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Welfare Magnets: The Race for the Top

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Strong arguments may be made for the devolution of welfare responsibilities to the states. Given state misincentives, however, the federal government might reasonably prescribe spending ceilings, to prevent state overspending on welfare. Arguments for federally-prescribed minimum payouts are less persuasive. The most promising such argument claims that, absent a federal floor, states will cut benefits in a race to the bottom to prevent becoming a magnet for welfare-seeking migrants. This article’s econometric study of the determinants of AFDC payouts finds no evidence that states react in this way. In any event, such problems might less intrusively be addressed through two-tier residency requirements.

I. INTRODUCTION

Within the next few years, the Supreme Court will likely be asked to review the Personal Responsibility Act of 1996 (PRA),¹ as well as

the new generation of state welfare laws passed in the wake of federal welfare reform. In particular, the Court will likely be asked to pass on two-tier state residency requirements. Under two-tier requirements, states offer recent arrivals from lower payout states the benefits they would have received in their exit state. The existing case law leaves room for such plans to be upheld, and this article argues that state discrimination amongst welfare recipients through two-tier plans reasonably promotes the experimentation needed to reform a flawed welfare system. However, we also argue that the PRA's restrictions on excessive state payouts reasonably respond to an incentive problem inherent in federally-financed plans.

This article asks how welfare responsibilities should be assigned in a federal state. In the United States, the division of power over welfare between federal and state governments has become increasingly controversial. A recent Supreme Court decision did not resolve these issues, but instead invited fresh litigation. Substantial questions remain after the overhaul of federal welfare policies in the PRA. The PRA gives the states greater latitude in shaping welfare policies, but the constitutional basis for the delegation of power is not always clear. The PRA also imposes new fetters on the states, designed to curb excessively generous programs. Yet shortly before signing the bill, President Clinton waived compliance for the very generous District of Columbia program. Thus the debate over the assignment of welfare responsibilities is likely to continue.

Many of the standard arguments for assigning powers to the state level apply in the case of welfare responsibilities. Devolution of welfare powers usefully reduces information costs, promotes experimentation, and permits people to sort themselves out by policy preferences through migration. However, two arguments might be made for retaining a federal role in welfare policy.

First, devolution might result in excessive welfare payouts when the federal government subsidizes state plans through matching grants, as it did from the Great Depression to 1996. Where the

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2 Anderson v Green, 115 S Ct 1059, 1061 (1995) [vacating the judgments of the courts below and ordering the case dismissed in order to “clear[ ] the path for future relitigation of the issues between parties and [to] eliminat[e] a judgment, review of which was prevented through happenstance” (citation omitted)].

costs of a program are shared in this way with out-of-state taxpayers, states may have an incentive to overspend on in-state welfare recipients. Even under block grant financing, states may overspend on welfare programs which subsidize deviant behavior and whose effects are felt out-of-state. If the federal subsidy is to be maintained, these adverse incentive problems argue for federal curbs on excessive payouts of the kinds proposed in the 1994 Contract With America and enacted in the PRA.

If devolution might result in excessive payouts under adverse incentive theories, it has the opposite effect under race to the bottom theories. Since the PRA permits states to impose new eligibility requirements on welfare applicants, it may lead to increased differences in welfare availability amongst the states. More liberal states, with less exacting eligibility requirements, may then attract welfare migrants from more conservative states. This will swell recipient caseloads in the liberal states, and the added financial burden on in-state taxpayers may pressure such states to tighten their eligibility requirements. Less liberal states may follow suit, lest they in turn become welfare magnets. The result is said to be a general movement to tighter eligibility requirements and lower payouts, a prospect some will find troubling.

There are, however, three reasons why race to the bottom theories might fail to persuade. First, welfare opponents will applaud any tightening of welfare eligibility requirements, and regard such a competition as a race to the top. Second, any pressure to cut benefits might be thought a useful counterbalance to the incentive to overspend on welfare spending identified by adverse incentive theories. Third, vote-seeking theories suggest that some states will offer a premium welfare payout to attract welfare migrants. A pro-welfare political party in a state may prize welfare migrants for their political support in elections. When such parties dominate state politics, the state might maintain a high payout, or even increase it, in a competition with other states for welfare migrants.

4 Under block grant financing, the federal government contributes 100% of the state welfare budget up to a floor amount, with states contributing 100% of the cost above this. Under matching grants, the federal government contributes a fixed percentage of the state welfare budget, without a ceiling.

5 Ed Gillespie and Bob Schellhas, eds, Contract With America 67 (Random House, 1994). The Contract with America was a series of legislative proposals that a large number of Republican congressional candidates promised to bring to a vote in the event that the House of Representatives fell under Republican control after the 1994 elections.
This article tests race to the bottom and vote-seeking theories through an econometric study of the determinants of payouts under the Aid to Families with Dependent Children (AFDC) program from 1980-1991. AFDC is in many ways the flagship of the US welfare system. Had there been a race to the bottom, states would have reacted to increased welfare pressure with welfare cuts. We find no evidence that this happened. Instead, welfare pressure is correlated with increased welfare payouts. This result is consistent with vote-seeking explanations, but not with race to the bottom theories.

Part II reviews how the responsibility for setting AFDC policies has been divided between state and federal governments. Parts III and IV then consider arguments for and against assigning welfare responsibilities to the states. Part V reports on an empirical test of the determinants of payout policies, and Part VI concludes with a recommendation that welfare powers be shared between the two levels of government.

II. THE ASSIGNMENT OF WELFARE RESPONSIBILITIES IN A FEDERAL STATE

In a federal system, the financing and design of welfare programs might be assigned to either level of government. On the financing side, welfare programs might be paid for entirely by the federal government or entirely by state governments, or through revenue-sharing schemes to which both levels of government contribute. On the design side, the states might set payouts and eligibility requirements; alternatively, the federal government might dictate design policies, either through its own programs (such as Social Security) or through subsidies to state programs (such as AFDC) where the grants are conditioned on acceptance of federal mandates.

Before the New Deal, states were solely responsible for financing and designing welfare programs. During the Great Depression, however, many states faced sharp declines in revenues and increases

6 AFDC is not the only federal welfare program. Other programs include Medicaid, Food Stamps, and Housing Allowances. But at $22 billion per year, AFDC is the second largest program, after Medicaid. Statistical Abstract of the United States, 1994 384 [Bureau of the Census] [1992 figures]. Moreover, AFDC recipients are almost automatically eligible for Food Stamps and Medicaid. As such, "AFDC is in many ways the key to the welfare system for the single parent." Stuart Butler and Anna Kondratas, Out of the Poverty Trap: A Conservative Strategy for Welfare Reform 138 [Free Press, 1987] ("Butler & Kondratas, Out of the Poverty Trap").
in welfare demands, and the federal government began to finance national and state welfare programs. Since then, it has generally been accepted that wealth transfers from rich to poor states are a proper function of the federal government. Otherwise, have-not states would be forced to reduce welfare payouts below what are considered minimal levels.

The federal subsidy for state AFDC programs began in the 1930s. Until passage of the PRA, the federal government contributed matching funds to state AFDC programs. In low-payout states, the federal subsidy was 80% of the program's cost; in higher-payout states, the subsidy was 50%. After 1996, however, the PRA replaced matching grants with block grant financing. Under block grants, the federal government contributes 100% of the cost of a plan below a floor amount, and nothing above that. For the AFDC program (renamed Temporary Assistance for Needy Families or "TANF" by the PRA), the floor is set by recent state payout levels, with built-in increases for population growth in low payout states.

Federal subsidies, whether through matching or block grants, often come with strings, and the AFDC/TANF program is no exception. Before the PRA, federal fetters restricted "workfare" (which requires welfare recipients to seek and accept employment in some circumstances) and residency requirements, and were resented by conservative states, which sought waivers from the federal rules. By contrast, the PRA's restrictions, largely inspired by the Republican Contract With America, mandate workfare, place a five-year limit on welfare eligibility, and

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7 Paul E. Peterson and Mark C. Rom, Welfare Magnets: A New Case for a Federal Standard 96 (Brookings Institution, 1990) ("Peterson & Rom, Welfare Magnets"). Republicans had opposed the turnover of Social Security to the federal government, on the grounds that it should be directed at the truly needy rather than all Americans. As such, it was difficult for them to oppose a means-tested program like AFDC. In addition, some states lacked the funds to finance their own program during the Depression.


9 PRA § 403, 110 Stat at 2115.

10 As welfare reform was debated in Congress, the waiting time for a waiver increased to almost a year. Jonathan Rabinovitz, U.S. Opposing Welfare Rules in Connecticut, NY Times Al (Dec 9, 1995).

11 PRA § 402, 110 Stat at 2113.

12 PRA § 408, 110 Stat at 2134.
prohibit payouts to teenage parents who do not live in an adult-supervised setting. The PRA also places congressional approval on two-tier plans, in which recent interstate immigrants are offered lower benefits than long-term residents. State plans must “indicate whether the state intends to treat families moving into the state from another state differently than other families under the program, and if so, how the state intends to treat such families under the program.” Section 404(c) then provides that a state “may apply to a family the rules (including benefit amounts) of the program funded under this part of another state if the family has moved to the state from the other state and has resided in the state for less than 12 months.”

