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11 Do Welfare Programs Affect the Schooling and Work Patterns of Young Black Men?

Robert I. Lerman

11.1 Introduction

Youths from poor and near-poor households have traditionally contributed to their families by working and sharing their earnings, even if that meant leaving school at an early age. Given their financial needs, one might expect that low-income youths work as much as or more than youths from moderate- and high-income families. The reality is that poor and near-poor youths experience extremely high rates of joblessness. Moreover, their subpar employment and high unemployment are not entirely associated with the job-finding problems of black youths (who tend to live in low-income households). Low-income white youths also have high unemployment rates and low employment-population ratios.[1]

The job market problems of low-income youth may result from location barriers, inadequate education, lack of family connections to jobs, a decline in agricultural and other unskilled jobs, little or no knowledge of the job market and how to search for jobs, poor work attitudes, and employment discrimination against black and Hispanic youth. Other papers in this volume analyze several of these possible causes.

This paper instead looks at the role of income-transfer programs in explaining the employment problems of low-income black youth. It is natural to consider the impact of welfare benefits because they reduce both the urgency of the need to work and the potential gain from work.

The scope of welfare effects on income and racial differentials is substantial. In 1980, 68 percent of children in low-income families lived

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in female-headed households, and 53 percent of black children aged 14 to 17 lived in families with no father present. It is among these single-parent families that welfare and other income-support benefits account for a large share of income and could affect labor market outcomes. Moreover, the rise in black youth unemployment took place over the years of rapid growth in the welfare rolls. Although the latter increase slowed during the mid-1970s, young black women since then have been having children with no father present at rates high enough to insure the continuation of high rates of participation in the welfare system.[2]

In spite of the widespread interest in racial differentials in youth unemployment and the importance of welfare to the black population, no one to my knowledge has systematically analyzed the impact of welfare and other income transfers on youth employment and unemployment. In the last major NBER volume on the youth employment problem, only one chapter (Freeman 1982) gave the welfare-employment issue more than passing attention.[3] Although Freeman found no effect on youth employment patterns in SMSAs caused by variations in area Aid to Families with Dependent Children (AFDC)/population ratios, his individual-level regressions showed that living in a family receiving welfare, food stamps, and public housing exerted significant (though not always negative) effects on the work patterns of young men. These results are of interest, but they indicate little about how welfare affects schooling and work or about potential racial differentials in such effects.

High unemployment among youths from families on welfare could result from several causes. One is that youth labor supply may decline in response to the high benefit-reduction rates that lower net wage rates and to the benefit levels that raise family income. Such effects may be especially pronounced among youths whose families receive benefits from a combination of programs. In addition to discouraging youths from accepting low-wage jobs, welfare incentives may lead them to take informal or illicit jobs that are easy to misreport.

Some economists have closely investigated the employment and schooling effects of benefit reduction rates and income guarantees provided through experimental negative income tax payments. As we will see below, however, the rules for actual income-support programs differ markedly from those used in the income-maintenance experiments.

West (1978) and Venti (1983), in analyses of youths' work responses to similar incentives provided through a negative income tax (NIT), found that NIT plans did tend to reduce employment.[4] To some extent, positive NIT effects on schooling offset these negative employment effects. The two analyses yielded somewhat differing results, however, on the size of the offsetting effects on schooling. Venti's overall estimate of NIT effects on whether 16- to 21-year-olds attended school or

worked was near zero, whereas West's results for 19- to 24-year-olds indicated the NIT increased the share neither at work nor at school.

An alternative to the welfare incentives explanation is the cultural-environmental view. According to this view, the same factors accounting for the family's poverty and welfare status also weaken the youth's chances in the labor market. Examples of such factors are high unemployment, racial discrimination, poor schooling, and few contacts with relatives who hire or have access to other jobs. The absence of the youth's father no doubt contributes to poverty and welfare status, and possibly to youth unemployment as well.

A third possibility is that young women who become mothers and family heads at an early age do not complete their education or gain experience in entry-level jobs because of their child care responsibilities. Welfare might even affect young men not receiving any transfers. If welfare were to encourage childbearing among young, unmarried women, young men responsible for child support payments may avoid making them in part by looking for jobs that are hard to track. Finally, on the positive side, welfare income may encourage young people to complete their schooling and to participate in government employment and training programs.

The purpose of this paper is to explore the role of these factors and assess their importance in determining the school and labor market outcomes of young black men. Because this study is one of the first to concentrate on the welfare-employment relationship, its emphasis is on presenting several results from two large bodies of data, rather than on insuring the most refined models and estimation techniques.

The next section examines the potential dimensions of the effects by estimating the numbers of all youths and of black youths who receive some form of income transfer. Given the underreporting in the census surveys and the turnover on the AFDC rolls, this task is far from straightforward. The third section examines in more detail the ways in which welfare programs may influence youth labor market outcomes. In particular, it reviews the rules concerning the treatment of youth earnings under AFDC and other income-transfer programs.

The fourth section outlines a research methodology and derives estimates of welfare and family effects on young black men. Finally, the fifth section gives some brief concluding remarks about the findings and their implications for racial differentials in employment.

11.2 Numbers and Characteristics of Youths in Welfare Families

Learning about youths in welfare families is difficult largely because of the underreporting or nonreporting of welfare income in household surveys. The Current Population Survey (CPS), the standard source

of labor-force data on the U.S. population, has in recent years included questions on in-kind as well as cash-transfer programs. Yet underreporting and nonreporting of transfer income are substantial. In 1980 recipients reported only 66 percent of benefits paid.[5] The extent of nonreporting is unclear because the CPS measures receipt of AFDC at any time over the year, while administrative sources record only AFDC receipts in a particular month.

The biannual AFDC surveys are one source of data on the numbers of youths in AFDC families. According to the March 1979 AFDC survey, 3.4 million families were recipients in that month. Over two million youths in the 16–24 age group lived in those families. About one million youths aged 16 to 20 were AFDC mothers. Nearly all the AFDC youths were either in school or mothers of young children. Perhaps this is one reason why employment levels reported on the AFDC survey are incredibly low. Of the 680,000 youths aged 16 to 20 who were part of the AFDC unit, only 5 percent had earnings reported on the survey.[6]

The best way to determine the numbers and characteristics of youths in families receiving welfare and other income transfers is to turn to surveys of youths. This paper employs the 1979 through 1981 waves of the National Longitudinal Surveys of Labor Market Experience (NLS) when focusing on youth as a whole and the NBER Survey of Inner-City Black Youth when analyzing young black men living in black communities in Boston, Chicago, and Philadelphia. Together the two surveys offer a rich body of information on income transfers. Both provide data on own and household AFDC benefits. Data on food stamp benefits received by the young respondents are available in both surveys, but the NLS does not record food stamps received by other household members. Although housing benefits in the form of public housing appear in both surveys, only the NLS includes data on rent subsidies.

Table 11.1 draws on the NLS data to display the characteristics of the nation's youth population in 1979, by receipt of AFDC and by age, schooling, and race. The share of minority youths in AFDC units is substantial, especially among high school students and high school dropouts. As expected, young women show up on welfare in larger numbers than young men, except among 16- to 17-year-olds.

The strong relationship between family status, race, and the presence of children emerges in tables 11.2 and 11.3. Black and Hispanic young men often find themselves in welfare families because of the absence of the father and because one-parent minority families rarely achieve moderate income levels. More interesting are the differences between black and Hispanic young men and between all blacks and ghetto blacks. Young Hispanic men move away from the parental home sooner than do black men; when they do live away from their parents, Hispanics

Table 11.1 **Welfare Status by Age, Race, Gender, and School Status, 1979 (numbers [in thousands] and percent in welfare families)**

Age, School Status	Female				Male			
	Hispanics	Blacks	Whites	Total	Hispanics	Blacks	Whites	Total
Age								
14–15								
Number	60	147	176	383	58	122	153	333
Percent	26	30	6	11	23	23	5	9
16–17								
Number	38	150	143	331	61	186	147	394
Percent	16	27	4	8	23	33	4	10
18–19								
Number	54	168	149	371	39	127	124	290
Percent	21	29	5	9	16	23	4	7
20–21								
Number	56	164	130	350	30	100	58	188
Percent	21	29	4	9	13	21	2	5
Total								
Number	209	630	599	1,438	188	535	482	1,205
Percent	21	28	5	9	18	25	4	8
School Status								
High School Student								
Number	104	314	282	700	119	313	270	702
Percent	22	28	5	10	22	26	4	8
Student, Post–High School								
Number	17	42	17	76	4	29	17	50
Percent	15	15	1	4	3	15	1	2
Dropout								
Number	74	170	121	365	48	138	121	307
Percent	29	52	9	19	22	35	9	16
High School Graduate								
Number	17	104	78	199	15	48	78	141
Percent	10	21	3	6	11	13	3	5

Source: Unpublished tabulations from the NLS.

are unlikely to remain in welfare families. As expected, blacks in the low-income areas of the three cities show much higher welfare rates than do blacks in the nation as a whole. Their higher involvement in welfare comes largely from the substantial welfare rates of ghetto two-parent families.

