Choosing Among Alternative Programs for Poor Children

Janet M. Currie

Abstract

Many public programs serve poor children. By setting budgets, benefit levels, and program rules, policymakers decide how many children will receive benefits and which benefits they will receive. Making these choices in a rational way is difficult, given the noncomparability of different types of program benefits and the limited information available about the effects these programs have on poor children. This article suggests four criteria (efficiency, return on investment, incentives, and equity) for evaluating and comparing public programs for poor children, and provides an overview of the patchwork of information that is currently available about the effects of eight large federal programs using these criteria. Some broad themes emerge. First, several programs that target specific benefits directly to children have been shown to have positive effects on a range of outcomes. Second, even before the current round of welfare reform, the mix of federal support available to poor children had changed in a way that put more emphasis on providing benefits in kind. Finally, more must be learned about the effects of programs for poor children before sweeping policy recommendations can be made. This article concludes with policy recommendations that can be supported by the available evidence.

A multitude of programs at the federal, state, and local levels provide benefits to poor children. By necessity, policymakers have made decisions about how many children will receive benefits from these programs and the kinds of benefits they will receive. Some programs, such as food stamps, are entitlements, which means that every child whose family meets the criteria for the program is entitled to receive benefits. Other programs, such as housing assistance, have never been funded at a level that would allow all eligible families to be served. As a result, these programs serve only as many families as the limited budget will accommodate. By deciding on the level of funding for these nonentitlement programs, policymakers decide what portion of the eligible population will receive benefits. Whether a program for poor children is an entitlement or not, policymakers must also determine program eligibility criteria and design benefit packages. In this process, they determine who receives the money,
goods, or services that constitute the benefit package and the value and composition of that package. Making these key program design decisions in an informed, rational manner is not easy.

Ideally, researchers could help policymakers in their decision making by providing a ranking of programs for poor children, thereby giving a sense of the programs that best achieve positive outcomes for children at reasonable cost. Primarily because programs provide different benefits, which may be valued differently by different people, it is difficult to compare and rank programs and to determine the cost-effectiveness of the whole bundle of goods and services provided to poor children. Although knowledge about the effects of many current programs is minimal, it is possible to state that certain programs have positive benefits for children. But in the current atmosphere of fiscal restraint, policymakers are faced with a bewildering array of choices when trying to decide which programs to fund and how much funding to provide, and frequently no clear resolution to these questions is offered by the social science that evaluates the effects of the programs. In an address to the American Psychological Association in 1970, Senator Walter Mondale observed: “What I have not learned is what should do about these problems. . . . For every study, statistical or theoretical, that contains a proposed solution or recommendation, there is always another, equally well documented, challenging the assumptions or conclusions of the first. No one seems to agree with anyone else’s approach. . . . As a result, I must confess, I stand with my colleagues confused and often disheartened.” Many would argue that little has changed in this regard in the intervening quarter century.

This article takes a somewhat more optimistic view than Senator Mondale’s. It suggests criteria for making choices among programs, describes challenges encountered in measuring program benefits, offers a brief overview of what is known about the benefits and costs of major programs for poor children, and highlights the information that is still needed. It concludes with suggestions for both policy and future research, based on a synthesis of available research findings and the choice criteria. It is worth noting that relatively few public resources are devoted to programs that serve poor children, and funding for those programs has not grown as rapidly as funding for programs serving the elderly. A recent poll showed that 73% of Americans favored increased government spending to help children. Even if spending is increased, however, choices always have to be made about how resources can be best spent.

**Criteria for Choosing Among Different Programs**

Economists and policymakers often use four broad criteria to evaluate social programs: efficiency, investment, incentives, and equity. References to these criteria are made throughout this article.

- **Efficient** programs provide the largest possible benefit for each dollar spent. A program that provides services of little value to some portion of its beneficiaries is not making the most efficient use of resources, even though those services may be essential for others. Similarly, a program that is less costly to administer will be more efficient than one that is more cumbersome, other things being equal.

- Closely related to efficiency is whether a program represents a good social investment.
At a minimum, a good investment has a payoff that is greater than its costs. Ideally, programs would be ranked in terms of the size of their return. The best investments would be those with the largest social returns. Unfortunately, such a ranking requires comparisons of different types of benefits, which are difficult to make. For example, a program may be considered a good investment if its benefits to children in the long run by preventing future illness exceed its costs. However, not only are long-run outcomes difficult to predict with accuracy, but also some outcomes, such as improved health, are difficult to measure in monetary terms. A more modest criterion, which is frequently invoked, would be to ask whether savings generated by the program (in terms of medical or special education costs foregone, for instance) were greater than program costs.

Programs for the poor inevitably set up incentives for beneficiaries. Policymakers and the general public may prefer programs that encourage beneficiaries to work or that eventually decrease participation in the program. Undesirable, or “perverse,” incentives encourage unwanted behaviors such as entry into a program by previously self-supporting individuals or single-parenthood. However, government programs of all kinds create incentives for people to change their behavior. Hence, this article focuses only on a number of potential incentives that may produce results not desired by the majority of U.S. citizens. (See the article by Hugh Heclo in this journal issue for a discussion of how public values influence public policy and programs for poor families with children.)

Considerations of equity highlight programs designed to bring poor children up to par with other children. For example, many believe that poor children deserve the same access to health care as children with private insurance. In addition, the concept of horizontal equity requires that families in similar circumstances be treated similarly. Concern about horizontal equity is invariably raised by a program with a limited budget such as housing assistance, which can serve only some of the eligible population. And, although entitlement programs should theoretically meet horizontal equity standards, in fact, many do not. For example, there is variability in access to health services under Medicaid, depending on state of residence, and such state-to-state variability also characterized the Aid to Families with Dependent Children (AFDC) program.