This delegation of power will likely be subjected to a constitutional challenge. In Shapiro v Thompson, the Supreme Court held that Connecticut’s residency requirements impermissibly fettered the mobility rights of individuals. The Court noted that there was “weighty evidence that exclusion from the jurisdiction of the poor who need or may need relief was the specific objective of these provisions.” The plan struck down in Shapiro, however, is distinguishable from the two-tier plans authorized by the PRA, because Connecticut denied all relief to welfare recipients during the residency period. By contrast, two-tier plans simply reduce benefits during the qualifying year, and thus do not threaten “the ability of the families to obtain the very means to subsist.”

13 Id.
14 Prior to the PRA, several high payout states sought to adopt two-tier residency requirements to chill welfare-motivated migrants from low payout states. For example, Wisconsin has historically offered a more generous payout than neighboring Illinois, where payouts are about 40% lower. Dirk Johnson, Rethinking Welfare: Interstate Migration—A Special Report: Larger Benefits Lure Chicagoans to Wisconsin, NY Times A11 [May 8, 1995] (“Johnson, Rethinking Welfare”). See also Peterson & Rom, Welfare Magnets, at 26-47 [cited in note 7]. Because it feared becoming a welfare magnet, Wisconsin sought and obtained a waiver to adopt a two-tier system in southern Wisconsin. However, the waiver was granted near the end of the Bush administration, and subsequent requests by other states for a two-tier waiver were turned down by the Clinton administration.
15 PRA § 402[a](1)[B], 110 Stat at 2113.
16 394 US 618, 628 [1969].
17 Id.
18 Similarly, a complete denial of welfare to aliens who are not long-term residents was struck down under the equal protection clause in Graham v Richardson, 403 US 365, 374-75 [1971]. Unlike naturalization laws, which require a “uniform rule” under US Const, Art I, § 8, cl 4, and federal as opposed to state action, Mathews v Diaz, 426 US 67, 84 [1976], block grants to states for public assistance do not seem to mandate such a unitary approach. On the contrary, one of the purposes of the Personal Responsibility Act is to promote flexibility and experimentation.
19 394 US at 627. We note that the Supreme Court did not criticize the two-tier plan in Anderson v Green, 115 S. Ct. 1059 [1995]. The plan in that case would
There is another reason why a new generation of two-tier welfare plans may survive constitutional challenge. So long as they have a reasonable basis for doing so, states are permitted to discriminate amongst welfare recipients.\textsuperscript{20} In \textit{Dandridge v Williams},\textsuperscript{21} for example, the Court upheld the Missouri "family cap," in which families were not permitted to receive more than a stipulated amount. The desirability of promoting experimentation may then supply the reasonable basis for residency barriers. While the old AFDC program was based on an entitlement to public assistance, the PRA explicitly denies welfare entitlement,\textsuperscript{22} and promotes state experimentation to address the problems of poverty. Unless two-tier plans are permitted, however, states might refuse to experiment lest they attract welfare migrants.

The Supreme Court has upheld residency requirements in other contexts in order to preserve the integrity of idiosyncratic state laws. For example, the Court upheld Iowa’s one-year residency requirement for divorce to prevent migrants from making a mockery of the state’s liberal divorce laws.\textsuperscript{23} A state might "quite reasonably decide that it does not wish to become a divorce mill for unhappy spouses" from out-of-state.\textsuperscript{24} The Court could well apply the same logic to the residency requirements authorized by the PRA, especially in light of the strong case that can be made for devolution in terms of constitutional design.

\section*{III. \textsc{The Case for Devolution}}

This Part examines the arguments for assigning welfare responsibilities to state governments in a federal system. Devolution merely have restricted new arrivals to the payout they had received in their emigration state during a one-year waiting period, in the same manner as contemplated by the PRA. Because the federal waiver for the plan had been vacated in a separate proceeding, however, the Court found that the case was not ripe. See id at 1060. Inasmuch as the Court held that it did not have a justiciable controversy before it, the absence of comment on the merits of the two-tier plan is probably insignificant.

\textsuperscript{20} See \textit{Jefferson v Hackney}, 406 US 535, 546 (1972) ("So long as its judgments are rational, and not invidious, the legislatures’s efforts to tackle the problems of the poor and the needy are not subject to a constitutional straitjacket.").


\textsuperscript{22} See PRA § 401(b): “This part shall not be interpreted to entitle any individual or family to assistance under any state program funded under this part.”

\textsuperscript{23} \textit{Sosna v Iowa}, 419 US 393 (1975).

\textsuperscript{24} Id at 403.
(1) avoids the costs of uniform payouts, (2) economizes on information costs, (3) promotes experimentation, (4) permits natives to "vote with their feet" by settling in jurisdictions whose policies they favor, and (5) weakens the relative power of established interest groups.

In what follows, we assume that government wealth transfers in general, and the AFDC program in particular, are a public good. That is, we assume that states consider welfare recipients deserving and wish to provide for them, and that private charities are inadequate to the task. The argument for making this assumption begins by acknowledging that without public welfare, tax burdens would be lighter, and taxpayers could contribute more heavily to private charities. But the taxpayer might prefer to free ride on the charitable contributions of others, since his contribution will make little difference to overall poverty levels. He would then give less to private charity than he might if all parties could bind themselves against free riding. In a hypothetical bargain, the covenant against free riding will take the form of mandatory taxes and public welfare programs.

We note, however, that this argument is increasingly controversial. The median voter's desire to fund public wealth transfer programs might arise entirely from his belief that moneys will be funneled to him.\(^\text{25}\) Conservative critics also suggest that public welfare programs, so far from being a good, have actually harmed communities by subsidizing deviant behavior. The AFDC program is particularly controversial. When the program began in the 1930's, only widowed, divorced and abandoned wives qualified. Today, however, more than half the recipients have never been married.\(^\text{26}\) For traditional religious believers, the subsidy for illegit-


\(^\text{26}\) *Green Book, Background material and data on programs within the jurisdiction of the Committee on Ways and Means* [GPO, 1994].
Imancy is wrong in itself. In addition, there is a good deal of evidence linking illegitimacy with other social pathologies, such as crime. The assumption that free rider problems prevent private charities from substituting for public welfare has also been challenged. Private charities were active before the advent of the modern welfare state. Since they were sponsored by religious groups, they were also more successful in reforming the recipient.

We note that the validity of our findings do not depend on accepting the conservative critique of modern welfare programs.

A. Diverse Local Conditions

The first argument for devolution is not so much for the assignment of welfare powers to the states as it is against uniform national payouts. The cost of living varies substantially amongst and within states, and a parsimonious payout in New York City might be excessive in Idaho. More nuanced programs, such as those conditioning benefits on skills training or work by the recipient, will also be sensitive to local conditions. For example, workfare requirements might make little sense if low-skill jobs are not available. Optimal welfare policies must also take regional social norms into account. Where the social stigma of unemployment and illegitimacy is severe, for example, a state may have less to fear from the perverse incentives of welfare.

B. Local Informational Advantages

Diverse local conditions are not in themselves an argument for devolution, as the federal government might in theory set up a separate program for each state. But it is unlikely that the federal gov-

27 AFDC payouts were found to be positively and significantly correlated with higher illegitimacy rates in Margaret F. Brinig and F.H. Buckley, The Price of Virtue, Public Choice (forthcoming 1997) ("Brinig & Buckley, Price of Virtue").
28 The evidence is reviewed in David Popenoe, Life Without Father 52-78 [Free Press, 1996] ("Popenoe, Life Without Father").
29 Marvin Olasky, The Tragedy of American Compassion [Regnery Gateway, 1994].
ernment could discriminate amongst regions as easily as states might, because of the local informational advantages enjoyed by lower levels of government. As the Supreme Court has noted, "a decentralized government . . . will be more sensitive to the diverse needs of a heterogenous society."31 If the point were simply to transfer money, the federal government might do the job as well as the states. But if disincentives to work and incentives to illegitimacy are also of interest, we should not expect central welfare planning to be more successful than central economic planning.

C. Competitive Federalism and the Race for the Top

The third argument for devolution is that it promotes experimentation and the search for optimal welfare policies. The success and failure of competing plans is more readily tested where states are permitted to adopt different programs.32 For this reason, competition among the states in the provision of corporate law is generally thought to have resulted in a superior law. In a race to the top, Delaware has emerged as the winner both in quantity and quality. This would not have happened had a uniform federal law been imposed on the states.33

States compete for people as well as for corporations. More than a century ago, Frederick Jackson Turner's frontier thesis described a competition for valuable migrants and natives.34 Frontier states in the West, with fewer geographical advantages, competed for people through efficient laws and democratic institutions. Faced with the loss of valuable natives, Eastern states responded by adopting similar legal regimes. Like the competition for corporate charters, then, the competition for migrants described by Turner was also a race for the top.

