

**The Effects of Welfare Reform in Rural Minnesota: Experimental Findings from the  
Minnesota Family Investment Program**

**Lisa A. Gennetian\***

**Cindy Redcross**

**Cynthia Miller**

**MDRC**

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\*Corresponding author, [lisa\\_gennetian@mdrc.org](mailto:lisa_gennetian@mdrc.org), MDRC, 16 East 34<sup>th</sup> Street, New York, New York, 10016. This research was supported by funding from the Minnesota Department of Human Services, the Ford Foundation, the U.S. Department of Health and Human Services, the U.S. Department of Agriculture, the Charles Stewart Mott Foundation, the Annie E. Casey Foundation, the McKnight Foundation, and the Northwest Area Foundation. Many thanks for helpful comments from Greg Duncan, Kathy Edin, and Bo Beaulieu.

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### **ABSTRACT**

Unlike well-documented patterns in urban areas, welfare caseload declines in rural areas have not been paralleled with increases in employment or reductions in poverty. Recognizing how the effects of welfare policy may differ given the important differences in the lives and work behavior of urban versus rural low-income families has been relatively understudied. This paper examines the effects of an experimental welfare waiver evaluation – the Minnesota Family Investment Program (MFIP) – on the employment and earnings of long-term welfare recipients in rural and urban Minnesota. In contrast to its large and consistent effects on employment and earnings in urban counties, MFIP’s effects on rural recipients’ employment and earnings faded considerably over time, particularly in one rural county. Differences in observable characteristics between rural and urban recipients, particularly prior marital status and work experience, explain the smaller effects of MFIP in three of the rural counties. However, and surprisingly, these factors explain only a part of the story in the one rural county that was affected the least positively by MFIP. These findings highlight the role that regional differences should play in formulating welfare and employment policies.

## Introduction

Though issues of poverty affect families and children in both urban and rural areas of the U.S., the plight of the urban poor rings nearer for many researchers and policy makers. In fact, child and adult poverty rates vary considerable across regions being highest in highly urban areas (i.e. central cities) and in nonmetropolitan areas, and lowest in the suburbs. A number of trends in the 1990s—declining welfare caseloads, increased labor force participation among the poor and decreased child poverty—also show substantial variation across region (Rural Policy Research Institute, 1999). Unlike patterns in urban areas, caseload declines in rural areas have not been paralleled with increases in employment or reductions in poverty. These trends in part reflect the unique challenges that face the poor and welfare recipients in rural areas; the most prominent being access to child care and transportation and the availability and quality of employment opportunities.

Despite these regional differences the landmark 1996 welfare reform legislation (the Personal Responsibility and Work Opportunity Reconciliation Act, PWORWA) treats eligibility and requirements for welfare assistance receipt in rural and urban areas alike. The effects of this legislation on rural compared to urban regions are not well understood and are relatively understudied. Fortunately, prior to the passage of PWORWA, a number of states were granted federal waivers to implement and test innovative welfare reform policies. Using two years of follow-up data, this paper examines the effects on employment and earnings of one such experimental welfare waiver evaluation—The Minnesota Family Investment Program (MFIP)—on long-term recipients in rural counties. The MFIP evaluation included welfare recipients who resided in both urban and rural counties, allowing a comparison of its effects

across a diverse cross-section of counties. MFIP was first implemented on a field trial basis in April 1994, in the three urban counties of Hennepin (Minneapolis), Anoka and Dakota and the four rural counties of Mille Lacs, Morrison, Sherburne and Todd.

Recent findings show that MFIP had a range of positive effects on long-term recipients families, increasing parents' employment, earnings, and income and improving their children's behavior and school performance (Miller et al., 2000; Gennetian & Miller, 2000). These findings also showed, however, that MFIP's effects for long-term recipients differed somewhat for those in urban versus rural counties. In particular, in contrast to the large and lasting employment and earnings increases in urban counties, average employment increases by the second year of follow-up were much smaller for recipients in rural counties. In addition, MFIP did not significantly increase rural recipients' average earnings.

This paper examines MFIP's impacts in the rural and urban areas in more detail and attempts to explain why the impacts were smaller in the rural counties. The paper makes a number of contributions. First, it adds to emerging findings about the effects of welfare reform interventions on single-parent families who are long-term welfare recipients. Second, the MFIP data provide a unique opportunity to examine the effects of an identical intervention in two very different local contexts—rural versus urban areas. Third, the wealth of detailed information about economic and demographic characteristics and behavior allow an in-depth analysis of why or how welfare reform interventions such as MFIP might have different effects for urban and rural recipients. Finally, perhaps unlike many other experimental evaluations, because the current statewide version of MFIP is very similar to the program implemented for the evaluation, these findings are relevant to informing current state policy.

We find that rural recipient families differ from urban recipient families both in terms of their demographic characteristics and in terms of their work experience and attitudes or perceptions about welfare and work. In particular, compared to urban recipients, more rural recipients are white, more had been previously married, and more had recent work experience prior to entering the evaluation. Moreover, compared to urban recipients, rural recipients are more likely to report a sense of stigma associated with receiving welfare. These differences in observable characteristics, particularly prior marital status and work experience, can explain a substantial part of the difference in impacts for three of the rural counties. However, we also find that MFIP's most negative effects were confined to one particular rural county, and that differences in observable characteristics explain very little of the impact difference in this county. The differences in MFIP's effects in this one county may be due to aspects of the local economy that were unique to this county or to unobservable differences between these recipients and recipients in other counties. Nonetheless, the results highlight the role that regional differences should play in formulating welfare and employment policies.