A surprisingly large share of black young men continue residing at home even through their early twenties. In the NBER sample, only 17 percent of 20- to 21-year-olds live away from their parents or another responsible relative. Even at ages 22 to 24, about 60 percent still reside with parents or other responsible relatives. At the national level, young black men do move away from their parental home at a higher rate than they do in low-income areas. Nevertheless, the tendency to remain in a parental home is still substantially higher among young black men than among young Hispanic or young white men. In 1979 over 70 percent of blacks 20 to 21 years old lived at home, whereas only 55 percent of young Hispanics and 53 percent of young whites did so.

Racial differentials in the family characteristics of youths are especially significant among young women. Note in table 11.3 that among

Table 11.2 **Family Head and Welfare Status of 16- to 21-Year-Old Men, by Race: The Nation and Blacks in Three Poor Urban Areas**

Family and Welfare Status	National Sample (NLS)			Inner-City Sample (NBER)
	Hispanics	Whites	Blacks	Blacks
Living with Both Parents				
Total Number	295	4,979	533	464
Percent of Total in Any Family Status	51	66	44	28
Percent in Family with Welfare Income	9	2	8	34
Living with One Parent				
Total Number†	120	955	437	932
Percent of Total in Any Family Status	21	13	36	56
Percent in Family with Welfare Income	41	9	41	55
Living with Neither Parent				
Total Number†	162	1,577	243	277
Percent of Total in Any Family Status	28	21	20	16
Percent in Family with Welfare Income	10	3	28	44

The numbers are in thousands from the NLS and in actual numbers from the NBER survey. The NBER survey includes only those who reported knowledge of whether the family received any welfare income.

Source: Unpublished tabulations from the NLS and NBER survey.

Table 11.3 **Welfare and Marital Status of 16- to 21-Year-Old Women With and Without Children, by Age and Race, 1979**

Age, Marital and Welfare Status	Hispanics		Blacks		Whites	
	With Children	Without Children	With Children	Without Children	With Children	Without Children
16–17						
Percent of Total	11.1	88.9	13.5	86.5	2.8	97.2
Percent Married	37.2	33.8	10.6	0.0	45.1	2.7
Percent in Families with Welfare Income	42.7	13.1	49.4	22.9	41.1	3.4
18–19						
Percent of Total	24.7	75.3	31.8	68.2	11.2	88.8
Percent Married	64.7	35.3	15.7	3.0	75.9	9.2
Percent in Families with Welfare Income	22.2	19.7	52.1	17.5	15.6	3.0
20–21						
Percent of Total	37.2	62.8	51.0	49.0	22.2	77.8
Percent Married	65.8	34.2	23.7	8.9	77.6	21.5
Percent in Families with Welfare Income	36.6	12.6	45.7	11.6	13.5	1.1
16–21						
Percent of Total	27.3	72.7	35.9	64.1	13.9	86.1
Percent Married	64.3	12.8	19.9	4.0	75.7	12.1
Percent in Families with Welfare Income	30.7	15.7	48.6	17.1	15.3	2.4

Source: Tabulations from NLS.

16- to 21-year-olds, the share of black women with a child is three times the share of white women in the same age group. The racial differentials among young, unmarried mothers are even more dramatic. Nearly three of every ten black women aged 16 to 21 are unmarried mothers, as compared to only three of 100 whites and about one of ten Hispanics. These differences in family characteristics account for almost all the racial and ethnic differentials in the receipt of welfare income.

The contact with income transfers for youths and their families goes beyond receipt of cash welfare. It may include food stamp, medicaid, and housing benefits. Table 11.4 displays the combinations of benefits going to youths and their families in the three-city, low-income sample and, on a less detailed basis, to youths throughout the nation. About half of the NBER sample with usable data reported benefits going either to themselves or to another member of the household. Most households receiving benefits obtained aid from more than one program. One in four of the families receiving transfers lived in public housing and had neither welfare nor food stamp income. On the other hand, over half were on welfare and in at least one other program.

The NLS data point to a relatively small overlap between housing and welfare benefits. Although the percentage of minority youths living in families that receive benefits from welfare and housing is many times that of white youths, the percentage receiving combined welfare and housing benefits is small for all groups.

11.3 Welfare Rules and Potential Employment Effects

Any serious effort to assess how welfare benefits affect youth employment must begin with a specification of the financial parameters relevant to labor market outcomes. A large body of work on the effects of NIT plans provides a conceptual basis for relating budget constraints to empirical analyses. Still, there is no substitute for a systematic review of specific program rules.

Understanding the benefit structures of income-support programs can prove helpful in distinguishing the financial incentive explanation from the cultural-environmental view. In general, assessing the contribution of each aspect of those structures is difficult because the poorest families will have access to the highest benefits, while also being the least able to undertake acts that enhance youth job opportunities, such as providing jobs, job-related skills, and role models.

11.3.1 Welfare Coverage, Benefit Structures, and Work Incentives

Researchers and policy analysts have provided detailed examinations of the financial work incentives built into the welfare system.[7] The

Table 11.4 **Combinations of Benefits Received by Households of Black Youths, NBER and NLS Samples, 1979**

Combinations of Benefits	Inner-City Sample (NBER)			
	Benefits Received by Other Household Members			Benefits Received by Youth
	Family Head			
	Mother and Father	One Parent	Other Adult Relative	Youth Head of Household
Percent Missing	24.4	36.1	28.1	1.4
Percent of Those with Complete Data				
None	70.0	37.9	46.2	64.9
Food Stamps Only	1.9	3.7	3.1	0.4
Welfare Only or with Food Stamps	11.3	20.4	20.3	12.4
Public Housing or with Food Stamps	11.5	16.9	15.2	16.3
Welfare and Public Housing or Welfare, Food Stamps, and Public Housing	5.3	21.1	15.2	5.8

	National Sample (NLS)					
	Hispanic		Black		White	
	Men	Women	Men	Women	Men	Women
Percent with Welfare or Housing Benefits	24.8	25.4	34.6	37.3	4.2	6.3
Percent with Public Housing or Rent Subsidies Only	2.9	2.9	8.5	9.4	0.8	1.6
Percent with Both Welfare and Housing Benefits	4.5	2.4	7.4	6.6	0.5	0.4

Source: Tabulations from NBER survey and NLS.

discussion usually begins by describing the AFDC treatment of earnings and then moves on to show the combined impact on net earnings from benefit reductions associated with food stamps, medicaid, and subsidized housing programs. Prior to changes mandated in 1981, AFDC earnings beyond $30 per month were subject to a marginal benefit-reduction rate of 66⅔ percent, though recipients gained credits for all work expenses. Because of the liberal treatment of work expenses, AFDC recipients often apparently faced low average tax rates on earnings. The 1981 Omnibus Budget Reconciliation Act tightened the rules in order to restrict the earnings welfare recipients could retain without any loss of AFDC benefits. In addition, it limited income eligibility for AFDC to 150 percent of the state's standard of need, a change that has removed large numbers of recipients from the AFDC rolls.

In general, the food stamp program requires reductions in benefits with added earnings, at a marginal rate of about 24 to 25 percent. Housing programs providing subsidized rents call for the rental payment of the recipient to rise by about 25 cents for each dollar increase in earnings.

These aspects of how income support programs treat recipient earnings are relatively well known, but rules on youth earnings are less so. It turns out that AFDC benefits do not decline at all with the earnings of dependent children who are full-time or part-time students not holding a full-time job. This important fact means that each dollar of the youth's net earnings does far more to raise spendable family income than each dollar earned by others in the family. It also implies that in-school youths face no AFDC tax rate to reduce the gain from working.

