Recent Changes in Federal Welfare Legislation and the Impact of Regional Economic Growth on Poverty, Dependency and Work Incentives: Some Findings

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Regional economic growth based on private sector job creation is often proposed as a policy for reducing the incidence of regional unemployment, poverty and dependency. One factor that could limit the impact of economic growth on the employment and poverty status of an area's indigenous population is the area's public assistance system. This study evaluates the impact of recent changes in federal welfare legislation (HR 3982) on the work incentives and the poverty and dependency status of Delaware female household heads receiving Aid to Families with Dependent Children (AFDC) assistance. Specifically, the study estimates the implicit marginal tax rates that such household heads would face by accepting employment in private sector jobs to which they are potential entrants under the pre and post HR 3982 conditions. In addition, the study examines the effect of the HR 3982 changes on the poverty and dependency status of such households.

Regional economic growth based on private sector job creation has long been advocated as a policy for reducing the incidence of regional unemployment, poverty, and dependency (Smith). Such policy proposals are based on the trickle-down theory. This theory holds that economic growth results in an increase in the demand for skilled labor, which in turn results in an upgrading of the positions of the semiskilled, unskilled, and unemployed.[1] The result is economic growth and a reduction in the incidence of unemployment, poverty, and dependency in the region.

One factor that could limit the impact of regional economic growth on the employment and poverty status of an area's indigenous population is the area's public assistance system. To the extent that the indigenous poor (the target population) are actual or potential public assistance recipients, the public assistance system could be expected to increase their reservation wage rate and reduce their short-run labor supply. This in turn could be expected to reduce the impact of economic growth on the employment, poverty, and dependency rates of the indigenous population, other things being equal.

Federal legislation passed in 1981 (HR 3982) has significantly altered the structure of the public assistance system in the U.S. This legislation attempted to reduce welfare costs by using the welfare system as a "safety net" for the extremely poor rather than as an income supplement program for those with marginal incomes. However, little, if any, research effort has been directed toward an examination of the degree to which these recent changes in welfare policy alter the impact of regional economic growth on the employment, poverty, and dependency rates of the area's indigenous population. The purpose of this paper is to evaluate the impact of the HR 3982 changes in the public assistance system on Delaware female household heads receiving Aid to Families with Dependent Children (AFDC) benefits. Specifically, the study estimates the implicit marginal tax rates that female AFDC household heads face by accepting employment in private sector jobs to which

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[1] The concept of trickle-down was first presented by Reder. However, the expression "trickle-down[11] was coined by Anderson.

they are potential entrants under the pre and post HR 3982 conditions. In addition, the

these private sector jobs on the poverty and dependency status of such AFDC households under the pre and post HR 3982 conditions.[2]

The pre HR 3982 estimates are for the year 1979. For purposes of comparison, all post HR 3982 monetary values were converted to 1979 dollars using the Philadelphia area Consumer Price Index.

The AFDC Population in Delaware

The AFDC program was initiated under the Social Security Act of 1935 to assist needy children who were deprived of parental support. The program is financed jointly by the state and federal governments and administered by the states within certain broad federal constraints.[3] To be eligible for AFDC assistance in Delaware, a household must have income below the state standard of need and also meet certain nonfinancial eligibility criteria. The most restrictive of these criteria is that the household must be headed by a female or unemployed male and have dependent children under age 18.[4]

The AFDC program is the largest public assistance program both nationally and in Delaware. In 1979 the AFDC program in Delaware accounted for over 90 percent of the state's welfare expenditures and for over 85 percent of the public assistance recipients (Delaware Department of Health and Social Services, 1979b). While the problem of high AFDC participation rates is sometimes viewed as being a problem of central cities, data for Delaware indicate that current AFDC participation rates do not differ significantly between urban and rural counties (Bieker, 1978).