The remainder of this paper is organized as follows. The next section describes the primary components of the MFIP model, the MFIP evaluation and the expected effects of MFIP. Section III summarizes the data sources and methods used in the empirical analysis. Section IV outlines the expected effects of MFIP on the employment and earnings of welfare recipients and describes the empirical estimation. Section V presents MFIP's impacts on employment, earnings, and welfare receipt for urban and rural single-parent families. Section VI presents analyses that attempt to explain why MFIP affected urban and rural families differently. A discussion of the findings and policy implications conclude the paper.

## The MFIP Model and Evaluation

### MFIP Model

MFIP integrated several programs in the Minnesota welfare system. These included not only AFDC (the core of the traditional system), but also STRIDE, the state's employment and training program for AFDC recipients,<sup>1</sup> which operated on a voluntary basis for certain targeted groups; the state-run Family General Assistance (FGA) program<sup>2</sup>, which allowed some low-income families to qualify for welfare who would not qualify under AFDC; and the federally funded Food Stamp program, which provided assistance in the form of coupons to be spent on food.<sup>3</sup> MFIP did not replace or change Medicaid, the federal-state health program serving low-income families, which is available equally to recipients of MFIP or AFDC.

MFIP differed from the AFDC system in three fundamental ways. First, MFIP made work pay for families on welfare. This was accomplished primarily by decreasing the extent to which families' welfare grants were reduced when they went to work. For a family on AFDC, some earnings were disregarded when benefit amounts were calculated, but benefits were still reduced substantially for each dollar of earnings. Under MFIP, much more of a family's earnings were disregarded when determining benefit levels. MFIP's more generous disregard ensured that working *always* resulted in more income than not working. For example, in 1994 a single parent with two children who had no income from work received the same \$769 in monthly welfare benefits under MFIP or the AFDC system. If she worked 20 hours per week at \$6 per hour, her grant was reduced by \$237 less under MFIP than it would have

been under the AFDC system. This raised the reward for working—the difference in total income between working and not working—from \$255 to \$492, or an increase of 93%.

MFIP child care payments also encouraged work because MFIP paid child care expenses directly to the provider, leaving recipients with no up-front costs. AFDC recipients, in contrast, had to pay for child care up-front, and those costs could be subtracted from their income when their AFDC grant was calculated. Although AFDC recipients were eventually reimbursed for child care expenses, this process could take up to two months.

Second, MFIP required long-term public assistance recipients to participate in employment and training services. Under MFIP, single parents who had received public assistance for 24 of the past 36 months were required to participate in employment and training activities in order to continue receiving their full grants. Individuals were exempt from participating if they had a child under the age of 1, if they had other “good cause” reasons, or if they were working at least 30 hours per week. For single parent families, MFIP’s employment and training services were a substitute for those provided under AFDC through the STRIDE program. MFIP differed from STRIDE in two significant ways: STRIDE was essentially a voluntary program and had a strong focus on education and training, whereas MFIP was mandatory for long-term recipients and placed greater emphasis on rapid entry into employment.

Third, MFIP consolidated benefits and streamlined public assistance rules and procedures. MFIP combined the benefits of AFDC, Family General Assistance (FGA), and Food Stamps into a single program, so families on MFIP encounter a single set of rules and

procedures. In addition, recipients received Food Stamp benefits as part of their cash public assistance grant, instead of separately as coupons (as they did under the AFDC system).

As mentioned above, Minnesota implemented a revised version of MFIP in January 1998 as its response to new flexibility under federal TANF rules. The many similarities between the original MFIP program and statewide MFIP make the evaluation results a good starting point for predicting the likely results of statewide MFIP, even though the many changes in the program make it difficult to make such predictions with accuracy. The biggest policy changes in the new program are aimed at reducing costs and increasing the urgency of the employment message. These include the five year time limit; the reduced basic grant; the reduced earnings threshold for leaving welfare; the more immediate participation mandate; tighter sanctions; and the increased orientation toward full time work. The statewide program may exhibit other strengths and weaknesses relative to the field trials which is true of many programs that move from an experiment to a wider application. On the one hand, the results presented here may be more favorable than would be the case in a statewide program, because each county in the statewide program will probably receive less intensive “hand-holding” by state staff than was true in the field trials, and staff may be less enthusiastic than the staff in counties that volunteered to participate in the field trials. In addition, as more welfare recipients are subject to work requirements, any employment impacts that resulted from “jumping the queue” of employment over other workers may be more difficult to achieve as more of those workers become subject to the same requirements. On the other hand, the new program has the advantage of potential “community effects,” or change in community norms that will occur now that MFIP is saturating the entire state caseload rather than affecting just a subset of families within particular counties.