For youths who are not in school, AFDC's treatment of earnings is tied into its definition of the family AFDC unit. Under AFDC the unit eligible for benefits and subject to benefit reductions need not correspond to the nuclear family (or census family unit of people living together related by blood, marriage, or adoption). Until the 1981 Budget Reconciliation Act, about three-quarters of states classified children ages 18–21 as in the unit only if they were attending a school or training program.[8] Thus, the only children whose benefits were subject to AFDC benefit reductions were out-of-school 16- to 17-year-olds. Yet even for this group the potential reductions in family benefits from their earnings cannot be large, since families can choose to exclude the youths from the increase in the family's grant available for an additional person. The increment to the grant level varies across states and sometimes with the size of the family. In Massachusetts, for example, each additional person beyond the first raised the maximum grant by about $65 per month in 1983. Other states granted incremental amounts that varied from about $30 per month in Mississippi to over $100 per month in California. Assuming an effective benefit-reduction rate on earnings

of 50 percent, families whose out-of-school children earned $100 per week would maximize their income by excluding children from the family's grant.

Youth work disincentives probably are also small under food stamps. As in AFDC, the food stamp program disregards student earnings through age 18. Earnings of children older than 18 reduce the grant at a marginal rate of 24 percent, net of allowable work expenses. But, again, the family can simply report the youth as outside the household if he or she finds a well-paying job. The family's loss would then be the food stamps of one household member, or about $65 per month in 1983.

The earnings of youths in public housing or rent-subsidized units are subject to benefit reductions that come in the form of increased rental payments. Since the regulations do not exclude the earnings of children, the family may face an increased rental payment of 25 percent of the child's net earnings. Of course, enforcement of these kinds of provisions is slack in most areas.

The interaction among program rules is what determines the budget constraint facing youths from families participating in several programs. In general, combinations of programs tend to level differences in constraints based on individual programs. If tax rates from cash welfare are high, the tax rates from in-kind programs add little to the cumulative rate. But if youth earnings are subject to a zero tax rate under the cash program, the effects of food stamp and housing benefit reductions may raise the level of cumulative tax rates to nearly 50 percent.

This review suggests, first, that benefit reductions associated with AFDC rarely apply to children under age 21. Second, the work disincentives that affect children result largely from the combined effects of AFDC, food stamp, and housing programs. Third, until 1982 AFDC and food stamp rules encouraged youths to remain in school at least through age 18 and in some states through age 21. Fourth, income and tax rate effects vary by school status and age, with AFDC rules excluding student earnings through age 21, but in some states paying a higher grant level for students 18 to 21 than for nonstudents 18 to 21. Finally, AFDC and other income-transfer programs have lessened the cost of teenage parenting to young women; this, in turn, brings the work disincentive features of welfare programs to substantial numbers of young potential workers.

11.3.2 Potential Employment Effects

The program rules discussed above suggest that welfare's work disincentive effects often do not apply to youths in welfare families. How, then, might we expect welfare programs to influence youth employment

patterns? One possibility is that by providing benefits that raise family incomes, welfare programs lessen the need for young people to work and thus reduce their labor-force participation. A second way they may affect youth employment is to stimulate longer schooling, which in turn would reduce youth labor-force participation. On the basis of the incentives embedded in the program rules, we would expect that income-support benefits will both exert a larger negative effect on nonstudents than on students and encourage youths to remain in school, especially in those states that pay benefits on behalf of students 18 to 21 years old.

A third and significant potential role played by welfare programs is their effect on childbearing by young women, especially unmarried young women. If welfare programs do increase childbearing, the effect would almost certainly have negative consequences for the employment and earnings of young women. And it is also possible that this negative employment outcome will extend to young absent fathers. If these young men have to make child-support payments to the state that rise with their earnings, these obligations will act as a tax on earnings, except in the case of the worker finding an off-the-books job.

A fourth issue is welfare's indirect impact on youth employment resulting from the negative effect on work by the youth's parent. In other work, I found that parents' nonemployment exerted a negative impact on their children's employment, holding the children's characteristics constant.[9]

A fifth potential work disincentive may arise from the experience on welfare. Gaining familiarity with the use of public income support may exert an impact that is distinct from the pure financial incentives of welfare. This is one reason why we might expect welfare programs to exert different effects from those of an experimental NIT.

We should distinguish between welfare as a cause of poor labor market outcomes for youths and merely its association with those outcomes. Youths in welfare families are likely to have lower than average education, work experience, and other employment-related abilities, for reasons that have little to do with the family's receipt of a welfare benefit. Some of these differences are difficult to measure, especially the differences in motivation that may explain why some families who are eligible for benefits do not actually take them. To the extent that unmeasured attitudinal and motivational factors determine the welfare status of the family, one might find negative program effects that actually represent differences among family background factors. Nonetheless, the association between welfare status and weak employment outcomes is of policy interest even if causation does not run from welfare to unemployment. Establishing strong associations can help in the targeting of benefits at reducing youth unemployment and in con-

sidering what program features affect unemployed youth and could affect efforts to lower youth unemployment. For this reason, this paper will analyze the direct connection between welfare programs and unemployment among low income and black youth.

In examining welfare's causal role in reducing youth employment, the remainder of the paper will focus on three major questions:

1. How do welfare programs alter the current employment of low-income and black young men?
2. How does the mix of family and program characteristics associated with income-transfer programs affect school enrollment, employment, and unemployment among low-income and black youths?
3. To the extent that any welfare-induced effects occur, do they account for any of the racial differences in youth employment outcomes?

11.4 Welfare and Family Effects among Young Men

Welfare rules and youth behavior suggest that responses to transfer programs and family characteristics will vary sharply between young men and young women. Young men in a welfare family generally will be living with one or both parents or another adult relative. In contrast, young women often become unmarried mothers and draw benefits on their own. Among the other differences are the more extensive involvement of young men in illicit income-generating activities and the different occupational interests and opportunities of young men and women. Finally, the NBER survey dealt exclusively with young men. For all these reasons, the analysis examines the labor market experience of young men only.

The first task is to offer descriptive information on the school and work behavior of young men. Tables 11.5 and 11.6 display an exclusive and exhaustive breakdown of activities by age, race, and welfare status for young men in the NBER and NLS samples, respectively. In both samples, young men in families receiving welfare are more likely than other youth to fall into the two least desirable activities—not in school and unemployed or outside the labor force. Among the younger groups, though the share in jobs and not in school differs only moderately by welfare status, those not in welfare families are much more likely to attend school than those in welfare families. The differences in activity status are especially striking among 19- to 24-year-old black men in the low-income urban areas. Moreover, the ranking across groups by benefit category shows that youth outcomes worsen as one moves from public housing only to welfare only and then to the combination of welfare and public housing. The combined benefit group has astoundingly poor labor market outcomes, with out-of-school unemployment rates of 76 percent.

Table 11.5 **School and Work Activities of Young Black Men in Low-Income Areas of Boston, Chicago, and Philadelphia, 1979**

Age, Benefit Group	Percentage Not in School			Percentage Enrolled in School		
	Employed	Unemployed	Not in Labor Force	Employed	Unemployed	Not in Labor Force
16–18						
None	7.7	9.5	4.3	22.1	22.5	34.0
Welfare No Public Housing	5.8	13.1	4.6	18.9	26.3	31.3
Public Housing, No Welfare	6.9	16.4	3.4	14.4	28.1	30.8
Welfare and Public Housing	5.4	17.9	8.1	12.1	29.2	27.4
Total, All Categories	6.6	13.1	5.0	18.2	25.6	31.5
19–24						
None	41.1	28.0	11.1	8.9	3.9	7.0
Welfare, No Public Housing	28.6	43.8	15.9	2.5	5.0	7.0
Public Housing, No Welfare	35.0	34.3	16.8	5.1	3.7	5.1
Welfare and Public Housing	15.6	52.0	18.5	5.2	5.8	2.9
Total, All Categories	33.5	36.3	14.1	6.3	4.4	5.5

Source: Tabulations from NBER survey.

Table 11.6 **School and Work Activites of a National Sample of Young Men, by Race, Spring 1979**

Race, Welfare Status, Age	Percentage Not in School			Percentage Enrolled in School		
	Employed	Unemployed	Not in Labor Force	Employed	Unemployed	Not in Labor Force
Blacks						
Welfare						
16–17	12.5	8.4	6.2	30.9	24.2	17.7
18–19	27.4	14.2	9.7	11.7	9.8	27.2
20–21	52.3	20.7	8.8	8.2	1.7	8.3
16–21	31.0	14.6	8.5	16.2	11.5	18.5
No Welfare						
16–17	4.8	2.1	4.4	26.3	24.5	37.9
18–19	29.0	10.9	8.6	20.7	14.0	16.8
20–21	57.4	12.3	4.4	10.2	4.0	11.7
16–21	33.9	9.5	6.3	18.1	12.6	19.4
Whites, Not Hispanic						
Welfare						
16–17	13.6	18.2	4.6	16.6	19.3	30.8
18–19	31.7	19.0	8.0	28.8	6.6	5.9
20–21	51.4	17.1	15.9	5.9	7.5	2.3
16–21	30.6	18.4	7.7	20.5	10.4	12.4
No Welfare						
16–17	5.2	1.6	0.8	50.0	10.0	32.5
18–19	40.8	5.3	2.9	27.7	3.6	19.8
20–21	52.5	5.4	2.6	23.6	1.9	14.0
16–21	38.2	4.5	2.4	30.6	4.2	19.9
Hispanics, 16–21						
Welfare	30.1	20.5	10.4	13.4	9.7	16.0
No Welfare	33.9	9.5	6.3	18.1	12.6	19.4

Source: Tabulations from NLS data.

