in heavily welfare-dependent homes are themselves heavily dependent on welfare in their own households.
- For black women, there is no significant link at all between the welfare dependence of parent and child.

The table shows that only 19 percent of this representative sample of black women coming from highly welfare-dependent parental homes were themselves observed to be heavily dependent on welfare when they had established independent households, while an additional 39 percent received some welfare income, but not more than one-quarter of family income. Most remarkable is that the 19 percent figure is not very different from the comparable fraction (14 percent) of black women coming from households that received no welfare. In fact, the regression models showed no statistically significant effects among blacks of parents' welfare dependence on their children's likelihood of welfare dependence. The only evidence of welfare dependence transmission was observed for whites, and then only for very high levels of parental welfare dependence, based on a small number of observations, and with effects that were not consistent across all models tested.

By relating the work hours of young men to measures of parental welfare receipt, Hill and Ponza also explored the links between parental welfare background and the labor supply of young men. They found that welfare receipt had no significant effect on the work hours of black men. However, white men coming from parental homes with heavy dependence on welfare averaged seven fewer hours of work per week than did otherwise similar white men.

In sum, there was no evidence of statistically significant links among blacks between welfare receipt by parents and either welfare receipt or labor supply of children once they had established their own households. Possible links exist for whites, but only for the quite

TABLE 5

INTERGENERATIONAL TRANSMISSION OF WELFARE DEPENDENCE

Parental Welfare Status	Status of Daughters as Young Adults: Received No Welfare(%)	Low Welfare Dependence(%)	High Welfare Dependence(%)	Total	Number of Observations
Received no welfare					
Black	53	33	14	100	108
White	79	19	2	100	354
Low welfare dependence					
Black	31	49	20	100	130
White	63	31	5	100	75
High welfare dependence					
Black	42	39	19	100	92
White	27	47	26	100	25

Note: "High Welfare Dependence" is defined as receiving at least 25 percent of average family income as cash welfare payments. Parental measures are typically averaged over seven years during the time the child is 10–16 years old. Measures on the children as young adults are typically measured over seven years during the time the child is 24–30 years old.

SOURCE: Hill and Ponza (1984), using PSID data.

small fraction of white children coming from the most heavily dependent families.

IV. The Behavioral Effects of the Welfare System

The findings reported in the previous section of this paper provide a consistent, if still little known, view of the welfare system and of welfare usage. There are four key findings in that view: the preponderance of short-term usage of the welfare system, the substantial extent to which receipt of welfare income alternates or is mixed with income from other sources, the importance of demographic events in affecting entries into and exits from welfare, and the absence of an intergenerational transmission of welfare status.

Moreover, it appears that welfare programs and funds are fairly well-targeted on the most needy. One indication of this is the high fraction of total AFDC program resources that go to long-term recipients. Because, as explained earlier, long-term recipients always comprise a majority of current recipients, they naturally receive a majority of benefits. Ellwood (1985) estimated that 24 percent of all welfare recipients accounted for 56 percent of all person-years of welfare use and received a corresponding share of all benefits.

Duncan et al. (1984) found that of individuals who would have been persistently poor over a 10-year period in the absence of welfare benefits, almost 97 percent received some benefits and more than 84 percent received benefits more than half the time. Only about 5 percent of the temporarily poor individuals received benefits during more than half the period and virtually none (0.4 percent) of the individuals who lived in families with pre-transfer incomes *above* the poverty line for the entire period received benefits for more than half the period.

The generosity of the programs—the extent to which program benefits lifted needy individuals above the poverty line during periods of receipt—is a different matter. Here the evidence indicates that transfer programs leave many of those who were persistently poor in the absence of benefits still poor even after the receipt of benefits (Duncan et al. 1984). A flavor of the evidence can be obtained by comparing the actual and latent poverty rates presented in Table 1. About two-thirds of the individuals who would have been poor in the absence of transfers for at least 5 of the 10 years were in fact still poor for a comparable period when program benefits had been added to their incomes.