## **The MFIP Evaluation**

The MFIP field trials began in 1994 and included single-parent and two-parent families in seven urban and rural counties. The box in Figure 1 shows the general location of these seven counties: the three urban counties of Hennepin (Minneapolis), Anoka and Dakota and the four rural counties of Mille Lacs, Morrison, Sherburne and Todd. Random assignment began in April 1994 and concluded in March 1996, after a total of 14,639 families had entered the research sample. Welfare recipients already on the AFDC caseload were randomly assigned to either group when they came in for their annual redetermination or recertification of eligibility. The random assignment process began at the time an individual applied or reapplied for assistance. At this time, single parent families in urban and rural counties could be assigned to one of two research groups—the MFIP group or the AFDC group.<sup>4</sup> All single parent families assigned to the MFIP group received the full MFIP program. This included MFIP’s benefit structure, its financial incentives, and, once they had received public assistance for 24 of the past 36 months, the requirement to participate in MFIP’s employment and training services. Single parent families assigned to the AFDC group were eligible for the benefits and services offered by Minnesota’s AFDC system. They were subject to the financial rules of the AFDC and Food Stamp programs<sup>5</sup>, and if in a STRIDE target group were eligible to volunteer for STRIDE services.

## Data and Descriptive Characteristics

There are two main samples in the MFIP evaluation—the full evaluation sample and the smaller survey sample that was interviewed three years after random assignment. Administrative records data are available for two and a half years after random assignment for the full evaluation sample. The administrative records data include public assistance benefit records provided by Minnesota’s Department of Human Services and unemployment insurance records provided by Minnesota’s Department of Economic Security. These data are used to construct average quarterly measures of employment, earnings and welfare receipt. A client survey was administered approximately three years after random assignment collecting information about the characteristics of employment, family structure and a number of other measures of family well-being.

This paper focuses on long-term recipients, defined as single-parent families who have been on welfare for 24 months or more at the time of random assignment. The primary reason for defining long-term recipients in this way is because these recipient families were required to participate in employment services if they did not already work at least 30 hours per week.<sup>6</sup> The sample in this paper is comprised of 2373 single-parent recipient families—1780 urban and 593 rural—with administrative records’ data, and 976 single-parent recipient families—724 urban and 252 rural—with survey data.<sup>7</sup>

Table 1 presents descriptive characteristics by area of residence for single-parent recipients.<sup>8</sup> The data used to calculate these descriptive characteristics come from a Baseline Information Form that each parent completed at the time of random assignment. The majority of the sample was white, most were never married, most had some work experience, and over

half had been on welfare for 5 or more years when they entered the evaluation.<sup>9</sup> The MFIP evaluation sample, as a whole, looks quite similar to the Minnesota caseload in 1994, with the exception that a slightly lower proportion of the evaluation sample was white. However, a depiction of the national welfare caseload in 1994 shows that the MFIP sample, compared with recipients in other states, had a higher proportion of white families, a lower proportion of Hispanic families, and recipients had higher levels of education (U.S. House of Representatives, 1996).

Urban and rural single-parent recipients were different in a number of ways. (Significant differences are shown in the last column of Table 1 with the dagger symbol). Approximately 81 percent of the urban recipients lived in Hennepin County (which includes Minneapolis, not shown); 43 percent were white and 68 percent were never married. In contrast, 92 percent of the rural recipients were white and 45 percent were never married. Parents in rural counties also appear better prepared to enter the work force; 64 percent had worked full-time at some point and 21 percent had worked in the year prior to random assignment, whereas about 15 percent of urban recipients had recent work experience. Recipients in rural counties were also more likely than urban recipients to have completed some kind of secondary education; for example, rural recipients were 5 percentage points more likely than urban recipients to have a high school diploma. The bottom part of the table shows that the local environments also differed. The rural areas had higher unemployment rates in 1997 and relatively more employment in the agricultural sector.

Table 2 presents information about recipients' attitudes and opinions about work and welfare using data from a Private Opinion Survey administered to them at the time of random

assignment. Although a large majority of the sample reports a preference to work part-time or full-time (not shown), a majority also reports at least one barrier to part-time employment, including problems with arranging child care, transportation problems, and health and emotional problems. Many respondents report being ashamed for being on welfare and that people looked down upon them for being on welfare, yet most still believed that welfare provided better than work.

These attitudes and perceptions differ considerably among urban and rural recipients. It is particularly striking that compared to urban recipients, rural recipients are much more likely to perceive stigma associated with welfare, i.e. ashamed to admit being on welfare. Yet, at the same time, those in rural counties were more likely to agree that welfare provides a better alternative than work. The other striking difference is that rural recipients were *less* likely than urban recipients to report a barrier to part-time work. In particular, rural recipients were more than 6 percentage points less likely to report transportation as a barrier to part-time employment and 16 percentage points less likely to report child care as a barrier.

## **Expected Effects and Basic Empirical Estimation**

### **Expected Effects**

Both of MFIP's primary components, enhanced financial incentives and mandatory employment-focused activities, should affect parents' employment decisions, although not always in the same way. When thinking about their effects, it is helpful to consider what parents would have done in the absence of the program. As an extreme example, if all people

on welfare in Minnesota typically went to work soon after they started receiving benefits, the program would have no effect on employment rates. In reality, however, some parents return to work quickly, some after several months, and others do not work.

