The Journal of Sociology & Social Welfare

Volume 10
Issue 2 *June*

Article 3

May 1983

Welfare Spending in the American States: A Comparative Perspective

W. Joseph Heffernan
University of Texas, Austin

Welfare Spending in the American States: A Comparative Perspective

W. Joseph Heffernan

Professor, LBJ School of Public Affairs and The School of Social Work
The University of Texas, Austin, Texas

ABSTRACT

The federal-state system of welfare is the result of a compromise between the desire for national standards and the opportunity for each state to have its own adaptation. As a compromise, there is a constant tension in the system. During the 1970's, there was a pressure toward federalization, but the states have preserved their diversity. The Reagan Administration has clearly indicated a desire to "return" greater freedom to the states to chart their own course. The purpose of this paper is to identify variations among the states in such a way as to identify those states with consistently "high" or consistently "low" expenditures for welfare after allowance is made for differences in need, capacity, and chance variations. Individual states deviations from expected expenditures are noted over the past decade. The resilience of the states in pursuit of their own welfare paths is noted and the implication of this for tension in federal-state relationship is shown.

The changing relationships between the national government and the state governments have been a significant element in shaping the debate about welfare in this nation for the last twenty years. The perception that one set of governments or another would be likely fiscal losers in any reshaping of welfare has stood as an impediment to reform. At the same time, the absence of a clear cut consensus of where power, capacity and responsibility lay in the coordinate system has fueled a significant portion of the welfare debate. The debate about welfare responsibility between those concerned with national standards and those concerned with the opportunity for state adaptations would, no doubt, have taken place even in the absence of legalistic and fiscal problems. The federal systems demand for dual responsibility along side very uneven fiscal capacities for state programs has magnified the already difficult problem of selecting and implementing welfare policy. (1)

In recent years voices from virtually all points on the political spectrum have called for a reassessment of the federal-state responsibilities in AFDC, Food Stamps, and Medicaid programs. The goals of these reassessments are clearly not the same for all of the interested parties. The goals of the various reform proposals involved modification of welfare itself as well as changes in federal/state responsibilities for welfare policy. The goals most frequently articulated are these:

(1) a desire to eliminate (or at least reduce) inter-state differences in benefit schedules

(2) to increase the benefits of lower paying states

(3) to achieve a better balance between fiscal demands of welfare programs with fiscal capacity to meet the need

(4) to reduce the aggregate spending on these transfer programs (or at least to reduce the rate at which these programs grow)

(5) to more effectively target benefits to those in the greatest need

(6) to shift fiscal responsibility from one level of government to another

(7) to sort out the federal/state responsibilities to achieve a higher level of policical accountability and fiscal responsibility

Particular plans for reform reflect different priorities among these goals. It is also clear that some of these goals are incompatible with one another. Each president since John Kennedy has provided some measure of leadership in a welfare reform effort, but each presidential initiative has been defeated because of internal beauracratic and legislative inability to forge a compromise among these goals. The most recent initiative has been President Reagan's proposal for a swap of welfare responsibilities.

Behind each new proposal for welfare reform there lies a complex tangle of political desires and deeply held convictions about both welfare itself and the federal/state responsibilities involved in the delivery of welfare services. Any welfare proposal must address simultaniously a theory of povery and a theory of inter-governmental relations. The first issue is reasonably well addressed in the literature. If one believes that the low income condition is a function of insufficient employment opportunities of low skilled workers, then a jobs and skills enhancement strategy needs to be given priority. If one beleives that the problem lies with specific character and motivational problems of low income persons, then social work services need to be emphasized. If one believes that inequality is a systemic consequence of capitalism, then a negative income tax and direct re-distributional schemes need to be emphasized. (Sommers, 1982) At the pragmatic political level the proposals usually contain a complex misture of such goals. Two decades of poverty research reflect the diversity of poverty theories and the resulting differences of grand strategies of welfare reform. Relatively less attention has been paid to the question of inter-governmental relations.

