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Daniel K. Fetter  
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**ABSTRACT**

A key question in the design of public assistance to the needy is how allocation of responsibility for funding and decision-making across different levels of government influences the level and type of assistance provided. The New Deal era was a period in which this allocation changed significantly in the United States, as provision of public assistance shifted from local governments to states and the federal government, accompanied by a large increase in government transfer payments. Focusing on assistance to the elderly and using variation in state laws governing the division of funding between local and state governments for the Old Age Assistance (OAA) Program, this paper investigates the responsiveness of OAA payments and reciprocity to local government funding shares. Payments per elderly resident were significantly lower in states with higher local funding shares, driven largely by reductions in reciprocity. The baseline results suggest that had local governments needed to fund half of OAA payments in 1939, on the lower end of local funding shares prior to the New Deal, the OAA reciprocity rate would have been 5 percent rather than 22 percent, and perhaps even lower. More speculative results suggest that greater local funding led to lower representation of blacks among OAA recipients relative to their share of the population, particularly in the South.

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# 1 Introduction

A key question in the design of public assistance to the needy is how allocation of responsibility for funding and decision-making across different levels of government influences the level and type of assistance provided.<sup>1</sup> In this paper, I investigate this question in the context of government assistance to the elderly during the New Deal era.

The dramatic increase in governmental transfers to the elderly is one of the lasting legacies of the New Deal. At the same time, the New Deal marked a shift from local provision of old age support to increased federal and state involvement, as part of the broader shift of government expenditures from the local to national level (Wallis, 1984, 1991). Prior to 1933, assistance to the needy elderly, and to poor in general, was almost entirely a local affair in both funding and decision making (Wallis and Oates, 1998). Even in 1934, when 26 states had passed laws providing for some state role in old age assistance, in only 6 states did counties fund less than a quarter of payments. In contrast, by 1939, four years after the introduction of the federal Old Age Assistance Program (OAA) through the Social Security Act, all states had passed laws and in more than half of them, the county share of OAA payments was 0 percent.

The main empirical analysis investigates what role reduced local funding shares played in the observed increase in the level of old age support. Facilitating the analysis is the fact that even in 1939, there was considerable variation across states in the degree of local involvement in funding OAA. The main empirical estimates use this cross-state policy variation to investigate the relationship between local funding shares and OAA payments in 1939. Because state policies were correlated with levels of need, which themselves also influenced the level of relief provided, the empirical strategy follows Fetter and Lockwood (2016) in focusing on comparisons across state borders in order to control flexibly for differences in aggregate shocks and population characteristics. The estimates indicate a significant negative relationship between local funding shares and OAA payments per

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<sup>1</sup>Brown and Oates (1987) is one well-known theoretical analysis, emphasizing inefficiencies that arise when assistance is provided at local or state levels; Oates (1999) discusses this literature more broadly. The welfare reform of the 1990s was one example of a relatively recent major policy change along these lines: the shift from open-ended matching grants for states under Aid to Families with Dependent Children (AFDC) to block grants under Temporary Assistance to Needy Families (TANF) raised the marginal cost to states of providing cash assistance, which may have contributed to declining levels of cash assistance after the reform (Ziliak, 2015). This issue is also of key importance in consideration of recent proposals to convert many assistance programs into a block grant to states (Ryan, 2014).

person, driven primarily by a reduction in reciprocity and, to a much lesser extent, by reductions in payments per recipient. The magnitude of the results is substantial, suggesting that the reduction in local funding was an essential part of the growth of government old age support. Under the Social Security Act, the national government funded 50 percent of old age assistance payments (up to a cap), and the remainder was funded by states or localities. The baseline specification suggests that had counties been required to fund the other half of old age assistance payments, the OAA reciprocity rate in 1939 would have been 5 percent, rather than the observed level of 22 percent.

Several pieces of evidence support the interpretation of these estimates as the causal effect of local funding shares. Once comparisons are made only across state borders, other observable policy characteristics do not explain the negative relationship between local funding shares and reciprocity or payments, and if anything conditioning on observable policy variables tends to magnify the results. Moreover, changes in local funding shares between 1937 and 1939 correspond to changes in reciprocity and payments that are nearly identical to those estimated from the 1939 cross-section.

Closely related to the shift away from local funding of old age assistance was a shift in decision-making from the local level to the state level. I document that the responsiveness of OAA payments to local funding shares was most pronounced in states in which local governments, rather than states, had the final say in determining whether to provide assistance to a given case. The greater responsiveness to local funding requirements in states where localities had more influence on decision-making accords with the interpretation of the main estimates as the effect of local funding. Moreover, allowing this flexibility is important for understanding the effects of changing both local funding requirements and the level at which decisions were made, since the main estimates also reflect changes in states where localities had less influence. Allowing this flexibility yields results that suggest that had all decisions been made by local governments that funded 50 percent, the OAA reciprocity rate would have been 1 percent rather than 22 percent.

To the extent that local funding reduced OAA reciprocity, a natural next question is how it influenced the composition of recipients. I focus on one dimension of this question: how local funding influenced blacks' receipt of OAA. The basic difficulty in answering this question is that there is no large source of microdata from this period that directly measures OAA receipt. However,

in a spirit similar to Fetter and Lockwood (2016), I show that the 1940 Census question on receipt of non-wage income can be used to construct a reasonable proxy for OAA reciprocity at the county level, using the complete-count Census data for 1940 (Ruggles et al., 2015). After validating this measure, I use it to investigate the relationship between local funding and the representation of blacks among OAA recipients relative to their share in the population. I find suggestive evidence that in the country as a whole, local funding was associated with greater underrepresentation of blacks among OAA recipients relative to their share of the population. This relationship is significantly larger in the South, both economically and statistically. These findings, while necessarily speculative given that they are based not on observation of OAA receipt but rather receipt of any non-wage income, suggest that the shift away from local funding may have improved access of blacks to old age support.

This paper relates most closely to the literature on fiscal federalism in the New Deal (Wallis, 1984, 1991; Fishback and Wallis, 2012). In large part this literature has focused on explaining the decline of local government expenditures relative to state and national government expenditures by measuring the responses of state and local spending to shifts in national spending. It has not, however, directly measured the responsiveness of spending to changes in the marginal cost to local or state governments of providing assistance, in the spirit of the broader literature on the responsiveness of lower-level governments to changes in intergovernmental matching grants (e.g., Baicker, 2005). One reason this question has been difficult to address is that while most New Deal programs required some state or local funding, in many programs there was no explicit matching formula, or the requirements were enforced unequally across states (Fishback and Wallis, 2012). OAA offers a case amenable to empirical study, as it followed a statutory matching formula for the division of funding across each of the three levels of government. Although some have observed broadly that local funding requirements led to less assistance (e.g., Costa, 1998, 1999), no work has attempted to quantify the aggregate importance of these requirements, and the magnitude of the estimates is striking: the shift away from local provision of support could account for most of the rise in old-age support over the second half of the 1930s, which itself was the major period of increase before the expansion of Social Security in the 1950s.