The mandatory employment and training activities were purposefully targeted to parents who have stayed on welfare for a long period without working, or parents who would not have worked in the absence of MFIP. By requiring participation in case management and employment preparation activities if individuals are not employed at least 30 hours per week, the mandates should increase full-time employment. By increasing full-time employment, the mandates should decrease welfare receipt. The mandates will have little effect on people who would have worked full-time anyway.

Financial incentives have somewhat different effects. A single-parent can obtain a higher total income under MFIP than AFDC if she works either part-time or full-time. For parents who would not have worked under AFDC, MFIP should increase their incentive to take a job. MFIP's incentives were relatively more generous for part-time work. Thus, parents who go to work may be more likely to take a part-time than a full-time job.

Some parents, however, would have returned to work in the absence of MFIP. Providing them with more generous benefits will not affect their decision about getting a job, but it may affect the intensity of their work effort. First, it might decrease work intensity. Consider a parent working 30 hours per week. MFIP provides her with higher benefits than she could have obtained under AFDC and, therefore, higher total income. If she cut back her hours worked, substituting earnings for welfare benefits, however, she could receive the same total income as she would have received under AFDC but with less work. Note that she will not be

encouraged to leave her job, because MFIP's more generous benefits are only provided to parents who work. Second, it might increase work intensity. Because she can keep more of her benefits under MFIP, compared with AFDC, as her earnings increase, she may be encouraged to increase her earnings by increasing her hours worked.

Thus, for parents who would have worked in the absence of MFIP, its incentives may either increase or decrease work intensity, depending on which of these two effects dominates. For those who would not have worked in the absence of MFIP, the incentives should increase employment. It may produce large increases in part-time employment, however, since its incentives are more generous for part-time work. The incentives should also increase welfare receipt, at least in the short term, since they allow families who earn more to still receive some benefits.

How do we expect MFIP's effects to differ in urban versus rural counties given the differences in characteristics previously noted? On the one hand, because rural recipients have more recent work experience and more of a sense of welfare stigma they generally may be more likely to go to work in the absence of MFIP. In this case, we would expect MFIP to have less of an effect on their employment and earnings compared to urban recipients. On the other hand, MFIP's participation requirements may be more effective for a group of welfare recipients who are better prepared to work, such as the rural recipients, and, in this case, MFIP may have a more positive effect on rural recipients compared to urban recipients.

## Basic Empirical Estimation

To evaluate the effects of MFIP relative to the AFDC system, a random assignment design was used, with recipients of public assistance assigned to either the AFDC system or the MFIP system. The process of random assignment provides a powerful tool for estimating the program effects. Because sample members were assigned randomly in a lottery-like process, the characteristics of individuals in each research group should not differ systematically at the time of random assignment or at “baseline”. Therefore, any differences in outcomes between these research groups can be attributed to the program, and a comparison of the outcomes for families assigned to each group provides a reliable estimate of MFIP’s impacts.

The estimating equation to assess MFIP’s effects is as follows:

$$(1) Y_i = \mathbf{a} + \mathbf{b}_1 P_i + \sum_{k=2}^K \mathbf{b}_k X_{ki} + \mathbf{e}_i$$

where Y represents the outcome of interest (either average quarterly employment or average quarterly earnings); P is an indicator for whether or not a sample member was randomly assigned into the MFIP group; X represents a vector of baseline and pre-random assignment characteristics and  $\mathbf{e}$  is a randomly distributed error term. In the discussion that follows P represents the “impact” of MFIP. Note that because analyses reveal that random assignment worked (see footnote 7), the absence or presence of X will not affect the coefficient on P, the program impact. Nonetheless, X is included to ensure that baseline characteristics do not confound the effects of MFIP. These baseline and pre-random assignment characteristics include: prior marital history, number of children, race/ethnicity, age, education, prior years of

welfare receipt, prior earnings, prior employment, and quarter of random assignment. Because changes in employment and earnings somewhat mirror changes in the receipt of welfare or the amount of welfare payments, the focus of this study is on earnings and employment rather than welfare receipt or payments.

A unique feature of the MFIP evaluation is that both rural and urban counties were included in the evaluation. To assess whether or not MFIP's effects differed by region, equation (1) was estimated separately for recipients in urban counties and rural counties.

### **Impacts in Rural and Urban Counties**

This section presents MFIP's impacts on single parents' employment, earnings, and welfare receipt. Table 3 presents impacts for two years after random assignment using administrative records data on employment from unemployment insurance records and welfare receipt from welfare benefit records. The left panel presents impacts in the urban counties. The top rows show average quarterly employment rates during years 1 and 2 after random assignment. For example, 32.8 percent of parents in the AFDC group worked each quarter during year 1 and 39.3 percent worked during year 2. MFIP's impacts are estimated as the difference in employment rates between the MFIP and AFDC groups. MFIP increased quarterly employment rates by 13.3 percentage points in year 1 and 13.9 percentage points in year 2. Average earnings per quarter were also higher for the MFIP group; during year 2, for example, the MFIP group earned \$1,129 per quarter, compared with \$913 for the AFDC group, for an impact of \$216.

The bottom rows present impacts on welfare receipt (welfare is defined as the receipt of AFDC, Food Stamps, General Assistance or MFIP benefits). Although the numbers show that many recipients leave welfare over time, the MFIP group left less rapidly. In year 2, for example, 81 percent of the MFIP group received welfare each quarter, compared with 75.7 percent of the AFDC group. MFIP's impacts on welfare receipt are the result of its enhanced incentives that allow more working families to remain eligible for benefits.

