

TRANSFERS AND POVERTY: CAUSE AND/OR EFFECT?

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Recently there has been a resurgence of concern about high levels of poverty in the United States. At the same time attention has been focused on the growth of the public transfer sector. Although the two developments have been linked, different commentators have reached quite opposite conclusions. Authors such as Harrington (1984) maintain that welfare spending has not been adequate to address the problem. Others, however, have pointed to the transfer system itself as the source of the problem. Murray (1984) has stressed the disincentives for work and marriage created by the welfare system, which "made it profitable for the poor to behave in the short term in ways that were destructive in the long term." Gallaway, Vedder, and Foster (1985) have taken this argument a step farther and argue that the disincentives are so strong that poverty is directly increased as transfers rise, once the level of benefits reaches a certain threshold.

This paper discusses the growth in transfer programs and its relation to poverty, family structure, and work effort. Since almost everyone concedes that the state of the economy influences the poverty rate, this paper begins with a brief review of the poverty statistics and their relation to economic trends and fluctuations, and then examines the effect of expenditures on the trend in poverty. It is concluded that economic growth and the business cycle are major determinants of the change in poverty, while the role of transfers is more difficult to establish.

The next section discusses the relation between transfers and poverty, focusing on one particular program—Aid to Families with

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Dependent Children (AFDC). It is likely that the increase in female-headed families has been influenced by welfare as well as by the rise in women's labor market opportunities. Although welfare alleviates poverty in the short term it may in the long run foster dependency and impede the upward mobility of families.

Poverty and the Economy

Between 1979 and 1983 the poverty rate rose from 11.7 percent to 15.3 percent (Table 1).¹ This development has undoubtedly motivated the current concern about poverty. The recent rise in poverty is no mystery, however. It was brought on by the deep recession that started in 1979—a recession marked by a decline in productivity and a sharp rise in unemployment. The real income of the average American male was lower in 1983 than in 1979; it should therefore come as no surprise that the income of those at the lowest portion of the income distribution also fell, resulting in a rise in poverty.

The relation between the economy and poverty is long-standing. It was basically the remarkably high rate of economic growth during the 1950s and 1960s that caused the poverty rate to decline by close to two-thirds over the post-World War II period. Then, during the period of economic stagnation of the late 1970s, the poverty rate stopped falling. In other words, the rising tide lifts all boats, but first there must be a rising tide.

Social Welfare Spending

In principle it would seem that the government should be able to reduce the number of people in poverty, regardless of the state of the economy, by taxing those who are well-off and giving the revenue to the poor. The appeal of this seemingly straightforward solution has undoubtedly influenced the growth in transfers over the past two decades. Broadly defined, publicly funded social welfare expenditures

¹The rise in the poverty rate over this period may be overestimated due to mismeasurement of inflation. As Weicher (1986) notes, until 1983 the Consumer Price Index gave a large weight to the mortgage interest rate, which is a cost faced only by the small percentage of homeowners who finance their homes in the given year. The CPI now uses a rental equivalency measure for homeownership. However, the new method was not used to change the official CPI before 1983, although it had been estimated for prior years. Weicher has reworked the poverty data using the alternative CPI for years before 1983 (see Table 1). His adjusted rate rises from 10.5 percent in 1979 to 13.3 percent in 1983—a rise of 2.8 percentage points, which is lower than the rise of 3.6 percentage points indicated by the official poverty rate.

TABLE 1
TRENDS IN UNEMPLOYMENT, REAL INCOME, AND POVERTY

Year	Civilian Unemployment Rate (1)	Median Income (Thousands of 1984 Dollars)		Poverty Rate		
		All Men (2)	Men Working Full-time Year Round (3)	Official Rate (4)	Weicher Adjustment (5)	Adjusted for In-Kind Benefits ^a (6)
1949	5.9	10.2	—	33.0 ^b	—	—
1959	5.5	14.2	18.7	22.4	—	—
1969	3.5	18.2	24.6	12.1	11.8	—
1973	4.9	18.8	26.8	11.1	10.7	—
1975	8.5	17.1	25.0	12.3	11.5	—
1979	5.8	16.9	25.0	11.7	10.5	6.8
1980	7.1	15.8	24.2	13.0	11.5	7.9
1981	7.6	15.4	23.6	14.0	12.2	9.0
1982	9.7	15.0	23.3	15.0	13.2	10.0
1983	9.6	15.3	23.5	15.3	13.3	10.3
1984	7.5	15.6	24.0	14.4	12.6	9.7

^aNoncash benefits measured by market value.

^bEstimated rate.

SOURCES: For columns 1-4, Council of Economic Advisers (1986), Statistical Appendix, Tables B-29 and B-31; for column 5, Weicher (1986); for column 6, U.S. Bureau of the Census (1985).

increased from 11 percent of GNP to 19 percent over the period 1965 to 1983.²

There are several reasons why this massive change in the transfer system has not reduced poverty to the extent expected. One reason is that many of these transfers were not directed exclusively at poor people. The social insurance programs (including Social Security, medicare, public employee retirement, and unemployment compensation) make up more than half of all social welfare expenditures. These programs are intended to replace a significant fraction of income during retirement or unemployment. While the poor also benefit from these programs, the largest benefits go to those with higher incomes.³

Although the huge expansion in Social Security was costly and could be judged an inefficient way to reduce poverty among the elderly, it does appear to have contributed to the large reduction in poverty for this particular group. The poverty rate for persons 65 and older declined from 25 percent in 1969 to 15 percent in 1979, while the rate for all persons edged down only four-tenths of a percentage point. This was a stagnant period for the economy, but the average Social Security benefit rose by about 35 percent in real terms.⁴

The growth in a subset of social welfare expenditures targeted on low-income individuals (that is, a means test is required) is shown in Table 2. These programs rose from 1 percent of GNP in 1965 to about 3 percent in 1975 and have remained roughly at that level.