This paper also contributes to the literatures on the politics of race in the New Deal and the role of race in support for transfer payments. A significant body of literature has examined the relationship between race and the public assistance provisions of the Social Security Act in the New Deal Era, stressing that racial discrimination or the goal of keeping agricultural wages low was behind the South's effort to ensure a high degree of state discretion in the administration of OAA (e.g., Quadagno, 1988; Alston and Ferrie, 1999; Lieberman, 2001). It is also the case that prior to the New Deal, cities with more blacks had lower relief levels overall and less public relief in particular (Fox, 2010). Most closely related to the focus of this paper, Quadagno (1988) suggests that local control of relief contributed to exclusion of blacks from OAA in the South, although she does not focus on local funding per se.

## **2 The federal structure of OAA**

Prior to the early 20th century, poor relief in the United States was largely based on the legacy of the English Poor Laws, with support for the destitute elderly being seen first as a responsibility of the family, and second as a responsibility of local government (Maxwell, 1946, p. 114). In the domain of old age assistance, many states passed laws establishing programs in the decades prior to the Social Security Act of 1935, leading to the beginnings of a shift of financial and administrative responsibility to states and a rise in expenditures on public relief (Geddes, 1937, p. 4). Nevertheless, prior to the Social Security Act, most programs for old age assistance remained very small and had relatively little state involvement (see, e.g., Wallis and Oates, 1998). As of 1934, when 28 states had passed OAA laws, in 19 states counties or towns had to supply at least half of OAA funds (Cahn, 1934). This system of local funding was ill-suited to insure against aggregate shocks, as negative shocks would both reduce revenues and increase the level of need; the inability of localities to provide sufficient funds to meet the need for relief became apparent early in the Depression. By the early 1930s, states had begun to provide a greater share of assistance but they had trouble raising revenues as well (Federal Works Agency, 1942, p. 2). Between 1933 and 1935, the Federal Emergency Relief Administration (FERA) provided federal funds for relief, but the lasting arrangement for providing relief to the needy elderly was federal matching of expenditures

for state OAA programs, authorized by the Social Security Act.

The Social Security Act had provisions that encouraged a shift from local to state funding and administration of OAA as well as the provision of federal funding. In order to receive federal matching funds, a state OAA program had to meet certain requirements. In part these requirements set minimum standards for individual eligibility for OAA, as discussed below, but they also established requirements for funding and administration of OAA programs. OAA programs were to involve some state financial participation and to be administered, or at least overseen, by a state-level agency (Lansdale et al., 1939, p. 18). By 1939, the local role in funding relief had diminished considerably. All states had OAA programs in operation, and in 27 states, the local funding share of OAA payments was 0 percent. Figure 1 documents that in the remaining states, local shares varied from 7.5% to 35%; Kansas was the only state with a local share above 25%.<sup>2</sup> Despite the shift in financial responsibility away from local governments, it was still noted at the time that in those states requiring local funding, local governments were often unable to make their required payments for OAA (e.g., Lansdale et al., 1939, pp. 220-1).<sup>3</sup>

At the same time as funding shifted away from the local level to the federal and state levels, assistance to the elderly expanded rapidly. Between 1935 and 1940, the number of recipients of old age assistance rose from under 400,000 to more than 2 million. By 1940, 22 percent of the population 65 and above received OAA, and received an average annual payment of \$232, about 25 percent of the median wage and salary earnings for 60-64 year old male wage earners in 1939.

An important element in thinking about the impact of changing local funding of OAA is what influence local governments had on decisions regarding OAA eligibility and payments. In nearly all states there was some role for local government: for example, an applicant for relief would submit an application to a local office, and it was often a local agency that would investigate eligibility and need and prepare a recommendation on whether aid should be provided, and in what amount (Lansdale et al., 1939, p. 20). In all states there was also some state supervision. Within these

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<sup>2</sup>All details on OAA programs in this section come from U.S. Social Security Board (1940*a*).

<sup>3</sup>Some states had equalization funds that were meant to address this issue and these funds likely smoothed out some differences across counties. Nevertheless, these equalization funds were sometimes suspended and contemporary reports indicate that local funding remained a constraint on provision of OAA (Gordon and Israeli, 1939). To the extent that such funds were in operation, they should attenuate the results reported below; the regressions show the effect of local funding net of these policies.

boundaries, however, there was a fair amount of variation in the influence of local government that is difficult to measure precisely. The measure of local influence used in the analysis below is whether the final decision in an OAA case was made by a local official or by a state official. As illustrated by a comparison of Figure 1 to Figure 2, the latter of which indicates the states where final decisions were made by local officials, local final decisions often, but did not always, coincide with local funding of OAA.

The analysis investigates robustness to controlling for a variety of policy design features of OAA programs. States had considerable leeway within the broad requirements set by the Social Security Act for federal matching grants, and there was a fair amount of variation in the nature of eligibility and payments under different states' laws. As of the end of 1939, which is the focus of the analysis, the common eligibility requirements across states were that a recipient must otherwise have little income (the amount varied across states) and be above some minimum age threshold (65 in most states, 70 in a few). Some states also imposed asset tests, required US citizenship or long-term residency, or required that recipient have no legally responsible relatives able to provide support. All required some period of residency in the state before claiming OAA.

In most states, OAA resembled an income or consumption floor: a state or local official evaluated the needs and resources of an applicant, and if the applicant was deemed eligible, the excess of needs over resources provided the basis for determining the payment. Maximum allowable payments varied across states, with a range from \$15 to \$45 per month. A handful of states had no legal maximum, but appear to have had administrative norms or rules that kept nearly all payments in line with other states' legal maxima: in the analysis below, I use the 99th percentile payment in a state in fiscal year 1938-39 as a measure of maximum payments.<sup>4</sup> In those states with legal maximum payments, these 99th percentile payments were almost always the same as the legal maxima. Finally, three states specified in addition that the sum of income and OAA payments had to reach some minimum amount: this essentially set a common dollar value of "needs" across all people.

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<sup>4</sup>The 99th percentile payment is based on summary tables on the distribution of grants to new recipients by state, from U.S. Social Security Board (1939*b*). The distribution of payments is reported in 5-dollar bins, so I identify the bin containing the 99th percentile payment and use the smaller value of the upper endpoint of the bin or, when it exists, the state's legal maximum payment.

### 3 The effect of local funding on OAA payments and reciprocity

#### 3.1 Data and empirical specification

Since local governments played some role in the granting of old age assistance in nearly all states, one would expect that when the cost of additional spending was lower for local governments, the overall level of spending would be higher. Two difficulties arise in an empirical analysis of the degree to which this was true. First, local funding shares may be correlated with population characteristics, including the level of need – for example, if states with worse negative shocks were more likely to shift funding to the state level. Second, local funding shares may be correlated with other state policies that may themselves have influenced the level of relief.

To address the first challenge, the main specifications restrict comparisons to counties on either side of a state border. The spirit of this approach is to make comparisons of areas that follow different policies, but that are similar in terms of underlying need or other characteristics that may lead to greater levels of OAA for a given state policy. This strategy follows Fetter and Lockwood (2016), who show that across states, OAA generosity in 1939 was correlated with underlying trends in labor force participation, but that there is no evidence of differential underlying trends in labor force participation once comparisons are limited to counties on either side of a state border.

Limiting comparisons to state borders does not address the second challenge, that other aspects of OAA policies may also change at state borders and be correlated with local funding shares. To address this difficulty, I test the robustness of my estimates to the inclusion of other observable policies. My findings on the effects of local funding shares are robust to inclusion of additional policy variables, strengthening the case that the results are not due to unobserved state-level policies.