The time allocation across activities over the year is another indicator of how young men may differ by welfare status. Data on months spent by young men in school and labor-force activities appear in table 11.7 for the NBER sample. Again, the family's welfare status is associated with the school and labor-force patterns of youths ages 19 to 24. Those in multibenefit families performed far more poorly than did other young men. They spent well over half (7.6 months) of the 13-month period neither working nor in school. Those in families receiving no income transfers averaged only one-third of the period in the no work, no school situation. In comparison to the nonwelfare group, those in multibenefit families showed much lower employment-population ratios (.34 versus .58) and much higher unemployment rates (49 versus 27 percent).

11.4.1 A Methodological Overview

Families that must resort to welfare programs may transmit to young men the same weaknesses that led to the earnings problems experienced by the parents. Thus, tabulations showing a welfare-employment connection may actually measure social class differences rather than program effects. We must guard against ignoring all but program effects, since social class differences are themselves partly the result of or closely associated with the effects of the income-transfer programs. Before describing any specific empirical analysis, I will begin with a broad review of the approaches used to distinguish among competing explanations concerning the welfare-employment connection.

To begin, consider the following four sets of variables:

Set Y = the variables measuring youths' work and school status. Examples are earnings and time allocated to work, school, looking for work, and leisure.

Set A = welfare program variables and other geographic area characteristics that are exogenous to the family and youth behavior. Examples are the area's AFDC plus food stamp income guarantee, local availability of public housing slots, and local unemployment rates.

Set C = family variables measuring race and social class factors that affect the family's probability of receiving income transfers and that are directly linked to youths' activity patterns or are likely to be transmitted to youths within the family. Examples are personal connections to jobs, attitudes about work, native ability, and presence of parents in the home.

Set W = variables measuring the actual receipt of income transfers by the youth or the youth's family.

Set F = family variables that affect the probability of welfare status but that are less likely than set C to exert a direct influence on the youth's school or work status. Examples are family and household size.

Table 11.7 **NBER Sample's Months in Alternative Labor-Force States, by Age and by School and Welfare Status of Families, 1979**

Age/ Welfare Status	Over Past 13 Months, Mean Number of Months:					
	Not in School			Enrolled in School		
	Employed	Unemployed	Not in Labor Force	Employed	Unemployed	Not in Labor Force
16–18						
None	1.9	0.9	1.7	2.1	1.0	5.4
Welfare, No Public Housing	1.9	1.1	1.9	2.1	0.9	5.2
Public Housing, No Welfare	2.1	1.1	1.8	1.6	1.0 5.3	
Welfare and Public Housing	1.9	1.3	2.2	1.4	0.8	5.3
Total, All Categories	1.9	1.0	1.9	1.8	0.9	5.4
19–24						
None	6.6	2.3	2.0	1.0	0.1	1.1
Welfare, No Public Housing	5.6	2.8	3.2	0.6	0.2	0.7
Public Housing, No Welfare	5.7	2.8	2.7	0.8	0.1	0.8
Welfare and Public Housing	3.9	4.3	3.3	0.6	0.1	0.8
Total, All Categories	5.8	2.8	2.6	0.8	0.1	0.9

Source: NBER survey.

Set I = variables that measure youth-specific characteristics that may have some impact on youths' work and school outcomes. Examples are grades in school, involvement in criminal behavior. and reservation wages.

The mix of youth outcomes, Y, may be causally dependent on variables from any or all of sets A, C, W, F, and I. But, the relationships among the sets are complex. The C variables help determine W status, which in turn affects such C variables as the work of the family head. The C variables may also influence the I variables. The F and A variables partly explain variations in W status. Because of the program rules and actual program administrative practices (described above in section 11.3), we expect the youth outcomes to exert little impact on W. The absence of simultaneity between W and Y allows a direct estimate of how W variables affect Y. Nevertheless, several issues arise in developing such estimates.

Consider the following two equations:

$$W_i = g(A_i, C_i, F_i) + e_i \tag{1}$$

$$Y_i = f(A_i, C_i, W_i, I_i) + u_i, \tag{2}$$

where u and e are error terms. One approach to the question of how welfare affects youth outcomes is to examine W's effect on Y. True, W is partly determined by social class and family status, but including both W and C variables in the multivariate models should yield estimates of independent effects. Still, isolating W's effect from the C variables could be difficult because of multicollinearity between the two sets of variables. Including both could understate the full impact of welfare, since if experience on welfare is partly responsible for the youth's living in a one-parent family with no workers, then the negative effects on youth outcomes from such C variables should be partly attributed to the impact of welfare. The main effect of multicollinearity would be to make the coefficients unstable. For the most important instances of multicollinearity, I provide estimates with W and C variables and with W variables alone.

Another potential problem arises because the *unmeasured* attitudinal and other factors that cause families to take up welfare might well exert an impact on youths' school and employment outcomes. Families with job attitudes or capacities that are poorer than what is captured by measured characteristics are more likely to receive benefits as well as have children who do not perform well in the labor market. This implies an omitted-variable problem, since the error term in equation (2) would be correlated with W. To remove the bias in W's impact on Y requires one to predict W as a function of the C, F, and A variables and then to use the predicted W values to explain youth outcomes. Yet this procedure to purge the influence of unmeasured attitudinal effects may

well create an errors-in-variables problem. Suppose, for example, that experience on welfare helped shape poor job attitudes. Then, the predicted welfare variable would not capture the full impact of welfare. If those with a high probability of receiving welfare (based on measured characteristics) but whose families never received welfare did well in the labor market, it would not imply the absence of an impact from welfare. Rather, the error in measuring the concept underlying the independent variable would tend to bias downward the estimate of the welfare effect.

Thus, the use of actual welfare status may either understate or overstate the overall role of welfare in influencing youth outcomes. To bound the probable range of welfare effects, I developed estimates based on actual as well as predicted values of W and estimates that did and did not include indirect effects of welfare through various family variables. When using the NLS sample, one can take advantage of the natural variability in state welfare levels when estimating the predicted welfare status of the youth's family. The availability in the NLS data of this important, exogenous predictor raises the credibility of effects based on predicted values.

This general discussion is not intended to suggest that no econometric problems remain in the following analysis. But as stated above, the emphasis in this paper is to examine what relatively basic techniques applied to two relatively unmined data sources can tell us about the relationship between welfare and youth employment. The next subsection analyzes, with several techniques, the impact of the welfare variables on young black men living in three low-income urban areas. Section 11.4.3 develops a similar analysis of the welfare effects on the nationally representative sample of young black men in the NLS.

11.4.2 Effects of Transfer Programs and Family Factors on the School and Work Activities of Young Black Men in Three Low-Income Urban Areas

The NBER sample comprises young black men ranging from ages 16 to 24. These ages capture two very different periods of life. Young people in the 16–18 period are normally in high school and living at home. By age 19, virtually everyone has either completed or dropped out of high school. At this point, the school and work experiences of young people diverge substantially. Some go to college, others find full-time jobs, some go into a training program, and still others find themselves without work or any other constructive activity. The ages 19 to 24 are also a time when many youths move away from their parents' home.

For these and other reasons, the sample is divided by age in order to undertake the analysis of welfare and family effects. The empirical work consists of probit equations determining the family's receipt of

welfare benefits; regressions on youth earnings; regressions on the months youths spend working, attending school, and doing neither; and multinomial logit equations on the youths' current work, job-search, and schooling patterns.

Determinants of the Family's Benefit Status

The tabulations reported above indicated sharp differences between youths in families with and without income transfers and between youths in single-benefit and multibenefit families. Given these expectations two sets of probits were estimated, one on determinants of any transfers and a second on whether or not a family receiving a transfer participated in welfare and public housing programs.

The discussion here will concentrate on the estimates developed on "any transfers," since these showed a closer fit than the ones on multibenefit participation. The results of the probit equations for the families of youths aged 16 to 18 and 19 to 24 appear in table 11.8. One might have expected the determinants of "any transfers" to vary by the age of the youths, but little difference emerged in the results.