Under the Work Incentive Program (WIN) of AFDC, all AFDC recipients are required to register for work unless they are children under age 16, are ill or elderly, are mothers with children under age 6, are needed to care for incapacitated members of the household, or do not have transportation to and from work. Using this definition of employability, there was an employable individual in 5,200 of the 10,320 AFDC households in Delaware in 1979.[5] This is consistent with Leonard Hausman's findings on the national level. Hausman estimated that 39 percent of all AFDC household heads are definitely capable of some form of employment while half could conceivably be employed under favorable conditions. The 5,200 employable recipients in Delaware accounted for 2 percent of the 1979 average annual Delaware labor force and 23 percent of the average annual number of unemployed (Delaware Department of Labor).

Previous research has shown that the short-run employment opportunities of AFDC household heads are limited primarily to the operative, laborer, and service worker occupations (Bieker, 1981 and Venti). These occupations within the private sector as well as the 1979 average annual earnings of females employed in these occupations in Delaware are shown in Table I.[6] For purposes of computing benefits and marginal tax rates in the next sections of the paper, these earnings are assumed to be the expected annual earnings of female AFDC recipients in the occupation-industry categories to which they are potential entrants.

Benefit and Tax Rate Determination

Households in Delaware which meet the financial and nonfinancial eligibility criteria for participation in the AFDC program receive AFDC cash assistance, food stamps, and medicaid. Receipt of AFDC cash benefits and food stamps is conditional upon a recipient's

[2] Financial support for this research was provided by the Cooperative State Research Service, U.S. Department of Agricul ture.

[3] Depending on a state's per capita income, the federal govern ment pays between 50 and 83 percent of the benefit payments and between 50 and 93 percent of administrative costs. In Delaware in 1979, the federal government paid 50 percent of the benefit pay ments and administrative costs.

[4] In 1961 Congress passed legislation creating the Aid to Fami lies with Dependent Children—Unemployed Parent program (AFDC-U). AFDC-U was instituted to counter criticism that AFDC, by denying benefits to families with the able-bodied men, encouraged family disintegration. Currently, AFDC-U exists in 26 states, including Delaware. The most restrictive criterion for par ticipation in the AFDC-U program is that the father must work fewer than 100 hours a month. Under this rule, a family with a father who works 100 hours or more a month is ineligible for aid, even if family income falls below the need standard. (Doolittle, *et a!.).* AFDC-U cases accounted for between 2.5 and 3 percent of the average monthly AFDC caseload in Delaware in 1979. Be cause the AFDC-U program accounts for only a small fraction of the AFDC caseload and because it has totally different dynamics than the regular AFDC program, it is excluded from consideration in this analysis.

[5] These data were provided by the Delaware Department of Labor, Division of Employment Services.

[6] The data on average annual earnings for females for the various occupation-industry categories were derived from unpublished data maintained by the Delaware Department of Labor.

Table 1. Mean Gross Annual Earnings of Females by Industry and Occupation, Delaware, 1979

	Occupation		
Industry	Operative	Labor	Service Worker
Agriculture	$ 5,050	$ 5,120	$ 4,698
Construction	8,257	7,221	4,096
Durable Goods			
Furniture, Lumber and Wood Products	7,320	6,808	5,050
Stone, Claty and Glass Products	9,411	8,752	7,852
Primary Ferrous Industries	10,933	12,623	8,539
Primary Non-ferrous Industries	9,487	9,293	8,984
Fabricated Metal Industries	9,330	8,164	7,213
Machinery, except Electrical	10,196	9,409	7,518
Electrical Machinery, Equipment and Supplies	9,245	8,757	8,896
Motor Vehicles and Motor Vehicle Equipment	12,276	13,070	11.925
Aircraft and Parts	12,274	11,437	10,796
Other Transportation Equipment	8,567	6,943	8,659
Ordnance	11,182	11,234	10,641
Other Durable Goods	8,133	6,465	6,842
Nondurable Goods Manufacturing			
Food and Kindred Products	7,375	7,280	6,313
Textile Mill Products	7,726	7,103	7,216
Apparel and Other Fabricated Textile Products	6,884	6,428	6,288
Paper and Allied Products	8,784	8,208	7,008
Printing, Publishing and All Allied Industries	7,911	7,114	6,818
Chemicals and Allied Products	9,403	9,245	8,597
Rubber and Miscellaneous Plastic Products	8,111	8,323	7,871
Other Nondurables	7,333	6,294	6,368
Retail Trade	6,468	4,928	4,248
Wholesale Trade	6,586	6,969	5,977
Services	6,845	4,806	5,667
Transportation, Communications and Public Utilities	8,872	10,269	11,911
Finance, Insurance and Real Estate	7,476	6,022	5,710

income level (income-conditioned) while medicaid benefits are contingent upon a recipient's participation in the AFDC program.