The main specifications use county-level data on three measures of payments and reciprocity under OAA programs: total OAA payments per person 65 and above, OAA recipients as a share of the population 65 and above, and OAA payments per recipient. The number of recipients and total OAA payments are measured in December 1939, and come from U.S. Social Security Board (1940*c*). They are normalized using the population 65 and above measured in the 1940 Census.<sup>5</sup> A

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<sup>5</sup>Three states had an eligibility age of of 70 in 1939. I normalize these using the 65 and above population, and include a control for having the higher eligibility age.

handful of states made some grants jointly to couples and reported the couple as a single recipient; I adjust for joint reciprocity using information from U.S. Social Security Board (1941) on the share of recipients with joint grants.<sup>6</sup>

The estimating equation for the main empirical specifications is

$$y_{cb} = \alpha_b + \beta(\text{Local funding share})_c + \Lambda' \mathbf{X}_c + \varepsilon_{cb}. \quad (1)$$

Because some counties lie on more than one state border, the unit of observation is a county-state border pair;  $c$  indexes counties and  $b$  indexes state border groups (where a border group for a pair of bordering states comprises all counties that touch the border). Here  $\alpha_b$  is a fixed effect for each border group,  $\beta$  is the coefficient of interest, and  $\mathbf{X}_c$  is a vector of controls for policy characteristics and/or population characteristics.<sup>7</sup> Because local funding shares vary at the state level, standard errors are clustered by state.

### 3.2 Main results

Estimates of equation (1) provide evidence that county funding was a significant limiting factor on the size of the OAA program. Table 1 reports estimates of equation (1) with the county reciprocity rate as the dependent variable. Column (1) reports a simple regression in the full sample of counties, with no border pair fixed effects. This unconditional comparison indicates that a greater local funding share was associated with a significantly lower reciprocity rate. Column (2) limits the sample to counties on state borders, and column (3) restricts comparisons to counties across the same state border. The first key result in Table 1 is that the negative relationship in the unconditional comparison is also present in the comparisons that condition on state border fixed effects, suggesting that the relationship between local funding shares and county reciprocity rates is not driven by a

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<sup>6</sup>In particular, this publication reports the share of new recipients in fiscal year 1939-40 in each state who were married and the share of these individuals who received a joint grant. I calculate the share who received joint grants and inflate the number of recipients for each county by the corresponding state's share receiving joint grants. This adjustment makes little difference in the main results and does not qualitatively change any results in the paper, but does affect the magnitude of the results in Section 3.3 that combine 1937 data with the 1939 data.

<sup>7</sup>In principle, comparisons can be restricted still further by limiting comparisons only to adjacent counties (as opposed to comparing all counties on either side of a state border). Restricting comparisons to adjacent counties leads to very little change in the results, so I focus on the state border comparisons for computational ease.

correlation between population characteristics and county funding shares. The second key result in Table 1 is that the magnitude of the relationship between local funding shares and county reciprocity rates actually increases when controls for other observable characteristics of state OAA policy are included in the regression: the estimate in column (4) indicates that a 10 percentage point greater county funding share is associated with roughly a 4 percentage point lower reciprocity rate, a substantial decrease compared to the overall mean of about 22 percent. Finally, the specification in column (5) includes as covariates a range of other county-level characteristics that could either influence the level of need or capacity to provide relief. It is encouraging that the inclusion of these controls leads to very little change in the key coefficient estimates.<sup>8</sup> Appendix Table A1 reports results with additional controls measuring economic conditions and levels of other forms of relief, but which are available for only a subset of counties and which are potentially endogenous control variables as they may have been affected by levels of OAA: registered unemployment in 1937 as a share of the population from Haines (2010), WPA spending per capita from 1935-39 from Fishback, Kantor and Wallis (2003), and log per capita retail sales in 1939 from Fishback, Horrace and Kantor (2005). Inclusion of these controls leads to little change in the coefficient on the local funding share.<sup>9</sup>

Although not the focus of this analysis, the coefficients on the other policies for the most part have reasonable signs. Higher maximum payments are associated with higher reciprocity, likely reflecting either higher take-up or greater eligibility under more generous OAA plans. Older eligibility ages and relatives' responsibility requirements are negatively related to reciprocity. The positive (conditional) relationship of property limitations with reciprocity may not be expected, but these limitations may in fact have been intended to liberalize eligibility by preventing people from being deemed ineligible if they had less than the specified amount of property (U.S. Social Security Board, 1940*b*, p. 157).

The results in Table 2 suggest that greater local funding was also associated with lower payments per person, although the coefficients are somewhat less stable across specifications and the

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<sup>8</sup>The regression in column (5) has one fewer observation because one county in the sample is missing information on the share of households with a radio in 1930.

<sup>9</sup>Alternatives, such as using changes in unemployment between 1937 and 1940, including FERA or Civil Works Administration (CWA) spending, or using changes in log retail sales from 1935 to 1939 give very similar results.

implied magnitudes are small relative to their means. The coefficient in column (4), conditioning on state border effects and other policies, suggests that local funding shares greater by 10 percentage points had, on average, 40-cent lower payments per recipient per month, relative to a mean of approximately 19 dollars. This could reflect either that local governments chose to lower reciprocity rather than payments when required to fund a greater share of payments, or simply that they had less influence over payments than they did over reciprocity.

Taken together, the effects on reciprocity and payments per person meant that greater county funding shares led to significantly smaller OAA programs relative to the size of the elderly population. Table 3 reports estimates of equation (1) using payments per person 65 and above as a summary measure incorporating both potential margins of adjustment. Across all specifications that restrict comparisons to state boundaries there is a statistically significant negative relationship. The estimates in column (4), which control for other state policies, imply that 10 percentage point greater local funding was associated with OAA payments per person lower by about 90 cents, or about one-fifth of the mean of \$4.09.

Figure 3 displays residual regression plots of OAA reciprocity and payments against local funding share, conditional on the controls in column (4) of Tables 1-3. Encouragingly, these graphs illustrate that the estimated coefficients in Tables 1-3 reflect differences in OAA payments and reciprocity across the full spectrum of local funding shares, rather than being driven by outlier counties or simply by a shift between having some local funding and no local funding.

Some simple counterfactuals based on the estimated coefficients imply that the shift away from local funding of relief was central to the growth of old age assistance in the New Deal. In 1934, immediately prior to the introduction of federal matching, most old age assistance programs – all but 7 of the 28 in place – required localities to fund at least 25 percent of payments, and all but 9 required localities to fund at least half (Cahn, 1934). Table 4 uses the estimated coefficients from column (4) of each of the preceding tables to predict changes in OAA reciprocity, payments per recipient, and payments per person 65 and above if all states in 1939 had shifted to no local funding, 25 percent local funding, or 50 percent local funding, holding all else constant. A shift to 25 percent local funding for all states would have led to a reduction in reciprocity of roughly

6 percentage points, off of a base of 22 percent, and a reduction in per-capita OAA payments of \$1.34, off of a base of \$4.09. The coefficients suggest that had local funding of 50 percent been required, OAA payments per person would have been roughly ten percent of its actual size, largely through reductions in reciprocity.

