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FINDINGS FROM THE GARY INCOME MAINTENANCE EXPERIMENT

Testimony before the

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Kenneth C. Kehrer
Mathematica Policy Research
Princeton, New Jersey

Thank you for your invitation to report to you on the Gary Income Maintenance Experiment, one of the field tests of the feasibility and effects on families of alternative income support programs. A report on the Gary Income Maintenance Experiment can contribute to your deliberations on the Better Jobs and Income Act (H.R. 9030) in three ways. First, the Gary experience offers additional evidence that a system of monthly retrospective self-reporting of income is feasible and humane. Second, Gary can provide information about the costs of administering such a program. Finally, the Gary experiment has studied how the participating families used their support payments. I believe that the evidence from Gary suggests that families will use the support payments to improve their lives in ways that will reduce their dependence on income support in the long run.

The Administration of the Gary Experiment

The Gary Income Maintenance Experiment was conducted in Gary, Indiana, between 1971 and 1974 by Indiana University, the Indiana State Department of Public Welfare, and the U.S. Department of Health, Education, and Welfare.

Each of the individual income maintenance experiments studied the responses of different population groups. The Gary experiment focused on black families in an urban environment. Eligibility was limited to black families with at least one child under age 18. Of the 1,800 families who were enrolled, 57 percent were randomly chosen to be eligible for experimental income support payments, while the remainder were control subjects. Almost 60 percent of the participating familes were female-headed.

The characteristics of the families studied are described in Tables 1 and 2. The families with a male head of household present (almost all of which were intact husband-wife families) usually had low incomes but generally were not extremely poor. The husbands were typically full-time workers who were able to earn enough to keep their families out of poverty (only 10 percent of these families had incomes below the official poverty line). The wives, on the other hand, typically did not work outside the home--only 13 percent were employed at the start of the experiment. In the relatively few families where both the husband and wife were employed, the wife's earnings usually raised family income high enough that the family no longer qualified for the receipt of income support payments.

The husband-wife families studied in Gary would not be considered typical welfare families because of their attachment to the labor force and their income levels, and because public assistance payments were not generally available to husband-wife families in Indiana. But under the income support plans tested in Gary, many of these families were eligible to receive modest income supplements. The analysis of the Gary experiment can therefore provide insight into the consequences of extending an income supplement program to working, but low-income, families, as is proposed under the Better Jobs and Income program.

The families with female heads of household were generally much poorer than the husband-wife families studied. Over 80 percent were receiving welfare benefits from the Aid to Families with Dependent Children (AFDC) program immediately prior to the experiment. About three-fourths of the families that switched from AFDC to the experiment had income below the poverty line. The female heads on AFDC at enrollment were highly

TABLE 1

SELECTED CHARACTERISTICS OF SAMPLE FAMILIES PRIOR TO THE EXPERIMENT

	Husband-Wife Families	Female-headed Families	
		AFDC	Non-AFDC
Average Family size	6.0	4.7	3.7
Average number of adults	3.0	1.7	1.9
Average number of children	3.0	3.0	1.8
Average monthly family income	$619	$291	$289
Average monthly earnings	$605	$ 41	$172
Average nonwage income, including public assistance	$ 14	$250	$117
Percent with incomes:			
Less than half the poverty line	4%	47%	14%
Less than the poverty line but greater than half	6	27	24
More than the poverty line but less than 1.5	29	14	34
Between 1.5 and 2.4 of the poverty line	45	11	24
Above 2.4 of the poverty line	16	1	4

TABLE 2

SELECTED CHARACTERISTICS OF SAMPLE HUSBANDS, WIVES, AND FEMALE HEADS OF FAMILIES PRIOR TO THE EXPERIMENT

	Husbands	Wives	Female Heads	
			AFDC	Non-AFDC
Average age	40	36	34.5	37.5
Average years of education completed	9.7	10.7	10.2	10.7
Percent with 12 or more years of education	33	11	34	53
Average monthly earnings[a/]	$533	$42	$35	$143
Percent employed	93	13	13	40
Percent in labor force	97	19	n.a.	n.a.
For those employed:				
Average hours worked per week	40.3	35.5	35.1	37.4
Hourly wage rate	$3.53	$2.68	$2.01	$2.45
Average monthly earnings	$616	$412	$305	$397