Although this descriptive evidence provides substantial support for a benign view of how the welfare system operates for the majority of recipients, it has one important weakness. To assess the welfare system adequately, one needs to go beyond descriptive evidence on patterns of usage and consider the possible effects of the welfare system on the behavior of individuals, especially on the minority of long-term recipients. Consider, for example, the finding in Table 4 that 75 percent of all welfare spells begin following a divorce, separation, or out-of-wedlock birth. If one views those demographic events themselves as unaffected by the operation of the welfare system, then the welfare system might be regarded as a kind of insurance system, usually providing assistance to individuals facing temporary misfortune. But if those events are endogenous—that is, increased by the availability or generosity of welfare—one would want to draw a quite different conclusion, especially if the impact were substantial. The same point can be made about the extent to which welfare reduces "latent poverty," if, as Murray and others have argued, the availability of welfare increases latent poverty in the first place.

Perverse behavioral effects are at the crux of the argument that the welfare system is a cause of rather than a cure for poverty. There appear to be two general kinds of concerns: (1) that the existence of a welfare system encourages a class of undesirable individual behavior that substantially increases pre-transfer need; and (2) that receipt of welfare is in itself harmful in that it creates dependence and discourages self-sufficiency. The first category includes two separate kinds of effects: the potentially adverse effect of welfare on labor supply as well as its possible impact on divorce, marriage, childbearing, and living arrangements. The second category is less clearly defined, but presumably implies that welfare receipt has a destructive effect on personal values and attitudes.

In the rest of this section, we examine the current evidence on the potential negative impact of the welfare system on behavior. We begin with the one issue on which there is fairly good evidence: the labor supply effect of welfare. We then turn to the family structure issue, and conclude with an examination of the dependence problem.

Welfare and Labor Supply

The desire to provide low income families with an adequate standard of living, and yet to limit welfare benefits to the most needy, typically makes it necessary to impose high benefit reduction rates. This, as economists have pointed out at least since the early 1960s, is equivalent to a high rate of taxation on earned income, especially as compared with the tax rates that face low income families in the positive income tax system. Compared with the situation they would face in a world without welfare, welfare recipients have both a higher gross income and a much lower wage rate, both of which are expected to reduce labor supply.

There are two kinds of evidence to use in evaluating this work disincentive effect. One comes from annual surveys of AFDC recipients, which typically show that only a small fraction of women receiving AFDC are currently employed. For instance, in March 1983 less than 6 percent of AFDC recipients were employed, down sharply from over 15 percent a decade ago (Ruggles 1985). While this may seem to suggest an enormous labor supply effect, such a conclusion is unwarranted without evidence on what the labor supply of these women would have been in the absence of AFDC. In view of the typically low educational level and job skills of many welfare recipients as well as the presence of young children in many welfare households, it is not clear that the labor supply of these women would have been very large in any event. In addition, as pointed out in Section III, recipients appear to alternate frequently between income from work and welfare, and the periods of welfare receipt may be caused by the unavailability of work.

More helpful in assessing the likely labor supply effects of welfare are the results of the Negative Income Tax experiments. While these experiments were designed primarily to examine the effects of extending welfare benefits to intact families, the labor supply results provide estimates of structural labor supply parameters that can be used to infer the likely impact of the current system on labor supply. Robins (1985) reports consensus findings from the various NIT experiments. For female heads, the estimated annual labor supply falls by 78 hours for each one dollar wage reduction caused by the higher welfare tax rate and falls by 55 hours per each $1000 increase in annual income. Therefore, a woman whose wage was decreased by $2.50 an hour and whose net income was increased by $2000 per year would, on account of these welfare-induced changes, reduce her work hours by about 305 hours per year.

To predict the actual labor supply impact requires information on the exact wage and income changes for each eligible woman. Keeley et al. (1978) used such information to make labor supply estimates of hypothetical welfare programs with different levels of generosity. For example, for a relatively generous program (maximum benefits equal to the poverty level and a 70 percent benefit reduction rate), they estimated that the annual labor supply of those female heads who chose to receive welfare would fall by about 15 percent on average. The labor supply effects for less generous programs were somewhat smaller than that.

This estimate is far from insignificant, but also substantially less than might be inferred if one assumed that current recipients would otherwise be full-time workers. Additional evidence from the NIT experiments suggests a relatively modest (5 percent) labor supply reduction for husbands if intact families were made eligible for assistance.