### 3.3 Robustness: policy changes from 1937-1939

A potential threat to a causal interpretation of the estimates above is that states with unobserved policies leading to higher reciprocity may also have had lower local funding shares. Although the fact that the relationship between local funding and OAA reciprocity becomes stronger when conditioning on observable policy characteristics weighs against this interpretation, to provide further support I estimate panel specifications that control flexibly for fixed characteristics of counties.

In particular, county-level data on OAA payments and recipients is available for December 1937 from U.S. Social Security Board (1938*b*), and information on state laws as of the same month is compiled in U.S. Social Security Board (1938*a*). I construct a two-period panel of counties using these sources. Observations of four states in 1937 are excluded from the sample: Tennessee did not report county-level figures in 1937, Virginia had no OAA program in 1937, and Maine had virtually no program – only 42 recipients total, for a reciprocity rate below 0.1 percent. Washington had an OAA program but no formal rule governing local funding shares. I use the 1940 population 65 and above to calculate reciprocity rates and OAA payments per person in 1937, and adjust for joint reciprocity using the share of recipients receiving joint grants in fiscal year 1937-38 U.S. Social Security Board (1939*a*). Of the states remaining in the sample, four changed local funding shares between 1937 and 1939. The small number of changes makes the panel specification less natural as a baseline specification, but as we will see the resulting estimates do provide support for my preferred interpretation of the main estimates.

Following the spirit of the main specifications, I limit comparisons to state borders and estimate the following equation:

$$y_{cjt} = \alpha_{jt} + \gamma_c + \beta(\text{Local funding share})_{ct} + \Lambda' \mathbf{X}_{ct} + \varepsilon_{cjt} \quad (2)$$

where  $\alpha_{bt}$  is a state-border by year fixed effect,  $\gamma_c$  a county fixed effect, and  $\beta$  is estimated using within-county variation in local funding shares over time. Table 5 reports estimates of equation (2). Encouragingly, the coefficients are all very close in magnitude to the corresponding estimates from Tables 1-3. Focusing on columns (2), (4), and (6), which control for changes in other policies between 1937 and 1939, the coefficients suggest that a 10 percentage point increase in the local funding share should lead to a 4.2 percentage point reduction in reciprocity (compared to 4.1 percentage points in Table 1), a 47-cent reduction in payments per person (compared to 40 cents in Table 2), and an 82-cent reduction in payments per person 65 and above (compared to 89 cents in Table 3). The close similarity between the panel specification and the main, cross-sectional comparisons support interpretation of the latter as the effect of local funding shares.

### 3.4 Heterogeneity by level of control

As emphasized in Section 2, in nearly all states both local and state governments had some influence over decisions in OAA cases, but the division of authority between state and local governments varied significantly. Although it would be difficult to measure this division exactly, one useful measure of the division of authority is whether state or local officials made final decisions on individual cases. OAA should be more sensitive to the locality's marginal cost of funding additional OAA grants when localities themselves make final decisions, and OAA may be unusually generous when localities make final relief decisions without sharing in the cost (as they did in a handful of states). Testing for differences in the effect of local funding shares by the local government's degree of control is interesting in its own right, and to the extent that localities are more sensitive to the local cost of providing OAA, it also helps to support the interpretation of the main specifications as being a causal effect of increasing local funding shares.

The results suggest that reciprocity declined with the local funding share even in those states where state governments made the final relief decisions, but that when localities made the final decision on a relief case, reciprocity and payments were significantly more sensitive to local funding shares. Table 6 reports specifications that document the relationship between the size of OAA programs and local funding and decision making, where local funding is interacted with the mutually

exclusive categories of local and state-level final decisions. All specifications include border fixed effects and columns (2), (4), and (6) control for the other policies included in Tables 1-3.

Focusing on specifications that control for other state policies, the results suggest that when localities made final decisions, a 10 percentage-point greater local funding share was associated with a 5.7 percentage point reduction in reciprocity, an 86-cent reduction in payments per person, and a reduction of \$1.34 in payments per elderly person. By comparison, in states where state governments made final relief decisions, estimated changes in reciprocity and payments as a result of greater local funding are more sensitive to inclusion of other policy controls, but always smaller than in states where localities made final relief decisions. Specifications that control for other policies suggest that a 10 percentage point greater local funding share was associated with a 2.3 percentage point reduction in payments, a 13-cent higher average payment (although not statistically significant), and a 36-cent reduction in payments per elderly person. In all specifications, the coefficient on local funding shares is significantly different in the two types of states at the 10 percent level or lower. Finally, the coefficient on the indicator for final decisions resting at the local level shows that when localities made final decisions and the local funding share was zero – as was the case in a handful of states – reciprocity and payments were substantially higher.<sup>10</sup>

To complement the counterfactuals shown in Table 4, Table 7 shows counterfactuals that allow for both the level of local funding and the level of decision making to change. This may be the most relevant set of counterfactuals for understanding the shift away from local funding, since decision making moved from the local to the state level at the same time as funding did. The results lead to even stronger conclusions than those shown in Table 4, suggesting that had localities funded 50 percent of relief grants and made final relief decisions, only 1 percent of the elderly would have received OAA.

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<sup>10</sup>A caveat in interpreting these results is that the difference in slopes between the two types of states is not statistically significant in a panel specification following equation (2), perhaps because it is difficult to pick up this difference with only a small number of policy changes between 1937 and 1939. Interpreted at face value, the point estimates from the panel specification suggest that reciprocity responded similarly negatively to local funding shares in both types of states.

## 4 Effects on composition of relief

### 4.1 Measuring differences in OAA receipt using the 1940 Census

Having documented evidence that local funding reduced OAA reciprocity, a natural next question is whether specific groups were disproportionately affected by the shift to state funding. A particularly important dimension of this question is how the shift away from local provision of aid affected racial disparities in access to old age support. A basic difficulty in understanding how policies differentially affected OAA receipt of different groups is that OAA receipt is unobserved in the 1940 Census, and no comprehensive data are available at the county level on characteristics of OAA recipients in this period. The Census did, however, ask whether an individual received more than \$50 in non-wage income in 1939. Non-wage income includes various other forms of income in addition to OAA, but it is possible to use differences across counties in non-wage income to proxy for differences in OAA receipt.<sup>11</sup> In particular, restricting comparisons to state borders controls flexibly for differences in baseline levels of receipt of non-wage income that are spatially correlated. Conditioning on comparisons across state borders, the analysis then tests whether greater local funding shares are associated with differential over- or underrepresentation of blacks, relative to their share of the population. Note that if, for example, blacks are underrepresented among OAA recipients relative to their share of the elderly population but to a similar degree across states, this analysis will not find evidence that local funding leads to greater underrepresentation.

As should be expected, county-level measures of non-wage income receipt for individuals 65 and above are strongly correlated with actual OAA reciprocity rates. Using complete-count Census data from 1940 from Ruggles et al. (2015), Figure 4 plots, for each county, the share of the population 65 and above receiving non-wage income in 1939 against actual reciprocity rates in December 1939. In most counties the share of the population reporting non-wage income is higher than the share receiving OAA, as would be expected, but the important result in the figure is that higher reciprocity

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<sup>11</sup>The instructions to enumerators indicated that non-wage income included, among other things, income from business profits or professional fees, income from roomers or boarders, cash relief payments, regular contributions from family members not in the same household, in-kind income, and commodities consumed from the individual's own business. In part the approach I take here follows the spirit of Fetter and Lockwood (2016), which documents that receipt of non-wage income increases discretely at age 65, and more so in states with larger OAA programs.

rates are strongly associated with higher shares of the population reporting non-wage income, and hence that differences in receipt of non-wage income may provide a reasonable measure of differences in reciprocity rates across counties.