Questions of the appropriate relationship between the central and state governments are of obvious fiscal and political importance. The fact that one or another set of governments perceive of themselves as fiscal losers in a reshuffled set or responsibilities clearly affects the course of reform within Congress and the state capitols. A complete history of the welfare reform effort needs to include the details of the various cost-estimating techniques used by the administration, the Congressional Budget Office and the various state welfare establishments. During the Carter welfare reform effort the administration originally estimated that the new program would cost an additional 2.6 billion dollars, but the CBO estimated the federal cost at 25 billion dollars. Haskins, 1981 During the Reagan administration's effort the Office of Management and Budget estimated a net savings to the state of 2.6 billion dollars, but the Congressional Budget Office estimated a 4.4 billion dollar state loss. (U.S.G.A.O., 1982) The lack of confidence in cost estimations is only one of the problems associated with disentangling federal/state responsibilities.

A second, equally difficult problem is the impact of dual federalism on interstate diversity in benefits, which appear intractable in the face of incremental reform. The present set of programs, of AFDC, Food Stamps and Medicare interact with one another in curious and unintended ways. The net effect of increasing AFDC benefit is to reduce food stamp benefit to the household by 30 cents for each dollar of benefit increase. Increase in AFDC benefits also expand Medicaid eligibility. The resulting consequences impacts on the state budgets in ways that are difficult to predict. During the 1970's there was a considerable political effort to decrease diverisity in benefits. One of the intents of the food stamp program was to reduce the inter-state diversity in total benefits to households elegible for both programs. Despite some progress, the states have acted in such ways as to retain considerable diversity. This is shown in Table I.

TABLE I

Diversity in AFDC Benefits
And AFDC/Food Stamp
Benefits, 1970-1980.
(State Maximum Payment To A Family Of Four With No Other Income)

	1970 AFDC Schedules	1980 AFDC Schedules	1980 AFDC with Food Stamps
Range	3756-828	6828-1680	7549-3990
Mean	2413	4218	5829
Standard Deviation	800	1532	1010
Co-efficient of Variation	.311	.363	.173

The Reagan Administration has made it abundantly clear that it will seek to place emphasis on state responsibility and control. Thomas, 1981 Along the federal political fault line, the pressure will now come from the opposite direction. In light of this new emphasis of an old conflict in the federal/state contest, it is instructive to examine the differential performance among the states.

During the last eight years, despite significant political pressures for federalization of AFDC, the proportion of federal dollars spent on AFDC has been remarkably stable as is shown in Table II. The change in federal participation is a function of the changes in the Food Stamp Program.

TABLE II

Inter-Governmental Expenditures
For AFDC & Food Stamps
1970 - 80

	A F D C		AFDC		
	STATE (millions $)	FEDERAL (millions $)	Federal Proportion	Federal Food Stamp (millions $)	Total Federal Proportion
1970	2,234	2,623	54.0	551	58.7
1973	3,426	4,153	54.8	2,136	64.7
1978	5,507	6,332	53.5	5,165	67.6
1980	5,914	6,838	53.6	9,210	73.1

Table II shows that while federal expenditures have exploded, so too have state expenditures in the aggregate. What has not been equally noted is that the expansion in the states has been decidely uneven. Some states have significantly increased their benefit schedules, coverage and hence expenditures on AFDC programs, while other have declined in real dollar terms. In light of the lack of progress toward comparible programs after a period of federalization and now the apparent desire of some actors "to return" these programs to the states, it is instructive to provide a closer examination of the states different roles in funding their parts of welfare programs. These funding patterns as measured by per capita expenditures from their own funds have remained diverse. After a decade of federal pressures, AFDC remains a collection of varied state plans in part funded by federal dollars. See Table III.

The differences noted above reflect real differences in the socio-economic conditions and political pressures in the various states. Because the states have different traditions and resources in their spending on welfare programs the result is variations in benefits paid from one state to the next.