A second reason why transfers have not had a greater effect on the overall poverty rate is that a growing share of all transfers is given in the form of noncash benefits (such as food stamps and medical care) that are not counted as income for the purpose of measuring the official poverty rate. The Census Bureau, however, now provides estimates of the poverty rate based on a definition of income that

²This is based on the definition and estimates made by the Social Security Administration. See *Social Security Bulletin* 49 (February 1986).

³Benefits are related by formula to past earnings, and although the "replacement rate" falls as lifetime earnings rise it is still the case that the highest earners receive the largest benefits. High earners, of course, have paid in higher taxes. Note too that many of the very poorest do not receive benefits because they do not have a history of covered earnings (or a spouse with covered earnings).

⁴The poverty rate for those aged 65 and older actually fell between 1979 and 1984 by 2.8 percentage points, while the overall rate rose by almost the same amount. This decline in poverty for the elderly may be related to high interest rates, since the elderly have greater saving than others. Social Security benefits were increased with the price level, but this was not a period of real increases in Social Security. Therefore, Social Security is not likely to have been the source of decline in the poverty rate of the elderly during this period.

TABLE 2
MEANS-TESTED PUBLIC WELFARE EXPENDITURES
(BILLIONS OF 1984 DOLLARS)

Fiscal Year	Cash Benefits ^a	In-Kind Benefits ^b	Total	Total as % of GNP
1960	12.4	5.1	17.5	1.0
1965	14.8	10.6	25.4	1.1
1970	24.7	27.7	52.4	1.0
1975	33.4	56.2	89.6	2.9
1979	31.1	75.3	106.4	3.0
1981	29.7	76.4	106.1	3.1
1983	29.8	73.0	102.8	3.0

^aCategorical cash payment programs including AFDC, supplemental security income, and general assistance.

^bIncludes medicaid, food stamps, maternal and child health programs, child nutrition programs, other food programs, low-income energy assistance program, and certain social service and work-experience programs.

SOURCE: *Social Security Bulletin* 49 (February 1986).

includes an estimated value of noncash benefits. In 1984 this adjusted poverty rate (in which noncash benefits were measured by their market value) was 9.7 percent compared with the unadjusted "official" rate of 14.4 percent. Moreover, the Census Bureau's estimate misses a significant amount of noncash benefits. Based on reported program data I estimate that about \$41 billion in noncash benefits targeted on low income individuals was unreported in 1984. (Cash welfare benefits also are significantly underreported.)

A third and more substantive reason why transfers do not reduce poverty as much as expected is that the transfers themselves have offsetting effects. A dollar of benefits does not simply add a dollar to a needy person's income, since it creates incentives for other people to change their behavior in order to qualify. For example, in the case of the Social Security programs, early retirement has undoubtedly been encouraged by sharply rising benefit levels. In 1948, 47 percent of men 65 years and over were in the labor force; in 1984 their labor force participation rate was 16 percent. Retirement benefits were extended to men aged 62 to 64 in 1961. In 1960 the labor force participation rate of men aged 60 to 64 was 78 percent—a level that held for the two previous decades. By 1975 the rate for this group had fallen to 66 percent. Similarly, the expansion of the disability program is linked to a substantial reduction in labor force activity among the disabled.⁵

⁵Current population survey data show that an increasing proportion of men, particularly

Thus the earnings or pretransfer income of the elderly is not a good measure of their need: without the transfer, a much larger proportion would be working and their earned incomes would be higher. The true poverty-reducing effect of Social Security can only be honestly estimated if account is taken of the offsetting work disincentive effect. This is a difficult measurement problem because behavior changes over a period of time in response to a benefit change as well as to changes in other factors.

Empirical Evidence from Time Series

Several studies have tried to estimate the effect of both transfers and economic factors on poverty using time series analysis. The results of studies by different researchers are shown in Table 3. They are hardly conclusive. In fact, one conclusion to be drawn from these results is that time series analysis is a slippery business.

Gottschalk and Danziger (1984) present several equations estimating the determinants of poverty, where the equations differ in the way the variables are defined and in the time period considered. In most cases they find that an increase in transfer payments is associated with a reduction in poverty. But in some equations they find no significant effect of transfers. The variables intended to measure economic growth and cyclical fluctuations do not always have the expected effects either. The problem is that, over time, many variables are correlated with each other, and as a result, their independent effects are difficult to discern. The startling finding of the study by Gallaway, Vedder, and Foster (1985)—that transfers reduce poverty only up to a threshold level (attained in 1971) beyond which they *increase* poverty—may simply reflect time series intercorrelations.

Changes in the definition of a variable can have a significant effect on the outcomes of the analyses. The measurement of transfer payments is a case in point. In the Gallaway-Vedder-Foster paper, transfers are measured inclusive of in-kind benefits, while the Gottschalk-Danziger paper limits transfers to cash benefits.⁶

at older ages, reported that they are out of the labor force due to disability during the late 1960s and early 1970s, when disability benefits were rising. This is consistent with the expansion of the disability program caseloads. It is unlikely that these patterns could be explained by a spontaneous increase in the incidence of disability in the population. Parsons (1980) and Leonard (1979) also analyze the effect of disability on labor force participation.

⁶The income and unemployment variable used in the two studies also differs. Gallaway, Vedder, and Foster use national income per capita, and Gottschalk and Danziger use GNP per household in some equations and median family income in others. Neither variable is a good measure of productivity or wage increases (see O'Neill 1984).

TABLE 3
POVERTY RATE REGRESSIONS USING ALTERNATIVE SPECIFICATIONS OF THE MODEL

Regressors	Gottschalk and Danziger				Gallaway et al.	
	1949-82	1966-82			Regressors	1953-83
Time	-.16 (3.1) ^a	-.57 (25.0)			Wage Rate	.79 (3.73)
Time ²	.001 (2.9)	.004 (26.3)			GNP Deflator	-.83 (3.41)
Log Real GNP per Household			-.09 (.1)		Productivity	-.49 (5.07)
Log Real Median Family Income				-1.7 (6.0)	Real National Income per Capita	-.14 (3.74)
Log Unemployment	.17 (4.2)	.30 (21.5)	.31 (1.9)	.04 (.6)	Aid ^b	-.0577 (2.28)
Log Real Cash Transfer per Household	-.17 (1.0)	-.25 (5.5)	-.51 (1.6)	.06 (.5)	Aid ²	.00026 (3.17)
R ²	.97	.99	.97	.99	R ²	.98

^aThe t-statistics are in parentheses.