Policymakers attempting to apply these four criteria run into a fundamental problem: there are usually tradeoffs among them. For example, targeting programs to very-high-risk population groups may increase efficiency but, as is discussed below, raise concerns about both equity and perverse incentives. The question of whether to provide benefits in cash or in kind (in the form of specific services such as health care or food) also highlights the potential tradeoffs between efficiency and incentives.

If parents can be trusted always to purchase what is best for their children, then cash payments are more efficient than in-kind benefits because parents can use the cash to purchase the specific good that is of most value to a particular child. Providing in-kind benefits directly to the child may involve waste because, for at least some recipients, the value to the child of the goods provided may be less than the social cost of providing them. On the other hand, there is no guarantee that money provided to parents for the support of children will be spent well or only on goods that benefit children.

From the child’s perspective, what matters is whether a program improves outcomes, either in the short or long run. However, despite the limitations of these four criteria—efficiency, positive returns on social investment, positive incentives, and equity—attention to them is important because they reflect society’s concerns in supporting programs for poor children.

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known about the outcomes of different types of programs in the light of these criteria.

Challenges in Measuring Program Benefits
Measuring the effects of antipoverty programs is not straightforward. Because poor families may be disadvantaged in many respects (low income, low levels of education among adults, poor mental and physical health), it is possible that a program could increase the well-being of a child and still leave that child worse off than a child who did not participate in the program. Therefore, to accurately isolate the effects of antipoverty programs on children, evaluation studies need to control for differences in the backgrounds and characteristics of participants and nonparticipants. (These issues also arise when attempts are made to measure the effects of poverty on child outcomes and are also addressed in the articles by Brooks-Gunn and Duncan and by Devaney, Ellwood, and Love in this journal issue.)

To control for differences between participants and nonparticipants, researchers must have a way of measuring the most relevant child and program characteristics. In many instances, however, it is not possible to measure all of the relevant characteristics and, as a result, program effects may be measured inaccurately. Suppose, for example, on the relationship of omitted characteristics to program participation and the outcome being investigated. (This problem, called "selection bias," is discussed in greater detail in Box 1 in the article by Devaney, Ellwood, and Love in this journal issue.)

A related concern is that other key variables may be determined jointly with program participation and outcomes, making it difficult to identify accurately the separate effects of programs. For example, if immigrant families lose eligibility for a number of programs because of new welfare reform legislation, it may be difficult to measure the effects of the loss of a particular program on immigrant children. Finally, problems can arise when researchers try to project the likely effects of a program on a broad population of potential participants using only information about current program participants. If only some of those who are eligible choose to participate or if program administrators choose to target their limited resources to particular types of children (the most needy or the most likely to succeed), it may be misleading to generalize the program evaluation results to the larger population.

Several approaches, including social experiments, instrumental variables techniques, "natural experiments," and fixed effects estimators—all not discussed here because of space limitations—have been developed to deal with these problems. Application of these methods, while frequently helpful, does not always solve the problems posed by the evaluation. Nonetheless, some broad conclusions about promising directions for policy can be drawn from the evidence that is available.

Contrary to much current publicity claiming that public programs for poor children do not work well, there are specific programs that produce important benefits for children.

What Is Known About Programs for Poor Children
Contrary to much current publicity claiming that public programs for poor children do not work well, specific programs produce important benefits for children. Nevertheless, not all programs are equally effective, and benefits are not equally distributed across racial and ethnic groups. This section briefly discusses what is known about the effects of the major programs for poor children in the United States. (These programs and their effects are described more fully in the articles by Plotnick [cash transfer...)}
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programs] and by Devaney, Ellwood, and Love [in-kind benefit programs] in this journal issue.)

Cash Transfer Programs
Cash programs are those that provide additional income to poor families to spend as they see fit. Until recently, the two major federal cash programs which benefitted poor children were Aid to Families with Dependent Children (AFDC), commonly called "welfare," and the Earned Income Tax Credit (EITC), which provides low-income wage earners with a refundable credit against their income tax. However, as a result of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), AFDC is being replaced by Temporary Assistance for Needy Families (TANF), a new cash assistance program. Little is known about TANF at this point because PRWORA gave states considerable latitude in designing their own individual programs, and it is too soon to draw any conclusions from these state-specific efforts.

The bulk of knowledge about the way in which cash programs affect children and families comes from evaluations of AFDC and the Negative Income Tax (NIT), an income guarantee program that was subjected to exhaustive scrutiny in the 1970s through four large-scale social experiments. The NIT, however, was never implemented. Evaluations of the EITC have been complicated by lack of data and because the amount of the credit depends on the parents' earnings, and earnings are likely to reflect many unobserved factors relevant to child well-being.

AFDC was the oldest and largest program providing cash transfers to predominantly female-headed families with children. The welfare reform bill of 1996 (PRWORA) largely dismantles this federal program by eliminating poor families' entitlement to benefits. States now have the responsibility for running their own cash assistance programs for poor families and receive a fixed sum in the form of a block grant from the federal government for this purpose. However, even before this change, the continuous erosion of AFDC benefit levels over the past 15 years provided evidence that the program was not popular with the general public. Between 1980 and 1993, the average monthly AFDC benefit declined more than one-fifth, from $483 (in 1993 dollars) to $373 (in 1993 dollars), even though average family size among AFDC recipients remained constant at three persons.7

While AFDC payments eroded in real terms, total expenditures for the EITC doubled between 1975 and 1990, and will double again by the late 1990s (see Table 1). By 1993, federal expenditures under this program exceeded the federal share of AFDC costs (AFDC costs were shared with the states). The EITC differs from traditional AFDC programs primarily because only families with earnings are eligible for the credit, and benefits are available to all kinds of families rather than only to female-headed households. Thus, the two programs did not serve the same population, although there was overlap.