The right panel present impacts in the rural counties. A comparison of urban and rural AFDC groups shows that a slightly higher fraction of the rural group was working during year 2 (44.5 percent versus 39.3 percent). In addition, the rural AFDC group left welfare more rapidly than the urban group; by year 2, 69.5 percent of the rural group received benefits in each quarter, compared with 75.7 percent of the urban group. In terms of impacts, MFIP increased employment rates in rural counties in years 1 and 2, but the size of the impact in year 2 is much smaller than in the urban counties. The impact of 5.8 percentage points in the rural counties is significantly different from the impact of 13.9 percentage points in the urban counties. The effects on average earnings follow a similar pattern. In fact, by year 2 the MFIP group had lower earnings on average than the AFDC group (although the impact is not statistically significant), despite having somewhat higher employment rates. Positive impacts on employment rates without positive impacts on earnings suggests that some parents in the MFIP group who would have worked anyway reduced their hours worked. As noted earlier, this is one of the potential effects of enhanced financial incentives.

MFIP's impacts on welfare receipt are larger in the rural counties. In year 2, for example, MFIP increased quarterly welfare receipt by 12.4 percentage points in rural counties,

compared with 5.3 percentage points in urban counties. The larger impacts in the rural counties seem to be due to the fact that more of the rural group would have left welfare in the absence of the program (as shown by the behavior of the AFDC group). Though not shown, MFIP increased income (measured from welfare and earnings) for recipients in urban and rural counties. However, income increases were from more earnings and more welfare for urban recipients and primarily from more welfare for recipients in rural counties.

Table 4 presents data from the 36-month survey on the types of jobs recipients' currently held or last held as of the survey interview date. (Note that the outcomes are calculated over the full sample, including those who did not work, so that the impacts are experimental. Thus, the percent working at various wage rates, for example, sums to the percent who reported working during the period.) Although there are some differences in impacts, the data highlight differences in the types of jobs recipients get in rural versus urban areas. A comparison of the two AFDC groups, for example, shows that although more rural recipients reported working during the period, more of them were working part-time (24.4 percent versus 18.1 percent). In addition, their wages were lower on average--a higher fraction of rural workers earned \$5-\$7 per hour.

In terms of program impacts, the data for the urban counties suggest that MFIP increased employment in moderate quality jobs--full-time, moderate wage jobs that offered health benefits. In contrast, MFIP increased employment modestly (by 4.5 percentage points) in the rural areas, and most of the increase in employment was part-time employment and employment in jobs that did not offer health insurance. However, none of the impacts for the rural survey sample is statistically significant, owing in part to the small sample size.

The survey data allowed estimation of program impacts on a range of other outcomes, such as household composition and marital status. Impacts on selected outcomes are shown in Appendix Table A. In general, the impacts were similar in urban and rural counties. For example, MFIP generally had no effect on household composition, sources of household income or mobility for recipients in urban as well as rural counties except that rural recipients were more likely to report some earnings in the month prior to the survey which is somewhat consistent with employment impacts found from administrative records data in Table 3. However, note that although MFIP's effects on marital status were not significant for urban and rural recipients, its effects were much larger in rural counties.

To look in more detail at the impacts in the rural counties, Table 5 presents MFIP's impacts for each individual rural county, using administrative records data for the full sample. Because the sample sizes for each individual county are fairly small, none of the impacts is statistically significant. Nonetheless, the table shows that the impacts are smaller in the rural counties when grouped together largely because of MFIP's negative effects in Sherburne county. In Sherburne county, MFIP decreased average earnings \$305 for the MFIP compared to the AFDC group and employment rates were 4.5 percentage points lower. This table also shows, however, that MFIP's effects in Sherburne county does not explain the whole story. MFIP's impacts in the other three rural counties are also, on average, smaller than those in the urban counties.

Part of the explanation for the different impacts in Sherburne county may be that employment and earnings were very high for the AFDC group; 54.6 percent of the AFDC group worked in each quarter, compared with only 33 to 43 percent in the other counties.

Programs typically have a harder time increasing employment when so many of the participants would have worked anyway. Also, as mentioned earlier, MFIP's financial incentives might reduce earnings on average for recipients who would have worked anyway by causing some of them to cut back on their hours worked. This type of effect was found in the urban counties for recent applicants and for a subgroup of long-term recipients with recent work experience (see Miller, et al., 2000).

In addition, as shown in Table 6, Sherburne county differed from the other rural counties in number of ways, one being its lower unemployment rate. Although all of the rural counties are concentrated in the eastern part of the state, Sherburne is closest to the urban areas, bordering Anoka county (see Figure 1). In general, rural counties that were close to urban areas may have experienced faster job growth during the early 1990s than more remote rural areas (Conoway, 1998). Recipients in Sherburne county also differed in many ways from recipients in the other three rural counties. Table 6 shows that they were somewhat younger on average, more of them were white, and they were more likely to have had children under age 6 when they entered the study. In terms of employment prospects, recipients in Sherburne county were more likely than other rural recipients to have had recent work experience and more of them had obtained a high school diploma or a higher degree. Those in Sherburne county were also much more likely to have been enrolled in education or training (primarily vocational education/skills training) at the time of random assignment. All of these differences are consistent with the fact that the AFDC group in Sherburne county had much higher employment rates and average earnings than the AFDC groups in the other three counties (see Table 5). Recipients in Sherburne county were also more likely to perceive stigma associated with welfare

compared to their rural counterparts, and, they more likely to report transportation and child care as barriers to employment (not shown).

