

JOB MARKET PAPER ABSTRACT

Strategic interaction among local governments is a major concern in federal systems. In the case of welfare benefits, recipients may relocate in order to receive higher benefits. This migration increases the cost of welfare in high-benefit states. In response, these states may choose to offer lower benefits. Anticipating this action, low-benefit states may adjust their benefits downward as well. In equilibrium, all states may offer benefits lower than they would in the absence of migration, an outcome that is inefficient. A prerequisite for this problem is that welfare benefits do in fact influence migration.

This paper uses a conditional logit model of residential location decisions to estimate the impact of welfare on migration. The key identification issue is separating the effect of benefits from other, possibly unobserved, state characteristics. The paper solves this problem by calculating the lifetime stream of benefits a family is eligible to receive, which creates variation among households in the same state. This strategy takes advantage of the life cycle effect, first used by Gelbach (2004), but also adds variation arising from differences in state treatment of family size. The latter source of identification has not been used in the literature before. Also, the model allows households to choose among all fifty states. Previous discrete choice models in the literature used regions, which obscures the variation in the data.

Data on households comes from the 1990 IPUMS, which is a random, one percent sub-sample of the U.S. Census. Besides the demographic information needed to calculate benefit eligibility, the IPUMS includes the state of residence in 1985 and 1990. This data is also used to calculate estimated wages for all individuals. Data on the benefit levels in all states came from a report by the U.S. House of Representatives Committee on Ways and Means.

I find a coefficient on welfare benefits that is positive and significant, but my results imply an effect on migration that is significantly smaller than the existing literature. Furthermore, I find that the effect of benefits is decreasing in education, in contrast to Gelbach (2004). Analysis of my results show that very little of the marginal cost of raising benefits can be attributed to migration. This suggests that the race to the bottom may not be a serious concern.