Effects of Cash Transfer Programs
The major positive feature of cash programs is their potential efficiency; poor recipients can spend the money however they see fit, which may benefit their children more than providing specific services that may be less important for a particular child. Administratively, it is generally cheaper to mail a check than to provide all the individual services a poor child and his or her

The continuous erosion of AFDC benefit levels over the past 15 years provided evidence that the program was not popular with the general public.
### Table 1

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**Notes:**
- All amounts converted to 1995 dollars.
- These figures are from 1977.
- These figures are from 1972.
- The 1980 Medicaid figures are from 1981.

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well-being of their children. For example, the NIT appears to have decreased the workforce participation of married women and increased housing expenditures and purchases of consumer durables such as washing machines.8

Moreover, cash programs with income guarantees, such as AFDC and the NIT, build in negative incentives: they may discourage people from working and thus cause them to stay dependent on the cash benefit. There is also the frequently discussed concern that children with welfare-dependent mothers are more likely to become welfare-dependent themselves, leading to an intergenerational transmission of poverty and welfare dependency. The fact that daughters of AFDC mothers were more likely to be on AFDC is well established, but much debate has centered on the issue of whether this relationship reflects a causal role of AFDC or the fact that the children of the poor are more likely to be poor.9 The emerging consensus among researchers is that the AFDC did cause some dependency but that the effects were small and certainly not sufficient to explain much of the growth in the AFDC caseload over time.10

There is also some evidence that cash welfare programs encourage the formation of female-headed households both through increases in nonmarital fertility and by discouraging single women with children from marriage. The increase in the percentage of children living in mother-only families is a serious contemporary problem. (See the articles by Betson and Michael and by Corcoran and Chaudry in this journal issue.) The percentage of families with children headed by a single mother more than doubled from 11% in 1965 to 23% in 1995, and a substantial part of the increase in child poverty of the past 30 years has been associated with this trend.11 In most instances, poverty in single-parent
households is associated with the absence of support from the noncustodial parent.\textsuperscript{10,12} Again, however, the consensus among researchers is that the effects of AFDC were small and did not account for much of the increase in single-parenthood.\textsuperscript{13}

One aspect of the AFDC program that has not received much attention is the fact that some women broke the law to retain their benefits. In most states, combined AFDC and food stamp benefits did not even reach 80\% of the poverty threshold. As a result, it was very difficult to make ends meet without engaging in unreported work or receiving support from boyfriends, friends, or relatives, which was not reported to the welfare office.\textsuperscript{14} Thus, technically, many AFDC mothers were breaking the rules because all reported income from any source would have reduced their welfare benefits. As Plotnick notes in his article in this journal issue, the jobs that would provide the wages and benefits women need to achieve economic security were often out of reach for AFDC recipients.\textsuperscript{15} Hence, receiving welfare along with under-the-table income may have been the most viable option for many poor families. The long-term negative effects of turning desperate mothers into scofflaws are undocumented.

Equity issues also contributed to the unpopularity of the AFDC program. In an era in which most mothers of young children work, it seemed unfair to some that these working women and other taxpayers should support welfare mothers to stay home with their children. (See the article by Hechle in this journal issue for further discussion of this point.) It should be noted, however, that the alternative of requiring mothers to work at very low-wage jobs and subsidizing their child care, job training, and health insurance is likely to exceed the cost of the traditional welfare grant in many situations.

Few studies have analyzed cash welfare programs as investments and attempted to identify their benefits to children. There is, however, a great deal of evidence that poverty is associated with poor child outcomes (see the article by Brooks-Gunn and Duncan in this journal issue). Studies suggest that the relatively large cash transfers made to families during 1968–1974 under the NIT had positive effects on the nutritional status and educational attainment of children in the poorest families but no effect in families that were better off.\textsuperscript{16} Thus, these studies suggest that improving children’s life chances by transferring cash to their families requires a substantial outlay of funds.

Studies that have looked at the effects of AFDC on child outcomes have attempted to distinguish between the effects of income and of program participation on child outcomes. Several have attempted to control for the selection of families on to welfare. One such study found that, although children’s scores on a standardized test of vocabulary were positively related to income,
AFDC participation per se had no effect on these scores given a certain level of income. Another study examined the effect of AFDC participation during pregnancy on the utilization of prenatal care and birth weight and found that, again holding income constant, AFDC participation had no additional significant effect on birth weight. Still another study, which controlled for the effects of a number of important family characteristics but not for the selection of families into AFDC, did not find a quantitatively important relationship between the number of years a family received welfare during the time a child was growing up and the probability of that child's graduating from high school, bearing a child out of wedlock, or receiving welfare after such a birth. Receipt of welfare while growing up was, however, found to be a quantitatively important factor in one negative outcome: economic inactivity (defined as not in school or the military and working fewer than 1,000 hours per year) among 24-year-olds. These studies suggest that, at best, income from AFDC has had much the same effect on children as family income from any other source.

In summary, most research has focused on the negative incentive effects of cash transfer programs with income guarantees. The evidence suggests that these effects are real but small. However, the response of families to these incentives—by reducing reported and unreported work and perhaps support from friends and relatives, and increasing family dissolution—may mean that family income does not increase by the full value of an increase in nominal cash benefits. Some of the perverse incentives are reinforced by the tying of other benefits, such as food stamps, Medicaid, and housing assistance, to the level of cash income, including transfers. In addition, because the value of these other benefits may decline as cash transfers increase, total resources available to families will increase by less than the increment in cash transfers.