^bFederal public aid per capita, as defined in *Social Security Bulletin's* tabulations of social welfare expenditures (excludes Social Security programs).

SOURCES: Gottschalk and Danziger (1984), Tables A-1 and A-2; Gallaway, Vedder, and Foster (1985), Table 3.

In-kind benefits, however, cannot affect measured poverty because the official poverty measure (used in all the studies) is based only on cash income. Since in-kind benefits have grown much more rapidly than cash benefits, the transfer variable used by Gallaway, Vedder, and Foster increasingly becomes irrelevant as a factor that can possibly affect poverty under the official definition, which excludes in-kind benefits from income.

In sum, an examination of long-term trends shows that economic growth lifts incomes at all parts of the income distribution and thereby reduces poverty. Efforts to alter the distribution of income through the tax and transfer system are likely to accomplish less than expected because of offsetting changes in behavior induced by the promise of benefits. Identifying the magnitude of these behavioral effects, however, is a difficult problem.

For this reason analyses of the effects of aggregate social welfare transfers on poverty have not found consistent results. However, it is likely that transfers have on balance contributed to some reduction in poverty. If our poverty statistics were based on an income definition that included non-cash benefits, the reduction would be more apparent.

To say that social welfare transfers reduce poverty is not necessarily an endorsement. Including Social Security, these programs amount to 19 percent of GNP. Any evaluation must take into account not only the dollar costs but also the costs associated with work disincentives and other disincentives.

AFDC and the Female-Headed Family

The program most closely identified with welfare—Aid to Families with Dependent Children—is largely targeted on families with children and no father present. AFDC has come under suspicion as a transfer program generating potentially important disincentives. More than one kind of disincentive may operate—one, the usual work disincentive; another, a disincentive to marry or remarry. This section examines the interrelations between the increase in female-headed families, their work and poverty status, and the AFDC program.

Changing Family Structure

The structure of the family has undergone considerable change over the past 25 years. In 1960, among white families with children of their own under 18, only 6 percent were headed by the mother alone; in 1984 such families represented 15 percent of all white families with children (Table 4). Among black families with children

TABLE 4
CHANGES IN FAMILY COMPOSITION, BY RACE, 1960-84

Percent of Households with Own Children Headed by Mother Only	1960	1970	1980	1984
All races	7.4	10.2	17.6	19.0
White	6.0	7.8	13.4	14.7
Black	20.7	30.6	46.9	48.8

SOURCE: U.S. Bureau of the Census, *United States Census of the Population: 1960*, vol. 1; and *Current Population Reports, Series P-20*, various issues.

the trend was even more pronounced, as families headed only by mothers rose from 21 percent in 1960 to 49 percent in 1984. Underlying these trends is a sharp increase in divorce, a rise in out-of-wedlock births, and an increasing tendency for women with children to set up their own households rather than live with relatives.

Although the causes of marital dissolution (and illegitimacy) are undoubtedly complex and numerous, economic incentives are believed to be important elements in the process. Theoretically, the gains from marriage are expected to be larger, the greater the gains from the division of labor in the household (Becker, Landes, and Michael 1977). For example, the traditional marriage, in which the wife specializes in home activities and the husband in market activities, is likely to be associated with significant marital gains. Moreover, the higher the husband's market earnings and the greater the wife's home skills, the more efficient the arrangement.

Alternatives to marriage, however, come in two forms for women. One is the woman's own prospects for earning an income; the other is welfare. Either route provides a means of financial independence apart from marriage; and the higher the earnings or the higher the welfare benefit, the greater is the independence. There is some research evidence showing that an increase in women's earnings and employment increases marital dissolution (Becker, Michael, Landes 1977). Through feedback, however, divorce and the expectation of divorce also seem to increase women's labor force participation (O'Neill 1981). A discussion of the effect of welfare and other transfer payments on marital dissolution and family formation follows.

The AFDC Program

Federal government participation in welfare activities began with the Great Depression of the 1930s. The intent of Congress was not to establish a federal commitment to support local welfare programs,

but rather to establish a national system of social insurance. It soon became evident, however, that it would take several decades for most people to build up enough employment credits for adequate retirement and survivor benefits. Hence, provision was made for a system of federal matching support to help the states fund programs of local public assistance. Only people who fell into certain categories of need—old age, disability, blindness, and the death, disability, or absence of the family's breadwinner—were to be aided by federal funds.

The need for each of these cash assistance categories was expected to lessen as time passed and more of the population was covered by the Social Security system. This has in fact occurred in the case of the old-age assistance program. In the case of aid for dependent children, which later became AFDC, this expectation has not been fulfilled. Indeed this federal-state public assistance program has grown since the end of World War II and is now a major cause of the current public concern over welfare.

The fundamental purpose of the AFDC program has always been to provide for children who are caught unexpectedly in deprived circumstances because of the loss of support by the father (who until the past decade or two was likely to be the family's main breadwinner). The underlying reasons for nonsupport by the father, however, have changed radically since the program began in the 1930s. At that time fully 75 percent of the children covered by the program had fathers who were either dead or severely incapacitated. This percentage has declined steadily. In 1982, 88 percent of fathers of AFDC children were living but absent, and 47 percent had never been married to the children's mother (Committee on Ways and Means, 1985a).

The AFDC program is still administered by the states, and funding is shared with the federal government. States set their own benefit levels and establish income and resource criteria for eligibility, subject to federal limitations. Benefits vary widely among the states. Although the program is largely made up of families without able-bodied fathers at home, several states (25 in 1985) provide benefits, under certain circumstances, to families in which the father is present but unemployed.