Family and Welfare Effects on the Current Work and School Status of Youth

The close interaction between work and school complicates the analysis of the current activity status. Since the mix of labor-force and school activities are often the outcome of a joint time-allocation decision, it is appropriate to estimate the effects of the family and welfare variables on the probability of taking part in one activity relative to the other. The statistical technique for accomplishing this task is multinomial logit.[10] The procedure yields estimates of the impact of the welfare variables on the mix of school, work, and job-search activities. The activities used as dependent variables vary by age. The breakdown for youths aged 16 to 18 is (1) neither work nor school; (2) work only; (3) school only; and (4) both work and school. The breakdown for the 19- to 24-year-olds is (1) school (whatever the labor-force status); (2) work (not school); (3) unemployed (not school); and (4) neither in school nor in the labor force.

Several specifications provided estimates of the role of the welfare and family variables. The welfare variable appeared in three forms: (1) the family's receipt of any income transfer, (2) the *predicted* probability of the family's receiving any transfer benefit, and (3) two dummy variables representing whether the family received any cash welfare, any other transfer (but no welfare), or no transfer at all. Given the concern about multicollinearity the equations were run with and without the presence of other workers in the family and with and without the youth's reservation wage.

Table 11.8 **Determinants of the Welfare Status of Families of Black Young Men in the NBER Sample**

	Probability of Welfare at the Mean of the Other Explanatory Variables		Impact of a Change in the Explanatory Variable on Probability of Receiving Welfare		t-Value	
	16–18 Group	19–24 Group	16–18 Group	19–24 Group	16–18 Group	19–24 Group
Overall Mean	.69	.63				
Explanatory Variables						
Both Parents Present	.58	.53	−.16	−.14	−2.60	−2.35
One Parent Present	.72	.68	.07	.11	1.32	2.22
One Working Adult (not youth)	.50	.46	−.29	−.25	−6.78	−5.51
Two Working Adults (not youth)	.32	.34	−.48	−.40	−10.21	−8.01
Household Size	.78	.77	.08	.14	5.16	7.31
Chicago	.70	.67	.01	.07	0.29	1.57
Philadelphia	.72	.68	.04	.08	1.06	1.77
Attends Church Very Often	.60	.49	−.13	−.16	−3.20	−3.27
Attends Church Moderately	.66	.59	−.05	−.06	−1.38	−1.39
Age 18	.68		−.02		−0.61	
Ages 22–24		.61		−.03		−0.83

Note: The changes in the probabilities noted in the middle two columns represent the impact of going from zero to one in the dichotomous variables and of a rise of one standard deviation in the continuous variables.

Source: NBER survey.

The pattern and sign of the welfare effects are similar across specifications, but the significance levels vary sharply. Tables 11.9 and 11.10 display the estimated effects from the equations using the family's receipt of a transfer as the welfare variable and controlling for other workers and for the youth's reservation wage. Additional explanatory variables were residence (Chicago, Philadelphia, or Boston); presence of the youth's father, mother, and/or adult worker when the youth was

age 14; and the youth's grades, illicit income, age, education, and church attendance.

According to these results, welfare did matter. In three of six cases, the family's receipt of an income transfer exerted significant effects that were independent of the current work status of other family members. It is worth noting that several other variables also induced substantial effects on a group that one might have thought was otherwise relatively homogeneous. Welfare's primary influence was to raise the probability of being neither in school nor at work, by seven percentage points for the 16–18 age group and by 26 points for the 19–24 age group.

Welfare effects on other outcomes also varied by age. In the 16–18 group, the transfer variable had an insignificant impact on those working but not in school (by two percentage points) and on those attending school but not working (by six points). This would imply that many fewer youths from welfare families were both working and attending school than were youths from families receiving no income transfer. It is interesting that the combining of school and work is precisely the activity that welfare rules would tend to encourage by counting the earnings of nonstudents 16 to 18 years old while excluding student earnings. Apparently, welfare incentives had little impact on this group of young men.

Receipt of transfers by the families of the 19- to 24-year-olds exerted substantially larger negative effects. Transfers lowered by 14 points those youths' probability of being in school and by 13 points their probability of working and being out of school. The result was a shift toward staying outside the labor force rather than toward looking for work (and thus counted as unemployed).

Youths who regularly attended church, whatever their other individual or family characteristics, had significantly more positive outcomes than those with no religious involvement. This variable probably reflects attitudes of the family as well as of the youths. As shown above, the family's involvement with transfers was negatively related to frequent churchgoing. Yet church attendance was positively associated with improved school and work outcomes, whatever the family's involvement with income transfers.

A number of area and individual variables also yield significant and interesting results. Youths in Chicago and Philadelphia had weaker labor market outcomes than youths in Boston. The grades youths reported receiving in their last year of school were significant indicators of the youths' outcomes. Youths with high grades in school generally remained in school at much higher rates than other youths. On the other hand, youths reporting illegal income showed significantly poorer outcomes than other youth. Illegal income among the 16–18 group

Table 11.9 **Determinants of School, Work, and Job-Search Behavior of Black Men 16 to 18 Years Old in the NBER Sample: Results of Multinomial Logit Equations**

Explanatory Variables	Effects on No Work, No School		Effects on Work, No School		Effects on School, No Work	
	Derivative	t-Value	Derivative	t-Value	Derivative	t-Value
Constant	.214	1.85	−.028	−.56	.670	4.11
Any Transfer	.076	1.99	.023	1.29	.061	1.14
1 Worker in Family	−.121	−2.47	−.060	−2.56	−.159	−2.08
2 Workers in Family	−.117	−2.12	−.027	−1.12	−.119	−1.42
Illegal Income	.009	2.13	.002	.98	−.004	−.45
Chicago	.163	3.83	.049	2.59	.188	3.31
Philadelphia	.196	4.04	.057	2.58	.242	3.44
2 Parents Present Youth at 14	.005	.07	.006	.18	.071	.62
1 Parent Present, Youth at 14	.013	.18	.006	.19	.027	.25
1 or More Worker, Youth at 14	−.024	−.54	.027	1.24	−.088	−1.31
Attends Church Very Often	−.159	−3.32	−.087	−3.59	−.115	−1.76
Attends Church Moderately	−.091	−2.19	−.056	−2.98	−.156	−2.44
Age 18	.120	3.08	.052	2.95	−.105	−1.76
HS Graduate	.201	2.99	.086	3.23	.037	.30
Mostly A's and B's	−.111	−2.34	−.054	−2.49	−.097	−1.37
Half B's and C's	−.120	−2.71	−.058	−2.92	−.153	−2.28
Reservation Wage	−.063	−2.97	−.002	−.40	−.064	−2.57
Number of Observations: 1,114						

Source: Equations performed on NBER survey data.

Table 11.10 **Determinants of School, Work, and Job-Search Behavior of Black Men 19 to 24 Years Old in the NBER Sample: Results of Multinomial Logit Equations**

Explanatory Variables	Effects on School, Any Labor-Force Status		Effects on Work and No School		Effects on Job Search of Nonemployed	
	Derivative	t-Value	Derivative	t-Value	Derivative	t-Value
Constant	.049	.36	.017	.09	.392	2.18
Any Transfer	−.142	−2.89	−.134	−2.03	.018	.26
1 Worker in Family	−.019	−.32	.096	1.17	−.013	−.17
2 Workers in Family	−.029	−.48	.154	1.83	−.057	−.68
Illegal Income	−.004	−1.64	−.005	−2.15	−.003	−1.91
Chicago	−.119	−2.05	−.159	−1.92	.058	.66
Philadelphia	−.236	−3.87	−.182	−2.22	−.071	−.81
2 Parents Present, Youth at 14	.134	1.30	−.078	−.62	−.014	−.12
1 Parent Present, Youth at 14	.084	.85	−.093	−.79	−.013	−.11
1 or More Worker, Youth at 14	.026	.44	.118	1.49	.127	1.64
Attends Church Very Often	.071	1.12	.092	1.05	.090	1.02
Attends Church Moderately	.115	2.21	.137	1.94	.060	.83
Ages 22–24	−.096	−1.91	.048	.75	.089	1.34
HS Graduate	.132	2.75	.240	3.65	.102	1.53
Mostly A's and B's	.087	1.49	−.054	−.70	−.070	−.88
Half B's and C's	.094	1.58	.069	.89	.053	.69
Reservation Wage	−.015	−.81	.018	.74	−.084	−2.84
Number of Observations: 927						

Source: Equations performed on NBER survey data.

meant less schooling; in the 19–24 group, those with illegal income were much more frequently out of the labor force and less frequently in school, in a job, or looking for a job.