Table 8 reports regression results formalizing the relationship documented in Figure 4.<sup>12</sup> The first column reports a simple regression of the share of the county population receiving non-wage income on the county reciprocity rate and a constant term. The slope coefficient implies that a one percentage point greater reciprocity rate is associated with a 0.426 percentage point rise in the share reporting non-wage income. This result continues to hold in the state-border design, as shown in column (2): here a one percentage point rise in reciprocity rates is associated with a share reporting non-wage income that is greater by 0.354.

## 4.2 Effects of local funding by race

I apply the non-wage income data constructed and validated in Section 4.1 to investigate the impact of local funding requirements on the composition of OAA recipients, and in particular whether these requirements influenced the racial composition of recipients. I examine the share of non-wage income recipients 65 and above who are black relative to the black share of the population 65 and above, to measure differential over- or underrepresentation of blacks in areas where localities played a greater role in funding. Similar to the analysis in Section 3, the identifying assumption is that in the absence of OAA policies that differentially affect representation of blacks among OAA recipients, the difference between representation of blacks among those who receive non-wage income and the representation of blacks in the overall population 65 and above would be constant across state borders. Note that it is not a concern, for example, if whites were more likely than blacks to own income-producing assets, so long as that relative likelihood was constant across state borders.

The summary statistics reported in Table 9 indicate that in the United States as a whole, and especially in the South, blacks were underrepresented among non-wage income recipients. In the

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<sup>12</sup>In a handful of relatively small counties, information on non-wage income is coded as missing for all individuals 65 and older, explaining the slightly smaller number of observations when non-wage income is used rather than county reciprocity rates.

average county with any blacks 65 and above, 50 percent of blacks had non-wage income; about 59 percent of whites did. In the South, about 45 percent of blacks in the average county, and about 55 percent of whites, had non-wage income. These differences in rates of receipt of non-wage income translated into differences between the black share of the population receiving non-wage income and the black share of the total population of about 0.011 in the country as a whole, and 0.025 in the South.

The key question I wish to investigate is whether this underrepresentation was differentially greater in states in which localities funded a greater share of OAA payments. This question is addressed in Table 10, which reports regressions of the share of non-wage income recipients 65 and above who are black on the local funding share, controlling for the share of the overall population 65 and above who are black, and restricting comparisons to counties on either side of a state border. In the country as a whole, a 10 percentage point increase in the local funding share is associated with a reduction in the share of blacks among non-wage income recipients of 0.17 percentage points. In the South the reduction is considerably larger, at 0.6 percentage points; in the non-South, there is a statistically significant but much smaller negative relationship. Controlling for other policies yields estimates of slightly greater magnitude: the implied effects would be 0.24 percentage points in the country as a whole, and 0.75 percentage points in the South. Compared to the means reported in Table 9, the implied effects of local funding appear to be quantitatively significant: a reduction of 0.0075 is 30 percent of the mean “underrepresentation” of blacks among non-wage income recipients in the South.

The fact that actual receipt of OAA is not observed complicates the interpretation of these estimates. At least two issues arise. The first is that given that a significant number of the elderly received non-wage income other than OAA, the quantitative implications for OAA receipt are difficult to assess even if these results provide an indication as to the existence and direction of an effect. The second is that if whites were more likely than blacks to receive sources of non-wage income other than OAA, in principle any factor that reduces OAA reciprocity, even if it does not change the share of OAA recipients who are black, could reduce the share of non-wage income recipients who are black. Without observing OAA receipt by race, this concern is difficult to address

directly. Yet the results weigh against such an interpretation, at least in the South. In particular, maximum payments (as measured by 99th percentile payments) show a significant relationship with overall reciprocity in Table 1, and if the differences in the share of non-wage income recipients who were black were explained by race-neutral reductions in OAA reciprocity, it is likely that lower maximum payments would also be associated with differential underrepresentation of blacks among non-wage income recipients. However, in column (5) of Table 10, the maximum OAA payment is not statistically significant at any conventional level, and its magnitude, relative to the coefficient on the local funding share, is considerably lower than in the main results.

Given the data constraints, these results are necessarily speculative. Yet they suggest that when counties in the South bore more of the cost of funding relief, blacks were differentially adversely affected. This result suggests that the shift to state administration of old age relief was beneficial to blacks, even in the South.

## 5 Conclusion

A fundamental feature of relief in the New Deal was the shift away from local provision of transfer payments to state and federal provision. Using variation in the division of OAA funding between local and state governments, I find that the shift from local to state funding was critical for the growth of old age support in the New Deal. The regression estimates suggest that had localities needed to fund half of old age payments in 1939 – which was not uncommon as of 1934 – the OAA reciprocity rate would have been 5 percent rather than 22 percent, and perhaps even lower. More speculatively, given the constraints imposed by data availability, there is some evidence that the shift away from local provision of relief benefitted blacks, particularly in the South.

Although not investigated here, it is also possible that the shift from local to state decision-making reduced scope for corruption in public assistance. While the corruption of local relief officials was proverbial before the New Deal, Wallis, Fishback and Kantor (2006) point out that by the end of the 1930s relief was viewed as bureaucratic but not corrupt. They argue that the federal government did not gain from local corruption, and hence reduced corruption in the programs in which it had greater control (such as the Works Progress Administration). Yet it may be something

of a puzzle that complaints of corruption fell for the assistance programs even though the federal government had little power over their administration. It may be that like the federal government, state government officials also saw little benefit from local corruption and hence reduced corruption as they took on a greater role in relief spending. Future research might investigate this question in more detail.