One of the questions extensively discussed in the political science literature has been the extent to which political structures, political processes, socio-economic needs, and/or economic resources are influential in "explaining" state welfare performances. (2)

In the field of public finance, there has been voluminous empirical literature dealing with the budetary impacts of inter-governmental grants. These studies have typically found strong and significant coefficients for the grants. One of the best of these studies, that of Larry Orr, finds that the grants to the state are varied inversly to per capita income and range from 50% to 78% of state dollars. Orr's research indicates that there is slippage in the grants, and that about one-third of the grant is used to increase benefits and the rest is released for other budgetary purposes and/or tax relief. (Orr, 1976)

The question posed in this paper is different. We are interested in identification of the states with unusually high and unusually low expenditures after allowance is made for differences in need and capacity, and for chance variations made. In light of current circumstances, there is every evidence that states will need to assume a much greater responsibility for the funding of social programs. A careful examination of expenditure dollars in the past provides the best clue to state spending in the immediate future.

Methodology

Like the previous studies, which attempted to identify the determinants of public spending, our basic statistical tool is regression analysis. Unlike past studies, however, we are not developing a causal model. Rather we are building on the causal models currently available in the literature. We have developed this investigation based on a procedure developed by Robert Klitgaard and George R. Hall. We are using the information learned from causal models to judge unique state performance. (Mosteller, 1977)

1. Instead of concentrating on property of the regression line, the percentage of variation explained (R^2) and the coefficients of the regressor variables, attention is devoted to the residuals from the regression line.

TABLE III

State Expenditures Per/Capita
From Their Own Sources On
1972-1980 (In Constant 1980 Dollars)[5]

	1972	1974	1976	1978	1980	1980÷1970
Alabama	146	118	128	129	141	.965
Alaska	207	201	184	228	288	1.391
Arizona	81	67	66	66	68	.839
Arkansas	142	132	148	159	141	.993
California	371	316	308	337	286	.771
Colorado	189	172	169	174	139	.735
Conneticut	177	164	189	209	212	1.197
Delaware	163	139	84	178	165	1.012
Florida	95	84	84	78	78	.821
Georgia	168	149	142	142	142	.768
Hawaii	221	226	266	297	240	1.086
Idaho	112	122	130	127	123	1.098
Illinois	164	232	238	246	223	1.360
Indianna	99	102	117	121	121	1.222
Iowa	122	105	173	178	189	1.549
Kansas	99	127	158	162	158	1.596
Kentucky	136	127	173	170	177	1.301
Louisianna	163	142	153	154	154	.945
Maine	181	202	206	237	235	1.298
Maryland	168	175	179	183	179	1.065
Massachusets	325	331	300	314	314	.966
Michigan	235	264	300	285	292	1.242
Minnesota	191	224	263	280	254	1.329
Mississippi	164	140	128	156	156	.951
Missouri	138	118	127	130	134	.971
Montana	122	123	125	144	137	1.123
Nebraska	118	119	121	136	122	1.103
Nevada	118	117	122	121	96	.814
New Hampshire	140	151	179	173	182	1.300
New Jersey	193	201	217	228	208	1.078
New Mexico	148	132	119	118	128	.865
New York	357	356	404	374	358	1.003
North Carolina	110	100	109	108	131	1.191
North Dakato	118	95	112	130	140	1.186
Ohio	130	149	174	187	169	1.300
Oklahoma	229	177	176	178	181	.790
Oregon	134	145	129	224	181	1.351
Pennsylvania	189	217	248	307	236	1.249
Rhode Island	258	271	301	314	145	1.221
S. Carolina	73	85	105	123	116	1.590
South Dakota	118	118	145	148	152	1.288
Tennessee	118	110	131	140	130	1.102
Texas	126	112	125	116	105	.833
Utah	124	110	131	152	129	1.040
Vermont	230	215	248	217	187	.813
Virginia	110	122	131	143	144	1.310
Washington	179	182	125	188	191	1.067
W. Virginia	118	105	135	139	130	1.101
Wisconsin	164	209	248	269	261	1.591
Wyoming	85	84	85	89	91	1.071
Mean	161	159	174	168	176	1.170
Standard Deviation	64	66	69	66	67	.228

2. Instead of including an abundance of regressor variables to explain as much variation as possible, we are diliberately attempting to avoid over-controlling.