Analyses of the patterns of participation show that the majority of women who go on the welfare caseload do not stay long. For example, O'Neill et al. (1984) found that about half of the women starting on welfare do not stay beyond a year. On the other hand, a significant proportion become long-term recipients. About 31 percent of black

women and 13 percent of white women remain on AFDC continuously for more than five years.

These data refer to a single welfare spell and, therefore, understate lifetime participation since many women undoubtedly return to the program. Data limitations make it difficult to develop reliable measures of total lifetime welfare participation. Ellwood (1986), however, has estimated that, counting all spells, about 70 percent of women embarking on a first spell will accumulate more than two years on welfare, 50 percent 5 years or more, and 24 percent will accumulate as many as 10 or more years. Thus, for many participants, AFDC is an episode providing temporary aid during a period of financial distress. For a significant proportion, however, AFDC seems to become a permanent substitute for other sources of income, with dependency lasting 10 years or more.

Do High AFDC Benefits Affect Marital Status?

A key issue is whether government policy, through the generosity of welfare benefits, has itself influenced women to divorce or separate, to have a child out-of-wedlock, or in other ways change marital and family patterns. One way to address the question is by examining changes in benefit levels, caseload growth, and family structure over time.

The pattern of growth in the AFDC caseload over time appears to correspond to the change in the benefit level over time (Table 5). Between 1964 and 1972 the average real benefit (for a family of four with no other income) increased by 35 percent. This does not reflect the introduction of earnings exemptions, or of medicaid, public housing, school meals, and other programs and services, which significantly added to the value of the welfare package during this period. Even without these add-ons, the cash benefits plus food stamps provided an average allotment of close to \$9000 in 1972 (for the family of four without other income, expressed in 1984 dollars). This income was tax free and required no hours of work away from home or work expenses. It may well have appeared an attractive alternative for a woman with little education, few work skills, and poor marriage prospects. Moreover, as shown in Table 5, the AFDC benefit level not only rose absolutely but also rose relative to the earnings of potential husbands (represented by male earnings) or of women working full-time.

During this period of rapid benefit increases, the number of female-headed families on AFDC tripled. This was the outcome of a doubling in the percentage of female-headed families going on welfare

TABLE 5
TRENDS IN AFDC FAMILIES AND BENEFITS AND IN FEMALE-HEADED FAMILIES WITH CHILDREN

Year	Number of AFDC Families ^a	Number of Female-Headed Families with Children (FHFC)	Annual AFDC Families as Percent of FHFC	Real AFDC and Food Stamp Benefits ^b	Benefits ^c as % of Male Annual Earnings	Benefits ^c as % of Female Annual Earnings (Full-Time Year Round)
1964	992	2895	34.3	6604	42.4	53.2
1968	1400	3269	42.8	7129	39.9	52.3
1972	2915	4322	76.4	8894	48.1	59.2
1976	3444	5310	64.8	8743	50.8	57.6
1980	3570	6299	56.6	7486	47.4	51.2
1984	3438	6832	50.3	6955	44.6	45.1

^aExcludes families with unemployed father. Average monthly number of recipients in calendar year except for 1984, which is for fiscal year.

^bCol. 4 represents benefits for a family of four with no other income, expressed in 1984 dollars.

^cReal AFDC and food stamp benefits as found in col. 4.

SOURCES: AFDC families: *Social Security Bulletin*, various issues; female-headed families with children: Committee on Ways and Means (1985b, Table 3-2); U.S. Bureau of the Census, *Current Population Reports*, Series P-20, various issues; AFDC and food stamp benefit levels: Committee on Ways and Means (1985a, p. 532); annual earnings (median): Council of Economic Advisers (1986, Table B-29).

(from 34 percent to 67 percent) as well as a 50 percent rise in the number of female-headed families.

After 1976 the total AFDC benefit package began to erode as states failed to raise AFDC cash benefit levels to keep pace with inflation.⁷ Since this was a period of stagnant or declining incomes for Americans in general, the relative decline in benefits (relative to earnings) is less than the absolute decline would suggest. At the point when benefits stopped rising, the AFDC caseload stopped rising. Following the changes introduced in the Omnibus Budget Reconciliation Act of 1981, which restricted benefits somewhat, there was a small decline in the caseload, despite rising unemployment.

The data strongly suggest that rising welfare benefit levels are associated with an increase in welfare participation. Up to 1976 the data are also consistent with the hypothesis that increasing welfare benefits induce changes in family structure. After 1976, however, the number of female-headed families continued to increase even though the number of welfare families remained fairly constant. This finding alone does not negate the hypothesis. It would be naive to suppose that welfare benefits were the only factor affecting family structure. Women's opportunities for employment are also important and throughout the period these opportunities expanded (O'Neill 1981, 1985a). It should also be noted that the rate of increase in female-headed families slowed during the late 1970s and early 1980s, which may reflect the decline in relative benefit levels.

Several studies have examined AFDC disincentive effects, controlling for the effects of other factors. A clear association between the generosity of AFDC benefits and program participation has been found by a number of analysts.⁸ A positive correlation between benefit levels and the relative number of female-headed families has also been found in studies using aggregate data, across metropolitan areas (Honig 1974; Ross and Sawhill 1975). Studies based on micro-data have sometimes found no effect of transfers on marital dissolution (Sawhill et al. 1975; Hoffman and Holmes 1976). Wolf (1977) suggests that these weaker findings may result from inadequate

⁷Using the official CPI, the decline in the real AFDC benefit from 1976 to 1984 is 20 percent. Using Weicher's (1986) recalculated CPI, which adjusts for the error in housing price increases before 1983, the real decline is 16 percent.

⁸Honig (1974) has analyzed the static incidence of welfare receipt. Plotnick (1983), Wiseman (1977), Hutchens (1981), Saks (1975), and O'Neill et al. (1984) analyzed welfare exit probabilities (or welfare duration). These authors have found that the probability of exit is likely to fall when welfare benefits are higher relative to potential earnings.

control for the economic alternatives to welfare, such as the potential wage of the woman and her employment opportunities.⁹

The same level of welfare benefits in a state will not be equally attractive to all women, even those with the same education. For example, a woman with a substantial work record will likely have higher potential earnings than a woman with little work experience. Welfare would likely be relatively less attractive to the former than to the latter. When Wolf improves the specification of his model to take better account of earnings alternatives to welfare, he finds a positive association between AFDC benefits and marital dissolution.