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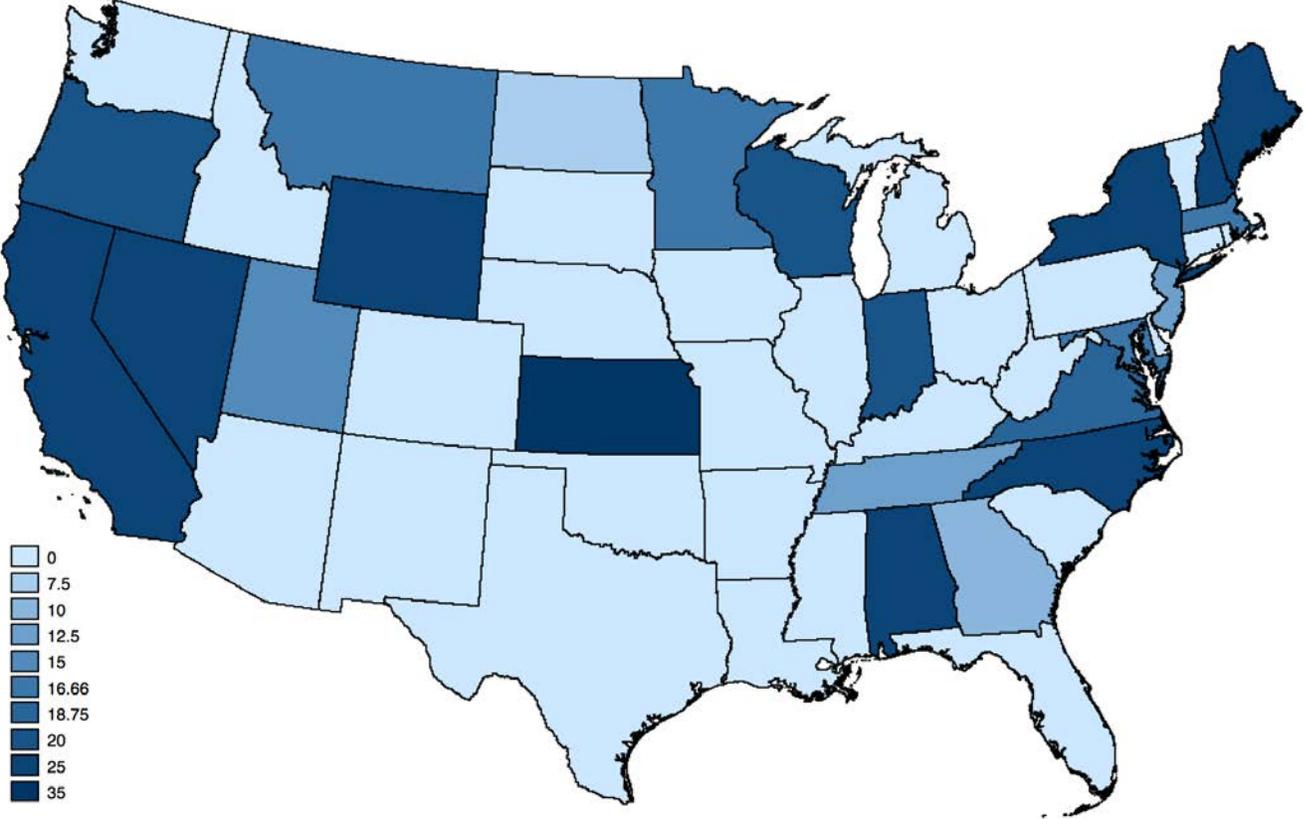
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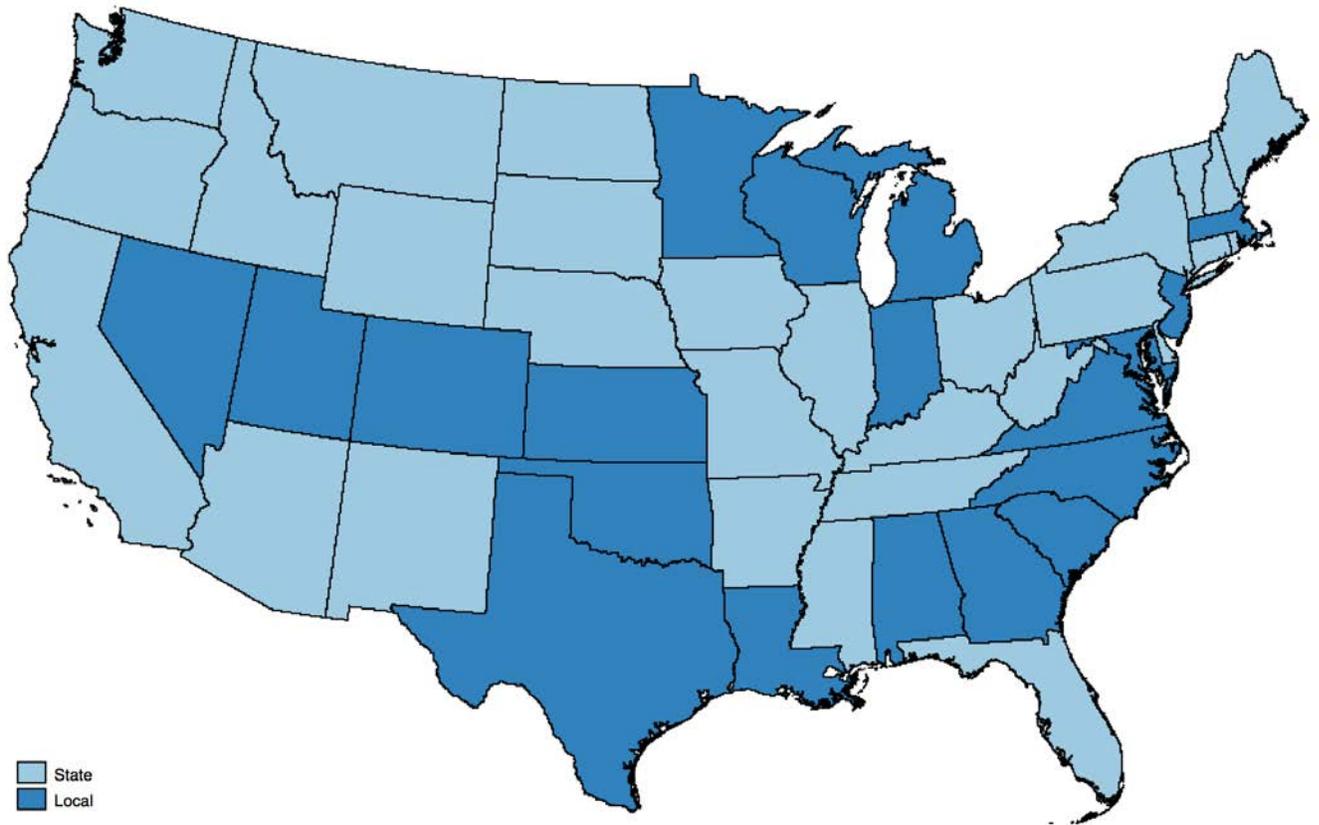
# Figures and Tables

Figure 1: Local government funding shares



Notes: Figure shows percent of OAA payments funded by local government as of October 1939. Source: Characteristics of State Plans.

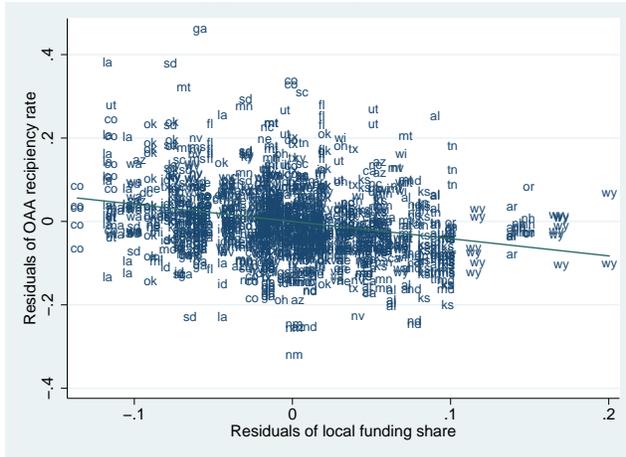
Figure 2: Level of government making final relief decisions



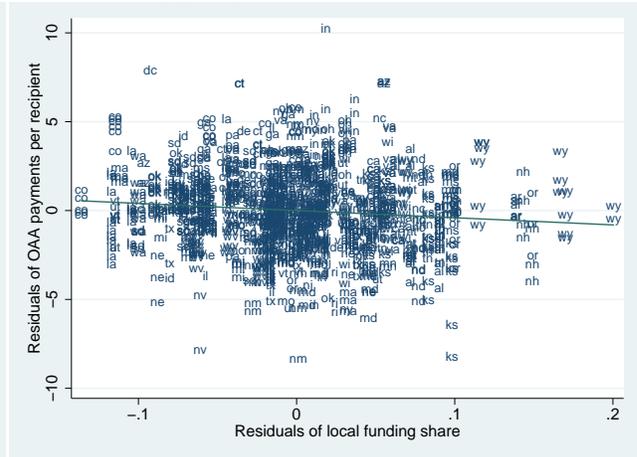
Notes: Figure indicates states in which local governments made final relief decisions as of October 1939. Source: Characteristics of State Plans.