Prior to 1962, the implicit marginal tax rate of AFDC participants who became employed was 100 percent.[7] However, because of the dramatic rise in AFDC caseloads beginning in the early 1960's, amendments to the Social Security Act in 1962 and 1967 reduced the implicit marginal tax rate in an effort to increase the work effort of AFDC participants. A provision in 1962 allowed for the deduction from earnings of broadly denned work expenses. This provision required states to subtract the work-related expenses from gross earnings in arriving at the budgetable income which serves as the basis for determining AFDC benefits. In 1967, the "30 and \k" rule was adopted. This rule provided that the first $30 of monthly earnings and l/3 of all earnings above $30 were to be retained by the participant and were not to result in a reduction in benefits. States were also given the option of disregarding the first $5 of earnings per month in addition to the $30 disregard. The 1979 AFDC benefit structure in Delaware on an annualized basis for a family of four can be represented by the following equation:[8]

$$AFDC = G - [GI - (D_a + D_2 + [1 - t][GI - D_1 - D_2] + WE)]$$

where AFDC is annual AFDC benefits received by a family of four, G is the annual payment made to a family of four when its nonassistance income is zero ($3,444), GI is gross annual earnings, D_1 is the annual disregard of $60 ($5 per month), D_2 is the annual disregard of $360 ($30 per month), t is the

[7] In cases when a state paid maximum benefits below its need standard, it often allowed a recipient's earnings to fill the gap with only a fractional reduction in benefits (Doolittle, *el at.).*

[8] Unearned income is also counted as pan of budgetable income. The marginal tax rate on unearned income is 100 percent. However, data from the U.S. Department of Health, Education and Welfare indicate that less than 5 percent of the AFDC households in Delaware received unearned income in 1976. Therefore, unearned income is disregarded in this analysis.

benefit reduction rate of two-thirds, and WE is annual work-related expenses.

Work-related expenses (WE) in Delaware include social security taxes, state and federal income taxes, costs for transportation to and from work, child care expenses, union dues, and special uniform and material expenses. Work-related expenses are expected to vary directly with gross earnings. For purposes of this analysis, work-related expenses are estimated from a regression equation fitted to a sample of 126 AFDC recipients in Delaware who were employed for at least one month in 1979.[9] The results of the fitted equation are as follows:

$$WE = 41.38176 + .36805\ GI - 12.45845\ HS \quad R^2 = .51.$$
$$\qquad\qquad (11.00) \qquad\qquad (2.97)$$

where WE is monthly work-related expenses, GI is gross monthly earnings, and HS is household size. The values in parentheses are the t ratios.

In 1981, as part of HR 3982, several changes were made in the AFDC program. These changes included: (1) the requirement that benefits to families eligible for the Earned Income Tax Credit (EITC) be based on the assumption that the family received the EITC payment in the form of monthly advance payments even if the family did not receive the payments each month, (2) the substitution of a $75 per month standard income disregard and a maximum $160 per month disregard for child care expenses for the previous work expense disregard, (3) the requirement that the standard and child care disregards be subtracted from income before the 30 and *Vz* income disregard is applied, and (4) the elimination of the 30 and 1/3 disregard after the fourth month of employment.