**Comparison of the EITC and TANF with AFDC**

Some of the negative features of the AFDC program (the potential for encouraging single-headed households, the work disincentives, and the inequities) are reduced by the EITC program and are likely to be reduced in the new TANF program. For example, in the EITC program, families receive support only if they have earnings, and the grant a family receives actually rises with earnings up to a certain level. Both features provide a positive work incentive for families with low earning potentials. Families with higher earnings in the phaseout range of the credit still face negative work incentives, however, so the net effect of the credit on labor supply is ambiguous. The EITC also provides benefits to all poor and low-income working families with children, making it a much more equitable program than AFDC.

Some features of TANF (including the requirements that recipients work after two years and that most families with a member who has received aid as an adult for five years lose eligibility) will likely change the incentives for families to seek work relative to the incentives under AFDC. Because benefits are likely to fall under TANF as compared with AFDC (see the discussion by Plotnick in this journal issue), the incentives for families to find other sources of income will be increased, but so will the risk to children that may accompany a reduction in already very low levels of family cash income. Last, the AFDC program created work disincentives because benefits were reduced relatively rapidly as family earnings increased. However, because states may set whatever benefit reduction rates they like under TANF, the work incentives associated with the new programs may well improve in some states.

A compelling and underresearched question for those concerned about program design and the well-being of children is the extent to which cash transfers in general can improve children's lives. There is little evidence that cash transfers of the magnitude involved in the AFDC program have positive effects. There may be several reasons for this paradox: first, few studies have been conducted; second, as discussed above, the benefits of a cash transfer program are diffuse and, therefore, difficult to
measure; third, the income of AFDC families may not be measured accurately enough for research purposes; and fourth, it may take larger transfers than those common in the current system to really make a difference. Evaluations of the current reform of the welfare system may offer an opportunity to answer some key questions about the value of cash transfers for children, provided that states make information about programs and outcomes available to researchers.

**In-Kind Programs**

A parallel in-kind welfare system for poor families and their children has grown up alongside the cash system over the past 35 years. Table 1 shows that expenditures on in-kind programs, except school lunch, have shown steady growth over time. Table 2 indicates that caseloads for most of these programs have also been growing much more rapidly than AFDC caseloads. Thus, in recent years, a larger proportion of benefits for poor children have been provided in kind than in cash. In-kind programs aim to provide directly for a child’s basic needs: decent housing, food, medical care, and early education. While cash programs allow parents to decide how they will spend their increased income, in-kind programs offer specific benefits that will be provided whether or not they are what is most desired by a particular family. Some programs provide benefits directly to the children (for example, school lunch, Head Start), virtually bypassing parents. This feature may account for the growing popularity of these programs.

Evaluation of these in-kind programs is more straightforward than the evaluation of cash transfer programs because it is possible to determine whether a program has an impact on the specific child outcome it was designed to affect. For example, researchers can ask whether receipt of housing assistance is associated with improvements in housing or whether household participation in the Food Stamp Program improves a child’s diet. They might then ask whether the program has additional effects on related child outcomes. For example, better nutrition may influence a child’s cognitive abilities. In principle, in-kind and subsidy programs could also influence child outcomes more generally by releasing household cash, which would have been spent on benefits received in kind, to purchase other goods and services that benefit children.¹⁹

The major in-kind programs in the United States are in four areas: housing, nutrition, health care, and education. (The specific programs and their effects are discussed in more detail in the article by Devaney, Ellwood, and Love in this journal issue.) Key points from evaluations of those programs are reviewed below to identify features of each that correspond to the four choice criteria described above.

**Housing**

Since 1980, most new appropriations for housing for the poor have been for rental assistance programs rather than for the construction of low-rent public housing (or “projects,” which is what many people think of as “public housing”). The Section 8 existing housing program provides rent subsi-

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**In recent years, a larger proportion of benefits for poor children have been provided in kind than in cash.**

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\[\text{dies to families who find an apartment of their own choosing as long as the rent is below the fair market rent (FMR) established by the Department of Housing and Urban Development (HUD) and the unit meets minimum quality standards. Rental assistance typically pays the difference between the FMR established by HUD and 30% of the family’s income (after deductions for certain expenses are taken into account).}\]

Public housing is not an entitlement, so once funds allocated for the program have run out, families must be wait-listed. This system creates inequities: families fortunate enough to be served receive large benefits, while other families in similar financial circumstances receive nothing. Efforts to target the program to the “neediest” families can create perverse incentives. Many public housing authorities give preference to homeless families on their waiting lists, thus creating an incentive for families to move out of unsatisfactory living arrangements with relatives and friends and into shelters. And because rents are determined as a percentage of family income, families that
### Table 2

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</tr>
<tr>
<td>School lunch Number receiving any meals</td>
<td>26.3</td>
<td>26.6</td>
<td>24.1</td>
<td>25.6</td>
<td></td>
</tr>
<tr>
<td>Number receiving free meals</td>
<td>10.5</td>
<td>10.0</td>
<td>10.3</td>
<td>12.4</td>
<td></td>
</tr>
<tr>
<td>School breakfast Number receiving any meals</td>
<td>2.5</td>
<td>3.6</td>
<td>4.0</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Number receiving free meals</td>
<td>2.0</td>
<td>2.8</td>
<td>3.3</td>
<td>5.1</td>
<td></td>
</tr>
<tr>
<td>Medicaid (total recipients)</td>
<td>17.6</td>
<td>22.0</td>
<td>21.6</td>
<td>25.3</td>
<td>35.1</td>
</tr>
<tr>
<td>Child recipients</td>
<td>9.6</td>
<td>9.3</td>
<td>11.2</td>
<td>17.2</td>
<td></td>
</tr>
<tr>
<td>Head Start</td>
<td>0.5</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
<td>0.8</td>
</tr>
</tbody>
</table>

**Notes:**
- a These figures are for 1977.
- b These figures are for 1972.


Increase their incomes are penalized; families that increase their incomes far enough lose their public housing subsidy altogether. Further, the fact that there are waiting lists means that an adult in public housing who was offered a job at a decent salary might not take it because, if she moved off the program and then lost the job, she would end up back on the waiting list.