32 Swift & Go. v United States, 196 US 375, 398 (1905) (Holmes); New State Ice Co. v Liebmann, 285 US 262, 311 (1932) (Brandeis, dissenting); Arizona v Evans, 115 S Ct 1185, 1200-01 (1995); United States v Lopez, 115 S Ct 1624, 1640 (1995) (Kennedy, concurring).
States may also compete for residents through their welfare policies. A wasteful policy may attract deadbeat migrants and prompt out-migration by valuable natives. This may explain why the demand for welfare reform came first from state governments rather than from the federal government. Prior to the PRA, the most interesting welfare initiatives emerged from the states, and were blocked through the denial of federal waivers. After the PRA, state experimentation has accelerated, as states have taken advantage of their new powers to innovate. For example, Florida proposes to cut payments for additional children born to welfare mothers; Connecticut and Oregon will subsidize the wages of working welfare recipients; Michigan will sponsor a mentoring program with ties to a religious group; Kentucky will pay moving expenses for those wishing to relocate to work; Arkansas might pay a cash bonus to those who find a job; and Maine will ask caseworkers to make home visits. Over time, these initiatives will be tested in the laboratory of the states.

Even without migration, states may have an incentive to improve their welfare plans. Where exit options are closed, in-state residents might voice their dissatisfaction with a failed and costly welfare system at election time. But the exit (and entry) option of migration will sharpen the incentives to experiment, and hasten the race to the top.

This assumes that states can attract or repel migrants through their internal policies. For some residents, the pecuniary and emotional costs of migration will be too great, and they will stay put. However, one can trivialize the costs of not migrating. People move when the costs of remaining in place exceed migration costs, and this happens often. About 40% of Americans do not reside in their state of birth. Another 8% of Americans are for-

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37 On welfare migration, see Jon Jeter and Judith Havemann, Rural Poor May Seek Greener Pastures: Welfare Recipients Face Prospect of Moving Where the Jobs Are, Wash Post A1 [Oct 14, 1996].

38 Kristin A. Hansen, 1990 Selected Place of Birth and Migration Statistics for States at Table 1 (Bureau of the Census, 1991).
State politicians must therefore assume that on average about half of their residents will be migrants. This proportion is higher still if one includes the descendants of migrants.

There is some evidence that differential welfare payouts influence migration flows. In an earlier study, we regressed 1985-1990 migration flows on socio-economic predictors, and found that higher AFDC payouts are significantly and positively correlated with in-migration and significantly and negatively correlated with out-migration. Welfare recipients have also been said to respond quickly to payout cuts. For example, Massachusetts reported an exodus within months of its 1995 welfare cuts.

The race for the top theory also assumes, not unreasonably, that states consider migration flows when fashioning internal policies. Where half of its residents are up for grabs, states have an enormous stake in the market for migrants. Differences in wealth in the world, and within the United States, depend more on people and human capital than on physical assets and material capital. A state government that seeks to maximize tax revenues will therefore seek to attract value-increasing people and repel value-decreasing ones.

D. Diversity and Choice

The fourth argument for devolution is that it permits Americans to settle in jurisdictions whose policies match their preferences as to taxes and welfare. Where preferences are idiosyncratic, the diversity of outcomes under devolution provides more choice for Americans, who can sort themselves among states by voting with their feet. Where migration is costless and there are no geographic constraints on opt-out rights and the number of states which may emerge, Charles Tiebout has shown that the exit option of migration results in Pareto-optimal government services.

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41 Welfare Exodus, USA Today A3 [Mar 15, 1995]. Mayor Giuliani has expressed the hope that New York City's welfare cuts will persuade some welfare recipients to move elsewhere. Johnson, Rethinking Welfare [cited in note 14].
Tiebout's argument for diversity is particularly strong where government programs, such as AFDC, may have adverse social consequences. Given the AFDC subsidy for illegitimacy, and the link between illegitimacy and other deviant behavior, there is much to be said for permitting states to go their own way. Liberals who object to traditional social values would then be able to settle with like-minded people, without the fear that conservatives will impose their values on them, and without imposing their values on conservatives.

E. Weakened Interest Group Clout

On interest group theories, it is not surprising that the demand for welfare reform has come primarily from state governments, rather than from the federal government. The relative clout of entrenched interest groups is weaker at the local level, where it is easier to organize dispersed voters. In contrast, voters are more dispersed at the federal level, and interest group clout is more likely to be overpowering.

This explains why public sector wages are higher in larger jurisdictions. It also explains why states are more likely to adopt educational and welfare reform than is the central government. Liberal interest groups, such as the National Education Association and the Children's Defense Fund, have considerably more relative clout at the national than at the state level.

IV. THE CASE AGAINST DEVOULATION

Five arguments may be made for assigning welfare responsibilities to the federal government. Centralizing welfare powers might be thought (1) to serve the distributional goal of increasing payouts, or (2) to promote communitarian sentiments at the national level. More plausibly, the federal government might be allocated the power to police excessive state payouts. State payouts might be

apportioning the entire population into homogenous groups, the equilibrium may be unstable. Susan Rose-Ackerman, Market Models of Local Government: Exit, Voting, and the Land Market, 6 J Urban Econ 319 (1979).


46 Butler & Kondratas, Out of the Poverty Trap at 89 [cited in note 6].

47 Peterson, Price of Federalism at 36 [cited in note 45].
excessive because (3) they ignore the spillover social costs of their programs, or because (4) federal matching grants permit states to export financing costs to other states. Finally, (5) on race to the bottom theories, assigning welfare responsibilities to the federal government might prevent a destructive competition by states to reduce welfare migration by cutting payouts.

A. Distributional Theories

Many welfare supporters oppose devolution because they believe that federal payouts are systematically more generous than state ones. As an empirical matter, this is generally the case. But as an argument against devolution as matter of constitutional design, this cannot do. If we all agree as to what the optimal payout should be, it is irrelevant which level of government is assigned the responsibility over welfare payouts.

The argument is also dependent on present, contingent political divisions rather than permanent constitutional principles. Twenty-five years ago, welfare supporters opposed national standards under President Nixon's Family Assistance Plan because they thought that this would reduce payouts in key states. With a change in political advantage, they might support devolution again. Indeed, today it is the liberal who supports federal waivers from the PRA's restrictions on lax eligibility standards.

B. Communitarian Values

Assigning welfare responsibilities to the states might be thought to weaken social norms, loyalty sentiments and communitarian values at the national level. Where outcomes are equalized by a federal government, one plausibly feels closer ties to it than to state governments. This may in part explain why the citizens of this country are increasingly likely to regard themselves more as Americans than as residents of a particular state.

The gain in communitarian sentiment at the national level must nevertheless be balanced against communitarian losses at the state level. As the closest ties tend to be local, these losses plausibly exceed the gain. If anything, communitarian ties of any kind were

48 Peterson & Rom, Welfare Magnets [cited in note 7].
49 Lopez & Tanner, Welfare Reform Bypass [cited in note 3]; Havemann, Welfare Oasis [cited in note 3].
generally stronger in the past, when ties to states were stronger. Centralizing welfare responsibilities in a remote federal government might thus have weakened communitarian sentiment, as well as support for wealth transfer policies.\footnote{Mark V. Pauly, Income Redistribution as a Local Private Good, 2 J Pub Econ 35 (1973); but see Helen F. Ladd and Fred C. Doolittle, Which Level of Government Should Assist the Poor?, 35 Nat Tax J 323 (1982) (presenting survey findings that Americans see welfare policies as fulfilling national goals).}

C. Exporting Social Costs

State welfare policies may impose external costs on non-state residents. As these costs are borne by non-voters, state officials can be expected to ignore or undervalue them. State welfare policies might thus be inefficient, as compared with welfare policies set by a broader level of government which better internalizes the external costs.\footnote{On standard theories of fiscal federalism, the borders of a state in a federal system, and the assignment of jurisdictional responsibilities, should be determined by the geographic boundaries of public goods and externals costs. Oates, Fiscal Federalism at 11-13 [cited in note 8].}

The AFDC subsidy of illegitimacy has been seen as a root cause of crime and other social pathologies.\footnote{Brinig & Buckley, Price of Virtue [cited in note 27]; Popenoe, Life Without Father [cited in note 28].} These pathologies cross borders, through migration and crimes committed in border cities. To the extent that a state ignores the foreign consequences of its social policies, its AFDC payouts might be too generous or too readily available. This suggests a justification for federal restrictions on excessive payouts, such as those found in the PRA.

D. Adverse Fiscal Incentives

Federal restrictions on state payouts might be justified on a second adverse incentive theory. Where a welfare program is entirely self-financed by a state, the state has an incentive to maximize the program’s total benefits less costs. But where it can export part of the costs to another state, it may have an incentive to overspend on the program.\footnote{Buchanan & Tullock, Calculus of Consent at 135-40 [cited in note 44]. For an application to state banking regulation, see Henry N. Butler and Jonathan R. Macey, The Myth of Competition in the Dual Banking System, 73 Cornell L Rev 677 [1988] (arguing that devolution of banking oversight responsibilities results in an inefficient race to the bottom because federal deposit insurance permits state banks to export costs to other states.)} For example, prior to the PRA, the federal government provided at least 50% of the cost of state AFDC programs,
with no ceiling on payouts. Because 100% of the payouts remained in the state, while almost half of the costs were exported to other states, states had an incentive to overspend on AFDC.