In general, however, no definitive study of the effect of welfare benefits on family structure has been done, because the data needed to measure work opportunities, marriage opportunities, and the real level of the welfare package have proven difficult to obtain. The studies using aggregate data are better able to measure variation in AFDC relative to earnings or other alternatives, which may explain why these studies have shown stronger links between welfare and family structure.

I am inclined to believe that welfare has had a significant effect on family structure, particularly among the population with little education and weak economic opportunities. The relative attractiveness of welfare would clearly be greater for these groups. Among those with more education and better earnings prospects, the increase in women's earnings opportunities is likely to be the more important factor enabling women to set up their own households.

The sharper rise and higher level of marital dissolution and out-of-wedlock births among blacks may be attributed to the disproportionate effects of both welfare and women's earnings on blacks compared with whites. A larger proportion of black women than white women fail to graduate from high school.¹⁰ On the other hand, the earnings of black working women have increased dramatically over the past two decades, rising relative to virtually all other groups. In the early 1960s, black women earned about 60 percent as much as black men; by 1982 this earning ratio was close to 80 percent (O'Neill 1985a). The rapid rise in the relative earnings of black women may have been destabilizing to marriages during the transition period.

⁹The same criticism is applicable to recent research by Ellwood and Bane (1984), who conclude that welfare has little effect on family structure. But their analysis suffers from errors of measurement, since they did not control for the relative attractiveness of welfare to different individuals within a state.

¹⁰The 1980 Census shows that among black women aged 25 to 34, 18 percent had not gone beyond the 10th grade; 25 percent had not completed high school. Among white women these percentages were 10 percent and 13 percent, respectively.

Some authors, notably Wilson and Neckerman (1986), have assigned the blame for the increased disintegration of the black family on growing black male joblessness. However, the rise in female-headed families began in the 1960s when unemployment for black men, as for others, was falling. For example, the out-of-wedlock birth rate for black women ages 15 to 19 rose sharply between 1965 and 1970, although the unemployment rate of black men was substantially lower than it had been during the early 1960s.¹¹ Black male unemployment climbed during the late 1970s and early 1980s. But out-of-wedlock birth rates leveled off and then declined during this period, and, as noted, the rate of formation of female-headed families also slowed. Moreover, during the period 1960–80, annual income of black males was rising relative to that of white males, despite any increases in unemployment.¹² In the 1940–60 period the black family was essentially a two-parent family, although both in absolute and relative terms black male income was much lower in that period. One must look at factors other than the economic situation of black men to find the motivation for disintegration of the black family. The two most likely reasons are the expansion of the welfare state, which played a role from 1965 to 1975, and the rise in the earnings of black women relative to black men.

Work Incentives

High levels of welfare benefits are believed to discourage work as well as marriage and thereby increase dependency. The availability of an acceptable income guarantee induces women who would otherwise work to go on welfare. Of course, welfare could be used to supplement work, but it seldom is. The percentage of welfare mothers who are employed at any time has always been low.

Several studies have documented a negative effect of welfare benefits on work effort. Findings from the Seattle-Denver Income Maintenance Experiment (U.S. Office of Income Security Policy 1983) show that female heads of families responded to income guarantees by significantly reducing their work effort. Other studies have found that women are less likely to work in states with high levels of AFDC

¹¹The black male unemployment rate for the period 1960–65 averaged 10.2 percent; for 1965–70 the rate averaged 6.3 percent. These data are for black and other nonwhite males (Council of Economic Advisers 1982, Table B-33).

¹²Based on data from the decennial censuses the black/white ratio of annual income of men aged 25 to 34 increased from 57 percent in 1960 to 74 percent in 1980. These data include the earnings of all men with any earnings during the year and therefore reflect changes in weeks of unemployment as well as in hourly wage rates and hours worked per week.

benefits (O'Neill 1985b). Because withdrawal from the labor force reduces work experience and training, it also reduces potential earnings and thereby increases future dependency.

Efforts to increase work effort among welfare recipients have not had much success. In 1967 the Work Incentive Program (WIN) attempted to make work more attractive by allowing welfare recipients to keep a larger proportion of their benefit if they worked. Prior to that time, a dollar of benefits was lost for each dollar earned. Under WIN, the first \$30 of monthly income was exempted, after which benefits were reduced by 67 cents for each additional dollar earned. Despite this change, however, the proportion of welfare women employed remained at 15–16 percent. In fact, the change may have decreased work effort for female-headed families as a whole, since the liberalization of the program seems to have attracted more women to welfare, but once on the program these women worked less than they otherwise would have.¹³ In 1981, as part of an effort to tighten program eligibility, the 1967 “incentive” provisions were eliminated after four months of consecutive employment. A study by the Research Triangle Institute (1983) found that the change had no effect on work patterns of women on AFDC in 1981. It will take more years of observation, however, before a full evaluation can be made.

Family Structure and Poverty Rates

The changes in family structure have affected statistics on income and poverty. Female-headed families, particularly those with children, are more likely to have low incomes than husband-wife families. Fathers do not provide child support in many cases or such support is minimal. For example, in 1981 only 35 percent of women who have children from an absent father received any child support payments. The prospective earnings of single mothers are typically lower than those of men because most women have less work experience and occupational training. Moreover, responsibilities for small children place limitations on the hours and kinds of jobs that can be held. Families headed by single mothers will have lower income simply because there is no spouse to be a second earner.

An additional factor is that female family heads with little or no earnings are likely to be on welfare, and cash welfare benefits do not bring a family above the poverty line. Families on welfare, however, are apt to receive noncash benefits that would in some cases raise their income over the poverty line if these benefits were counted as

¹³See the study by Levy (1979), which found that lower marginal tax rates on AFDC seem to reduce total work effort for the reasons stated above.

income. Thus, the poverty rate for female-headed families falls from 34.5 percent to 21.3 percent when the poverty definition is adjusted to include food, housing, and medical benefits as income.