Large public housing projects such as Chicago's Cabrini-Green and Robert Taylor Homes (now scheduled for demolition) have terrible reputations. Any positive effects these projects may have on children as a result of reduced rent or better physical housing stock may be outweighed by negative neighborhood characteristics. This is one reason that new appropriations have favored rental assistance and scatter-site housing. Evaluations of rental assistance programs have found that, in some instances, the programs enabled families to move to better neighborhoods and led to increases in children's school attainment and other improved outcomes. However, in other situations, families were unable to use the assistance vouchers because they could not find eligible housing, which suggests that families fleeing bad housing in poor neighborhoods may require assistance in relocating.

**Nutrition**

Several major programs provide nutrition assistance for poor children, representing potentially important investments, not only in child health, but in cognitive development. (See the Child Indicators article and the article by Brooks-Gunn and Duncan in this journal issue.)
The Food Stamp Program (FSP) provides coupons that may be used to purchase all foods except alcohol, tobacco, and hot foods "intended for immediate consumption." Of the nutrition programs, FSP is most like a cash benefit program. Because the value of the coupons recipients receive is less than a typical food budget, beneficiaries can use their food stamps to spend the same total amount on food as they would have without FSP and spend cash "fished up" by the program on nonfood items (which may or may not benefit their children). Evaluations have consistently shown that the program does, however, increase food expenditures. The reasons for this may have to do with incentives that are provided in the structure of the program: women with children may be more likely to purchase food than men do, and the female head-of-household may have more control of food stamp coupons (which are likely to be issued in her name) than she has over the household's cash income.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) provides nutritional counseling and food supplements to pregnant and lactating mothers and their infants as well as to low-income children up to age five. This program is much smaller and more restrictive than the Food Stamp Program. All participants must be certified to be nutritionally "at risk" (defined as having nutritionally related health or medical conditions or a predisposition to such conditions), and the types and quantities of foods that may be purchased are controlled. WIC is not an entitlement, and because of funding limitations, it currently serves only 60% of the eligible population.

Many studies find that WIC has positive effects on the utilization of prenatal care and on measures of infant health, including birth weight, the incidence of low birth weight, gestational age, and infant mortality. One study, which examined the effects of WIC on the Medicaid costs of newborns, concluded that WIC was a good investment because in 1980 a dollar spent on WIC reduced Medicaid costs in Missouri by approximately $0.80 within the first 30 to 45 days after birth. Another study of Medicaid costs in five states found that the savings in the first 60 days after birth more than offset the costs of WIC. One important caveat is that these WIC studies do not adequately control for the fact that WIC participants may differ from eligible nonparticipants in ways that are not measured in the studies. For example, mothers who seek out WIC might be more motivated or better informed about nutrition than other mothers. Several studies have also found positive effects on the nutritional status of older children due to WIC: Most dramatically, an early study by the Center for Disease Control found that, after three WIC visits, the percentage of children who were anemic fell by more than half.

The federal government supports six other programs that provide meals or monthly food supplements directly to low-income children. The largest is the National School Lunch Program (NSLP), an entitlement that operates by reimbursing schools for meals served. School lunches are provided free to children with family incomes of less than 130% of the federal poverty line and are subsidized if the family income falls between 130% and 185% of the poverty line. The School Breakfast Program (SBP) serves fewer, typically needier, students. The measured effects of school nutrition programs are varied: older studies found that participants had higher 24-hour nutrient intakes than nonparticipants and that SBP participants were more likely to eat breakfast than nonparticipants. In one study, the SBP participation was associated with increased scores on tests of basic skills for elementary school children and with reduced tardiness. But more recent studies show not only higher intakes of some nutrients among participants but also higher intakes of fat and cholesterol. Part of the problem may be that the school nutrition programs are often expected to use surplus agricultural products such as cheese and whole milk, which are high in fat and cholesterol.

School nutrition programs are often expected to use surplus agricultural products such as cheese and whole milk, which are high in fat and cholesterol.
a federal-state entitlement program, administered at the state level. As discussed by Devaney, Ellwood, and Love in this journal issue, the program has been shown to have significant positive effects on the utilization of health care. For example, children covered by Medicaid are more likely than uninsured children to have had any doctor visits in the past six months. However, even with Medicaid coverage, identifiable groups of poor children do not receive adequate care because of shortages of providers willing to serve them and other less-well-documented barriers to care.32

Beginning in the early 1980s, Congress dramatically extended Medicaid eligibility among pregnant women and children. The fraction of women eligible for Medicaid coverage in the event of pregnancy rose from 12% to 43%, while the number of all children eligible rose from 15% to 30%. At present, by federal mandate, all pregnant women and children through age six in families with incomes below the 135% federal poverty level are eligible for Medicaid. Mandatory eligibility for children in poor families who are less than 19 years old and were born after September 30, 1983, is being phased in. (Children 6 to 13 years old are already covered.) Some older teenagers are already covered by Medicaid in a number of states as are younger children and pregnant women in families with incomes substantially above the poverty level.35

Several recent evaluations of the Medicaid program take advantage of changes in eligibility to identify the effects of public health insurance on the utilization of health care and on the health outcomes of infants and children.34 These evaluations suggest that the Medicaid expansions saved lives: The 30 percentage-point increase in the eligibility of pregnant women was associated with an 8.5% decrease in infant mortality, which translates into approximately 3,500 fewer infant deaths per year. Among children between the ages of one and 14, becoming eligible for Medicaid decreased the probability of going without any medical care in a given year by 13% and reduced the number of child deaths by approximately 1,500 per year. However, as discussed by Devaney, Ellwood, and Love in this journal issue, previous evaluations of Medicaid expansions did not find improvements for pregnant women in the use of prenatal care, the prevalence of low birth weight, or reduction in neonatal mortality.