Sensitivity of the Estimates to Different Specifications

A variety of interpretations could be consistent with the estimates of significant welfare effects observed in tables 11.9 and 11.10. Among the possibilities noted above were, first, that the estimates attribute too much to welfare, since unmeasured family attitudes may be causing both receipt of transfers and the low work achievement of youth and, second, that the estimates attribute too little to welfare, since welfare, by causing adults to reduce work effort and youths to raise reservation wages, has indirect as well as direct negative effects on youth outcomes.

Estimates derived from other specifications, shown in table 11.11, shed some light on the issue. The specifications using *predicted* receipt of transfers include one that holds constant the youth's reservation wage but not the presence of other workers and a second that holds constant the presence of other workers in the family but not reservation wages. The predicted values come from the results shown in table 11.8, in which the absence of workers in the family is a determinant of the receipt of transfers. Both estimates based on actual transfers are independent of the presence of other workers in the family; the only difference is that one includes and one excludes the youth's reservation wage.

The pattern of results is similar across specifications, but the size and significance of effects are not. By far the largest effects are in the specification using the predicted receipt of transfer payments and excluding the presence of other family workers in the youth outcome regression. This specification does avoid attributing welfare effects to unmeasured family attitudes, but by excluding the presence of other workers it may overstate the role of transfers. On the one hand, the specification allows the welfare variable to capture fully the *indirect* impact of other workers on youth outcomes that occurs through its effect on the family's receipt of welfare. On the other hand, this approach attributes some *direct* effects of the presence of other workers on youth outcomes to the welfare variable. There is no easy way out here, since including the presence of the workers with predicted transfers leads to multicollinearity.

The importance of this multicollinearity is clear from the dramatic drop in estimated welfare effects that occurs when one includes the presence of other workers in the family alongside actual or predicted receipt of welfare. Without a full modeling of work-welfare and welfare-family characteristics interactions—a job beyond the scope of this paper and probably not achievable with this data set—one cannot pre-

Table 11.11 **Estimates of Welfare Effects Based on Alternative Specifications (t-values in parentheses)**

Effects on 16–19 Group	No Work, No School	Work Only	School Only	Both School and Work
No Controls for Other Workers Present in Family				
Predicted Transfers	.502	.167	.315	−.984
	(5.09)	(3.58)	(2.19)	
Controls for Presence of Other Workers in Family				
Any Transfers	.076	.023	.061	−.160
	(1.99)	(1.29)	(1.14)	
No Controls for Reservation Wage				
Predicted Transfers	.048	.011	.060	−.119
	(1.05)	(0.59)	(0.90)	
Any Transfers	.073	.009	.032	−.114
	(2.00)	(0.55)	(0.67)	

Effects on 19–24 Group	In School, Any Labor-Force Status	Not in School: Working	Not in School: Unemployed	Not in School: Not in Labor Force
No Controls for Other Workers Present in Family				
Predicted Transfers	−.695	−.167	.338	.524
	(−5.80)	(−0.90)	(1.85)	
Controls for Presence of Other Workers in Family				
Any Transfers	−.142	−.134	.018	.258
	(−2.89)	(−2.03)	(0.26)	
No Controls for Reservation Wage				
	In School	Work	Unemployed/ Not in Labor Force	
Predicted Transfers	−.080	−.044	.124	
	(−2.47)	(−1.08)		
Any Transfers	−.116	−.107	.223	
	(−3.66)	(−2.68)		

Source: Multinomial logit equastions performed on NBER survey data.

cisely distinguish the effects of the family's receipt of transfers from the presence of other workers. Nevertheless, although the strong link between the two variables is well known, their major importance in determining youth outcomes is a striking result that adds to our understanding of the employment problems of young black men.

It is also noteworthy that in spite of the variation in the observed effects of a family's receipt of transfers, even the lowest estimates indicate a negative influence of welfare on youth outcomes.

Family and Welfare Effects on Earnings and on School and Work Activities over the Year

In examining how family and welfare variables influenced the youths' earnings and school and work activities over the year prior to the interview, one confronts a similar set of specification problems. This section adopts the same strategy as in the preceding section for estimating the effects of predicted and actual welfare status, including and not including the presence of other workers in the family and reservation wages.

A summary of the results of ordinary-least-squares (OLS) equations on earnings and on school and work activities appears in tables 11.12 and 11.13. These estimates are broadly similar to the earlier estimates of the effects on the youth's current status. In some specifications of the continuous variables, however, the family's receipt of transfers had *no* negative effects on the school and work outcomes of the 16–18 group. In contrast, transfers were consistently associated with a worse mix of current activities.

Still, the similarities are pronounced. High probabilities of receiving transfers induced much larger and more consistently negative effects on the 19–24 age group than on the 16–18 group. The important role of family variables associated with welfare shows up in the analysis of school and work outcomes over the year as a negative influence on youth outcomes, as it did in the analysis of current activities. Youths who lived with two or more family members who held a job tended to do considerably better than youths in families without any workers. The role of other workers was significant for both age groups.

11.4.3 Family and Welfare Effects on a National Sample of Young Black Men

Conclusions derived from the NBER inner-city sample of Boston, Chicago, and Philadelphia youths may or may not hold for a national sample of young black men. It is worth noting that differences may arise either because of genuine variations in relationships across geographic areas, because of differences in the data collected, or because of differences in the characteristics of youths in the two samples.

Table 11.12 **Family and Welfare Influences on 16- to 18-Year-Olds: Work and Earnings Patterns During the 13 Months Before the NBER Interview**

Explanatory Variables	Months Neither Working Nor in School		ln Earnings	
	(1)	(2)	(1)	(2)
Intercept	1.94***	3.05***	6.09***	4.52***
Predicted Receipt of Transfers	1.00**	−.16	−.1.05*	.49*
1 Person in Family Worked		−.28		.55**
2 or More Persons in Family Worked		−.72		1.00***
Chicago	.76***	.76***	−.89***	−.88***
Philadelphia	1.08***	1.10***	−1.99***	−2.02***
Attend Church Very Often	−.66***	−.81***	.06	.25
Attend Church Moderately	−.63***	−.69***	.56**	.62**
Age 18	1.37***	1.34***	.91***	.96***
Illegal Income, in Dollars	.07***	.07***	−.00	−.00
HS Graduate	.58	.60	.43	.43
Still in School			−.97*	−.96***
Mostly A's and B's	−.87***	−.88***	.63**	.67**
Half B's and C's	−.56***	−.59***	.35	.39
Mean	2.88	2.88	4.66	4.66
N	1,094	1,094	972	972
R^2	.12	.12	.09	.10

Note: Superscripts, ***, **, and * represent significance at the one, 5, and 10 percent levels, respectively. The regressions also included three variables that were insignificant in all regressions: the presence of both parents when the youth was age 14; the presence of only one parent when the youth was age 14; and the presence of a worker in the family when the youth was age 14.

Source: Computed from NBER survey data.

The NLS data did have some advantages for this analysis. Area differences in welfare guarantees, labor market conditions, and the extent of urbanization all helped in isolating the role of income transfers. The three years of data allowed an accounting of prior labor market activities and welfare histories in the estimates of current outcomes.

Determinants of the Family's Welfare Status

How area welfare levels and other welfare variables affect the family's receipt of benefits not only is of interest in itself, it also has special importance for assessing the effect of income transfers on young men. Consider two families, A and B, that are similar to each other except

Table 11.13 **Family and Welfare Influences on 19- to 24-Year-Olds: Work and Earnings Patterns During the 13 Months Before the NBER Interview**

Explanatory Variables	Months Neither Working Nor in School		ln Earnings	
	(1)	(2)	(1)	(2)
Intercept	4.41***	4.43***	6.89***	5.77***
Predicted Receipt of Transfers	2.49***	1.81	−1.26**	.07
1 Person in Family Worked		.34		.05
2 or More Persons in Family Worked		−.63		1.05***
Chicago	1.81***	1.82***	−1.11***	−1.14***
Philadelphia	1.85***	1.87***	−1.69***	−1.74***
Attend Church Very Often	−.47	−.56	.13	.32
Attend Church Moderately	−.77**	−.80**	.33	.38
Ages 22–24	.24	.21	.14	.18
Illegal Income in Dollars	.03***	.03***	−.01**	−.01**
HS Graduate	−2.16***	−2.19***	.96***	.99***
Still in School			−.35	−.33
Mostly A's, B's	−.61	−.62	−.19	−.15
Half B's, C's	−.81**	−.80**	.39	.39
Mean	5.37	5.37	6.34	6.34
N	897	897	876	876
R^2	.16	.17	.10	.11

Note: Superscripts *** and ** represent significance levels at the one and 5 percent levels, respectively. The regressions also included the three insignificant variables noted in Table 11.12.