For these reasons, the poverty rate of female-headed families is higher than that of other (primarily husband-wife) families. In 1984 the poverty rate of female-headed families was 34.5 percent compared with 6.9 percent for married-couple families (Table 6). Among female-headed families poverty status varies with the woman's work status. The poverty rate of a female-headed family was only 6.7 percent if the woman worked full-time year round, but it was 56.4 percent if she never worked during the year. The incomes of this group are not strictly comparable, as they are likely to include substantial in-kind transfers that are not counted in the official poverty measures.

Over the years, the number of people in female-headed families has increased as a percentage of the poor, both because they have increased as a percentage of the population and because their poverty rate did not decline as fast as that of the rest of the population. This is what is meant by the expression "the feminization of poverty."

These changes have implications for the overall poverty rate. Mary Jo Bane (1986) has calculated that if household structure had remained as it was in 1959 and the poverty rate for each household type changed as it actually did, the overall poverty rate in 1979 would have been 7.8 percent instead of 9.1 percent for whites and 24.2 percent instead of 30.9 percent for blacks. As Bane notes, this calculation is likely to

TABLE 6
POVERTY RATES OF FAMILIES BY WORK EXPERIENCE AND SEX
OF FAMILY HEAD, 1959-84

	1959	1979	1984
Families with Female Head*	42.6	30.2	34.5
Head worked ever during the year	33.3	18.9	21.0
Worked full-time, year round	16.6	5.4	6.7
Head never worked during the year	54.1	49.5	56.4
Families with Male Head	15.8	5.5	7.2
Head worked ever during the year	13.4	3.8	5.4
Worked full-time, year round	9.1	2.2	3.1
Head never worked during the year	39.4	13.9	14.5

*No husband present.

SOURCE: U.S. Bureau of the Census, *Current Population Reports*, Series P-60 (various issues).

overestimate the effect.¹⁴ Even if the true effect were only half, however, compositional changes in family structure have a significant impact on measured poverty.

Does Welfare Cause Poverty?

The answer is complex. One would not expect a woman to choose poverty voluntarily. In a mechanical sense a woman may forgo a higher cash income based on full-time earnings for a lower cash income from welfare. In a real sense, however, her income may be higher on welfare because of noncash benefits, the absence of work or work expenses, more leisure, and more time with her children. Welfare may increase poverty indirectly if it leads to choices that close off options for self-improvement. For example, if welfare encourages out-of-wedlock births among teenage girls, the long-run effects may be lower education and training, which would in turn reduce future earnings and affect other aspects of life.

Regional differences in the share of families headed by women and in their poverty rates may be traced to differences in welfare levels. In the southern states, the maximum AFDC benefit for a family of four ranges from \$120 to \$379 a month, while elsewhere the benefit ranges from \$282 to \$676 a month. Despite lower levels of education in the South, a characteristic associated with out-of-wedlock births and marital dissolution, the percentage of black families headed by women was 40 percent in the South compared with 48 percent outside the South (Table 7). Among black children, 46 percent were in female-headed families in the South; 59 percent outside the South. Among white families, 12 percent in the South and 13 percent in the non-South were female headed. These data support the view that high welfare benefit levels contribute to marital dissolution and the formation of female-headed families.

It is also noteworthy that the low benefit strategy of the South has not produced more poverty. The measured poverty rate in 1984 among female-headed families was somewhat lower for both blacks and whites in the South than it was in the North and West. Evidently, women in the South, who are less likely to be on welfare, develop more work experience and have higher earnings, which more than compensates for the lower welfare benefits.

¹⁴The calculation is likely to overestimate the effect, since it assumes that women who become family heads are randomly drawn from other families. If they were disproportionately drawn from poor families, some of the additional poverty in female-headed families would simply be "reshuffled poverty." The extent of reshuffled poverty is hard to estimate, however.

TABLE 7

POVERTY RATES IN FEMALE-HEADED FAMILIES AND FEMALE HEADSHIP IN THE SOUTH AND NON-SOUTH, 1984

	Poverty Rate		Percent of Population in Female-Headed Families	
	South	Non-South	South	Non-South
Blacks				
Family Heads	50.7	52.6	39.8	48.1
Children under 18	64.3	68.0	46.4	59.0
Whites				
Family Heads	22.9	28.9	11.9	13.2
Children under 18	38.9	48.7	13.4	15.2

SOURCE: U.S. Bureau of the Census, Current Population Survey, unpublished tables.

Perhaps the most important question about the effects of AFDC concerns the effects of long-term welfare dependency on the children in AFDC families. Are they more likely to become unemployed, commit crimes, be less well motivated in school, become teenage mothers, and ultimately to go on welfare? Because of a lack of data, there has been no solid research in these areas, although abundant anecdotal evidence suggests that these outcomes may be real.

Conclusion

The extent of poverty in the United States has largely been determined by the state of the economy. Efforts to redistribute income have succeeded in shifting income from the young to the old, and at enormous cost have helped to reduce poverty among the aged. Transfers from the rich to the poor among the nonelderly population have been done on a more modest scale, but with little observable positive effects on measured incomes.

It is difficult if not impossible, however, to design a system intended to provide assistance to needy families headed by an able-bodied adult and at the same time avoid harmful disincentives. "Need" is not an inherent trait but is to a large extent the consequence of voluntary decisions relating to work, fertility, and marriage. Therefore, the extent of need is not a fixed number but is susceptible to change based on incentives offered. Efforts to change behavior through work requirements and work and training programs have not had significant effects, as the history of the WIN program testifies. If welfare benefits remain high, work programs will always have trouble

competing. On the other hand, individuals can become the victims of past choices, and, particularly where children are concerned, it is difficult to ignore their plight. These conflicts have created the basic dilemma of welfare.