The AFDC benefit structure after the HR 3982 changes on an annualized basis in 1979 dollars for a family of four during the first four months of employment can be represented by the following equation:

$$AFDC = G - [(GI + EITC) - (SDed + Ch + D_2 + [1 - t][GI + EITC - SDed - Ch - D_2])]$$

where AFDC, GI, D_2 and t are as defined above, EITC is the annualized Earned Income Tax Credit computed on the basis of the 1979 federal tax rules, SDed is the annualized standard deduction in 1979 dollars ($699), and Ch is the child care deduction.[10]

Child care expenses (Ch) were estimated from a regression equation fitted to a sample of 126 AFDC recipients in Delaware who were employed for at least one month in 1979. The results of the fitted equation are as follows:

$$Ch - 20.14896 + .10066\ GI + 8.52947\ HS \quad R^2 = .22$$
$$\qquad\qquad (3.35) \qquad\qquad (2.30)$$

where Ch is monthly child care expenses, GI is gross monthly earnings, and HS is household size. The values in parentheses are the t ratios.

After the fourth month of employment, the AFDC benefit structure on an annualized basis for a family of four in 1979 dollars is as follows:

$$AFDC = G - [(GI + EITC) - (SDed + Ch)]$$

where the terms in the equation are as defined above.

In addition to receiving cash payments, AFDC recipients in Delaware are eligible to receive food stamps. Like AFDC payments, these food stamps are income-conditioned. In 1979, the annual dollar value of food stamp coupons for which a family of four qualified was determined by subtracting 30 percent of net income from the cost of the thrifty food plan for a family of four.[11] Net income was obtained by subtracting from gross income (earned and unearned): (1) 20 percent of gross earnings as a work expense disregard, (2) a flat $780 ($65 per month) standard deduction, and (3) child care and shelter deductions. Child care and shelter deductions had a maximum limit each of $960 per year. Child care deductions were those expenses actually incurred and reported. Shelter deductions were the excess of shelter costs over 50 percent of ad-

[9] Several different functional forms, including a step function, were fitted to the data. On the basis of the R^2 and t ratios, the linear functional form gave the best fit. It is recognized that the child care expenses portion of work-related expenses is likely to be a function of both the number of children and the demographic composition of the household with respect to the ages of the children. However, no data were available on the age composition of the household.

[10] The post HR 3982 standard deduction of $900 ($75 per month) was converted to the 1979 price level using the Philadelphia area Consumer Price Index.

[11] The thrifty food plan is the least costly of four food plans developed by the U.S. Department of Agriculture's Agricultural Research Service (ARS) in 1974-75. The plan specifies the amounts of foods of different types (food groups) that families might use to provide nutritious diets for family members. The thrifty plan includes larger proportions of the foods that are eco nomical sources of nutrients than the other plans developed by the ARS (Peterkin).

justed income, where adjusted income is gross income reduced by the standard deduction, the 20 percent earnings disregard, and the child care deduction.

Child care and shelter deductions were estimated from a sample of 128 four-person AFDC households in Delaware who were receiving food stamps in 1979. No statistically significant relationship was found to exist between gross earnings and shelter and child care deductions. Hence, the mean sample deduction of $540 ($45 per month) was used in the analysis.

Specifically, the value of food stamps received by a family of four in 1979 can be represented by the following equation:

$$FS = TFP - [-30\ (GI + AFDC - .20\ GI - S - CHS)]$$

where FS is the annual dollar value of food stamp coupons, TFP is the annual cost of the thrifty food plan for a family of four, GI is gross annual earnings, AFDC is the annual AFDC benefit for a family of four, S is the annual standard deduction of $780 ($65 per month), and CHS is the combined annual shelter and child care deduction of $540 ($45 per month).

The HR 3982 changes in the Food Stamp Program: (1) limited eligibility for the program to households with total incomes below 130 percent of the federally defined poverty level, and (2) reduced to 18 percent from 20 percent the portion of earned income that is disregarded in computing income for purposes of determining benefits. Specifically, the value of food stamps received by a family of four after the 1981 changes, in 1979 dollars, can be represented as follows:

If GI + AFDC s= 1,30 ($7,381), then FS = 0
If GI + AFDC < 1,30 ($7,381), then FS = TFP - [.30 (GI + AFDC - .18 GI - S - CHS)]

where all of the variables are as defined above.