In addition, recent research has identified some potential problems with the expansion of Medicaid eligibility to higher income populations. First, it appears that women with incomes between 100% and 185% of poverty were less likely than women with lower incomes to participate in Medicaid during their pregnancies.35 Hence, they did not avail themselves of the free preventive prenatal care available under the Medicaid program, and the underlying health of their newborns was not improved. There is evidence, though, that hospitals enrolled eligible uninsured women in Medicaid at delivery so that costly services received by unhealthy newborns were paid for by the program. Thus, some lives were saved not by inexpensive prenatal care but by after-the-fact application of the expensive technologies necessary to save unhealthy newborns. It may be that an outreach program to increase the likelihood that newly Medicaid-eligible families take advantage of available preventive, well-child, and prenatal care services could increase the cost-effectiveness of the Medicaid program.

Second, the expansion of Medicaid eligibility may be responsible for some of the continuing decline in the fraction of children covered by private insurance, as there is evidence that some children and pregnant women who would have had private insurance switched to Medicaid when eligibility was expanded.36 If public resources simply substitute for private resources, then unless the public program is of better quality than the private insurance that is dropped, public expenditures may increase with little effect on outcomes.

An outreach program to increase the likelihood that newly Medicaid-eligible families take advantage of available preventive, well-child, and prenatal care services could increase the cost-effectiveness of the Medicaid program.
Early Education

Head Start is a federal-local matching grant program designed to improve the skills of poor preschoolers so that they can begin schooling on a more equal footing with their more advantaged peers. It is not an entitlement program, and funds have been provided for only about one-third of eligible children. Head Start has enjoyed widespread bipartisan support over a long period, and evaluations have shown that the program has dramatic short-term effects. There is controversy, however, about the existence of long-term effects. Experimental studies that focus primarily on inner-city African-American children typically find that the initial positive effects on children's cognitive achievement fade out in two or three years. However, recent work using data from large-scale national surveys suggests that increased test scores may be sustained at least for some groups of children, and longitudinal studies of other early childhood programs (many of which have features in common with Head Start) have demonstrated long-term effects on other outcomes such as school achievement, grade retention, placement in special education, and social adjustment, although there is reason to believe that these "model" programs may produce better long-term outcomes than the average Head Start program because they are typically funded at higher levels.

How Does One Choose?

Many issues about the evaluation of programs for poor children and families remain to be addressed. First, although the studies described do form a coherent body of research, many suffer from some of the problems of measurement discussed above. And in any event, one must be cautious about extending the results of these studies to populations that have not been studied or about forecasting the effects of large changes in programs.

Second, although the efficiency of any program is determined in part by administrative costs, little is known about the comparative costs of running cash and in-kind assistance programs. Third, little is known about how the effects of programs differ depending on whether children are in long-term rather than short-term poverty or about whether it is possible to target children effectively using criteria other than income.

Finally, one important type of incentive effect that has received little attention is the potential that one program might create incentives to participate in another program. For example, in some jurisdictions, participants in AFDC received preference for public housing, and one recent study shows that, prior to the recent Medicaid expansions, the close link between Medicaid and AFDC also provided incentives for women to stay on AFDC.

Nevertheless, several themes emerge from the preceding discussion, which are summarized by criterion and program in Table 3. First, despite the a priori arguments in favor of the efficiency of cash transfer programs, there is currently little evidence that existing cash programs are effective in improving child outcomes. Since this may be

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**Longitudinal studies of some early childhood programs have demonstrated long-term effects on other outcomes such as school achievement, grade retention, placement in special education, and social adjustment.**

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at least partly because researchers have not looked into the issue in depth, quantifying the benefits of such programs (including the EITC and the new TANF) is an important subject for future research.

In contrast, more evidence exists concerning the efficacy of in-kind programs. These programs often improve specific child outcomes, and the available evidence, while not definitive, suggests that the most targeted programs, such as WIC and Head Start, seem to have the biggest "bang for the buck."

Second, with regard to incentives, although all programs that provide benefits conditional on income create incentives for at least some people to keep their incomes below the "target" level, it is likely that these incentives are smaller for programs like WIC and Head Start. These programs have higher income cutoffs than the typical AFDC program; their benefits are not reduced gradually with small increases in income, and they provide a very limited set of benefits that target children directly.
## Summary of Program Outcomes According to Choice Criteria