Hard choices must, therefore, be made. Implicitly the public has chosen to cut back on welfare. The funding provided to welfare programs has leveled off in the past decade. Cash benefit levels in AFDC have declined in real terms. As a result, the welfare caseload has also stopped rising. There also are signs that the formation of female-headed families is not rising as rapidly as it was and that the out-of-wedlock birth rate is steady or falling slightly.

In seeking new options for welfare one possible direction is to remove the open-ended aspect of AFDC for families headed by able-bodied adults and to place a finite limit on program duration, as is the case with unemployment insurance. In this way welfare would no longer be able to replace other sources of income on a permanent basis. Another direction already underway is the requirement that absent fathers contribute to their children's support. Although the income provided might not remove many from the AFDC caseload, it would perhaps foster greater concern for the consequences of behavior and, hence, prevent the birth of children who cannot be supported by their parents. Finally, it should be emphasized that prevention measures, such as improving basic education, may have the added pay off of reducing welfare dependency in the long run.

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THE SPATIAL PERSPECTIVE IN WELFARE ANALYSIS

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Controversies in the Welfare Literature

In her review of public assistance transfers, June O'Neill (1986) addresses several of the most trenchant debates that currently separate proponents and critics of the U.S. welfare system:

- Is the recent rise in poverty due to a deteriorating economy or an expanding transfer system?
- Are opportunities in the labor market or the welfare system primarily responsible for increases in female headed households and the often attendant poverty of this group?
- Does welfare exhibit identifiable impacts on work incentives and attitudes toward family?

Drawing on several of her recent empirical analyses and the research of others, O'Neill takes a position in each of these controversies, concluding that economic changes, rather than welfare alterations, are the more evident generators of recent poverty; that the increase in female households reflects a number of societal mechanisms, including labor market opportunities, welfare options, and the breakdown of traditional family norms; and that the expansion of AFDC has impacted on family composition and the labor force participation of females but has not worsened poverty, at least in the short term.

Although the research on which her conclusions are based seems sound, it is difficult to accept O'Neill's statements as the final truth on such matters, since there exist, throughout the welfare literature, equally justifiable analyses that draw the opposite conclusions. O'Neill confronts these contradictions in the literature, attributing them to several factors: In some cases, similar models have yielded different results because the statistical techniques are sensitive to the way

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they were specified. In particular, she refers to time series analysis as “slippery business.” In other cases, researchers have reached different conclusions because they have used variable definitions of fundamental concepts such as “poverty” or “welfare benefits.” Finally, advocates of different positions have chosen to include or exclude certain factors, such as in-kind benefits, in their analyses. Each of these points made by O’Neill is important and the arguments ricocheting throughout the welfare literature often focus on methodology and model specification, which influence conclusions drawn from analyses.

I suggest that an additional reason why the body of research on welfare has so often yielded conflicting results is our general failure to consider the effect of temporal and spatial specification on our results. Stated simply, the times and places considered in a welfare analysis affect the conclusions. This point is perhaps most evident when we consider the temporal dimension, since some research has already been initiated. The current work on welfare dynamics, as reported by O’Neill, allows us to readdress issues such as the duration of welfare dependency and intergenerational transfers of attitudes toward work and welfare. This new research illustrates the importance of carefully considering how time is specified in the analysis.

Given this developing focus, we are now in a position to examine various arguments in the welfare literature. For example, a number of studies have disagreed over the extent of the relationship between poverty and welfare participation. It may be that a given poverty rate may translate into *lower* welfare use in those political eras in which the stigmas attached to public assistance are emphasized and *greater* participation in times when assistance is portrayed as an entitlement to those displaced in a dynamic economy. From a modeling standpoint, we are asking whether the *parameter*, which estimates the relation between poverty and participation, varies over time due to changing stigmas. From a conceptual standpoint, we are asking whether the *validity* of each position in the debate changes over time. Viewed in this context, studies conducted on different historic eras would be expected to yield different results, a recognition which may help to resolve conflicts in the literature.

A Spatial Perspective

The need to incorporate a spatial perspective in welfare analysis is perhaps less evident. Many of the existing studies do employ data drawn from areal units, yet very rarely do they consider that the conceptual arguments may themselves have a spatial dimension. Stated another way, we need to consider the possibility that the

different positions in a welfare debate may hold true to varying extents in different parts of the nation (Jones 1984; Jones and Kodras 1986).

There may be a reason why advocates of the various positions draw examples from different places to support their cases. When President Reagan wishes to stress a point on welfare fraud, he often uses anecdotes from large Northeastern cities, where welfare bureaucracies are often so overloaded that some of the undeserving no doubt receive benefits. An example is the account of Chicago's Welfare Queen, a woman accused of misrepresenting herself as the widow of several deceased Navy men and collecting welfare and widow's grants, which Reagan often included in presidential campaign speeches (Hannaford 1983, pp. 90-91). When Piven and Cloward (1971) portrayed welfare as a tool manipulated in the interests of capital, they drew most of their examples from the rural South, where, during the 1950s and 1960s, welfare was quite stringently controlled to prevent it from drawing workers away from Southern agriculture. With regard to our most recent and famous welfare anecdote (Murray 1984), in which Phyllis and Harold decide between work and marriage versus welfare and separation, Murray and Greenstein (1985; and Greenstein 1985) have discussed whether Phyllis and Harold's decision was affected by the fact that they lived in the liberal welfare state of Pennsylvania rather than a more conservative state such as Mississippi. It is evident in all of these examples that the advocates of different positions use regions that support their cases most strongly. The implicit assumption is that the anecdote serves as a general example, applicable throughout the country. Most often, this assumption is not justifiable.

Why *should* the arguments concerning welfare vary in their validity throughout the country? By adding a spatial dimension to the issues studied by O'Neill and others, how can welfare alleviate poverty in some areas but exacerbate problems in others? How can welfare act as a work disincentive in some places more than others? How can welfare influence family composition in a very different way here than it does over there? The U.S. public assistance system plays variable roles and exerts different impacts throughout the country because, first, in a federal system of government the individual states administer the programs very differently, and second, welfare, as a secondary economic institution, is inserted into very different economic and cultural contexts.