In sum, MFIP increased employment in both urban and rural counties. However, in contrast to the large and lasting employment increases in urban counties, the MFIP's effects faded considerably by year 2 in the rural areas. The types of jobs rural recipients obtained were also somewhat different from those of their urban counterparts. An examination of impacts by county showed that much of the difference for the rural counties is driven by MFIP's negative effects in Sherburne county. However, MFIP's effects in the other three counties are still, on average, smaller than in the urban counties. In the next section we attempt to explain these differences found between MFIP's impacts in urban and rural counties in general, and more specifically between Sherburne county and other counties.

### **Explaining MFIP's Different Effects in Urban versus Rural Counties**

There are a number of possible reasons why MFIP's effects differed in rural versus and urban counties. First, the recipients themselves may differ in ways that are related to how they are affected by the program. As previously discussed, urban and rural recipients differ across a range of demographic characteristics and thus may have been affected by the program differently. As previously mentioned, it is easy to imagine, for example, that MFIP might have smaller impacts on recipients who had recent work experience, since many of them would probably have worked in the absence of the program. If rural recipients on average were more employable than urban counterparts, then MFIP might have produced smaller impacts in rural areas for this reason.

Another possible reason for the different effects is that MFIP may have affected other aspects of family life differently in urban versus rural areas, which in turn led to different effects on employment and earnings.<sup>10</sup> As mentioned earlier, MFIP's effects on increasing marriage for the full sample of long-term recipients was likely driven by MFIP's larger effect on marriage in rural areas. Recipients who get married may reduce their work effort relative to those who remain single. Finally, the differences in program impacts across the two areas may be due to differences in the local environments. It is not always clear how the local economy might affect a program's impacts, but perhaps jobs were more readily available to recipients in urban counties.

Of all of the hypotheses raised to explain the urban-rural differences, the first—differences in characteristics between urban and rural recipients—is the focus of this section, since it is the most clearly testable hypothesis given the available data. Of course, it is important to remember that urban and rural recipients may differ in terms of characteristics that were not measured for the evaluation or that are not quantifiable, such as motivation or work orientation. In what follows, we examine whether differences in observed characteristics can account for the different impacts.

### **Differences in Characteristics**

*Subgroup impacts*—The previous section showed that rural recipients differ from urban recipients in a number of ways. More of the rural recipients are white, more had been previously married, and on average they seem to be more employable, i.e., more of them had

recent work experience. In addition, recipients in Sherburne county appear to be the most employable, since they had more work experience, higher education levels, and more participation in employment and training activities than recipients in the other rural counties.

However, if these differences can explain the difference in MFIP's impacts, it should be the case that the program's effects varied according to some of these characteristics. As a first look at this, Table 7 presents MFIP's effects for subgroups defined by several characteristics. Because nearly all of the families in rural areas are white, only subgroup impacts for whites are shown for rural counties. (Results are not shown separately for Sherburne, given the small size of each subgroup with the individual rural counties).

The results show that the impacts in urban counties are quite robust across a variety of subgroups. MFIP increased earnings by a similar amount for black and white recipients, although the employment increase was somewhat smaller for black recipients. In addition, the program increased employment by a similar amount for groups defined by marital status and the age of the youngest child. The earnings impacts, however, were somewhat smaller for previously married women and for women with older children. The impacts were most different for groups defined by prior work experience and housing status. MFIP increased employment and earnings substantially among those without recent work experience and those in public/subsidized housing, but had much smaller effects on their subgroup counterparts.

In the rural areas, the pattern of impacts is similar for a few of the subgroups. For example, the impacts on earnings and employment were smaller (actually negative) for previously employed recipients. In addition, the impact on earnings for previously married women is negative in year 2. In the urban areas, although this impact is not negative, it is

noticeably smaller than that for never-married women. Also, the impact on earnings for rural recipients with older children is smaller than that for recipients with younger children, a pattern found in the urban counties. Where the subgroup impacts differ dramatically is with respect to housing status. MFIP had its most positive effects in the urban counties for recipients in public or subsidized housing. In the rural counties, in contrast, the effects were smaller for this group, relative to the effects for those in private housing. Public and subsidized housing may mean something very different in urban versus rural areas.

The results suggest that differences in characteristics may help to explain some part of the program's varying effects across rural and urban areas, in particular, prior work experience, and to a lesser degree, marital status and the age of the youngest child. The impacts in rural counties could be smaller, for example, because more of the rural recipients had been previously employed and because the program generally had smaller impacts for previously employed recipients. Difference in race, on the other hand, are unlikely to explain the urban-rural difference in impacts given that the program had similar effects on black and white recipients. In the next section we examine this question formally by estimating conditional impact models.