The final benefit that AFDC households are eligible to receive is medicaid. In order to receive medicaid benefits in Delaware, a household must be receiving some form of public assistance. Benefits under the program are full payments for all medical care services performed on behalf of the eligible household.[12]

In 1979 the average cost of medicaid services for AFDC households in Delaware was $1,341, and this is assumed to be the value of such benefits to the households (Delaware Department of Health and Social Services, 1979b). Although the household loses medicaid coverage when it is no longer eligible for AFDC benefits, there is some chance that the household will receive some employer-paid health insurance coverage when the household head becomes employed.[13] In this analysis the net loss in benefits is determined by subtracting the expected health insurance benefits that accrue as a result of employment from the loss of medicaid benefits. In the event that the household head becomes employed and retains AFDC and medicaid eligibility, employer-paid health insurance from the AFDC household's standpoint is redundant. In such cases it is assumed that the household would utilize medicaid rather than the employer-paid health insurance because the former is generally more comprehensive.

Based on the above procedures for computing AFDC, food stamp, and medicaid benefits, the implicit marginal tax rate that female-headed AFDC households of four would face by accepting employment in the occupations to which they are potential entrants under the three alternative benefit structures can be computed as follows:

$$MTR = 1 - [(GI_E + AFDC_E + FS_E + Med_E) - (AFDCu + FSu + Medy + WE_E)] / (GI_E - GIu)$$

where MTR is the implicit marginal tax rate, GI is gross annual earnings, AFDC is annual AFDC benefits, FS is annual food stamp benefits, Med is annual medicaid benefits, WE is annual work-related expenses, E denotes the

[12] Medicaid in Delaware provides for full coverage of hospital care, physician and laboratory services, diagnostic testing of children, dental care, drugs, eyeglasses and other services.

[13] Comprehensive data on the value of employer-paid health insurance are scarce. The only data of which the author is aware that are useful for this purpose are contained in Walter W. Kolodrubetz. Although these data are the basis of the estimates of the value of employer-paid health insurance in this analysis, it should be noted that the data are for all wage and salary workers in the United States for the year 1973. Kolodrubetz estimates that of all wage and salary workers in 1973, 70.3 percent were covered by some form of employer-paid hospital insurance, 69 percent were covered by some form of employer-paid surgical insurance, and 32.6 percent were covered by some form of employer-paid major medical insurance. The employer contributions for all three types of coverage constituted 2.89 percent of the wages of the covered workers. The expected value of employer contributions for all workers was 1.81 percent of wages. In this analysis, this is the value used to estimate the employer contributions for worker health insurance coverage.

status employed, and U denotes the status unemployed.

The Findings

The mean gross annual earnings across the 81 occupation-industry categories to which AFDC household heads are potential entrants for the year 1979 are $8,042 and range from $4,096 to $13,070. Employment in 54 percent of these jobs provides sufficient earnings to place a female-headed household of four above the 1979 poverty threshold.[14] Ninety percent of the jobs provide earnings equal to or greater than 75 percent of the poverty threshold and all provide earnings in excess of the 1979 Delaware standard of need.

The impact of employment on the household's poverty status differs significantly by the sector of employment. None of the jobs in the agricultural, retail trade, wholesale trade, or services sectors provide sufficient earnings to place a female-headed household of four above the poverty threshold. One-third of the jobs in the construction and finance, insurance, and real estate sectors provide sufficient earnings to place a female-headed household of four above the poverty threshold. All of the jobs in the transportation, communications, and utilities sector and 64 percent of the jobs in the manufacturing sector provide sufficient earnings to place a female-headed household of four above the poverty threshold.

While 54 percent of the jobs for which female AFDC household heads are potential entrants provide sufficient earnings to place female-headed households of four above the poverty threshold, under the 1979 benefit structure, only 5 percent of such jobs provide sufficient earnings to remove such households from dependence on AFDC and medicaid benefits and only 16 percent of the jobs provide sufficient earnings to remove the households from dependence on food stamps (Table 2). AFDC households of four would remain dependent on AFDC, medicaid and food stamp benefits if the household head became employed in any of the jobs with earnings below the poverty threshold. However, employment in 91 percent of the jobs with earnings above the poverty threshold would not eliminate dependence on AFDC and medicaid benefits, and employment in 71 percent of the jobs with earnings above the poverty threshold would not eliminate dependence on food stamps.