[a/] Including those who were not working.

n.a. = not available.

dependent on welfare: 86 percent of their monthly income came from public transfers, with AFDC grants alone accounting for slightly more than half of their income. As with the wives studied, only 13 percent of the AFDC female heads were employed.

Four different income support plans, combining two benefit-reduction rates and two support levels, were tested in Gary. The benefit-reduction rates were 40 and 60 percent, and the support levels were equal to the poverty level and about three-fourths of the poverty-level annual income for each family size. Benefit schedules were adjusted every six months to compensate for increases in the cost of living.

The income support plans tested in Gary were considerably more generous than the AFDC program in Indiana. Average experimental payments to female-headed families by the end of the second year of the experiment were $258 a month. These same families would have received $159 under AFDC. Thus, the Gary experiment can provide information about the effects of increasing the generosity of welfare payments to female-headed families, as under the proposed Better Jobs and Income program.

The experimental group families were eligible for the income support payments for three years. All participating families filed monthly reports of income and family composition changes, and were interviewed before the experiment, about three times a year during the experiment, and after the experiment. The payments system had a six-month carry-over provision.

On the first day of the month, each family was sent an Income Report Form along with its income support check for the first half of the month. The family reported income for the previous month and any changes

in family composition. The completed forms were supposed to be returned within a week. Over 90 percent of the families filed their reports on time. About 2 to 3 percent of the families tended to file late reports, while 2 to 7 percent of the families would fail to submit any report at all. For the most part, families were able to fill out the forms adequately. When the completed form was received by the payment office, it was edited by payment clerks, who checked whether the reported amounts of wage and nonwage income were consistent with entries on the family's previous forms. Families were contacted in order to resolve any discrepancies or questions. The payments information was processed in time to be used for the income support payments for the following month. Thus, July payments were based on income earned in May and reported and processed during June. The evidence from the Colorado Monthly Income Reporting Experiment indicates that the payments cycle can be shorter and hence even more responsive to changing family circumstances.

About half way through the experiment we improved our administration of payments in three ways: (1) we simplified the Income Report Form; (2) we adopted a system of computer-assisted edits which supplied the payments clerks with printouts of a family's recent reports and an indication of any inconsistencies and discrepancies; and (3) we implemented a caseload system in which each payments clerk worked with the same families every month. Taken together, these changes in our administration of payments enabled us to reduce our staff by 27 percent while at the same time improving the quality of the information-processing. Prior to the administrative changes about 21 percent of the Income Report Forms in any month contained a problem that had to be resolved before the family could be paid accurately. After the administrative changes these kinds of

problems declined until only 8 percent of the Income Report Forms were affected. Thus, by moving to a system more like the one being used now in the Colorado Monthly Reporting Experiment, we were able to cut costs while improving services.

Our experience in Gary was repeated in the Seattle-Denver experiment, where 90 percent of all Income Report Forms were filed on time, and where the use of simple forms resulted in 90 percent of the forms being immediately processable.

Late in the experiment we asked the participants a series of questions to ascertain the extent of their understanding of the experimental income support programs. Household heads were highly knowledgeable about the rules that governed a family's eligibility for continued participation in the experiment. However, they were considerably less knowledgeable about how their benefits were calculated. These results are similar to findings from the New Jersey and Rural experiments.

Inadequate participant knowledge creates barriers to the successful administration of a national income support program. Because we selected only some families in each experimental site for enrollment, we were not able to use any mass media forms of educating participants about the experimental program without stimulating walk-ins who would want to enroll in the program. While a national program might be able to use more effective education techniques, the evidence from the experiments indicates that educating families about the technical aspects of income support plans is difficult.