These misincentives are addressed in two ways by the PRA. First, replacing matching with block grants removes the incentive to overspend above the amount of the federal grant.\textsuperscript{55} Under block grants, states bear 100% of the costs of welfare budgets above federal grants, and the incentive to free ride on out-of-state taxpayers is eliminated. Second, the PRA mandates strict workfare and eligibility requirements that will reduce the ability of a state to overspend on welfare.\textsuperscript{56}

E. The Race for the Bottom

The market for migrants described in Turner's frontier thesis is a race for the top, with states adopting value-increasing laws to attract valuable migrants. However, the competition for migrants may be less benign when states compete for migrants through their fiscal and welfare policies. Suppose that natives in two adjoining states have the same mean income, but that one state has a smaller dispersion of incomes as a consequence of a more generous welfare system (at the lower end of the distribution) and a more progressive tax system (at the upper end). We would expect high earners in the more egalitarian state to emigrate to the other state, and welfare recipients to migrate in the opposite direction.\textsuperscript{57}

To avoid becoming a welfare magnet, a state might cut its benefits. Payouts might then be smaller under devolution than they would be in a unitary state. Or, to put it another way, a welfare-loving state might be prepared to offer a generous payout to its own natives, but may not wish to support the higher financial burden associated with payouts to recent arrivals from other states. If prevented from differentiating between these two classes of potential recipients, however, the state may simply reduce payout levels and tax rates. When high-payout states do so, less generous states may follow, lest they ascend to the head of the queue.\textsuperscript{58}

Whether this amounts to an argument against devolution is very much an open question. Welfare supporters will regard a competi-

\textsuperscript{55} PRA §403, 110 Stat 2115.
\textsuperscript{56} PRA §402, 110 Stat 2113; PRA §408, 110 Stat 2134.
\textsuperscript{57} Buckley, \textit{Immigration Policies}, 16 Int'l Rev L & Econ 81 (cited in note 39).
\textsuperscript{58} Jerry L. Mashaw and Susan Rose-Ackerman, \textit{Federalism and Regulation}, in George C. Eads and Michael Fix, eds, \textit{The Reagan Regulatory Strategy: An Assessment} 111 [Urban Institute Press, 1984] (suggesting that competition among states discourages social welfare programs that increase costs to firms).
tion to reduce payouts as distributionally troubling.\(^{59}\) In addition, welfare migration gives rise to wasteful moving costs which would be eliminated through uniform national payouts. But the gains from eliminating migration costs might well be exceeded by the loses of inefficient decisions not to migrate. Uniform programs raise the payouts and subsidize residence in economically depressed states. For example, Canada's costly equalization programs have been criticized for reducing have-not provinces to a state of dependency.\(^{60}\) As for distributional concerns, AFDC cuts will be applauded by conservatives, who object to the subsidy for illegitimacy. Competitive pressures to cut welfare might also be thought a useful counterweight to the adverse incentives to adopt excessive payouts noted in Part III above.

Moreover, it is by no means clear that competitive pressures under devolution will lead states to cut welfare benefits. Claims that the only possible equilibrium in the competition for migrants arises after a race for the bottom rest on unstated assumptions about what motivates states. On other assumptions, which are not implausible, state payouts will converge to the mean, not the bottom.

Convergence will be to the mean when states have preferences as to the size of the welfare budget, but not as to the identity of the recipients or the per capita payout. Suppose that states first forecast the total cost of welfare programs, and then determine payout levels by dividing this amount by the number of anticipated recipients.\(^{61}\) Assume that contiguous States A and B have total fixed welfare budgets of \(W_A\) and \(W_B\), to be distributed to \(R_A^0\) and \(R_B^0\) recipients, respectively. All welfare recipients are mobile, and moving costs are trivial. Where the per-recipient payout is higher in State B, welfare recipients will migrate there from State A so long as:

\[
\frac{W_A}{R_A^0 - M} > \frac{W_B}{R_B^0 + M}
\]  

where \(M\) is the number of welfare recipients who migrate from State A to State B. As the migration continues, the per recipient payout in State B will fall (since \(R_B^0 + M\) is increasing), while the

\(^{59}\) Peterson & Rom, *Welfare Magnets* [cited in note 7].


\(^{61}\) Which they may do even if, as a matter of form, they are asked first to calculate a recipient "needs standard." Peterson & Rom, *Welfare Magnets* at 7 [cited in note 7]. Given rational expectations, states will set per capita payout levels with an eye on total welfare budgets.
per recipient payout in State A will increase (since $R_A - M$ is falling). The migration will stop only when payouts equalize and the incentive to move disappears:

$$W_A/(R_A - M) = W_B/(R_B + M).$$  \hspace{1cm} (2)

Suppose, for example, that State A's welfare budget $W_A$ is $10,000, which it proposes to pay out entirely to its 100 recipients $R_A$. Absent migration, each recipient would therefore expect to be paid $100. State B has a like number of welfare recipients $R_B$, but a welfare budget $W_B$ of $12,000. Without migration, the payout to State B welfare recipients will be $120. Given this differential, State A recipients will migrate to State B until per capita payouts are equalized. This will happen when 9 migrants have moved from State A to State B, and per-recipient payouts are approximately $110 in each state. At that point, welfare migration will stop, since State B payouts would fall to $109.09 and State A payouts will increase to $111.11 with the tenth migrant.

Welfare migration will therefore result in a decline in the per-recipient payout in the more generous state. This is not a race to the bottom, however, as payouts in the less generous state will have increased. In addition, payout cuts may be smaller as a consequence of welfare migration. Suppose that State B reduces its welfare budget to $9,000, while State A maintains its $10,000 budget. State B payouts will initially fall to $90, while those in State A will remain at $100. The difference in payouts will attract welfare migrants from State A to State B, and payouts will equalize at $95 per capita. Migration will benefit both the recipients who move from and those who remain in the low payout state.

Next, we relax the assumption that states are indifferent as between natives and migrants. Suppose that State B cares less for new arrivals and anticipates welfare migration. It might then cut its welfare budget by $D. Adjusting equation (2):

$$W_A/(R_A - M) = (W_B - D)/(R_B + M).$$  \hspace{1cm} (3)

Where $D$ is $500, and the other numbers are unchanged, the per-recipient payout in both states will converge to $107.50. Thus the result is not a race to the bottom, but convergence around a discounted mean. The size of the discount will depend on the level of migration flows.

---

62 We assume that preferences as to natives are asymmetrical, and that State B's desire to repel welfare migrants is stronger than State A's desire to retain them. Otherwise State A would increase its payouts to prevent out-migration by welfare recipients.
A race to the bottom may, however, obtain where low-payout states adopt a policy of keeping per-recipient payouts constant. For example, State A might consider that its initial payout was fair, and that out-migration permits it to economize on welfare and spend money for other purposes. State A will then maintain a constant per-recipient payout of \( \frac{W_A}{R_{A0}} \), while State B will continue to provide \( \frac{(W_B - D)}{(R_B + M)} \), so long as this exceeds \( \frac{W_A}{R_{A0}} \). With a relatively large number of State A recipients, convergence will be at its payout of $100 per recipient, with 15 welfare recipients migrating from State A to State B. The State B welfare budget will remain at \( \frac{W_B}{R_B} = 11500 \), while that of State A will fall to \( \frac{[W_A/R_{A0}] \cdot (R_A - M)}{R_{A0} - M} = 8500 \).

There is another reason why convergence might be to the lowest payout. If welfare seekers can migrate, so too can the wealthy. With lower payouts comes a lower tax burden, disproportionately benefiting high earners in a progressive tax regime. The high payout state might then see its tax base erode when high earners leave the state. Wealthy citizens might simply see redistribution schemes as a taking, and migrate to low tax states. To the extent that this permits voters to sort themselves out by their policy preferences, it is a useful example of voting with one's feet. But the wealthy might leave a high payout state even if they feel empathy for welfare recipients. While the high earner might prefer to see adequate provision made for welfare recipients, his own defection will by itself have little effect or no effect on total welfare budgets. He can therefore free ride on the wealthy natives he leaves behind them.\(^{64}\) But there will be fewer of these after the mobile wealthy have migrated, and the state might respond by cutting welfare benefits.

Changes in patterns of payouts offer weak support at best for race to the bottom theories. As seen in Figure 1, real average AFDC payouts rose over the period 1951-1970, then fell in the 1970s, and remained relatively stationary in the 1980s. Unless welfare migration was restricted to one decade only,\(^{65}\) there is little to suggest that states feared becoming welfare magnets. A more serious diffi-

\(^{63}\) The State B per capita payout will never fall below the initial State A per capita payout, since the incentive to migrate would then disappear.\(^{64}\) Albert Breton and Anthony Scott, *The Economic Constitution of Federal States* 127 (U Toronto, 1978).

\(^{65}\) Migration by the poor is not a new phenomenon. One of the most important demographic shifts in American history was the Great Migration of Blacks northwards between the two world wars. On the other hand, residency requirements were declared unconstitutional by the Supreme Court in 1969, so welfare recipients may plausibly be thought to have become more mobile in the 1970s. Peterson & Rom, *Welfare Magnets* at 17 (cited in note 7).
The difficulty is that real average payouts did not converge, but instead became more dispersed. The coefficient of variation (the annual standard deviation divided by the mean) increased, as may be seen in the following OLS regression on the time trend:

Coefficient of Variation = 0.299 (55.6) + 0.00187 Year (8.16)

R² (adj.) = 62.7%. T-statistics in parenthesis. Number = 40.