3. The critical intent is to "understand" the residuals.

Residual variation can arise from many causes: imperfections in measurement, misspecification of variables, omitted variables, incomplete and/or inaccurate data, as well as poor choice of fitting techniques. Our goal is to separate non-random outlyers from random variations.

The basic null hypothesis of this investigation is that there are no unusually effective (or ineffective) states. The assumption is then, when one has a well specified model with properly measured variables, deviations from the regression line are essentially random.

In order to gain a perspective of the randomness of the error terms we observe the standardized residuals. This formula is:

$$\text{Standardised} = \frac{\text{observed spending} - \text{estimated spending}^{1}}{\text{Standard error fo the the estimate}}$$

[1]from regression model

The basic model estimates state welfare spending by controlling for variations in per capita income, percent high school graduates, percent non-white, and percent urban. Typically, these variables explain about one quarter of the interstate variations. The addition of politcal variables to this model does not significantly alter the estimates of welfare performance. This result is consistent with previous studies using step-wise regression models to estimate spending on welfare. (Stonecash, 1981) See Table IV. The basic intent here involves looking at a series of distributions of residuals over time. States which consistently score some distance above or below their expected performance provides fairly strong evidence that that state has an unusual pattern of determining its committment to welfare. See Table V.

The null hypothesis is that all states have their welfare spending similarly determined and that all of the variations in a particular distribution are the results of chance. Then, by using the nominal theorem and assuming independence, we compute the theoretical frequency of distribution of the number of times a state would have a spending deviation greater than one standard residual or less than one standard residual. This is contrasted with the observed occurences in Table VI.

A remarkedly consistend patter of deviation occurs which is decidely non-random. No state, for example, deviates both above and below its expected levels. While 25 states deviated at least once, 8 of these deviated all 5 times. This is consistent with the notion that circumstances which impel a state to unusual performance levels are stable. Clearly, if one knew what that cirsumstance was, the search would conclude. One could suggest that welfare performance is highly determined and the residuals would disappear. The point is, we do not know what they are. The states identified by this procedure are each different in some unknown ways. There is thus a strong persumptive evidence that welfare spending is vital, not deterministic. Close inquiry -- perhaps by case studies -- is likely to give

TABLE IV

Regression Estimates of AFDC: 1972-80

Dependent Variable: Per Capita Spending From

Own Sources on AFDC

		1980		
Independent Variables		Beta	t	
Per Capita Income	80	.2430	1.55	
Percent Metro	80	.3120	2.09	r^2= .2444
Percent Non-White	80	-.0297	.74	
Percent H.S. Grads.	80	-.1167	.21	
		1978		
Independent Variables		Beta	t	
Per Capita Income	78	.2613	1.46	
Percent Metro	77	.3434	2.32	r^2= .2277
Percent Non-White	70	-.0945	.63	
Percent H.S. Grads.	76	-.0947	.52	
		1976		
Independent Variables		Beta	t	
Per Capita Income	76	.3146	1.83	
Percent Metro	76	.2965	1.98	r^2= .2304
Percent Non-Whtie	70	-.1260	.83	
Percent H. S. Grads.	76	-.1168	.68	
		1974		
Independent Variables		Beta	t	
Per Capita Income	74	.4108	2.35	
Percent Metro	76	.2262	1.45	r^2= .2841
Percent Non-White	70	-.0478	.33	
Percent H.S. Grads.	74	-.0901	.55	
		1972		
Independent Variables		Beta	t	
Per Capita Income	72	.3910	1.90	
Percent Metro	70	.1779	1.04	r^2= .2462
Percent Non-White	70	-.0584	.31	
Percent H. S. Grads.	70	-.0408	.27	

TABLE V

Direction & Duration

Significant Residuals

1972-1980[1]