***Conditional impact analysis***—To examine the role of observable baseline characteristics, we expand the impact model described in section IV. In particular, we pool the urban and rural samples and add an interaction of the program group indicator variable with each of the above-mentioned characteristics, including an interaction of the program group indicator with rural status. This type of analysis is referred to as conditional subgroup analysis.<sup>11</sup> The coefficient on the interaction of rural status and program status gives an estimate of the difference in impacts

between the urban and rural areas. Including the other interactions accounts for the possibility that the program affected subgroups differently. If these characteristics explain the urban-rural difference in impacts, then the coefficient on the interaction of rural status with program status will diminish.

Table 8 presents the results for employment and earnings in year 2, the period in which the urban and rural impacts differed the most.<sup>12</sup> This table shows the *difference* in the impacts between the urban and rural counties (or the coefficients on the interaction term of rural status with program status) and the *difference* in the impacts between Sherburne county and the urban counties (or the interaction of Sherburne status with program status). The first row presents the values for these coefficients when no other interactions are included. In other words, prior to accounting for other subgroup differences, the impact on average earnings in year 2 was \$53 less in rural counties, compared with urban counties, and \$540 less in Sherburne county (only the latter coefficient is statistically significant). MFIP's impact on average employment rates in year 2 are also 2.7 percentage points lower in rural counties and 15.4 percentage points lower in Sherburne county.

Once an interaction of program status with marital status is included, the difference in rural counties drops to -\$7 and the difference in Sherburne drops to -\$503. For the three rural counties, marital status, prior work, and child care problems explain a lot of the rural-urban difference. In contrast, these variables individually explain less than 7 percent of the Sherburne difference. Including all of the interaction terms together (last row of each panel) accounts for all of the lower impacts in the three rural counties and 14 percent of the difference in Sherburne county. The differences for the average quarterly employment rate follow a similar pattern.

## **Differences in MFIP's Effects on Other Aspects of Family Life**

The conditional impact results suggest that prior employment and marital status can account for most of the difference in impacts for the three rural counties. In addition, prior marital status explains a relatively higher fraction of the difference in Sherburne county than do the other variables. It is easy to understand why MFIP's impacts might differ by prior employment status, since its employment impacts are likely to be smaller for a group in which many recipients would have worked anyway. But why would its effects vary by prior marital status? One hypothesis is that rural recipients who are more likely to have been previously married may also be more likely to receive child support income. This, in turn, may allow them to rely less on their own earnings. For example, a previously married rural welfare recipient may be more likely to cut back work effort in response to MFIP compared to urban recipients both because they have the safety net of MFIP's additional benefits and because they receive child support income. Appendix Table A offers some support for this hypothesis. Rural recipients in both the MFIP and control group are nearly twice as likely to receive child support income in the month prior to the survey compared to urban recipients.

An alternative hypothesis is that prior marital status is predictive of the likelihood of remarriage or cohabitation during the follow-up period, which in turn may affect individual work effort. Table 9 uses data from the 36-month survey to examine the fraction of recipients who were married at the three-year point, by marital status at random assignment. The table shows that previously married women were more likely than never-married women to be formally married by the end of the third year, but they were not more likely to be cohabiting (either

formally married or living with a partner) with the exception of Sherburne county. In addition, recipients in rural areas were more likely to be married or coupled than urban recipients, regardless of their prior marital status.

MFIP might have had different effects on women who became coupled after random assignment, since they would have less of a need to work. (Note that MFIP's participation mandates only require that one parent work or participate in services, and either parent can fill this requirement.) In fact, for two-parent recipient families, MFIP did not affect the likelihood that at least one parent was employed but did decrease the likelihood that both parents worked, i.e. at least one parent cut back their work effort (Miller et al., 2000). Furthermore, results from the Negative Income Tax experiments and, more recently, from research on the Earned Income Credit, show that married women reduced their labor supply more, relative to single women, in response to extra financial benefits (Munnell, 1986; Eissa & Hoynes, 1998).

Unfortunately, we cannot test either of these hypotheses directly using the conditional impact model since marriage or cohabitation and the receipt of child support income was itself affected by the program. Instead, we relied on a variable at random assignment that is correlated with subsequent marriage - prior marital status. As Table 9 showed, however, prior marital status is only loosely correlated with subsequent marriage and not correlated with coupling. Impacts estimated by marital status as of the 36-month point would be nonexperimental and thus less reliable. Nonetheless, such a nonexperimental analysis does suggest that MFIP had larger employment effects for women who were not married or cohabiting at the time of the survey versus those who were.

## **Differences in the Local Economy**

As shown in Table 1, unemployment rates were higher in the rural counties, and the mix of employment by industry also differed during the evaluation period. Though it is unclear how the local economy may affect MFIP's impacts on employment and earnings, the subgroup impact findings in Table 7 provide some evidence that the local economy alone can not explain the differences in MFIP's effects in urban versus rural counties. If the local economy was the primary factor that could explain MFIP's effects than we would expect that most subgroups of the population in rural counties would be equally affected by MFIP. Instead, we found that MFIP had very different effects on different groups of individuals in rural counties, the most striking being those who were or were not previously married.<sup>13</sup> Unfortunately a similar kind of analyses could not be conducted separately for Sherburne county.