[14] The poverty threshold refers to the poverty index adopted by the Federal Interagency Committee in 1969. The poverty threshold for a female-headed household of four in 1979 was $7,381 (U.S. Bureau of the Census).

Table 2. Percentage of Occupations to Which Female AFDC Household Heads Are Potential Entrants That Provide Insufficient Earnings to Remove AFDC Households of Four from Dependence on AFDC and Medicaid Benefits and Food Stamp Benefits by Benefit Structure and Earnings Level of Occupations

Benefit Structure and Earnings Level of Occupations	Percentage of Occupations with Insufficient Earnings to Remove Households from Dependence on: AFDC and Medicaid Benefits	Food Stamp Benefits
Pre HR 3982 Benefit Structure		
Occupations Above[3]	91	71
Occupations Below"	100	100
All Occupations	95	84
Post HR 3982 Benefit Structure I[c]		
Occupations Above"	98	29
Occupations Below[b]	100	100
All Occupations	99	61
Post HR 3982 Benefit Structure 2[d]		
Occupations Above*	0	69
Occupations Below[b]	3	100
All Occupations	1	83

[a] Denotes those occupations with earnings above the poverty threshold.
[b] Denotes those occupations with earnings below the poverty threshold.
[c] Denotes the benefit structure in effect during the first four months of employment.
[d] Denotes the benefit structure in effect beginning with the fifth month of employment.

Thus, while the 1979 benefit structure is efficient in providing assistance to households with earnings below the poverty threshold, it is not very efficient in reducing the incidence of dependence when earnings rise above the poverty threshold.

Under the HR 3982 benefit structure, during the first four months of employment, only 1 percent of the jobs to which AFDC household heads are potential entrants provide sufficient earnings to remove such households from dependence on AFDC and medicaid benefits. However, 39 percent of the jobs provide sufficient earnings to remove the households from dependence on food stamps. The examined households would continue to receive AFDC, medicaid and food stamp benefits if the household head became employed in any of the jobs with earnings below the poverty threshold. The households would remain dependent on AFDC and medicaid benefits if the household head became employed in 98 percent of the jobs with earnings above the poverty threshold. However, the households would remain dependent on food stamps in only 29 percent of the jobs with earnings above the poverty threshold.

Under the post HR 3982 benefit structure, after th fourth month of employment, all but 1 percent of the jobs to which the examined AFDC household heads are potential entrants provide sufficient earnings to remove female-headed households of four from dependence on AFDC and medicaid benefits. However, the households would continue to be eligible for food stamps if the househead head became employed in 83 percent of the jobs. The examined households would continue to be eligible for food stamps if the household head became employed in any of the jobs with earnings below the poverty threshold. However, they would continue to receive AFDC and medicaid benefits in only 3 percent of the jobs with earnings below the poverty threshold. Dependence on AFDC and medicaid benefits would be completely eliminated if the household head became employed in any of the jobs with earnings above the poverty threshold. However, the households would continue to receive food stamps if the household head became employed in 69 percent of the jobs with earnings above the poverty threshold.

Thus, the HR 3982 changes that take effect after the fourth month of employment significantly reduce dependence on AFDC and medicaid benefits if the examined household heads become employed in jobs which provide earnings above the poverty threshold. Unfortunately, at the same time, the HR 3982 changes make it significantly less attractive for the AFDC household heads to seek employment. Under the 1979 AFDC benefit structure, the mean marginal tax rate that AFDC household heads would face when seeking employment in the jobs to which they are potential entrants is 79 percent and ranges from 76 to 87 percent (Table 3). Under the post HR 3982 benefit structure, after the fourth month of employment, the mean marginal tax rate is 108 percent and ranges from 84 to 146 percent.

