

Cutoff from Support: The Effects of Losing Cash Welfare*

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Abstract

Despite the widespread use of time limits and work requirements to target means-tested transfer programs, it is an open question whether such tools succeed in their aim of encouraging labor force participation and reducing chronic poverty. Do families nudged off welfare successfully (re)-enter the labor force, and if so, are they better off? Using detailed administrative data from the state of Michigan, we shed light on these questions by studying a “natural experiment” in the state’s TANF program which swiftly and unexpectedly removed over 16,000 families from cash welfare while quasi-randomly assigning time limits to all remaining participants. This policy is one of the largest cleanly identified welfare reforms ever conducted.

Our findings are nuanced. Consistent with economic theory, removing families from welfare increases formal labor force participation by roughly 4 percentage points (20% over control group mean), with increases in (annualized) earnings of roughly \$500. Consistent with prior literature, we find that time limits – particularly for those further from their expiration – and sanctions due to program noncompliance both increase labor force participation and earnings, while reducing welfare use. However, despite these gains, the reforms do not reduce poverty; rather, they likely deepen it. The majority of families remain formally unemployed after welfare removal, and even the highest percentile wage gains fall short of prior welfare benefit levels. Taken together, these findings imply that policymakers should exercise caution when redesigning transfer programs.

JEL Codes: H53, H75, I30, I38, J38

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