As seen in Figure 2, moreover, the increase in dispersion is fairly constant throughout the forty-year period. Remarkably, increases in federal matching grants to low-payout states during the period were not associated with reductions in the variance of benefits levels.\(^6\)

The following Part of this article suggests several explanations why payout differentials persisted, and tests them in an econometric study of the determinants of AFDC payouts.

V. AN EMPIRICAL TEST

The previous two Parts examined arguments for and against devolution. The arguments for devolution made a presumptive case for turning control over welfare policies to the states. The arguments

against devolution might justify federal restrictions on excessive state payouts, such as those proposed in the Contract with America and enacted in the PRA, because of a concern with adverse incentives. Federal restrictions on inadequate state payouts are harder to justify. The most prominent argument for federally-mandated floors is the race to the bottom theory, according to which states will compete to lower their payouts lest they attract welfare-seeking migrants. This Part tests this and other explanations for the variance in state AFDC payouts.

A. The Persistence of Payout Differentials

The previous Part noted that race to the bottom theories predict that state welfare payouts will converge over time, and that AFDC payouts have failed to do so. There are three possible explanations for this.

The first is that welfare migrants might have been too few in number to make any practical difference. Even with differential payouts, the material and emotional costs of moving might keep most recipients in low payout states from migrating to high payout states. Because welfare recipients have no incentive to move when the costs of migration (C) exceed the benefits of a higher payout, payouts will never converge to the same level.
However, it is unlikely that moving costs alone explain the persistence of payout differentials. Moving costs have likely declined over time, but payout disparities are long-standing, and even increased between 1951 and 1990. Moreover, moving costs cannot explain regional patterns in payouts, as seen in Figure 3. Moving costs do not differ much amongst regions, and yet regional payout disparities are striking. In addition, many migrants will find that moving costs are trivial. If one has to move in any event, transportation costs might not be much greater for an out-of-state than for an in-state move. As for the emotional costs of moving, these are sometimes exceeded by the emotional costs of staying put, and the sentimental value of remaining in a crime-ridden inner city might be small. Finally, there is reason to think that welfare migration is not trivial in size. Many Americans move, the poor are more mobile than the non-poor, and higher welfare payouts appear to attract migrants.  

\[ W_A/[R_{A0} - M] = [(W_B - D)/(R_{B0} + M)] - C. \]  

\[ (4) \]

68 Brinig & Buckley, Deadbeats (cited in note 40).
The second reason why payout disparities might have persisted is because of long-term regional differences in economic conditions and attitudes toward welfare. Poorer states might simply be unable to afford the more generous payouts of wealthier states. In that case, however, one might have expected that differential federal subsidies would have resulted in a greater convergence. Before the PRA, the federal matching grant was 80% for low-payout programs, and only 50% for high payout ones.

The third reason why payouts might not have converged is because, on vote-seeking theories, state political parties have an incentive to promote in-migration by their supporters and out-migration by their opponents. Welfare recipients cast votes, and a pro-welfare political party might want its state to be thought a welfare magnet. The prospect of out-migration by welfare-haters might also appeal. Other states, dominated by other political parties, might seek to attract the welfare-haters, and to induce native welfare-lovers to leave. The two states will then trade off voters like the Spratt family at table. Neither state will adopt the same welfare policies they would in a world of closed borders.

It is reasonable to suppose that welfare payouts are set in part with an eye to migrant votes. If politicians find it useful to compete for votes through the promise about welfare levels, and differential welfare payouts prompt migration, they might find little reason to prefer native to migrant votes. Federal immigration policies are in fact shaped in part by the competition for immigrant votes, even though non-citizens are not permitted to vote until naturalization.

Vote-seeking theories may be seen as a simple application of the median voter theorem, in which all voters with incomes below the median support redistribution to themselves. In another respect, however, the two theories differ. On median voter theories, a party’s policies are seen as fluid, and the sentiments of the median voter as

69 In addition, regional differences in the cost of living likely explain part of the variance in payouts. However, Peterson and Rom report that the variance in welfare payouts is far greater than the variance in cost of living figures. Peterson & Rom, Welfare Magnets at 11 (cited in note 7).

70 Even if not so frequently as better-off voters. However, this simply means that the voting strength of a block of welfare recipients must be discounted. It does not mean that a political party cannot rationally court welfare supporters.

71 Brinig & Buckley, Deadbeats [cited in note 40]. Of course, one does not expect politicians to announce plans to swap a set of natives for a set of migrants.

72 Buckley, Immigration Policies, 16 Int’l Rev L & Econ 81 [cited in note 39].

fixed. But this is reversed on vote-seeking theories, which see policies as fixed and voters as fluid. Thus, an unpopular political party might either trim its policies on median voter theories, or elect a new electorate on vote-seeking theories.

B. Prior Studies

Prior empirical research supports an economic explanation for differences in payout policies. More prosperous states, with a stronger tax base, are found to offer higher welfare payouts. A state dominated by a pro-welfare political party is also more likely to feature generous welfare policies, as predicted by vote-seeking theories.

Support for race to the bottom theories is weaker. Such theories do not explain the variation in state benefits, since they predict that payouts will converge, which has not happened. Such theories also predict how states will react to increased welfare pressure, in the form of increased caseloads or welfare-motivated migration. Faced with increased demand for welfare, particularly from recent arrivals from out-of-state, states will cut payouts. This prediction has been tested, but the leading study, Paul Peterson and Mark Rom's Welfare Magnets, suffers from a serious design problem. The Peterson-Rom model relies on changes in poverty levels as a proxy for welfare-induced migration. This is unsatisfactory, since most of those on the poverty rolls are natives, and an increased poverty level would seem less likely to signal welfare migration than to signal job losses by natives and a depressed economy. A negative poverty coefficient is thus unsurprising, since poorer states will find it harder to fund generous welfare programs.

recipients must be discounted because they are less likely to vote than other citizens. However, it would be wrong to suppose that only welfare recipients care about welfare. Other parties with a stake in promoting high welfare levels include (1) those who expect to rely on it in the future, (2) those who might have to support the recipient if her welfare payments were cut, and (3) welfare bureaucrats who administer the system.


76 Peterson & Rom, Welfare Magnets [cited in note 7]

77 In addition, poverty rates might vary in ways that have nothing to do with deadbeat migration or job losses by natives. For example, the rise in illegitimacy and divorce rates since 1970 has swelled poverty rolls. These changes are in part attrib-
Other econometric studies of benefit levels have failed to detect a significant poverty predictor. Dye found that a poverty predictor of total welfare payouts was negative and insignificant, while an income predictor was positive and significant. From this, he concluded that wealthy states spent more on welfare than poor ones. In a more recent book, Peterson reported similar findings. A poverty rate predictor of per capita redistributive spending was positive and insignificant, while a variable based on state taxable resources was positive and significant.

C. Our Model and Variables

The following discussion reports on a test of the determinants of welfare payouts, in which AFDC payouts were regressed on socio-economic variables, including a measure of welfare pressure, over the twelve-year period from 1980 to 1991. The equations we used to estimate benefits levels were of the form:

\[
\begin{align*}
\text{(A)} & \quad \ln \text{AFDC}_{it} = \beta_0 + \beta_1 \ln \text{CASE}_{it-1} + \beta_2 \ln \text{POLITICS}_{it-1} + \beta_3 \ln \text{AGENCY}_{it-1} + \beta_4 \ln \text{BLACK}_{it-1} + \beta_5 \ln \text{UNEM}_{it-1} + \beta_6 \ln \text{CON}_{it-1} + \beta_7 \ln \text{POV}_{it-1} + \beta_8 \\
& \quad + \text{ln AFDC}_{it-1} + \epsilon_i
\end{align*}
\]

\[
\begin{align*}
\text{(B)} & \quad \ln \text{AFDC}_{it} = \beta_0 + \beta_1 \ln \text{MIG}_{it-1} + \beta_2 \ln \text{POLITICS}_{it-1} + \beta_3 \ln \text{AGENCY}_{it-1} + \beta_4 \ln \text{BLACK}_{it-1} + \beta_5 \ln \text{UNEM}_{it-1} + \beta_6 \ln \text{CON}_{it-1} + \beta_7 \ln \text{POV}_{it-1} + \beta_8 \\
& \quad + \text{ln AFDC}_{it-1} + \epsilon_i
\end{align*}
\]

where the variables are defined as provided in Table I, and where

uitable to relaxed social norms, see Brinig & Buckley, *Price of Virtue* [cited in note 27], and to the adoption of no-fault divorce laws, see Brinig & Buckley, *No-Fault Laws* [cited in note 30]. Poverty rates are also an imprecise measure of economic need. The poverty rate ignores accumulated wealth, and looks only at reported cash income. Butler & Kondratas, *Out of the Poverty Trap* at 42-48 [cited in note 6]. As such, it overestimates poverty amongst the elderly, whose share of the population increased from 9.1% to 12.3% in Arizona and from 14.6% to 17.6% in Florida during the period of the Peterson-Rom study. Official poverty rates also ignore expected future earnings, and overstate poverty in states such as Utah where a relatively large percent of the population is under 21. Finally, Consumer Price Index adjustments for inflation likely overstate poverty rates in later relative to earlier years. The goods in the CPI basket have not changed over time, although consumers would presumably react to inflation by substituting cheaper for dearer goods.