Figure 3: Residual regression plots for main specifications

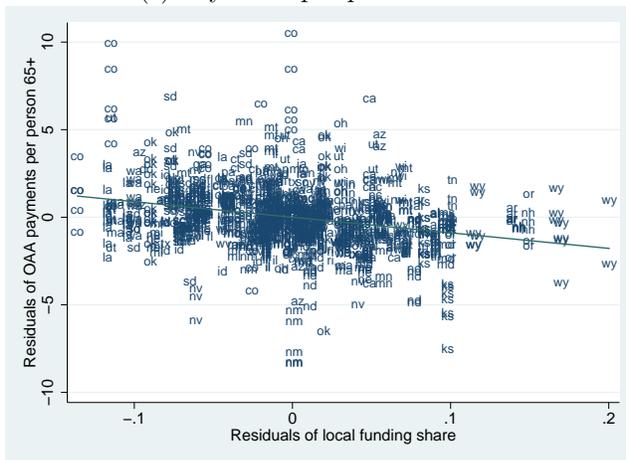
(a) Reciprocity rate



(b) Payments per recipient



(c) Payments per person 65+



Notes: Figures show partial regression plot of each measure of OAA against local funding share, based on specification (4) of Tables 1-3. Observation is a county-state border pair.



Table 1: Relationship between county reciprocity rate and local funding

	(1)	(2)	(3)	(4)	(5)
Local funding share	-0.310*** (0.110)	-0.215* (0.125)	-0.221*** (0.067)	-0.413*** (0.069)	-0.403*** (0.069)
Final decision local				0.036 (0.027)	0.033 (0.027)
99th percentile OAA payment				0.008*** (0.001)	0.009*** (0.001)
Any minimum income+benefit				-0.030 (0.020)	-0.013 (0.023)
Relative responsibility requirement				-0.039** (0.019)	-0.038* (0.020)
Eligibility age of 70				-0.061** (0.025)	-0.065** (0.026)
No citizenship or US residency requirement				-0.027 (0.019)	-0.032 (0.020)
Any property limitation				0.103*** (0.019)	0.096*** (0.018)
Property limit and home disregard				-0.044* (0.026)	-0.036 (0.026)
Claim on property				0.007 (0.016)	0.008 (0.017)
Observations	3095	1320	1320	1320	1319
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X

Dependent variable: county reciprocity rate in December 1939, adjusted for joint reciprocity. For definitions of other policy variables, see text. Population controls are urban population share, nonwhite population share, median years of schooling for men 25+, share of the population below 15 or 65 and above, home ownership rate, share of dwellings not needing major repairs, share of dwellings with running water (all measured in 1940), and the share of dwellings with a radio in 1930. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 2: Relationship between county payment per recipient and local funding

	(1)	(2)	(3)	(4)	(5)
Local funding share	8.425 (9.360)	5.356 (8.616)	-1.105 (2.511)	-4.030* (2.338)	-4.439* (2.391)
Final decision local				0.908 (0.627)	0.960 (0.639)
99th percentile OAA payment				0.267*** (0.045)	0.265*** (0.046)
Any minimum income+benefit				5.002*** (0.802)	4.448*** (0.833)
Relative responsibility requirement				0.921* (0.475)	0.784 (0.474)
Eligibility age of 70				4.501*** (0.648)	4.587*** (0.672)
No citizenship or US residency requirement				-1.512** (0.665)	-1.424** (0.673)
Any property limitation				3.520*** (0.837)	3.640*** (0.859)
Property limit and home disregard				-2.197*** (0.766)	-2.390*** (0.777)
Claim on property				1.284** (0.576)	1.306** (0.581)
Observations	3095	1320	1320	1320	1319
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X

Dependent variable: county payment per recipient in December 1939, adjusted for joint reciprocity. For definitions of other policy variables, see text. Population controls are urban population share, nonwhite population share, median years of schooling for men 25+, share of the population below 15 or 65 and above, home ownership rate, share of dwellings not needing major repairs, share of dwellings with running water (all measured in 1940), and the share of dwellings with a radio in 1930. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 3: Relationship between county payment per person 65+ and local funding

	(1)	(2)	(3)	(4)	(5)
Local funding share	-1.956 (3.669)	-1.579 (4.046)	-4.272** (2.054)	-8.889*** (1.788)	-8.830*** (1.799)
Final decision local				1.632*** (0.575)	1.570*** (0.578)
99th percentile OAA payment				0.180*** (0.026)	0.182*** (0.026)
Any minimum income+benefit				1.318* (0.719)	1.498** (0.729)
Relative responsibility requirement				0.125 (0.493)	0.077 (0.492)
Eligibility age of 70				0.063 (0.495)	0.006 (0.495)
No citizenship or US residency requirement				-0.764 (0.483)	-0.810* (0.482)
Any property limitation				2.548*** (0.466)	2.452*** (0.449)
Property limit and home disregard				-1.122 (0.684)	-1.056 (0.693)
Claim on property				0.052 (0.403)	0.070 (0.407)
Observations	3095	1320	1320	1320	1319
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X

Dependent variable: county payment per person 65+ in December 1939. For definitions of other policy variables, see text. Population controls are urban population share, nonwhite population share, median years of schooling for men 25+, share of the population below 15 or 65 and above, home ownership rate, share of dwellings not needing major repairs, share of dwellings with running water (all measured in 1940), and the share of dwellings with a radio in 1930. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 4: Predicted changes in OAA payments and reciprocity using base specification

	Reciprocity rate (actual=0.216)	Payment per recipient (actual=18.970)	Payment per person (actual=4.092)
0% local funding	0.041	0.350	0.879
25% local funding	-0.062	-0.657	-1.344
50% local funding	-0.166	-1.665	-3.566

Notes: For each combination of local funding and level of decision making, table shows change in OAA reciprocity rates, payment per recipient, and payment per person 65 and above implied by coefficients reported in column (4) of Tables 1-3.