At the end of the experiment, families were asked about their perceptions of the program itself. We were particularly interested in

knowing how helpful they found the program to be. Analysis of the responses showed that most of the families were very positive in their evaluation. For example, 60 percent described their participation as having been "very worthwhile" and 81 percent indicated that the program had helped them. We were also interested in comparing the participants' views of the experimental income support program with their views of the AFDC program. The findings suggest that those families that had been AFDC recipients viewed the experimental program more favorably than AFDC. On matters of administration in particular the AFDC program was judged to be inferior. For example, almost 48 percent of the families thought that AFDC rules were too difficult to understand, while only 16 percent held the same view about the Gary program. Similarly, 85 percent believed that AFDC rules were too intrusive; 48 percent thought so about the Gary program. Finally, almost 75 percent felt that AFDC rules were not enforced equitably, while just 28 percent felt this way about the Gary program.

Costs of Alternative Income Support Programs

There are two major elements of the cost of an income supplement program: payments to families and administrative costs.

Payments to Families. The cost of payments to families depends partly on the disincentive effect on work effort of an income support program. Any income support program is expected to have some disincentive effect on work effort because giving an individual income support payments takes away part of the reason to work. The challenge in designing an income support plan is to develop a program that provides adequate benefits with a minimum of work disincentive.

The initial findings from Gary indicate that the experiment did have a disincentive effect on the work effort of household heads by the end of the second year. In intact families, husbands reduced their total hours worked by an average of 7 percent, and wives reduced their hours of work by 17 percent. These findings are quite similer to the findings on the work effort response of husbands and wives in the New Jersey and Rural experiments. Female heads who switched from AFDC to the experimental income support program reduced their hours of work by 5 percent. However, because both female heads receiving AFDC and wives worked few hours prior to the experiment--about six hours a week, averaged over all women including those that were not employed--their reductions in work effort had only a small impact on total family labor supply and earnings. Our findings indicated that female heads not on AFDC at enrollment actualy increased their hours slightly relative to controls, but we have little confidence in this result because of the small sample size of this group.

It should be stressed that the income maintenance experiments did not have a jobs component or a work requirement, so the effects on work effort could be substantially different under a program such as Better Jobs and Income. Provision of a public service job could ameliorate disincentive effects among those who withdraw from the labor force after looking for a job for a considerable time. Indeed, the work effort reductions in Gary were concentrated among those who might be expected to benefit the most from a jobs program--young and older males and males who have been looking for a job unsuccessfully.

Costs of Administration. The cost of administering the experimental income support payments in Gary was similar to that in the other

income maintenance experiments. Administrative costs in the experiments were about one-third of the cost of payments administration under the AFDC program. By the end of the experiment in 1974, administrative costs were about $100 a year per case.

Effects of the Experimental Payments on Families

Family Consumption. Other consumption studies and prior evidence from the New Jersey experiment suggest that income support payments would be used to reduce debt and acquire durable goods. Similar findings are emerging from the Gary experiment. Among intact (husband-wife) families, the income support payments resulted in an increase in such financial assets as savings accounts. The experimental support payments also appear to have enabled these families to shift their debt from high-interest lending institutions such as stores and credit cards to more traditional lending institutions (e.g., banks, credit unions, and savings and loan associations). Husband-wife families also used the payments to purchase home appliances and additional food, clothing, and medicine, but did not use the money to purchase automobiles. The experimental income support payments did not have an effect on the assets or debt of female-headed families. These families, who were much poorer than the husband-wife families, used the payments to buy home appliances, furniture, and clothing.