78 Thomas R. Dye, *American Federalism: Competition Among Governments* 55 at Table 2-6 [Lexington Books, 1990]. The dependent variable was per capita spending on welfare.

79 Peterson, *Price of Federalism* at 105, Table 4-2 [cited in note 45]. A more recent study reported a significant negative poverty coefficient. Paul E. Peterson, Mark C. Rom and Kenneth F. Scheve, *State Welfare Policy: A Race to the Bottom* [unpub manuscript 1995].
\[ \ln = \text{natural logarithm} \]
\[ \beta_0 \ldots \beta_8 = \text{regression coefficients} \]
\[ e = \text{residual} \]
\[ i = \text{index for states (50 for equation 1, 48 for equation 2)} \]
\[ t = 1, 2, \ldots, 12 \text{ index for each year from 1980-1991} \]

We employed a log-log model after determining, through a Box-Cox estimation of the untransformed data, that it was appropriate to do so.\(^8\)

Our reliance on time series, cross-sectional (TSCS) data heightens concerns about idiosyncratic state factors not captured by the other variables. The payout decision across states may be influenced by a variety of political, social and economic factors not cap-

Table I. Definition of Variables

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC(_t)</td>
<td>Average monthly payment per family of four under the Aid to Families with Dependent Children program, adjusted for inflation</td>
</tr>
<tr>
<td>CASE(_{t-1})</td>
<td>Change in AFDC recipients from one year to the next, divided by population under age 65</td>
</tr>
<tr>
<td>MIG(_{t-1})</td>
<td>Population [Year 2] + Deaths [Year 2] − Births [Year 2] − International Immigrants [Year 2] − Population [Year 1], divided by Population [Year 1]</td>
</tr>
<tr>
<td>POLITICS(_{t-1})</td>
<td>Nonsouth Dummy*Percent Democrats in the State Lower House, where Nonsouth means a state not in the Confederacy</td>
</tr>
<tr>
<td>AGENCY(_{t-1})</td>
<td>Number of state welfare employees divided by state population</td>
</tr>
<tr>
<td>BLACK(_{t-1})</td>
<td>Percent Black population*100</td>
</tr>
<tr>
<td>UNEM(_{t-1})</td>
<td>Average of monthly unemployment figures*100</td>
</tr>
<tr>
<td>CON(_{t-1})</td>
<td>Total dollar value of commercial and residential contracts for projects completed in the year, adjusted for inflation, and divided by adult population*1000</td>
</tr>
<tr>
<td>POV(_{t-1})</td>
<td>Percent of state population living below federal standards for meeting basic needs*100</td>
</tr>
</tbody>
</table>

Sources: Immigration data, Immigration and Naturalization Service; all other data, Statistical Abstract of the United States [various years].

\(^8\) The Box-Cox \(\lambda\)'s varied from 0.11 [CASE] to 0.14 [MIG]. Box-Cox transformations are discussed in George G. Judge, et al, *Introduction to the Theory and Practice of Econometrics* 555-56 [Wiley, 2d ed 1987].
Table II. Summary Statistics

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC_t</td>
<td>288.29</td>
<td>106.44</td>
<td>90.44</td>
<td>691.0</td>
</tr>
<tr>
<td>CASE_t-1</td>
<td>1.0503</td>
<td>0.14532</td>
<td>0.65133</td>
<td>1.8667</td>
</tr>
<tr>
<td>MIG_t-1</td>
<td>0.89078</td>
<td>2.2848</td>
<td>-7.0137</td>
<td>11.931</td>
</tr>
<tr>
<td>POLITICS_t-1</td>
<td>0.42403</td>
<td>0.26602</td>
<td>0</td>
<td>0.88653</td>
</tr>
<tr>
<td>AGENCY_t-1</td>
<td>1.1035</td>
<td>0.69048</td>
<td>0.093012</td>
<td>4.7161</td>
</tr>
<tr>
<td>BLACK_t-1</td>
<td>9.2956</td>
<td>9.2355</td>
<td>0.1957</td>
<td>35.614</td>
</tr>
<tr>
<td>UNEM_t-1</td>
<td>6.7937</td>
<td>2.3251</td>
<td>1.70</td>
<td>18.0</td>
</tr>
<tr>
<td>CON_t-1</td>
<td>1.278</td>
<td>0.67856</td>
<td>0.34318</td>
<td>6.3852</td>
</tr>
<tr>
<td>POV_t-1</td>
<td>13.648</td>
<td>4.3422</td>
<td>2.90</td>
<td>29.0</td>
</tr>
</tbody>
</table>

tured by our model. This will also be true of the CASE and MIG variables, which are jointly estimated in a Two Stage Least Squares (2SLS) procedure. Because of this, we employed a fixed-effects (FE) model in the first two specifications of Tables III and IV, with a separate intercept for each state. Specifications 3 and 4 of both Tables were estimated in a cross-section (CS) model, without fixed state effects.

Our dependent variable, serving as a proxy for state welfare payouts, is AFDC, the average monthly AFDC payment to a family of four, adjusted for inflation. The centrality of AFDC in the American welfare system has already been noted. In addition, AFDC is a better proxy for a state's commitment to wealth transfer programs than programs like Food Stamps which are financed solely by the federal government. AFDC payouts are also more easily measured than other state-financed poverty programs, such as Housing Allowances. Moreover, AFDC payouts always reach their recipients, unlike state welfare budgets, which must also support welfare bureaucracies. Finally, the AFDC program is the most direct subsidy of illegitimacy, which is gener-

81 On the need to employ a fixed state effect model for TSCS data, see Gary S. Becker, Comments on Danzon, Maki, Murray, and Allen, 11 J Labor Econ S326 (1993).

82 Butler & Kondratas, Out of the Poverty Trap 138 (cited in note 6).

83 Aggregating AFDC and food stamps benefits, as Peterson and Rom do, would nevertheless make sense if states treated the two programs as perfect substitutes, cutting AFDC benefits on an increase in food stamp payouts. Whether this has happened is unclear, though there is some evidence consistent with this hypothesis. Robert Moffitt, Has State Redistribution Policy Grown More Conservative?, 43 Nat Tax J 123 (1990).
ally taken to be one of America's most serious social patholo-
gies.\textsuperscript{84}

On race to the bottom theories, increased welfare pressure, or
recipient demand for welfare services, leads to cuts in welfare
spending. Our model employs two welfare pressure predictors. The
first is CASE, the change in the number of per capita AFDC recip-
ients from one year to the next. To arrive at the per capita figure for
Year 2, we divided the difference between the number of recipients
in Year 2 less the number of recipients in Year 1 by the under-65
population of the state in Year 1.\textsuperscript{85}

We also employed a second welfare pressure predictor, MIG, rep-
resenting net migration flows. The CASE predictor does not distin-
guish between native and migrant reliance on welfare. The distinc-
tion is important on race to the bottom theories, which assume
that a state is less willing to support new arrivals than established
natives. We therefore employed MIG to measure changes in state
population based on net migration flows. MIG is our estimate of
the per cent change in state population which is not attributable to
native births and deaths or to international immigration. To arrive
at our MIG figure for Year 2, we added the Year 2 state population
plus deaths less births less international immigrants\textsuperscript{86} less the Year
1 state population, and divided the sum by Year 1 state population.

\[ MIG_2 = \frac{(POP_2 + DEATHS_2 - BIRTHS_2 - IMMIG_2 - POP_1)}{POP_1} \]

For example, suppose that state population was 100 in Year 1 and
110 in Year 2. If there were 2 deaths, 5 births, and 1 international
migrant in that year, then 60\% of the population increase was
attributable to net national migration flows. This figure represent
net in-migration from other states less out-migration by natives.\textsuperscript{87}

The MIG variable does not distinguish between welfare-motiv-
ated and other migrants. It is therefore a more muted proxy of

\textsuperscript{84} Brinig & Buckley, \textit{Price of Virtue} [cited in note 27]; Popenoe, \textit{Life Without
Father} [cited in note 28].

\textsuperscript{85} The elderly are unlikely to be AFDC recipients.

\textsuperscript{86} In calculating international immigration flows, data problems prevented us
from including those who were normalized between 1989-1991 under the Immigra-
tion Reform and Control Act [IRCA], after having entered the country illegally years
before. IRCA immigrants were legalized to the state of their then-residence between
1989-1992, and vastly increased total immigration flows over that period. Before
they were legalized, IRCA admittants did not qualify for AFDC. Nevertheless, they
were considered a major welfare burden in the states in which they settled, such as
California, where the electorate attempted to respond by limiting benefits through
Proposition 187. The constitutionality of Proposition 187 is now before the courts.

\textsuperscript{87} To the extent that subsequent births to migrants are counted as native births,
this understates the effects of migration.
welfare pressure than CASE. However, domestic and international migration flows are significantly correlated with differential welfare payouts, and state officials have frequently expressed the fear that migration increases the welfare burden.