State	Sign of Deviation of Residual in 1972	1974	1976	1978	1980	N
Maine	+	+	+	+	+	
Massachusets	+	+	+	+	+	4
New York	+	+	+	+	+	
Rhode Island	+	+	+	+	+	
California	+	+	+	+	0	2
Vermont	+	+	+	+	0	
Michigan	0	0	+	+	+	3
Minnesota	0	0	+	+	+	
Wisconsin	0	0	+	+	+	
Hawaii	0	0	+	+	0	1
Mississippi	0	0	0	0	+	2
Oklahoma	+	0	0	0	0	
Remaining States	0	0	0	0	0	25
Colorado	0	0	0	0	-	
Kansas	-	0	0	0	0	
South Carolina	-	0	0	0	0	7
Virginai	-	0	0	0	0	
Connecticut	0	-	0	0	0	
Delaware	0	-	0	0	0	
North Dakota	0	-	0	0	0	
Wyoming	-	0	0	-	0	1
Texas	0	0	-	-	-	1
Arizona	-	-	-	-	-	
Florida	-	-	-	-	-	4
Indiana	-	-	-	-	-	
Nevada	-	-	-	-	-	

[1]A (+) indicates performance (spending) greater than one standard deviation above what is predicted by the regression, while a (-) indicates a deviaion greater than one standard deviation below the regression line. A zero indicates performance within the predicted range.

TABLE VI

A Comparison of Theoretical* and Actual Distributions of Residuals With A Consistent Sign in Four Time Periods

Deviation from Projection Sign	Frequency	Probability	Expected Frequency	Observed Frequency
+	5	.0000524	.00262	4
+	4	.0013763	.06881	2
+	3	.0144507	.72253	3
+	2	.0758661	3.79331	1
+	1	.1991485	9.95743	2
n.a.	0	.4182119	20.91060	25
-	1	.1991485	9.95743	7
-	2	.0758661	3.79331	1
-	3	.0144507	.72253	1
-	4	.0013763	.06881	0
-	5	.0000524	.00262	4
		.9999999	49.9999	50

*Theoretical frequency is calculated by using the biomial theorem and assuming independence. For the details of this procedure contact the author.

important lessons from inquiry into the welfare politics of these "good" and "bad" states. Each reader can decide for himself whether consistently high or consistently low spending is good or bad.

Conclusion:

The exercise provides strong presumptive evidence that state variations are decidely non-random. The empirical portion of this paper clearly suggest a resilient desire among the states to carry out their welfare programs consistent with their own tradition. These differences persisted throughout a decade of federalization of welfare programs. If, in the immediate future, the states are "freed" from nationally imposed constraints, it is reasonable to assume that these differences will intensify. For those concerned with national standards, this will be an undersirable result. For those who focus on the opportunity for each satate to chart it's own path, this result may be cheered. These attitudes reflect the tension of a federal state welfare system. What is, however, clear is that a retreat from federally imposed standards will most assuredly reintroduce drastic interstate diversity in benefits, coverage and costs.

BIBLIOGRAPHY

Books

Advisory Commission on Intergovernmental Relations. Public Assistance: The Growth of a Federal Function. Washington, D. C.: ACIR, 1980.

American Enterprise Institute. The Administration's 1979 Welfare Reform Proposal. Washington, D. C.: A.E.I., 1979.

Hall, Geroge E. and Palley, Marian Lief. The Politics of Federal Grants. Washington, D.C.: Congressional Quarterly Press, 1981.

Oates, Wallace E. The Political Economy of Fiscal Federalism. Lexington, Massachusetts: Lexington Books, 1977.

Articles

Dawson, Richard E. and Robinson, James E. "Inter-Party Competition Economic Variables and Welfare Policy in the American States." Journal of Politics Vol. 7: 652-663.

Gramlich, E. M. "Inter-governmental Grants " in The Political Economy of Fiscal Federalism by Wallace E. Oates. Lexington, Massachusetts: Lexington Books, 1977.

Heffernan, W. Joseph. "A Concise Political History of Income Security Programs" in Introduction to Social Welfare Policy. Ithasca, Illinois: F. E. Peacock, 1979.

Klitgaard, Robert E. and Hall, George R. "A Statistical Search for Unusually Effective Schools" in Statistics and Public Policy by W. B. Fairley and Frederick Mosteller. Reading, Massachusetts: Addison-Wesley, 1977.