Housing. Initial examination of the housing consumption patterns of a subsample of families indicates that the experimental payments did not appear to induce families to move to different housing within Gary. On the other hand, among those families that did move during the experiment, public housing residents in the experimental group were about 50

percent more likely to move to private dwellings than were similar control families. (Under the interagency agreements that were part of the experimental design, eligibility for public housing was not affected by the experimental payments.) Experimental families that moved were twice as likely to purchase homes. Thus, the experimental payments appear not to have influenced the decision of families to move within Gary, but, among those families who would have moved anyway, the payments influenced their choice of residence.

Geographic Mobility. On the other hand, the availability of income support payments did encourage mobility out of Gary, particularly among young husband-wife families. Similar evidence has been obtained by researchers on the Seattle-Denver experiment. Because of the limited knowledge of experimental participants about the portability of benefits, we would expect an even larger effect on geographic mobility in an ongoing program. The experimental income support payments also appear to have some impact on the destination of moves; families receiving the experimental payments were more likely than control families to move further from Gary, and to move to places where they had not lived before or places where they had no friends or relatives. The findings suggest that the availability of a national system of income support for husband-wife families will enable young families to move to areas with better job opportunities.

Use of Social Service Agencies. Families eligible for experimental payments used social service agencies 13 percent less than did control families. Even more striking was the finding that the families receiving payments indicated having a much greater capacity to cope

with the problems that confronted them, although they did not differ from the nonpayments families in their perceptions of these problems.

School Attendance. The experimental payments appear to have had a positive effect on school attendance among male teenagers, who tended to reduce their labor force participation and continue their high school education. On the other hand, the experimental income support plans appear to have had no effect on high school continuation for female teenagers and no effect on college attendance by either sex. Of course, black female teenagers are much more likely to finish high school than are black males, so there exists less opportunity for a positive experimental response among females. Similar research on the New Jersey experiment found that the income support payments increased school attendance in both high school and college. When examined in conjunction with the findings from the Rural experiment on school attendance and school performance of younger children, the evidence is mounting that a more adequate income support program would have a positive effect on the educational attainment of the children of the poor.

Weight of Children at Birth. Low birth weight, defined as 2500 grams (5.5 pounds) or less, is associated with a sharply elevated risk of death in the first year of life, with higher rates of morbidity during infancy and later years, and perhaps even with educational attainment and job performance as an adult. Consequently, the weight of an infant at birth is an important index of its health status. Income support payments might be expected to have an effect on birth weight through their influence on nutrition of the mother, prenatal care, and the possibility for reducing paid employment at strenuous jobs during the later months of pregnancy. Our research indicates that there was a beneficial

effect of the experimental income support payments on high-risk mothers --women who smoke, teenagers, older women, and women with short intervals between pregnancies. The beneficial effects range as high as an additional pound for children born to the highest risk mothers. These gains in birth weight brought about by the experimental income support payments are dramatic evidence of the broad benefits of an improved income support system.

Conclusion

In conclusion, I should like to emphasize that some caution is necessary in interpreting the findings I have presented. We would like to know the effects of introducing a permanent national program, but the findings I have presented are based on an experiment of limited duration, on one population group, in one part of the country. Additional research now in progress should provide evidence that an income support program based on a system of retrospective monthly self-reporting of income is feasible, responsive to the needs of participants, and less expensive than the payments administration of AFDC in many states.

We can conclude that an income supplement program similar to those tested in Gary, with a support level of about 85 percent of the poverty level and a benefit reduction rate of 50 percent, but no jobs component or work requirement, would result in a decline in work effort of about 7 percent for husbands, 17 percent for wives, and 5 percent for female heads, if the program were administered on a similar population.

More importantly, the evidence from Gary suggests that families would use the payments in ways that will make them less dependent in the long run:

- The experimental payments enabled families in Gary to reduce their use of social service agencies and to move out of public housing.
- The support payments helped families increase their assets and obtain access to mainstream credit institutions.
- The families spent the payments in ways that increased their long-run well-being and earnings capacity, as evidenced by the increase in family savings, in geographic mobility, and the improvements in educational attainment of young people and the health of children at birth.