Table 5: Results in base specification are robust to using 1937-1939 changes in funding

	(1)	(2)	(3)	(4)	(5)	(6)
	Reciprocity rate		Payment per recipient		Payment per person	
County funding share	-0.458*** (0.101)	-0.422*** (0.096)	-8.172* (4.141)	-4.749 (4.346)	-8.806*** (1.975)	-8.213*** (1.753)
Observations	2531	2531	2531	2531	2531	2531
County fixed effects	X	X	X	X	X	X
Border-year fixed effects	X	X	X	X	X	X
Other policy variables		X		X		X

Dependent variables: payment per person 65+, reciprocity rate, payment per recipient (latter two are adjusted for joint reciprocity). Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 6: Interacting local funding and decision-making

	(1)	(2)	(3)	(4)	(5)	(6)
	Reciency rate		Payment per recipient		Payment per person	
Local funding share	-0.042 (0.097)	-0.227** (0.087)	6.542 (3.932)	1.270 (2.728)	0.345 (2.186)	-3.643*** (1.258)
Local funding share × final decision local	-0.602*** (0.155)	-0.346** (0.170)	-17.574*** (6.062)	-9.852* (5.303)	-16.506*** (4.559)	-9.751** (3.865)
Final decision local	0.135*** (0.037)	0.063* (0.033)	2.971*** (1.078)	1.679** (0.818)	3.845*** (1.004)	2.396*** (0.743)
Observations	1320	1320	1320	1320	1320	1320
Border fixed effects	X	X	X	X	X	X
Other policy variables		X		X		X

Dependent variables: reciency rate, payment per recipient, payment per person 65 and above. Other policy variables are as in earlier tables. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 7: Predicted changes in OAA payments and reciprocity using interacted specification

<b>Panel A. Reciprocity rate (actual=0.216)</b>			
	Local decision	State decision	Actual decision
0% local funding	0.081	0.018	0.048
25% local funding	-0.062	-0.039	-0.050
50% local funding	-0.206	-0.096	-0.149
Actual local funding	0.024	-0.005	0
<b>Panel B. Payment per recipient (actual=18.970)</b>			
	Local decision	State decision	Actual decision
0% local funding	1.348	-0.332	0.484
25% local funding	-0.798	-0.014	-0.394
50% local funding	-2.943	0.304	-1.273
Actual local funding	0.602	-0.221	0
<b>Panel C. Payment per person (actual=4.092)</b>			
	Local decision	State decision	Actual decision
0% local funding	2.324	-0.072	1.083
25% local funding	-1.025	-0.983	-1.003
50% local funding	-4.373	-1.894	-3.089
Actual local funding	1.000	-0.432	0

Notes: For each combination of local funding and level of decision making, table shows change in OAA reciprocity rates, payment per recipient, and payment per person 65 and above implied by coefficients reported in columns (2), (4), and (6) of Table 6.

Table 8: Validation of non-wage income measure of reciprocity

	(1)	(2)
Reciprocity rate	0.426*** (0.014)	0.354*** (0.022)
Constant	0.464*** (0.004)	
Observations	3068	1310
Sample	full	border
Border fixed effects		X

Dependent variable: Share of population 65 and above reporting non-wage income in 1939. Eicker-White standard errors in parentheses. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$

Table 9: Summary statistics on share of 65+ population with non-wage income who are black

<b>Panel A. All counties</b>			
	Mean	Median	<i>N</i>
Share of blacks 65+ with nonwage income	0.500	0.488	2273
Share of whites 65+ with nonwage income	0.591	0.600	3068
Share black of total 65+ population	0.100	0.010	3068
Share black of 65+ with nonwage income	0.089	0.008	3068
Share black of 65+ with NWI - share black of 65+	-0.011	-0.0003	3068
<b>Panel B. Southern counties</b>			
	Mean	Median	<i>N</i>
Share of blacks 65+ with nonwage income	0.445	0.441	1306
Share of whites 65+ with nonwage income	0.549	0.545	1398
Share black of total 65+ population	0.211	0.151	1398
Share black of 65+ with nonwage income	0.186	0.121	1398
Share black of 65+ with NWI - share black of 65+	-0.025	-0.013	1398

Table reports summary statistics at the county level (unweighted). Southern counties are those in the Census South. Only counties with non-wage income nonmissing for any individuals 65 and above are included.

Table 10: Local funding reduces share black of 65+ non-wage income relative to population share

	(1)	(2)	(3)	(4)	(5)	(6)
Local funding share	-0.0165** (0.0074)	-0.0601** (0.0224)	-0.0039*** (0.0006)	-0.0238*** (0.0071)	-0.0749*** (0.0236)	-0.0037*** (0.0010)
Share black of total 65+ population	0.9446*** (0.0220)	0.9395*** (0.0235)	1.0078*** (0.0094)	0.9434*** (0.0219)	0.9364*** (0.0239)	1.0078*** (0.0093)
Final decision local				0.0022 (0.0029)	0.0092* (0.0046)	0.0001 (0.0002)
99th percentile OAA payment				0.0005** (0.0002)	0.0002 (0.0004)	0.0000 (0.0000)
Any minimum income+benefit				-0.0028 (0.0018)		-0.0004 (0.0005)
Relative responsibility requirement				0.0009 (0.0016)	0.0077 (0.0053)	-0.0003** (0.0001)
Eligibility age of 70				0.0041* (0.0022)		-0.0001 (0.0003)
No citizenship or US residency requirement				-0.0007 (0.0016)	-0.0041 (0.0043)	-0.0002 (0.0002)
Any property limitation				0.0077*** (0.0029)	0.0225** (0.0085)	-0.0000 (0.0002)
Property limit and home disregard				-0.0048 (0.0032)	-0.0144 (0.0093)	0.0002 (0.0002)
Claim on property				0.0065*** (0.0014)	0.0009 (0.0035)	-0.0006 (0.0005)
Observations	1310	559	751	1310	559	751
Region	All	South	Non-South	All	South	Non-South
Border fixed effects	X	X	X	X	X	X
Other policy variables				X	X	X

Dependent variable: share of 65+ receiving non-wage income who are black. No Southern states had a minimum income+benefit or an eligibility age of 70. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$ .

## Appendix

Table A1: Results are robust to inclusion of further controls for economic conditions

<b>Panel A. Reciprocity rate</b>					
	(1)	(2)	(3)	(4)	(5)
Local funding share	-0.289*** (0.102)	-0.207* (0.122)	-0.220*** (0.067)	-0.414*** (0.069)	-0.351*** (0.072)
Observations	3042	1305	1305	1305	1304
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X
<b>Panel B. Payment per recipient</b>					
	(1)	(2)	(3)	(4)	(5)
Local funding share	8.849 (9.361)	5.973 (8.635)	-0.888 (2.557)	-3.691 (2.293)	-3.925* (2.249)
Observations	3042	1305	1305	1305	1304
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X
<b>Panel C. Payment per person 65+</b>					
	(1)	(2)	(3)	(4)	(5)
Local funding share	-1.547 (3.644)	-1.376 (4.037)	-4.260** (2.075)	-8.845*** (1.795)	-7.946*** (1.649)
Observations	3042	1305	1305	1305	1304
Border fixed effects			X	X	X
Other policy variables				X	X
Other county characteristics					X

Dependent variables: reciprocity rate, payment per recipient, payment per person 65 and above. Other policy variables are as in Tables 1-3. Other county characteristics include those in Tables 1-3 as well as unemployment-to-population in 1937 from Haines (2010), WPA spending per capita from 1935-39 from Fishback, Kantor and Wallis (2003), and log per capita retail sales in 1939 from Fishback, Horrow and Kantor (2005). Sample comprises counties for which these variables are available. Standard errors (in parentheses) are clustered at the state level. \*:  $p < 0.10$ , \*\*:  $p < 0.05$ , \*\*\*:  $p < 0.01$