Research Reports

Reviews of new research at public agencies and private institutions

"Welfare Reform: A Race to the Bottom?"

Papers presented at a conference on March 27, 1998, at the Woodrow Wilson International Center for Scholars, Washington, D.C. The conference was cosponsored by *Publius: The Journal of Federalism*.

The fear that a community that is too generous to its own indigent will be deluged by poor people drawn irresistibly from neighboring communities has a long history in America. It has figured strongly in the continuing debate over the landmark welfare reform of 1996, the Personal Responsibility and Work Opportunity Reconciliation Act, which turned welfare into a program of fixed block grants and gave states much more discretion over spending decisions.

The law made it easier for states to treat new residents seeking benefits differently from established residents—and by last summer, 21 states, fearful of becoming "welfare magnets," had opted to do that. Critics feared that worse was to come: that states would join in a "race to the bottom," with the down-and-out needlessly made even more so. Research presented at this Wilson Center conference suggests that the fears on both sides may be unjustified.

Scott Allard and Sheldon Danziger, both of the University of Michigan's Poverty Research and Training Center, analyzed extensive data on the interstate migration of single-parent families between 1968 and 1992. They found that chasing welfare benefits was rare: in a typical year, only 2.8 percent of all single-parent households—and only 2.3 percent of those on welfare—moved to another state. Of the migrants, only four in 10 mothers who had been on welfare before got any benefits during their first year in the new state—and these benefits were usually *less* than what they had received before.

In a 1996 analysis of Aid to Families with Dependent Children (AFDC) benefit levels between 1976 and 1989, Paul E. Peterson and Kenneth F. Scheve, Jr., both of Harvard University, and Mark C. Rom, now of Georgetown University, concluded that in setting benefits, states were very strongly affected by what neighboring states did, suggesting that a "race to the bottom" could be in the offing. However, in a paper delivered at the conference, Rom says that there is little evidence that such a race has begun. Moreover, the "bottom" under the 1996 legislation, he points out, "is nowhere close to the absolute bottom." Until 2002, states must spend at least 75 percent as much on the new Temporary Assistance to Needy Families program each year as they did on AFDC in 1994.

A 1997 study by the American Public Welfare Association found that most states have taken a "middle-of-the-road" approach, balancing "liberal" and "restrictive" reforms. Brown University political scientist Richard M. Francis found that the six New England states went their own ways. Connecticut and Massachusetts, among the nation's wealthiest states, had the region's most restrictive welfare plans, while Rhode Island and Maine were the most generous.

By placing many recipients in paying jobs, the recent state-level reforms (some antedating the 1996 law) have reduced welfare rolls, but benefits have not generally been cut, report Richard P. Nathan and Thomas L. Gais, both of the Nelson A. Rockefeller Institute of Government.

Many states, they were surprised to find, are "passing the buck" on key aspects of welfare reform. Fifteen states, including New York and California, have "state-supervised/county-administered" systems which leave it to local governments, as well as nonprofit and for-profit organizations, to train, counsel, and find jobs for welfare recipients and applicants. What's going on locally in these states remains somewhat mysterious, Nathan and Gais complain: "Not very much can be learned about [local agencies'] activities from the data they are collecting, collating, and reporting."

Some researchers remain pessimistic about the overall impact of the reforms. "While evidence for welfare migration is scarce, states continue to fear it. And they now have a welfare system that, like water, can seek its lowest level," worry Sanford Schram of Bryn Mawr College and Joe Soss of American University. It is "highly likely," they believe, "that the states will drift toward lower benefits, shorter time limits, and stricter work requirements."

"Industrial Incentives: Competition among American States and Cities"

W.E. Upjohn Institute for Employment Research, 300 S. Westnedge Ave., Kalamazoo, Mich. 49007–4686. 307 pp. $29; paper, $19

Authors: *Peter S. Fisher and Alan H. Peters*

To lure a Mercedes-Benz assembly plant to the town of Vance recently, state and local governments in Alabama granted automaker Daimler-Benz an estimated $173 million in tax and other incentives. It was a dramatic episode in an escalating nationwide bidding war among states and municipalities—a competition that some critics want to end with a federal ban on such incentives.

Nobody knows the total cost of all the economic development incentives that state and local governments offer, note Fisher and Peters, both specialists in urban and regional planning at the University of Iowa, but it's clearly substantial. By 1988, state economic development agencies were spending $1 billion annually. But those outlays do not include all the tax breaks, loans, and other weapons (such as infrastructure improvements) deployed. Moreover, scholarly efforts to gauge the effectiveness of these programs have produced contradictory results.

Fisher and Peters tried to conquer the measurement problems by testing how a group of hypothetical companies would fare under the standard economic development incentives offered in 112 cities in 24 states.

Their findings divide in classic good news/bad news fashion. The good news is that incentives can indeed be effective, influencing corporate decisions about where to locate plants and offices. The most attractive city competing for a hypothetical drug-manufacturing plant offered a package of state and local incentives equivalent to a reduction of $1.82 per hour from the labor costs of the least competitive city. The bad news? The size of the incentives bears little relation to the unemployment or poverty levels of the cities involved. In other words, the incentives are moving jobs around, but not necessarily to the areas that need them most.

Moreover, Fisher and Peters found, incentives are not very cost-effective: every dollar of subsidies is actually worth only 58 to 73 cents in benefits to the recipients. One reason: increased profits generated by incentives raise recipients' federal corporate income tax bills. (A study of the Daimler-Benz package concluded that the company derived only $86 million in benefits from the $173 million incentive package.)

Fisher and Peters doubt that Washington can curtail the incentive war. The best hope, in their view, is to provide policymakers "a better understanding" of the true costs and benefits of the incentives.

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