Welfare and Family Structure

The argument that AFDC affects family structure is quite simple and, indeed, it is among the oldest criticisms of a welfare system that predicates assistance on categorical status. By raising the income available to a single woman with dependent children but not to intact families or a single woman without children, AFDC is alleged to encourage marital instability, illegitimate births, and the establishing of independent households by unmarried mothers, while discouraging marriage and remarriage. This hypothesis is unquestionably plausible, and it is broadly consistent with aggregate time trends that show an increase in the percentage of female-headed families as a consequence of rising rates of divorce and falling rates of marriage (Bane and Ellwood 1984).

More detailed individual-level studies of various family structure decisions have, however, failed to find consistent empirical evidence that the welfare system plays an important role in these decisions. The issue has been extensively studied for over a decade, producing some scattered evidence of AFDC effects on some family structure decisions but with many studies failing to find an impact (Bishop 1980). And in no case are the estimated effects large enough to account for very much of the time-series trends in divorce, illegitimacy, or female headship rates.

The best, most comprehensive, and most recent work on this topic is by Ellwood and Bane (1984). They examine a lengthy list of family structure variables and do find some evidence of AFDC effects. In their research, AFDC had no measurable impact on births to unmarried women and only a modest effect on divorce or separation as well as on female headship rates. Its biggest impact was on the living arrangements of single mothers; they found that young mothers not living with a husband were more likely to live independently rather than in the home of a parent in states with high AFDC benefit levels. They concluded that "the more significant the family structure or living arrangement change, the less influence AFDC seems to have." More generally, though, they concluded that welfare was not the primary cause of variation in family structure across states or over time and that, instead, this variation reflected "largely unmeasurable differences in culture, attitudes or expectations."

Our own opinion on this issue is ambivalent. On the one hand, the evidence in support of substantial AFDC effects on family structure is, on the whole, relatively weak. On the other hand, our own work in this area has convinced us that this entire body of research, including the Ellwood and Bane study, has been poorly specified and that the results are therefore suspect. Simply put, the problem is that researchers have failed to pay adequate attention to the behavior of individuals and the way in which that behavior might be affected by the welfare system. Although individuals are presumed to be choosing among alternatives (for example, marriage vs. single headship vs. AFDC receipt), the actual characteristics of the alternatives available to an individual have not been adequately identified in empirical work. Not only have the details of the welfare system as they affect an individual been crudely specified, but also—and much more seriously—the nature of the nonwelfare alternatives available to women has been largely ignored (as pointed out in Wilson and Neckerman 1984).

The result is that the studies are a crude and potentially misleading test of the hypotheses at issue. We do not yet know whether the weak research findings are the consequence of the weakness of the research methodology or reflect the true effects of the welfare system. Further research here is critical.

Does Welfare Receipt Cause Dependence?

The patterns of welfare receipt described in Section III clearly allay the concern that any brush with the welfare system necessarily leads to dependence. Most spells of welfare use are of relatively short duration and most recipients mix or alternate between income from work and welfare. Even accounting for repeat spells, half of all welfare recipients spend less than four years of their life on welfare. Furthermore, most children raised in heavily dependent homes do not themselves become dependent adults.

Still, Ellwood estimates that about 30 percent of all individuals who ever begin welfare spells will spend eight or more years on welfare (not necessarily consecutive and not necessarily receiving the majority of their income from welfare) during their prime working years. Thus, while welfare support does not appear to lead to long-term dependence for most individuals who ever receive it, there is a far from insignificant number of adults and children in the United States, at least several million, who live in families that could be described as dependent on welfare. As shown in Table 2, one-sixth of all black children live in households that depend heavily on welfare.

What is not yet clear, however, is whether the welfare system is itself the cause of this dependence. A pattern of relatively continuous welfare use may indeed be the result of a causal process in which initial receipt produces changes in attitudes or behavior that make subsequent receipt more likely. Alternatively, that pattern of receipt may reflect the permanent characteristics of an individual (including such measured traits as disability status or education and unmeasured values and attitudes), which are the cause of both the beginning of a spell of welfare and its continuation. In this instance, the actual receipt of welfare has little or no independent effect on the length of receipt.