Moynihan, Daniel, "Crises in Welfare" The Public Interest, Winter, 1968: 3-29.

Orr, Larry, "Income Transfers and a Public Good: An application to AFDC", American Economic Review, June, 1976-: 359-371.

Savage, Robert L. "The Literature of Systematic Quantitative Comparison in American State Politics: An Assessment", Center for the Study of Federalism, Center Report #11, Philadelphia: Temple University, 1976.

Stonecash, Jeff and Hayes, Suzan. "The Sources of Public Policy: Welfare Policy in the American States, " Policy Studies Journal, Vol. 9, sec. 5, September, 1981: 681-698.

Thomas, William V. "R agan's New Federalism", Editorial Research Reports, Vol. 1, #14, April, 1981.

Thomas, Willaim V. "New Federalism, No Panacea for State Governments", C.Q. Weekly Reports, April, 1981.

Vee Burke, et. al. "Welfare Background Paper: Description of Selected Welfare Welfare Programs," Congressional Research Service, May 20, 1981.

Document

HEFWEL. Current Welfare Data, taped. Austin, Texas: LBJ School of Public Affairs, Fall, 1981. Updated, Spring, 1983.

NOTES

1 For a review of the complex political history of recent welfare reform efforts it is instructive to read in serial form accounts of various efforts to change the system. A careful summary of literature follows:

President's Johnson's Presidential Commission on Income Maintenance, (Heffernan, W. Joseph, "The Failure of Welfare Reform: A Political Farce on Two Acts", Institute Research on Poeverty, University of Wisconsin, Sept. 1973).

President Nixon's Family Assistance Plan, (Bowler, M. Kenneth). Nixon Guaranteed Income Proposal Cambridge, Pollinger Publishing Company, 1974).

President Ford's Income Security Plan, (Lynn, Saureace E. Designing Public Policy. Santa Monica, Goodyear Publishing Co. 1980, Ch. 5.)

President Carter's Program For Better Jobs and Income (Lynn, Saurence & David DeF. Whitman. The President As Policy Worker. Philadelphia, Temple V. Press 1981.

2 The seminar paper in this field is Richard E. Dawson's and James E. Robinson's "Inter-Party Competition, Economic Variables and Welfare Policy in the American States," Journal of Politics, Vol. 25 (May, 1963), pp. 265-289. This literature

has been significantly expanded and modified in the years since that publication and has spawned an entire subfield of political science.

An incomplete yet incisive restatement of the development of the literature is found in Thomas R. Dye's "Politics versus Economics: The Development of the Literature on Policy Determination", Policy Studies Journal, Vol. 7 (Summer, 1979), pp. 652-663. A more critical review along with very complete, but date, bibliographical statement is found in Robert L. Savage's "The Literature of Systematic Quantitative Comparison in American Stae Politics: An Assessment, Center for the Study of Federalism, Center Report #11, Temple University, Philadelphia, 1976.

REFERENCES

Haskins, Ron and Gallagher, James, Models For Analysis of Social Policy: An Introduction, Volume 1, Ablex Publishing Corporation, 1981.

Robert E. Klitgaard and Geroge R. Hall. "A Statistical Search Unusually Effective Schools," in W. B. Fairley and Frederick Mosteller, Statistics and Public Policy, Reading, Massachusetts, Addison-Wesley Publishing Co. 1977.

Larry Orr, "Income Transfers as a Public Good: An Application to AFDC,: American Economic Review, June 1976, pp. 359-71.

Sommers, Paul W. Welfare Reform in America, Boston, Kluwernijhoff, 1982.

Jeff Stonecash and Suzan Hayes, "The Sources of Public Policy: Welfare Policy in the American States:, Policy Studies Journal, Vol. #9, Sec. #5, September 1981, pp. 681-698.

William V. Thomas, "Reagan's New Federalixm: Editorial Research Reports, Vol. 1, #13, April 3, 1981.

"New Federalism, No Panacea for State Governments," C.Q. Weekly Reports, April 25, 1981.

U.S.G.A.O. Information On Programs Involved in the President's Swap Proposal. CED -82-71.