Source: Computed from NBER survey data.

for state of residence. Assume family A lives in a high-payment state, while family B lives in a low- or moderate-payment state. One would expect that family A would be more likely to receive welfare than family B simply because of the income threshold in its state. Suppose these higher guarantees do, indeed, lead to more families receiving payments in one state than similar families in other states. Then, we would have an ideal situation for identifying independent effects of welfare. One merely has to examine how youths in families that receive welfare because of the state's higher income threshold perform relative to youths in similar families not on welfare because of low state benefit levels.

The first step is to analyze whether state benefit levels and other area variables have any impact on the welfare status of the families of

young black men. Table 11.14 displays solid evidence from probit equations showing that state benefit levels raised sharply the chances that a youth lived in a family receiving welfare. The state's income guarantee from AFDC and food stamps exerted large and statistically significant effects on the presence of welfare income in 1978, 1979, and 1980. In 1978, for example, a youth in a family with the mean area and family characteristics had a .20 probability of living in a welfare family. The results of the probit equations indicate that an increase of one standard deviation in the AFDC plus food stamp guarantee level (holding other characteristics constant) induced an increase of 8.5 percentage points in this probability.

The other area and family variables generally had the expected influences on the family's receipt of welfare benefits. One exception

Table 11.14 **Effects of Selected Variables on the Probability of Young Black Men Living in a Family Receiving Welfare: Probit Equations for 1979, 1980, and 1981 (t-values in parentheses)**

Explanatory Variables	Effects on Receiving Welfare in:		
	1978	1979	1980
Probability at the Mean of the Independent Variables	.202	.165	.167
AFDC Food Stamp Guarantee (in 100s)	.089 (4.19)	.061 (3.87)	.055 (3.48)
Big City Residence	−.149 (−2.68)	−.074 (−1.60)	−.128 (−2.61)
Central City Residence	−.046 (−1.12)	.012 (0.32)	.024 (0.70)
Big City × Central City	.146 (2.13)	.081 (1.38)	.120 (1.96)
Unemployment High in Area	−.029 (−0.94)	−.011 (−0.44)	−.048 (−1.89)
Father Present in 1979	−.311 (−10.85)		
Father Present in 1980		−.214 (−8.48)	−.188 (−7.51)
Mother Present in 1979	−.044 (−1.08)		
Mother Present in 1980		.115 (3.55)	.089 (2.76)
Family size	.031 (4.73)	.024 (4.32)	.015 (2.73)
N	1,114	1,173	1,166

Source: Equations performed on NLS data for 1979, 1980, and 1981.

was the negative (but usually insignificant) effect of living in a high-unemployment area. The pattern of city effects was interesting. Neither the pure big city or inner-city effect was positive; instead, what sharply and significantly raised the probability of welfare receipt was the combined effect of living in the inner part of a large city.

Alternative Estimates of Welfare and Family Effects on Earnings and on the School and Work Status of the Nation's Young Black Men

Use of a national sample of black young men yields results that have general relevance and avoids the potential problem in the NBER data of bias due to outmigration of successful members of welfare families from the low-income urban areas. In addition, by drawing on three years of NLS data, one can assess how past welfare experience affects current employment and earnings as well as whether the estimated welfare effects are similar from one year to another. This section reports on several empirical efforts to test for welfare and family effects. The specific estimates reported here, however, by no means exhaust the potential uses of NLS data to determine the impact of welfare variables.

The alternative estimates of the family and welfare variables appear in table 11.15. As in the analysis of the NBER inner-city sample, welfare effects on the national sample were generally larger and more significant among the older group (those 10 to 23 in 1980) than among teenagers (16 to 19 in 1980). Note that the impact of living in a family receiving cash welfare was to lower the expected 1980 earnings of the 20–23 age group by a whopping 100 percent. This effect was independent of the youth's 1978 earnings. Living in a welfare family in 1980 was closely associated with negative school and work outcomes in 1981, especially among the 20- to 23-year-olds. A change in welfare status raised the share neither working nor in school by 21 percentage points for the older group (a 100 percent increase), but by only four points for the younger group.

These estimates of welfare effects may be partly capturing the impact of attitudinal or other factors that cause both the family's receipt of welfare and poor outcomes among youths. To avoid this problem, I conducted a two-stage procedure in which the predicted receipt of welfare (based on the probit equations shown in table 11.13) substituted for actual welfare as an explanatory variable in the youth outcome equations. This adjustment should lessen or eliminate bias resulting not only from unmeasured factors causing both welfare and youth outcomes, but also from the consequent separate-errors-in-variables problem. If the experience of young black men on welfare causes poor outcomes, then substituting predicted values will not fully take account of welfare's impact on youth employment. Predicted welfare status did turn out to exert negative effects on school and work outcomes. Al-

Table 11.15 **Effects of Welfare and Family Variables on 1980 Earnings and on 1981 School and Work Status of Black Men 16–19 and 20–23 in 1980**

	ln 1980 Earnings		Probability of Neither Work Nor School, 1981	
Explanatory Variables	Parameter	t-Value	Derivative	t-value
Ages 16–23 in 1980:				
Lived in Welfare Family in 1980	−.553	−2.29	−.105	3.59
Predicted Welfare in 1980	.022	0.08	.061	1.80
Ages 16–19 in 1980:				
Lived in Welfare Family in 1980	−.171	−0.53	.044	1.35
ln 1978 Earnings	.220	5.14	−.007	−1.51
Predicted Welfare in 1980	−.170	−0.46	.071	1.78
ln 1978 Earnings	.211	4.95	−.004	−0.92
Welfare in 1978 Only	−.457	−1.03	.043	0.94
Welfare in 1979 Only	−1.043	−2.01	.130	2.51
Welfare in 1978 and 1979	−.219	−0.58	.041	1.02
ln 1978 Earnings	.213	4.90	−.006	−1.21
Ages 20–23 in 1980:				
Lived in Welfare Family in 1980	−.997	−2.70	.201	3.73
ln 1978 Earnings	.294	6.94	−.018	−2.88
Predicted Welfare in 1980	.261	0.70	.041	0.70
ln 1978 Earnings	.289	6.87	−.019	−3.03
Welfare in 1978 Only	−.941	−2.33	.082	1.32
Welfare in 1979 Only	−2.254	−4.17	.197	2.46
Welfare in 1978 and 1979	−.156	−0.31	.088	1.18
ln 1978 Earnings	.263	6.23	−.017	−2.64

Source: Regression and probit equations derived from NLS data.

though the impact on earnings was not statistically significant, the effect on the share neither working nor in school was. In decompositions by age, the significant effect on school and work status was concentrated in the 16–19 group. On average, 17 percent of this group were in the no work, no school category. Moving from zero to one in predicted welfare raised that probability by over seven percentage points.

These results yield somewhat conservative estimates of welfare effects, since they hold constant the youth's earnings in 1978. If welfare status weakened past as well as current labor market outcomes, including the prior earnings could well understate the overall welfare effects. It did turn out that the size and significance of the welfare variable's influence on 1980 and 1981 outcomes rose when the youth's 1978 earnings did not appear as a control variable.

A final test of the welfare variables was to calculate whether youth outcomes were sensitive to the timing or recent years of welfare participation. Youths were classified into one of four statuses: (1) no welfare in the family during 1978 or 1979; (2) welfare received by the family in 1978 but not 1979; (3) welfare received in 1979 but not 1978; (4) welfare received in both years.

The results were not entirely consistent with the expectation that longer welfare durations lead to worse outcomes. Oddly, those in families receiving welfare both in 1978 and 1979 had more positive outcomes than did those whose families received welfare only in 1979. Moreover, the young men in families with two years of welfare did no worse in 1980–81 than those whose families received welfare only in 1978.

11.4.4 Summary of the Welfare Effects on the Employment Patterns of Young Black Men

The array of results above provides powerful evidence for the importance of welfare programs, and family characteristics closely associated with welfare programs, in leading young black men to experience serious school and labor market problems. In tests relating the family's receipt of welfare benefits to a variety of youth outcomes in both the inner-city, low-income sample and the national sample, welfare variables consistently yielded significant and negative effects. Although the tests did not disentangle entirely the family influences leading to welfare from welfare incentive effects leading to the welfare experience, the significance of the welfare variable survived a variety of specifications.

In the analysis of the NBER data set, it became clear that what complicates the interpretation is not the problem of accounting for unmeasured family characteristics but rather the problem of isolating the impact of welfare from that of the presence of other workers in the family.