Statisticians obfuscate these phenomena with the terms "state dependence" and "heterogeneity," respectively, and distinguishing between them in empirical work is extremely difficult. It is not enough to observe that some welfare recipients receive benefits for many years or that receipt at one time is correlated with subsequent receipt. Such evidence is consistent with either or both explanations.

Thus far, the evidence for the state dependence explanation is relatively weak (Plant 1985). Implicit in that argument is the idea that contact with welfare causes some behavior or attitudes to change, whereas the heterogeneity explanation assumes that unchanging characteristics are crucial and that welfare plays no causal role. Thus, potential tests would involve identifying some set of attitudes that are changed in welfare recipients by the receipt of welfare. But no such changes have been successfully identified in empirical work. O'Neill et al. (1984) examined the possible links between AFDC receipt and measures of personal efficacy and future orientation to assess whether welfare had a negative impact on those measures. Although other studies (Andrisani 1978; Hill et al. 1985) have found that wage and employment changes affected these measures, welfare receipt did not prove to have an impact. O'Neill et al. concluded that there was "nothing to indicate that experience with AFDC causes significant changes in personal efficacy" (p. 87).

The substantial evidence that most welfare use is short term suggests strongly that whatever dependence effect welfare may possess is relatively weak. Furthermore, as noted in Section III, welfare usage does not appear to be transmitted from one generation to another. If welfare receipt had a strong behavioral effect, an intergenerational effect would be likely. While it is possible that further research will uncover a causal link between current welfare usage and future usage, such a relationship has not thus far been established.

Does Welfare Help Children?

Discussions of the intergenerational aspects of welfare receipt have rarely progressed beyond the negative issues of whether welfare dependency is passed on from one generation to the next. Since welfare benefits are presumed to be—at least in part—investments in the children living in recipient households, it is important to assess the extent to which parental income in general and welfare income in particular are linked to the positive attainments of children, such as schooling and earnings in adulthood.

Despite the existence of appropriate intergenerational data from the PSID, to our knowledge there have been no studies of this issue. More general studies of the role of parental income on the attainment of children (Sewell and Hauser 1975; Jencks et al. 1979) have found significant such links, even after controlling for parental education and occupational status. Several studies have found that parental income accounts for many of the detrimental effects of growing up in a single-parent household (Hill 1985; McLanahan 1983). But none of these studies has attempted to estimate the role of welfare income as such in the intergenerational attainment process, taking into account both the income augmentation and stabilization functions of welfare programs plus the possible negative effects of growing up in a welfare-dependent home. This topic is also an important one for the future welfare research agenda, which needs to address both positive and negative consequences of welfare.

V. Summary

Dynamic evidence on the nature of need and welfare experiences shows that a surprisingly large proportion of poverty and welfare spells are only short-lived. Although the number of persistently poor or persistently dependent families is far from insignificant, the more typical situation is one of temporary need, caused by a bout of unemployment, a divorce, or similar labor market or family event. Many of the temporarily needy do not use the welfare system at all, and those who do usually receive welfare for relatively short periods. Welfare recipients often alternate between welfare receipt and work, and most children growing up in heavily dependent homes do not become heavily dependent when they establish their own households. Taken together, this evidence suggests that the welfare system functions fairly well for the majority of recipients as insurance against temporary misfortune.

While they constitute a minority of all recipients, the fact that several million individuals are persistently dependent on welfare raises questions of whether welfare itself promotes divorce or out-of-wedlock births, discourages marriage or instills counterproductive attitudes and values in recipients. Sparse evidence on the effects of welfare on the attitudes of recipients fails to show any such links. Whether welfare affects family decisions is, in our view, an unresolved question at this point.

Further research is needed to determine whether welfare has a significant impact on dependence. Another important question for future research is whether welfare measurably improves the economic opportunities of children in recipient families. The evidence available at this point, however, does not support the view that Great Society welfare programs have hurt rather than helped poor people. That view, based solely on cross-sectional evidence, is simply not compatible with longitudinal evidence showing the benign nature of most contact with welfare.

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