Summary and Policy Implications

The findings of this study indicate that, at least in Delaware for the year 1979, female AFDC household heads constitute a significant proportion of the unemployed labor force. The findings also indicate that a substantial proportion of the private sector jobs to which female AFDC household heads are potential entrants provide earnings which are sufficient to remove such households from poverty.

Table 3. Marginal Tax Rates That Female AFDC Household Heads Would Face by Accepting Employment in Those Occupations to Which They Are Potential Entrants by Benefit Structure and Earnings Level of Occupations

Benefit Structure and Earnings Level of Occupations	Marginal Tax Rate (in Percent) Mean	Range
Pre HR 3982 Benefit Structure		
Occupations Above[8]	80	78-87
Occupations Below"	78	76-79
All Occupations	79	76-87
Post HR 3982 Benefit Structure I[c]		
Occupations Above[a]	79	76-84
Occupations Below"	78	76-79
All Occupations	79	76-84
Post HR 3982 Benefit Structure 2[d]		
Occupations Above[8]	99	84-109
Occupations Below"	119	109-146
AH Occupations	108	84-146

" Denotes those occupations with earnings above the poverty threshold.
[b] Denotes those occupations with earnings below the poverty threshold.
[c] Denotes the benefit structure in effect during the first four months of employment.
[d] Denotes the benefit structure in effect beginning with the fifth month of employment.

The HR 3982 changes that take effect beginning with the fifth month of employment would significantly reduce the incidence of dependence on AFDC and medicaid benefits among AFDC households if the heads of such households become employed in occupations which provide earnings above the poverty threshold. However, this is achieved by sharply increasing the already high marginal tax-rates that AFDC household heads would have to.overcome in order to take jobs in those occupations to which they are potential entrants. The mean marginal tax rate that AFDC household heads would face when accepting employment in the occupations to which they are potential entrants would rise from 79 percent under the pre HR 3982 benefit structure to 108 percent under the post HR 3982 benefit structure beginning with the fifth month of employment. In addition, the changes would reduce the incidence of benefits to AFDC households even if the heads of such households became employed in occupations with earnings below the poverty threshold.

Although this study does not specifically measure behavioral relationships, evidence from other sources suggests that such high marginal tax rates make employment unlikely (Jerry Hausman). Therefore, it seems reasonable to conclude that the HR 3982 changes could be expected to limit the impact of private sector job development on the area's indigenous poor who are potential public assistance recipients. These findings suggest that private sector job development, by itself, cannot be expected to reduce welfare dependency rates.

Unfortunately, it is extremely difficult to reduce marginal tax rates in public assistance programs because such programs have the conflicting objectives of providing minimum benefits to the truly needy, maintaining incentives to work, and not being too costly. Marginal tax rates can be reduced only by reducing the minimum benefit level (standard of need) or by increasing the breakeven point and therefore the pool of potentially eligible recipients and program costs. The high post HR 3982 marginal tax rates are a result of the lowered breakeven point that was established in an attempt to reduce costs. Given this lowered breakeven point, a reduction in the marginal tax rates can be achieved only by reducing the minimum benefit level (standard of need). In the case of the Delaware AFDC program, a reduction in the standard of need, which in 1979 was only 47 percent of the poverty level, would seriously undermine the state's commitment to the goals of economic security and an equitable distribution of income.

Because of these conflicting objectives, policy makers have sometimes attempted to increase the labor force participation rates of public assistance recipients by imposing work requirements, while leaving the high marginal tax rates intact. However, findings by Friedman and Hausman indicate that attempts to strengthen work requirements in public assistance programs without altering marginal tax rates can be expected mainly to drive up administrative costs.

Finally, to the extent that the high marginal tax rates contained in an area's public assistance programs prevent job opportunities from trickling down to the indigenous poor, the often-proposed policies for enhancing public assistance recipients' stock of human capital and for eliminating discrimination and other barriers to labor market mobility, by themselves, will not be sufficient to move the indigenous poor into newly created private sector jobs. Rather, such policies will be effective only within the framework of an income maintenance system that embodies an incentive structure conducive to high labor force participation rates.

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