Spatial Dimensions of Welfare

First consider the federalized nature of public assistance. To the extent that research has considered the spatial dimension of welfare,

analyses are most often confined to interstate variations in AFDC benefits. These disparities are substantial. In 1984, a family of four with no other income could receive monthly AFDC checks of \$800 in Alaska and \$660 in California but only \$120 in Mississippi and \$147 in Alabama (USDHHS 1985, p. 337).

The geographic complexity of welfare involves much more than variations in benefits, however. Each state determines AFDC eligibility by comparing family circumstances to its own need standard. Whereas Georgia and Michigan determine basic needs by considering only the costs of food, shelter, clothing, utilities, and personal care items, Connecticut considers 20 cost items, including educational expenses, dry-cleaning bills, insurance premiums, and summer camp fees (USDHHS 1984, p. 73). Thus, a family with a given set of circumstances is eligible in some states, not in others. Further complexity is added since the states vary in the proportion of the need standard that they will pay to recipients. Only 18 states pay up to the level of the need standard they determined was necessary in the first place (USDHHS 1985, p. 335). In addition, the states have the discretion to include or exclude several optional components of the overall AFDC program. About half the states provide the unemployed parent option, half do not. A final example is that the states vary in the funding and political support of their welfare systems, which influence, among other things, the efficiency of operation, size of payments, and restrictiveness of administration.

In summary, decentralized control of AFDC has resulted in substantial interstate variations in benefits (Wohlenberg 1976b), eligibility determination (Chief 1979), restrictiveness (Wohlenberg 1976a), and the response to need for assistance (Jones 1984; Jones and Kodras 1986; Wohlenberg 1976c). When these geographic variations in AFDC are combined with disparities in the provision of other programs, such as general assistance, medicaid, and food stamps, it is evident that where one lives affects the types and amounts of public assistance available.

Welfare in Spatial Context

Welfare also exerts variable effects throughout the country because it is inserted into different economic and cultural contexts. For example, the nature of poverty varies spatially. In the deep South, the incidence of poverty is higher in rural areas and often consists of intact families who remain poor over the long term due to stagnant economic conditions, historically persistent. In the industrial Northeast, on the other hand, the poor tend to be concentrated in large,

urban areas, are more apt to be divided families, particularly female-headed households, and there seems to be greater movement in and out of poverty in accordance with unemployment cycles (U.S. Bureau of the Census 1983, Table 203). The programs comprising the U.S. welfare system respond in different ways within these two settings. The decentralized AFDC program is more relevant in the industrial Northeast. Since it serves primarily single-parent households, AFDC is not available to the large number of intact poverty families in the South; those single-parent households that are eligible would receive relatively small benefits. In addition, the agglomeration of the poor in spatially segregated neighborhoods of the Northeastern cities ensures greater access to welfare offices than is the case for the rural poor in the South, who must often travel to the county seat to apply and participate. Given these circumstances, it is small wonder that AFDC participation rates are higher in the Northeast than in the deep South. The food stamp program, on the other hand, is more strongly controlled at the national level and has circumvented restrictive state welfare programs in the South (Kodras 1982). Benefits are available to all households, regardless of composition or location, who meet nationally uniform eligibility criteria. Thus, intact poverty families in the South are eligible and receive the same benefits as elsewhere. Although the rural poor still have problems with access to welfare offices, food stamp participation rates for the South as a whole tend to be high relative to other regions (Kodras 1984).

The major alternative to welfare receipt is employment, but opportunities in the labor market are spatially variable as well. Each local area provides different earnings potentials due to its position in the core or periphery of the national economy, its intersectoral mix of employment concentration, and the attendant wage structures (Kodras 1986). Those areas with high skill requirements may provide relatively few opportunities for technologically displaced labor, the uneducated or unskilled, and many new or return entrants to the labor market. Other areas, with long agrarian histories and recent industrialization, unionization resistance, or traditions of discrimination, as well as areas leading the restructuring toward a low-wage service economy, may provide many job opportunities, as an alternative to welfare, but at such low compensation that even full-time employment is not sufficient to raise a family above the poverty level. In Mississippi, for example, of all female-headed families where the head works full-time, full-year, over 20 percent remain poor (U.S. Bureau of the Census 1983, Table 246). The poverty rate of fully employed black female families in the state is over one-third. In

Michigan, by contrast, only 3 percent of fully employed female heads live in poverty.

Finally, welfare is inserted into different cultural contexts. There exist spatial variations in the attitudes toward welfare due to regional political cultures (Elazar 1972), spatial differentials in religious cultures (Hutcheson and Taylor 1973; Stonecash and Hayes 1981), and urban-rural variations in the dependence on government institutions versus extended family structures for assistance. Each of these influences the way in which welfare is utilized.

The Geography of Ideology

The evident spatial variations in poverty, the labor market, welfare systems, and attitudes toward public assistance indicate that individuals are confronted with very different combinations of opportunities and constraints, depending on where they live. In a recent study (Kodras 1986), it was demonstrated that the work disincentive effect of welfare varies throughout the country due to different options for employment and for obtaining welfare. The analysis of 1980 AFDC reciprocity in the states indicated that welfare use is most responsive to work disincentives in the upper Midwest, lower New England, and along the West coast, where the employment structure is generally not oriented toward the needs of potential AFDC recipients and where welfare is relatively liberal. The work disincentive effect is lowest in the Southeast, where low-skill jobs are more readily available and AFDC is restrictive. Thus, the decision between work and welfare is not voluntary nor is it aspatial, as assumed by economic theory; instead it varies according to the context in which one lives. Advocates for and against the work disincentive argument can find support for their positions, depending on the section of the country they examine.

The point is that ideology has a spatial pattern of applicability. Certainly, the various debates concerning the role and impact of welfare will never be resolved fully, due to the ideological differences we each bring to our work, a priori. We will continue to see the substantial research of O'Neill and the studies of her colleagues stand in disagreement with the findings of others. But if we are to confront our ideological differences, we must first recognize that our arguments have contextual validity; they are temporally and spatially specific.

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