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A note on the determinants of AFDC policies

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1. Introduction

In the United States, there exist enormous geographic welfare (especially AFDC) differentials. Such differentials have been examined by numerous scholars in recent years (for example, Albin and Stein, 1971; Cebula, 1976; Orr, 1976; and Tresch 1975). Along these lines, in a recent issue of *Public Choice*, Spall (1978) addresses the determinants of AFDC levels in states. The purpose of this Note is not to criticize the study by Spall (1978); rather, the purpose of this Note is simply to offer an alternative analysis of the determinants of geographic AFDC differentials. In particular, the model tested below hypothesizes a basically political determination of AFDC levels, a political determination principally involving an alignment of two socio-economic groups: (1) the very poor (actual AFDC recipients) and (2) those who are probably (although not current actual) AFDC recipients.

2. The model

This paper argues that AFDC levels are significantly influenced by a political alignment involving persons who are currently receiving AFDC benefits and persons who believe that they are likely to *become* AFDC recipients.

It is argued that eligible voters who are actual AFDC recipients have strong incentives to support AFDC increases. For one thing, actual AFDC recipients gain directly and significantly from such increases because AFDC benefits are a very sizeable proportion of the total income of such persons. In addition, as a pragmatic matter, AFDC recipients on the average do not bear any consequential direct additional tax burden as a result of AFDC increases; in point of fact, the taxes used to finance AFDC increases are principally borne by non-welfare recipients (see Aronson and Schwartz, 1973; and Von Furstenberg and

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Mueller, 1971). Thus, AFDC recipients are likely to vote in favor of AFDC increases because they reap substantial net benefits from such policies. It follows that AFDC increases are likely to be an increasing function of the actual number of AFDC recipients.

On a somewhat different level, there may exist persons in society who, while not currently receiving AFDC benefits, may believe that they are likely to *become* welfare eligible at some future time. It is argued here that persons who believe that they are likely to *become* AFDC recipients may wish to support policies to raise AFDC levels since they view themselves as *potential* direct benefactors of such increases. Whether a person envisions himself as a potential AFDC recipient is of course likely to depend upon a variety of forces, some economic and some not. This paper argues that the unemployment rate among non-welfare recipients is likely to be a critical factor here. In particular, it is argued that the higher the unemployment rate among non-welfare recipients, the greater the degree to which non-welfare recipients are likely to view themselves as potential welfare recipients (and hence as potential benefactors of welfare hikes). Therefore, the higher the unemployment rate among non-welfare recipients, the greater the degree to which non-welfare recipients are likely to align themselves at the polls with actual AFDC recipients in support of welfare hikes. It follows, then, that the higher this unemployment rate, the greater the likelihood of passage of AFDC increases.

3. Empirical analysis

To test the above hypothesis, we postulate the following regression model:

$$AFDC_i = a_0 + a_1 POVi + a_2 U_i + a_3 Di + z \quad (1)$$

where $AFDC_i$ = 1971 AFDC level, per recipient, in state i

a_0 = constant term

$POVi$ = measure of the proportion of state i 's 1970 population that was receiving AFDC benefits

U_i = measure of the unemployment rate of adult non-welfare recipients in state i , 1970

Di = dummy variable to indicate whether state i is a 'warm weather' state ($Di = 1$ if the state is so classified and $Di = 0$ otherwise)¹

z = stochastic error term

The variable $POVi$ measures the proportion of state i 's population that is receiving public welfare in the form of AFDC. It follows from the brief discussion in Section 2 that we should expect $a_1 > 0$, *ceteris paribus*. The

variable Ui is used to measure the probability that persons who are not actual AFDC recipients (but who are potential AFDC recipients) will align themselves at the polls with actual welfare recipients. Following Section 2, it is argued here that $a_2 > 0$, *ceteris paribus*. Finally, the dummy variable Di is included to help control for the fact in many of the so-called 'warm weather' states there is a history of conservative political philosophy and hence a tendency to keep welfare (AFDC, in this case) levels lower. Thus, *ceteris paribus*, we expect that $a_3 < 0$.

The OLS estimate of (1) is given by:

$$AFDC_i = +0.53147 + 0.00001 POVi + 0.00894 Ui - 0.26542 Di, \quad (2)$$

(+0.56) (+2.89) (+6.25 (-5.71)

$$DF = 46, R^2 = .4648, D - W = 2.0395, F\text{-statistic} = 13.3138$$

where terms in parentheses are t-values.

The results in equation (2) are quite strong. All three estimated coefficients have the expected signs; furthermore, all three of the coefficients are statistically significant at the .01 level or beyond. In addition, the F-ratio is statistically significant at far beyond the .01 level.

The above results strongly imply that AFDC levels will be higher in those states where the proportion of the population 'on welfare' (receiving AFDC) is greater. The results in (2) also imply that AFDC levels will be greater in those states where the unemployment rate among adult non-welfare recipients is higher.

4. Conclusion

The above results may be interpreted, as follows: political pressure to raise welfare (AFDC) levels is greater in those states where the population actually receiving welfare (AFDC) is greater and where unemployment among adult non-welfare recipients (who may expect to become welfare-eligible) is greater.

If higher welfare (AFDC) levels act to attract an influx of additional welfare-eligible voters, these additional voters may align with the voter pools described in Section 2 to raise AFDC levels even further. The end result could be a pattern of ever-growing geographical AFDC differentials.²

NOTES

1. Data were obtained from various issues of the *Statistical Abstract of the United States* and Cebula (1979: Ch. 2). These data will be supplied in tabular form by the author upon written request.
2. Or, at least, perpetually *non-converging* geographic AFDC levels could result.

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