## **Conclusion**

Unlike patterns in urban areas, caseload declines in rural areas have not been paralleled with increases in employment or reductions in poverty. Furthermore, the effects of the 1996 welfare reform legislation on welfare recipients in rural compared to urban regions are not well understood. Prior to the passage of this legislation, a number of states were granted federal waivers to implement and test welfare reform policies. One of these, the Minnesota Family Investment Program (MFIP), was an innovative program designed to increase employment and make families better off. MFIP operated as a demonstration in seven Minnesota urban and rural counties from April 1994 through 1998.

To inform the gap in this research about the role of regional differences in welfare policy, this paper examined MFIP's effects on employment and earnings for long-term recipients in rural counties, and compared these effects with the program's effect in urban counties. In contrast to the large and lasting effects on employment and earnings in urban counties, MFIP's effects on employment faded considerably in the rural counties by the second year. Moreover, the program's impacts became negative in the second year in one of the rural counties.

This paper raised several hypotheses to explain this pattern of impacts. Some of them were testable with these data and some were not. One hypothesis is that rural recipients differ in many ways from their urban counterparts. The evaluation data show that rural recipient families differ from urban recipient families both in terms of their demographic characteristics and in terms of their work experience and attitudes or perceptions about welfare and work. In particular, compared to urban recipients, more of the rural recipients are white, more had been previously married, and they appeared better prepared to enter the work force. Moreover, compared to urban recipients, rural recipients were more likely to report a sense of stigma associated with receiving welfare.

We find that differences in observable characteristics, particularly prior marital status and work experience, can explain much of MFIP's different effects in three of the rural counties. However, these factors explain little of the different effects in the one remaining rural county with negative impacts. The different impacts in this county may be due to the effects of the local economy, or other aspects particular to that county, or to unobservable differences in characteristics between its recipients and other recipients. The findings in this paper provide

evidence that regional differences play an important role in mediating the effects of welfare and anti-poverty policies on the employment behavior of welfare recipients, and lend support to recent efforts to consider regional differences in formulating welfare and employment policies.

The current statewide version of MFIP is one example of such an effort, as counties, rather than the state, are allowed to determine the length of time of welfare recipient prior to imposing participation requirements.

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## Endnotes

<sup>1</sup>STRIDE was operated with funding from the Job Opportunities and Basic Skills Training (JOBS) program, which was established by the Family Support Act of 1988 and designed to move people from welfare to work through education, training, and work experience.

<sup>2</sup>The FGA program was designed to allow certain types of families to receive cash assistance who did not qualify for AFDC. In particular, some two parent families who did not qualify for AFDC due to the stringent work history requirements or the 100 hour per month restriction on working in the AFDC-UP program could reapply and qualify for the FGA program. Benefit levels for families that qualified for the FGA program were the same as in AFDC.

<sup>3</sup>Throughout this paper, the terms “welfare” and “public assistance” are used to represent the range of benefits that are provided in either the MFIP or AFDC systems, including MFIP, AFDC, FGA, and Food Stamps.

<sup>4</sup> In urban counties, single-parent families could also be randomly assigned to The MFIP Incentives Only group. These families were not required to participate in employment related services. In Hennepin County (Minneapolis) only, some families were also randomly assigned to a fourth group, an AFDC/No Services group. This group continued to receive assistance under the AFDC system but was not eligible to receive STRIDE services, to allow an evaluation of the STRIDE program compared to providing no employment and training services.

<sup>5</sup> A small proportion of the AFDC group received cash assistance from the FGA program instead of AFDC.

<sup>6</sup> In fact, because random assignment occurred at annual re-certification, all recipients had to have been on welfare for at least one year and were subject to the mandate.

<sup>7</sup> The survey sample is representative of the full administrative records sample. Nonresponse analyses also indicate that random assignment worked; baseline characteristics of experimental group members are similar to the characteristics of control group members (see Miller et al., 2000).

<sup>8</sup> This sample sizes do not reflect the composition the caseload in the seven counties, because only a fraction of the caseload in the three urban counties was included in the evaluation. In the rural counties, in contrast, the entire caseload was randomly assigned to either the MFIP or AFDC research groups.

<sup>9</sup> Over 95 percent of the sample is female.

<sup>10</sup> One other aspect of family life that may explain MFIP’s differing impacts is the likelihood of moving. Appendix Table A suggests that urban and rural recipients have similar mobility rates, and that MFIP had no effect on mobility.

<sup>11</sup> The estimating equation for conditional subgroup analysis is:

$$Y_i^* = \mathbf{a} + \mathbf{b}_1 P_i + \mathbf{b}_2 R_i + \mathbf{b}_3 R_i P_i + \sum_{k=4}^K \mathbf{b}_k X_i + \sum_{m=K}^M \mathbf{b}_m X_i P_i + \mathbf{e}_i$$

<sup>12</sup> Because MFIP’s impacts on employment are related to its impacts on welfare receipt, we only analyze impacts on employment and earnings in this section.

<sup>13</sup> The informal economy may also have a role in affecting MFIP’s differing impacts in urban versus rural counties. Findings from the 36-month survey may help us determine whether some of the difference in impacts can be explained by the informal job market. If the informal job market had a bigger role to play for recipients in rural areas then (assuming that respondents are honest about their employment and earnings

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on the survey) survey outcomes on employment and earnings should differ from these outcomes as measured from unemployment insurance records. A comparison of employment as it is reported on the survey with employment as it is reported on administrative records reveals that employment levels are similar.