On vote-seeking theories, we would expect higher welfare payouts in states dominated by a pro-welfare political party. Unsurprisingly, state welfare effort has been found to be significantly correlated with Democratic party control at the state level. Our POLITICS variable therefore represents the percentage of the state lower house that is Democratic times a dummy variable taking the value of 0 for southern states and 1 otherwise. We excluded southern states because their legislatures were overwhelmingly Democratic during the period of our study, and manifestly did not cater to welfare constituencies.

We would expect a higher AFDC payout in states where the welfare bureaucracy is stronger. As William Niskanen has noted, bureaucrats seek to maximize the size of their budget allocations. Our proxy for the interest group clout of welfare bureaucrats is AGENCY, the number of welfare employees per capita.

We expected that welfare payouts would be smaller in states with a higher per cent BLACK population, as AFDC payouts are relatively low in the Southern states.

Finally, one would expect to find higher welfare payouts in more prosperous states, and therefore employed three economic predictors. UNEM is the average monthly unemployment. CON is the dollar value (adjusted for inflation) of completed commercial and residential construction contracts for new structures and additions, divided by the adult population. POV is the per cent of the population below the federal poverty line.

89 Brown, Party Cleavages, 89 Am Pol Sc Rev 23 [cited in note 74].
90 For Nebraska, we used the percentage of Democrats in its unicameral House.
92 States with a higher standard of living would be expected to have higher welfare payouts. However, we did not have a reliable state cost-of-living deflator. For example, the Chamber of Commerce cost-of-living figures are not particularly helpful. Inter-City Cost of Living Index (American Chamber of Commerce Researchers Association, various years). The Chamber of Commerce data reflect price differences for expensive items such as houses and T-Bone steaks, which welfare recipients are unlikely to purchase. We would expect much smaller variation for the pre-packaged staples that form the basis of low income diets.
D. Endogeneity

We hypothesize that AFDC values are affected by CASE and MIG, as states react to additional welfare pressures. But causation may work in the other direction as well, with AFDC increases resulting in greater welfare caseloads and higher migration flows. An increase in benefits levels will increase the demand for welfare, and this will swell the welfare roll. Some families that were previously ineligible for AFDC will find that they now qualify. Other families that formerly were deterred by the stigma of welfare will now find it worthwhile to seek AFDC assistance. The direction of causation might then be reversed: instead of observing state officials responding to CASE and MIG changes, we might be observing CASE and MIG changes in response to changes in payouts.

We addressed this problem in three ways. First, we lagged all independent variables, including CASE and MIG, by a year. That is, we estimated how states reacted to Year 1 CASE and MIG changes in their Year 2 payout decision. This reduces concerns about the direction of causation, insofar as causes precede consequences.

Second, we employed a Koyck distributed lag model, in which a lagged dependent variable is added as a predictor. Even if independent variables are lagged, the causation problem remains if AFDC recipients make their welfare application decision in Year 1 in the expectation of what the Year 2 payout will be. Possibly this places too much faith in recipient prescience. Since states may react to an increased caseload through an immediate cut in welfare benefits, the recipient may not be able to form a judgment about future payouts. But in some cases he might. Because of this, in specifications 1 and 3 of Tables III and IV we employed an adaptive expectations model, in which recipients use past history to predict future payouts, with geometrically declining weights. This is equivalent to the Koyck distributed lag model.\textsuperscript{93}

Third, we employed a 2SLS estimation technique, in which the AFDC and welfare pressure variables are jointly estimated. In Table III, we employed four instrumental variables to predict AFDC and CASE: Metro, Emgro, Income, and South. Metro is the percentage of the population living in a standard metropolitan statistical area. Emgro is the per cent change in non-agricultural employment from the prior year. Income represents the mean income per adult. South is a dummy variable taking the value of 1 if the state was a member of the Confederacy, and 0 otherwise. In Table IV, estimating AFDC and MIG, we dropped the South instrumental variable, but added three new instrumental variables: Temperature, Tax and Elder. Temperature is the average January high temperature from

Table III. The Determinants of AFDC Two Stage Least Squares. Dependent Variable: CASE

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed Effects</th>
<th>Cross-Sections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[A]</td>
<td>[B]</td>
</tr>
<tr>
<td>CASE&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.74958**</td>
<td>1.4809**</td>
</tr>
<tr>
<td></td>
<td>(13.97)</td>
<td>(17.65)</td>
</tr>
<tr>
<td>POLITICS&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.030075</td>
<td>1.6657**</td>
</tr>
<tr>
<td></td>
<td>(0.6884)</td>
<td>(3.055)</td>
</tr>
<tr>
<td>AGENCY&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.055726**</td>
<td>-0.0031962</td>
</tr>
<tr>
<td></td>
<td>(2.422)</td>
<td>(-0.06789)</td>
</tr>
<tr>
<td>BLACK&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.15565**</td>
<td>-0.47926**</td>
</tr>
<tr>
<td></td>
<td>(-4.948)</td>
<td>(-4.422)</td>
</tr>
<tr>
<td>UNEM&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.029425*</td>
<td>0.027650</td>
</tr>
<tr>
<td></td>
<td>(-1.766)</td>
<td>(0.7496)</td>
</tr>
<tr>
<td>CON&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.041674**</td>
<td>0.14396**</td>
</tr>
<tr>
<td></td>
<td>(2.661)</td>
<td>(3.295)</td>
</tr>
<tr>
<td>POV&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.016381</td>
<td>-0.010283</td>
</tr>
<tr>
<td></td>
<td>(-0.5466)</td>
<td>(-0.1760)</td>
</tr>
<tr>
<td>AFDC&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.40407**</td>
<td>0.99980**</td>
</tr>
<tr>
<td></td>
<td>(9.980)</td>
<td>(21.58)</td>
</tr>
</tbody>
</table>

Standard Error   0.095736  0.18506  0.15365  0.37838
Sum of Squared Errors 4.9768  18.630  13.952  84.757
R<sup>2</sup> Between Observed and Predicted 0.9479  0.8223  0.8683  0.3102

Notes: t-statistics in parentheses. Number of observations = 600.
All variables have been transformed into their natural logs except for dummy variables.
** significantly different from zero at the .05 level (two-tailed test).
* significantly different from zero at the .10 level (two-tailed test).

1961 to 1990 in the largest city of each state. Tax represents total state and municipal tax receipts from all sources excluding federal transfer payments, divided by the adult population. Elder is the percentage of the population that is more than 65 years old.

<sup>94</sup> Government Finances in 1985-86 [Bureau of the Census, 1987].
Table IV. The Determinants of AFDC Two Stage Least Squares. Dependent Variable: MIG

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed Effects</th>
<th>Cross-Sections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>[A]</td>
<td>[B]</td>
</tr>
<tr>
<td>CASE&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>1.8867**</td>
<td>1.2783**</td>
</tr>
<tr>
<td></td>
<td>[7.076]</td>
<td>[5.862]</td>
</tr>
<tr>
<td>POLITICS&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.026313</td>
<td>0.032904</td>
</tr>
<tr>
<td></td>
<td>[-0.4406]</td>
<td>[0.06872]</td>
</tr>
<tr>
<td>AGENCY&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.013757</td>
<td>0.020997</td>
</tr>
<tr>
<td></td>
<td>[-0.3918]</td>
<td>[0.8259]</td>
</tr>
<tr>
<td>BLACK&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.049352</td>
<td>0.0090599</td>
</tr>
<tr>
<td></td>
<td>[-1.002]</td>
<td>[0.2689]</td>
</tr>
<tr>
<td>UNEM&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.028501</td>
<td>-0.020681</td>
</tr>
<tr>
<td></td>
<td>[-1.125]</td>
<td>[-1.026]</td>
</tr>
<tr>
<td>CON&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.0080562</td>
<td>0.013553</td>
</tr>
<tr>
<td></td>
<td>[0.3588]</td>
<td>[0.7563]</td>
</tr>
<tr>
<td>POV&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.033287</td>
<td>-0.200391</td>
</tr>
<tr>
<td></td>
<td>[-0.7933]</td>
<td>[-0.6110]</td>
</tr>
<tr>
<td>AFDC&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.45805**</td>
<td>0.93808**</td>
</tr>
<tr>
<td></td>
<td>[-2.94]</td>
<td></td>
</tr>
<tr>
<td>CONSTANT</td>
<td></td>
<td>16.185**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>[5.626]</td>
</tr>
<tr>
<td>Standard Error</td>
<td>0.13019</td>
<td>0.10450</td>
</tr>
<tr>
<td>Sum of Squared Errors</td>
<td>8.8313</td>
<td>5.7004</td>
</tr>
<tr>
<td>R² Between Observed and Predicted</td>
<td>0.9001</td>
<td>0.9352</td>
</tr>
</tbody>
</table>

Notes: t-statistics in parentheses.
Number of observations = 576.
All variables have been transformed into their natural logs except for dummy variables.
** significantly different from zero at the .05 level (two-tailed test).
* significantly different from zero at the .10 level (two-tailed test).

