Research in Economics 70 (2016) 143–157

Contents lists available at ScienceDirect

Research in Economics

journal homepage: www.elsevier.com/locate/rie

Does welfare reduce poverty?

George J. Borjas [a,b]

[a] Robert W. Scrivner Professor of Economics and Social Policy, Harvard Kennedy School, USA
[b] National Bureau of Economic Research, USA

ARTICLE INFO

Article history:
Received 6 October 2015
Accepted 6 November 2015
Available online 22 November 2015

Keywords:
Immigration
Poverty
Welfare reform

ABSTRACT

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 made fundamental changes in the federal system of public assistance in the United States, and specifically limited the eligibility of immigrant households to receive many types of aid. Many states chose to protect their immigrant populations from the presumed adverse effects of welfare reform by offering state-funded assistance to these groups. I exploit these changes in eligibility rules to examine the link between welfare and poverty rates in the immigrant population. My empirical analysis documents that the welfare cutbacks did not increase poverty rates. The immigrant families most affected by welfare reform responded by substantially increasing their labor supply, thereby raising their family income and slightly lowering their poverty rate. In the targeted immigrant population, therefore, welfare does not reduce poverty; it may actually increase it.

1. Introduction

The rapid growth of the welfare state spawned a large literature examining the factors that determine whether families participate in public assistance programs, and investigating the programs' impact on various social and economic outcomes, such as labor supply, household income, and family structure.[1] Remarkably, little attention has been paid to the impact of welfare programs on a summary measure of the family's well being: the family's poverty status. Presumably, an important goal of the various programs in the welfare state is to reduce the poverty rate among disadvantaged households. Nevertheless, after a half century of experimentation with welfare programs and after thousands of empirical studies that examine many aspects of these programs, the answer to this question remains elusive.

The link between welfare and poverty is difficult to measure because a built-in spurious correlation precludes researchers from drawing credible inferences: the families that are most likely to be poor are also the families that are most likely to qualify for and participate in welfare programs. The impact of welfare on poverty could be identified through a randomized experiment wherein the government provides aid to some families and denies aid to a control group. Although such an idealized experiment does not exist, the huge changes in eligibility introduced by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) provide a great deal of exogenous variation that could, in principle, help address this important question.[2]

[1] Moffitt (1992) gives a comprehensive review of the literature.
[2] A number of experiments vary some of the parameters in welfare programs to examine how these marginal changes affect poverty rates. These experimental studies suggest that welfare reforms reduce poverty when the reforms have a strong financial work incentive; see Bos et al. (1999) and Miller et al. (2000). Schoeni and Blank (2000) and Bitler et al. (2002) provide some econometric evidence that is consistent with these experimental findings,

http://dx.doi.org/10.1016/j.rie.2015.11.002
1090-9443/

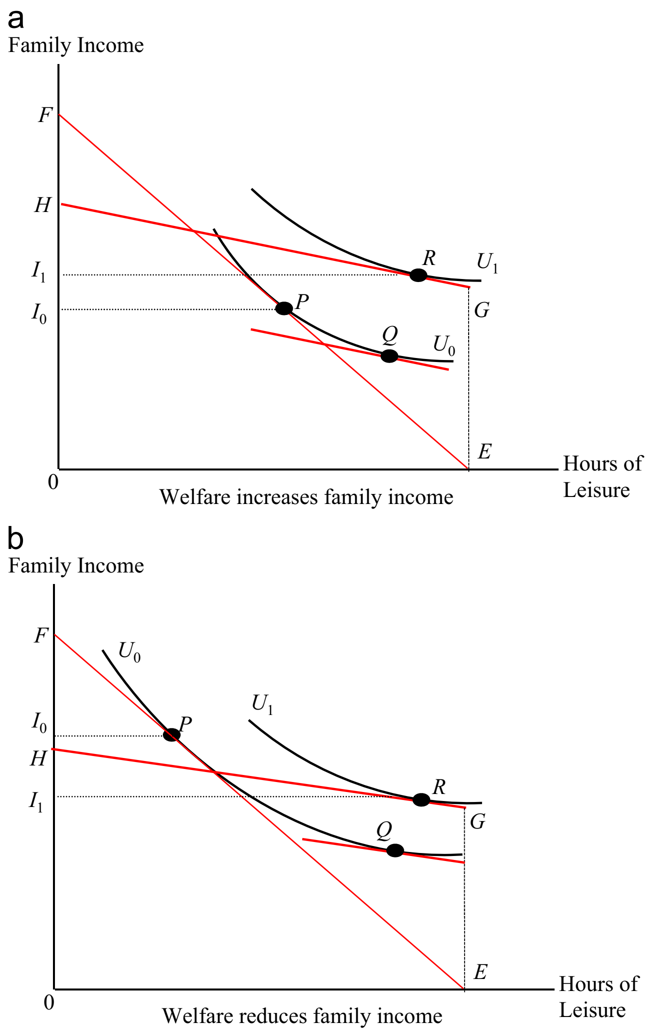

Fig. 1. Welfare, labor supply, and family income. (a) Welfare increases family income. (b) Welfare reduces family income.

Although PRWORA changed eligibility rules for almost all households, some key changes were specifically targeted at immigrants. It is well known that immigrant participation in welfare programs rose rapidly in recent decades (Borjas and Hilton, 1996). This steep rise in immigrant welfare use motivated Congress to include a number of eligibility restrictions in the 1996 legislation. It turns out, however, that these restrictions could potentially affect only a subset of the immigrant population, depending on the family's state of residence, on whether the family entered the country as refugees, and on whether the foreign-born person was naturalized or not. As a result, the idiosyncratic changes in immigrant eligibility present a unique opportunity to examine the link between welfare and poverty.

The number of immigrants entering the United States grew rapidly in recent decades. During the 1950s, only 250,000 legal immigrants entered the country annually. By the 1990s, nearly 1 million persons entered the country legally each year and another 300,000 entered and stayed in the country illegally.[3] An increasing number of the new immigrants fall in the lower rungs of the skill and income distributions.[4] As a result of these trends, there has been an increasing "foreignization" of poverty. In 1979, 9.7 percent of the poor lived in immigrant households (Camarota, 1999). By 1997, 21.6 percent of the poor lived in immigrant households.

(*footnote continued*)
although Bitler, Gelbach, and Hoynes find that welfare leads to reductions in poverty in some specifications and to increases in poverty in others; see also Moffitt (1999) and Grogger (forthcoming). Grogger et al. (2002, Chapter 8) summarize the evidence.

[3] U.S. Immigration and Naturalization Service, 2000, pp. 18, 271.

[4] Borjas (1999, p. 21) reports that the typical immigrant worker in 1960 earned 4 percent more than the average native worker. By 1998, the typical immigrant earned 23 percent less.