<table>
<thead>
<tr>
<th>Program</th>
<th>Efficiency</th>
<th>Incentives</th>
<th>Investment</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFDC</td>
<td>Allows families to spend money as they want. Administratively inexpensive.</td>
<td>Discourages work. Discourages marriage. Encourages breaking the law by underreporting of other income.</td>
<td>Only large transfers have any documented effect on child well-being.</td>
<td>Large differences in benefit levels across states.</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>Same as above.</td>
<td>Encourages work for poorest. May discourage work for those in phaseout range of credit.</td>
<td>Same as above.</td>
<td>Horizontally equitable and reduces inequality by providing same benefits in all states and for all families with children.</td>
</tr>
<tr>
<td>Housing</td>
<td>Only half of voucher income is spent on increased rent.</td>
<td>Discourages work. May encourage homelessness.</td>
<td>Some positive effects if families are able to move to better neighborhoods and access better schools.</td>
<td>Some families receive large subsidies while other families in similar financial circumstances receive none.</td>
</tr>
<tr>
<td>Food Stamps</td>
<td>Only one-fourth of food stamp income is spent on increased food purchases.</td>
<td>Unlikely to be a major work disincentive.</td>
<td>Food consumption up, with possible positive effects on a range of outcomes.</td>
<td>Entitlement program serves all eligibles. Reduces inequality across states and between one- and two-parent families.</td>
</tr>
<tr>
<td>WIC</td>
<td>Resources targeted to at-risk population and cannot be spent on junk food or other goods.</td>
<td>Encourages prenatal care and good nutrition.</td>
<td>Improvements in infant and child health.</td>
<td>Does not serve all who are eligible.</td>
</tr>
<tr>
<td>School Nutrition (School lunch and breakfast)</td>
<td>Child may eat less at other times of day.</td>
<td>Encourages attendance.</td>
<td>Positive effects on consumption of some nutrients, but also of fat and cholesterol. May improve school performance.</td>
<td>Does not serve eligibles in schools without programs.</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Pays for essential services but also for some of unproven efficacy. Other barriers may prevent the most cost-effective care from being used.</td>
<td>May cause some families to drop private insurance. Free so families may overuse health care.</td>
<td>Improved utilization of care. May reduce infant and child mortality.</td>
<td>Reduces disparities in access to care by race and socioeconomic status, but differences remain. Take-up problem means not all eligibles are covered. Phase-in leaves some poor youths uncovered in 1997.</td>
</tr>
<tr>
<td>Head Start</td>
<td>May not have long-term effects on cognitive outcomes for all children.</td>
<td>Encourages parental involvement in child’s education.</td>
<td>Large positive effects on cognitive outcomes, and also improves use of preventive care.</td>
<td>Only one-third of eligible children are served.</td>
</tr>
</tbody>
</table>
Choosing Among Alternative Programs for Poor Children

Third, while the programs reviewed and others are intended to reduce social inequality by making sure that every child starts life on a "level playing field," some of the effective in-kind programs are horizontally inequitable because they have been funded at levels that can serve only a fraction of the eligible population. Programs like Head Start and public housing offer large subsidies to some while offering no assistance at all to others.

These arguments suggest several conclusions about promising directions for policies to aid poor families and children. One possibility is that it may make economic sense to spend a growing fraction of the dollars allocated to children's programs in kind. Moreover, it would likely enhance public support for "welfare programs" broadly defined if the public was more aware of this trend since it reflects the public's desire to "help poor children without subsidizing their parents," a perspective that is developed further in the article by Hugh Heclo in this journal issue. Clearly, the worst-case scenario for poor children is the continuing erosion of cash welfare payments without corresponding increases in in-kind benefits.

What form should these increases take? The available evidence suggests that WIC and Head Start should be fully funded. This would cost an additional $2.3 billion for WIC and approximately $6 billion for Head Start. These programs are relatively inexpensive (approximately $500 and $4,000 per child per year, respectively) and reasonably effective. And with appropriate investments as children age, it may be possible to build on the early gains from these programs. These programs seem to offer few perverse incentives, and they are administered at the local level within federal guidelines. It may be that this form of administrative structure, which is currently popular with policymakers, is more efficient than more top-down approaches, a question that deserves further investigation.

As an alternative, one might consider the likely effects of adding a comparable amount, $8 billion, to the old AFDC program. Doing so would increase average payments to recipients by almost a third ($588 per year). While most welfare families would welcome this amount, it is unlikely that it would have an effect on cognitive attainment and child nutrition comparable to the combined expansion of Head Start and WIC. The incentive and equity issues associated with expanding an AFDC-type program also make this alternative an unlikely choice.

A distributional consequence of focusing more resources on programs like Head Start and WIC is that these programs are for infants and young children whereas AFDC has served children and youths through age 18. Accordingly, any shift of funds from AFDC-like cash programs to programs like WIC and Head Start would involve less support for older children, although housing benefits, food stamps, and Medicaid are all available to families with older children. One mechanism for increasing in-kind benefits specifically for youths at this time would be to accelerate the phase-in of mandatory Medicaid coverage for older teens.

It is also worth noting that, under current legislation, the now fully phased-in EITC will bring many poor families with at least one parent working full time at the minimum wage up to the poverty threshold, something the AFDC program did not do. So, if states use the new flexibility associated with welfare reform to get former AFDC mothers into the workforce even at low-paying jobs and these families are encouraged to use EITC, the combination of new and expanded cash programs could prove to be an effective way to support low-income families. While this optimistic scenario must be regarded as hypothetical at this point, it does suggest that it may be possible to design cash support programs for poor families with children that are politically acceptable and to reduce or eliminate many of the negative incentives inherent in the old AFDC program.

Several in-kind programs might be greatly improved through relatively small steps. Medicaid might be made more efficient by

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The now fully phased-in EITC will bring many poor families with at least one parent working full time at the minimum wage up to the poverty threshold.
focusing resources on reducing the non-financial barriers to care that prevent some pregnant women and children from receiving the timely care that can prevent more costly, serious illness. School nutrition programs could be improved by serving skim or low-fat milk rather than whole milk and by giving local program administrators cash rather than surplus high-fat products such as cheese. Similarly, the nutritional impact of the Food Stamp Program might be improved by placing more restrictions on the products that can be purchased using food stamps. Although restrictions on food stamps have been viewed as prohibitive burdensome from an administrative point of view, new "smart" debit cards may eventually allow restrictions on the purchase of items such as junk food and soft drinks to be effectively enforced.