The analysis did reveal larger and more consistently negative effects on the older (19–24) than on the younger (16–18) subgroups. One possible reason for these effects is that youth outcomes vary more as young men move beyond high school. A second possibility is that the more successful older members of welfare families leave home, while

the more successful younger members of welfare families remain with their parent or parents. This could reconcile the findings, but casting doubt on this view is the fact that only a small share of young men within the relevant age groups lived away from home.

11.5 Conclusions and the Implications of Racial Differentials

Racial differentials in the share of youths living with a family on welfare are enormous. With 25 to 30 percent of black youths and only 5 percent of white youths receiving benefits from the welfare system, any welfare effects on youth employment may account for a significant part of the large racial differentials in youth employment levels.

This paper takes some first steps in the process of moving from speculating about welfare's role to estimating the actual size of its role. Before developing empirical estimates, I pointed out that the standard welfare disincentive effects often do not apply to youth. Nevertheless, other mechanisms could be at work to link the youth's welfare status with his poor school and work outcomes. Among them are the experience on welfare and the lack of connections to jobs that come about when parents are either not present or not working.

No doubt several of the mechanisms may interact in ways not easy to measure in quantitative analyses of grouped data. Whatever the precise elements going into the observed effects, we can draw some conclusions about welfare's role in explaining black youth employment problems.

First, among black male youths living in inner-city ghetto areas, poor school and work outcomes were closely associated with welfare status. Although the presence of other workers in the family appeared of most significance, a family's receipt of income-transfer benefits exerted a role independent of the presence of workers in the family. And second, among black male youths in the nation as a whole, welfare status also exerted negative effects on school and work outcomes. Black youths were more likely to be neither working nor in school if they lived in welfare families. Moreover, even having simply a higher probability of falling into a welfare family, perhaps because of residence in a high-benefit state, seemed to worsen school and work outcomes.

Nothing in these conclusions suggests that it is wise to alter the shape or generosity of the current welfare system. The findings do make clear the importance of the linkages between family characteristics, welfare programs, and the employment outcomes of young black men. Understanding how these interactions operate is essential for devising policies that can make a difference for black youth. It may be, for example, that family-centered policies—that raise job holding and family stability among black adults—are the best approach for improving the employment chances of black youth.

Notes

1. For example, among white men 18 to 19 years old, the unemployment rate in spring 1979 was 24 percent among those in low-income families and 11 percent among those in middle- and high-income families.
2. These figures come from the U.S. Bureau of the Census (1982).
3. Layard (1982) and Wachter and Kim (1982) both gave cursory treatment to the role of welfare in explaining youth employment outcomes.
4. Both analyzed youth outcomes on the basis of data generated from the Seattle-Denver income maintenance experiment.
5. See U.S. Bureau of the Census (1981, 220–23).
6. See U.S. Department of Health and Human Services (1982, p. 41, table 23).
7. See, for example, Lerman (1973).
8. Under the 1981 amendments, states as of fiscal year 1982 could not receive federal reimbursement for covering any 18- to 21-year-olds, except those 18 about to finish school. Limited evidence is available on the impact of this change. A report by the Children's Defense Fund (1983) claimed that 29 percent of the substantial fiscal year 1982 reduction in Ohio AFDC outlays came about as a result of eliminating students in that age bracket.
9. See Lerman (1970).
10. Pindyck and Rubinfeld (1981, 287–312) provide a discussion of this procedure.

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Comment

Samuel L. Myers, Jr.

Lerman's empirical analysis seeks to address three questions concerning the interaction of welfare, work, and education. All are of potential policy significance.

His first question is: Do welfare programs alter the current employment of young black men? His answer, derived from *single equation* estimates of labor-force choices and earnings is "yes," especially for black men over age 18. In the NBER data set, Lerman finds a negative relationship between coming from a family that received welfare benefits and various measures of favorable employment outcomes.

His second question is: Does the mix of family characteristics and income-transfer program characteristics affect school enrollment, employment, and unemployment among young black men? Apparently, Lerman's answer here is also "yes," although it is not clear whether the question was or can be adequately addressed using the NBER data. Dummy variables for number of wage earners in the family and city

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were included in multinomial logit regressions for schooling and labor-force decisions among NBER black men. The purpose was to isolate family and welfare program effects from welfare participation effects. Arguably, the city dummies, which provide strikingly large coefficient estimates and t-values in the multinomial logit regressions—and which are curiously omitted from the earnings equations—are less than satisfactory proxies for welfare program characteristics. In the NLS regressions, however, state AFDC and food stamp guarantees are used to capture program effects. There, the results that Lerman reports show mixed responses. Statistically significant effects of AFDC and food stamp guarantees on the welfare recipiency equations are found among the NLS black men. But when the predicted welfare receipt value is included as a variable in the employment equations, that variable is not found to be highly significant.

Finally, Lerman asks: To the extent that any welfare-induced effects occur, do they account for any of the racial differences in youth employment outcomes? This question is left unanswered, although it is perhaps the most interesting of all.

The single-equation framework that Lerman employs in addressing each of the questions is clearly inconsistent with his own implicit model of jointly endogenous schooling, work, and welfare decisions. Lerman, of course, notes the limitations of his estimation procedure and takes great pains to reason around the simultaneity problem. One of the efforts in the paper to account for simultaneity points up the problem here. In table 11.15 Lerman estimates earnings and unemployment equations. When he includes actual welfare participation, its estimated impact is highly significant; when he includes *predicted* welfare, it is insignificant at the one percent level. It seems quite likely that welfare participation is endogenous and that the OLS estimates on the actual welfare variable are biased.

The really interesting question looming in this paper, however, is whether welfare explains any of the racial gap in earnings. The results of Darity and Myers (1980*a*; 1980*b*) provide insights that may help address this question. Using 1968 and 1978 CPS samples, they estimated log-earnings and labor-force participation equations for blacks and whites, for both positive income earners and the "potential labor force." Zero-earners in the last mentioned group were assigned the wage of those in their age, race, gender, and region cohort.

These equations are simultaneous because earnings depend on labor-force participation and labor-force participation depends on (potential) earnings. Labor-force participation also depends on welfare income. Thus, it is possible to estimate from the Darity-Myers results the effect of welfare income on black-white earnings inequality. Focusing on the

positive income samples, we find that welfare income lowered blacks' weeks worked and raised their weeks unemployed in 1978, but it had no statistically significant impact on the labor-force participation of blacks in 1968 or whites in 1968 or 1978. Moreover, increased labor-force participation reduced racial earnings inequality in the positive-income sample. Thus, increased welfare participation can be expected to increase racial earnings inequality, at least when estimates are based on those who are employed.

When the potential labor force is the base for estimates, however, the answer is reversed. In this expanded sample, increased welfare participation actually reduces earnings inequality; welfare reduces both black and white labor-force participation, although more so for whites than for blacks.

Still, whether one uses the positive-income sample or the potential labor force, the *magnitude* of the effect of welfare income recipiency is minuscule. My estimates, based on the Darity-Myers regressions, reveal percentage changes in the 1978 black-white earnings ratio due to an increase in welfare recipiency ranging from $+.0008$ to $-.017$. These extremely inelastic results in both directions dim any hopes of finding major new explanations for wage inequality in the phenomenon of welfare participation. In principle, one could perform the same exercise using the NBER or NLS data. From Lerman's results alone, I suspect that his estimates of the effects of welfare on inequity would be much larger.[1]

Lerman argues that there is an association between welfare and the schooling and labor market experiences of young black men and women. I agree. He suggests that there is a causal relationship running from welfare experiences to employment. His evidence is insufficiently persuasive to warrant acceptance of this simple unidirectional perspective. My own view, influenced by the compelling historical record of the continuing and pervasive dependency of the black underclass in the United States, is that welfare recipiency, dropping out of school, and poor employment are inextricably intertwined in a much more complex manner than is admitted in Lerman's simple model.

Furthermore, the results showing an effect of family welfare status on employment and schooling may be suspect for reasons beyond the simultaneous-equations bias. I am struck by the large number of men in the NBER sample who reported themselves to be living at home. Could it be that the probability of being in the sample is higher for those living at home, whatever their employment and welfare status? Could it be that those with low earnings or high unemployment have higher probabilities of living at home when the family receives welfare income? Lerman's observed effect of welfare on employment may be a simple occurrence of this sample-selection effect.

In sum, this paper raises a number of interesting policy questions that certainly deserve additional investigation.

Note

1. In earlier versions of the paper Lerman estimated that 20 to 90 percent of the racial gap was explained by welfare. Whether this was due to the suspicious nature of his estimates or the age composition of his sample stands to be shown.

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