E. Results

Our results are given in Tables III and IV, with additional sensitivity tests reported in Table V. Our 2SLS equations in Table III jointly estimate AFDC and CASE, with AFDC and MIG jointly estimated in Table IV.
Our principal finding is that our welfare pressure coefficients, CASE and MIG, are significant and positive in most specifications. CASE is significant and positive throughout in Table I, while MIG is significant and positive in the FE specifications in Table IV.

Because our results in FE specifications 1 and 2 of Table IV differed from CS specifications 3 and 4, we performed a Hausman test for omitted variables, and were able to reject the null hypothesis that fixed state effects are independent of the explanatory variables in the CS specifications.

Table V presents results of sensitivity tests. Specifications 1 to 4 employ a FE model, and specifications 5 to 8 a CS model, with both OLS and Kmenta pooling regression procedures. Since our welfare pressure coefficients are uniformly positive and significant, we infer that our 2SLS estimation technique is not responsible for our findings.

These results are inconsistent with race to the bottom explanations of the welfare spending decision. However, they are consistent with vote-seeking theories, as are our findings of a generally positive POLITICS coefficient.

By contrast, our results do not support the theory that entrenched welfare bureaucracies shape welfare payouts. Our AGENCY coefficient was frequently negative, and seldom positive and significant.

Our BLACK coefficient was generally negative and significant in Table III. This result is unsurprising, given the low payouts in southern states with a high percentage of black residents, and might be attributed to economic and political stratifications along racial lines, or simply to reduced state revenues in such states. In general, the economic variables also had the expected sign, with higher payouts in more prosperous states.

In part, our MIG variable might have served as a proxy for prosperity, with migrants attracted to boom states. However, the CASE variable might as plausibly serve as a proxy for economic decline. With reduced economic opportunities, more people are on the dole. We would then have expected the CASE coefficient to be negative. As it was positive and significant, we discounted this explanation of our results in Table III.

95 The Kmenta cross-sectionally heteroskedastic and timewise autocorrelated (CHTA) model is described in Jan Kmenta, *Elements of Econometrics* 618-22 [McMillan, 2d ed 1986]. The CHTA model corrects for serial correlation through a state-specific generalized least squares technique. First, the equation is estimated by OLS. Next, the OLS residuals are used to estimate a separate coefficient of autocorrelation ρₙ [bounded by -1 and +1] for each state. The ρₙ's are then used to transform the observations to produce a serially independent and homoskedastic error term.

\[ yₙ = ρₙXₙβ + εₙ \]

Finally, the equation is estimated by the OLS method.
Table V. The Determinants of AFDC Sensitivity Tests

<table>
<thead>
<tr>
<th>Variable</th>
<th>FIXED EFFECTS</th>
<th>CROSS-SECTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASE&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.75389**</td>
<td>1.2483**</td>
</tr>
<tr>
<td></td>
<td>(14.60)</td>
<td>[62.33]</td>
</tr>
<tr>
<td>MIG&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.030607</td>
<td>0.041825</td>
</tr>
<tr>
<td></td>
<td>(0.7011)</td>
<td>(0.8782)</td>
</tr>
<tr>
<td>POLITICS&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.055753**</td>
<td>0.042886*</td>
</tr>
<tr>
<td></td>
<td>(2.424)</td>
<td>(1.711)</td>
</tr>
<tr>
<td>AGENCY&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.15609**</td>
<td>-0.20738**</td>
</tr>
<tr>
<td></td>
<td>(-4.967)</td>
<td>(-6.125)</td>
</tr>
<tr>
<td>BLACK&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>-0.029363*</td>
<td>-0.026817</td>
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<tr>
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<td>(-1.763)</td>
<td>(-1.475)</td>
</tr>
<tr>
<td>UNEM&lt;sub&gt;t-1&lt;/sub&gt;</td>
<td>0.041671**</td>
<td>0.049543**</td>
</tr>
<tr>
<td></td>
<td>(2.661)</td>
<td>(2.902)</td>
</tr>
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</table>
Table V. (continued)

<table>
<thead>
<tr>
<th>Variable</th>
<th>FIXED EFFECTS</th>
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<th></th>
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<th>CROSS-SECTIONS</th>
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<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
<td>(8)</td>
</tr>
<tr>
<td></td>
<td>OLS</td>
<td>OLS</td>
<td>POOL</td>
<td>POOL</td>
<td>OLS</td>
<td>OLS</td>
<td>POOL</td>
<td>POOL</td>
</tr>
<tr>
<td>$POV_{t-1}$</td>
<td>$-0.017184$</td>
<td>$-0.030862$</td>
<td>$-0.000938$</td>
<td>$-0.0087092$</td>
<td>$-0.010187$</td>
<td>$-0.021597$</td>
<td>$-0.003299$</td>
<td>$-0.005086$</td>
</tr>
<tr>
<td></td>
<td>($-0.5758$)</td>
<td>($-0.9485$)</td>
<td>($-0.03942$)</td>
<td>($-0.331$)</td>
<td>($-0.3326$)</td>
<td>($-0.6478$)</td>
<td>($-0.1407$)</td>
<td>($-0.1917$)</td>
</tr>
<tr>
<td>$AFDC_{t-1}$</td>
<td>0.40102**</td>
<td>0.40016**</td>
<td>0.41210**</td>
<td>0.44509**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(10.24)</td>
<td>(11.28)</td>
<td>(9.918)</td>
<td>(11.59)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Error</td>
<td>0.095736</td>
<td>0.10448</td>
<td>1.0492</td>
<td>1.0490</td>
<td>0.095936</td>
<td>0.010920</td>
<td>1.0473</td>
<td>1.0499</td>
</tr>
<tr>
<td>Sum of Squared Errors</td>
<td>4.9768</td>
<td>5.9381</td>
<td>597.73</td>
<td>598.57</td>
<td>4.7951</td>
<td>0.10450</td>
<td>571.47</td>
<td>575.40</td>
</tr>
<tr>
<td>$R^2$ (Buse, 1979)</td>
<td>0.9426</td>
<td>0.9316</td>
<td>0.2856</td>
<td>0.1181</td>
<td>0.9454</td>
<td>0.9352</td>
<td>0.3103</td>
<td>0.1070</td>
</tr>
</tbody>
</table>

Notes: t-statistics in parentheses.
Number of observations = 576.
All variables have been transformed into their natural logs except for dummy variables.
** significantly different from zero at the .05 level (two-tailed test).
* significantly different from zero at the .10 level (two-tailed test).
VI. CONCLUSION

If welfare responsibilities had to be assigned exclusively to either the federal or state levels of government, a strong case might be made for complete devolution. As noted in Part III, state control over welfare promotes diversity, choice and experimentation. It also economizes on information production and reduces the power of entrenched welfare interest groups. But that is a false choice, as state and federal functions need not be separated by "watertight compartments." Where the federal government subsidizes state welfare programs, it has a legitimate interest in preventing states from exporting costs to other states by overspending. Without federal oversight, states might overspend by failing to consider the social costs they export to other states. In the case of AFDC, these social costs include the social pathologies associated with illegitimacy.

This reasonably argues for the new direction in welfare policy signaled by the recently enacted Personal Responsibility Act. The PRA turns over substantially more responsibility for the design of welfare standards to the states. It also addresses concerns about excessive welfare spending through curbs on lax eligibility standards and through block grant financing.

This suggests an asymmetric need for federal oversight, with federally-mandated ceilings but not floors. The most persuasive argument for federally-mandated minimum payouts is the race to the bottom theory, under which states have an incentive to cut benefits to avoid becoming welfare magnets for migrants from out-of-state. However, we found little evidence of a race to the bottom in AFDC payouts. Instead, states were found to react to welfare pressure by increasing AFDC benefits, possibly to attract welfare migrants for their votes.

Even if some states might cut their payouts to avoid becoming welfare magnets, race for the bottom fears might be addressed less intrusively by residency requirements than by national welfare policies. It is disingenuous to claim that devolution will result in a competition to cut benefits, and then to deny states the power to cure the problem through reasonable residency standards. A denial of all welfare benefits to new arrivals, like the Connecticut plan struck down in Shapiro, might deter migrants who are moving to

another job in the new state. But a two-tier plan that offers the migrant the same payout he received in his emigration state, such as the California plan at issue in *Green v Anderson*,99 reasonably reduces welfare incentives to migration, and should be encouraged.

Our study suggests that giving states the right to impose residency requirements would not have a substantial effect on payouts. States that seek to attract welfare migrants will not offer them a discounted payout. But this is not an argument against granting states such powers, since some states will clearly use them. The more interesting question is whether the federal government should mandate a two-tier system, requiring high payout states to adopt two-tier residency requirements. Such states would then be less likely to overspend on welfare to attract welfare voters. A federal mandate might also result in increased welfare payouts in states that set payouts at an artificially low level to promote out-migration by welfare migrants.

The PRA is rationally related and reasonably tailored to the goal of promoting the experimentation needed to reform a flawed welfare system. The PRA's barriers to excessive state payouts reasonably respond to an incentive problem, and the two-tier plans the statute contemplates do not impose an excessive burden on migrants. While some have argued that state experimentation might be chilled by the fear of welfare migration, we found no evidence of this. Because some states might well set benefits with welfare migrants in mind, however, we conclude that two-tier plans should be permitted, and perhaps even mandated.

99 115 S Ct 1059 [1995].