Finally (and most difficult), older programs like housing assistance may need to be overhauled. Specifically, it may be necessary to limit the benefits available to some families to provide basic services to greater numbers of children and families. For example, it has been argued that HUD should reduce the fair market rent so that families receiving housing assistance get smaller subsidies and more families can be served. In any event, the evidence suggests that supplementary services could increase the efficiency of existing housing programs by assisting families that wish to relocate.

The articles in this journal issue suggest that it has taken many years of research to arrive at the limited amount now known about how programs affect poor children. Wholesale dismemberment would take the current system back to square one, and it might take many years to rebuild the system. In the meantime, many children would suffer. To succeed, attempts to reform the system should build on the foundation of existing programs with proven benefits.

This journal issue also highlights the need for further research and public discussion of these issues. While it is relatively straightforward to compute the costs per recipient of these programs (take expenditures in Table 1 and divide by caseloads in Table 2), it is virtually impossible at this point to quantify benefits. Little is known about the benefits of some programs (like AFDC), about the long-term benefits of some other programs, about the effects of multiple program participation, and about the societal savings (in terms of, say, forgone prison or hospital expenditures) potentially generated by these programs. More important, there is little agreement regarding the weight that society should attach to various types of outcomes. Are children's education, health, and well-being important for their own sake or only because improving outcomes in these areas is likely to enhance future earnings, national income, and therefore tax revenues? This is an important question facing policymakers as they struggle to create an efficient and equitable welfare system for families and children for the twenty-first century.

1. Aid to Families with Dependent Children (AFDC) had, until recently, been an entitlement; however, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 ended the AFDC program and replaced it with Temporary Assistance for Needy Families (TANF), a non-entitlement. See the article by Plotnick in this journal issue.


3. Currie, J. Welfare and the well-being of children. Chur, Switzerland: Harwood Academic Publishers, 1995, Tables 9 and 11. Government expenditures on the elderly have increased more rapidly than expenditures on children primarily because the elderly consume a lot of federally financed health care and, over time, the cost of health care has grown substantially and because the elderly population is growing more rapidly than the child population.


5. For example, in a study of the effects of participation in AFDC during pregnancy on birth weight, Currie and Cole found that participation had a negative effect on birth weight in models that did not control for the process of selection of women into the program. However, when selection was controlled for using a variety of statistical techniques, no statistically significant effects were found. Currie, J., and Cole, N. Welfare and child health: The link between AFDC participation and birth weight. The American Economic Review (1993) 83,4:971–85.
6. The four experiments were conducted in New Jersey and Pennsylvania, Seattle and Denver, Gary, Indiana, and rural areas of North Carolina and Iowa. It is important to note that the North Carolina and Gary samples were much poorer than the others. Under an NIT, a family that earns no income is guaranteed a minimum income, G. Families with earnings, Y, receive a payment D, where D=G+Y. The quantity B=G/1 is referred to as the break-even level of income because workers who earn more than B receive no payments. If income is equal to the wage multiplied by hours worked and workers face a tax rate t, then workers on the NIT earn w(1+t) for every hour of work, whereas workers with incomes above B earn w(1-t).

That is, families on the NIT have a guaranteed minimum income even if they do not work but face a higher tax rate on their earnings just above that minimum than workers not on the NIT. The EITC differs from NIT in that the EITC has no income guarantee. Also, because at first the size of the credit increases with earnings, the EITC lowers effective marginal tax rates for the poorest rather than raising them. After a certain level of income, the credit begins to be phased out, creating a higher implicit tax rate for recipients with incomes above this level.


12. Female heads-of-household are as likely to work as other women, and they actually have slightly higher earnings. See Moffitt, R. The incentive effects of the U.S. welfare system: A review. Journal of Economic Literature (March 1992) 30;1:1–61.

13. Moreover, it is unlikely that a poor mother will escape poverty by marrying the father of her children if he is not capable of supporting them. This point is made forcefully in Wilson, W.J. The truly disadvantaged. Chicago: University of Chicago Press, 1987. However, for an alternative view, see Brien, M.J., and Willis, R.J. The partners of welfare mothers: Potential earnings and child support. The Future of Children (Spring 1997) 7;1:65–73.


16. To get some idea of the size of the cash transfers available under the NIT, consider that in the Seattle-Denver experiment, the payments ranged from $919 to $2,031 in 1972 dollars while the 1972 poverty line for a family of three persons was $3,099. In comparison, the 1992 poverty line was $11,280, so a transfer of similar magnitude would be much larger than the maximum $1,384 credit available under the EITC in that year. Multiplying the average monthly AFDC benefit in 1993 by 12 yields $4,476; the Seattle-Denver NIT benefits inflated to 1993 dollars would be $3,185 to $7,027.


24. This conjecture has not been tested. However, some circumstantial evidence pertinent to this hypothesis comes from the Washington State Welfare Reform Demonstration Program. AFDC recipients in demonstration counties had the option of choosing to receive their AFDC and food stamp benefits in the form of a single consolidated check rather than continuing to receive food stamp coupons. More than 20% of these women opted to continue receiving the coupons. See Fraker, T. *The effects of food stamps on food consumption: A review of the literature.* Washington, DC: USDA Food and Nutrition Service, October 1990.


40. Administrative costs should be understood to include costs due to fraud. These costs could be the result of vendors who sell substandard food to school nutrition programs, doctors who run "Medicaid mills," and grocery stores that buy food stamps at a fraction of their face value.

