

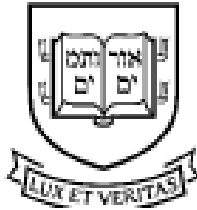
MARRIAGE, LABOR SUPPLY AND THE DYNAMICS OF
THE SOCIAL SAFETY NET

By

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MARRIAGE, LABOR SUPPLY AND THE DYNAMICS OF THE SOCIAL SAFETY NET *

Hamish Low[†] Costas Meghir[‡] Luigi Pistaferri[§] Alessandra Voena[¶]

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Abstract

The 1996 US welfare reform introduced time limits on welfare receipt. We use quasi-experimental evidence and a lifecycle model of marriage, divorce, program participation, labor supply and savings to understand the impact of time limits on behavior and well-being. Time limits cause women to defer claiming in anticipation of future needs, an effect that depends on the probabilities of marriage and divorce. Time limits cost women 0.5% of life-time consumption, net of revenue savings redistributed by reduced taxation, with some groups affected much more. Expectations over future marital status are important determinants of the value of the social safety net.

Keywords: welfare reform, life-cycle, marriage and divorce, time limits, limited commitment, intrahousehold allocations

JEL codes: D91, H53, J12, J21

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Introduction

Welfare programs offer critical insurance for households who fall upon hard times. However, they can distort household decisions along several dimensions. In a number of countries, policymakers have expressed concern about the incentives that welfare programs generate for marriage and divorce, in addition to their impact on work choices. Eligibility for transfers, and their generosity, are often directly conditioned on the size and composition of household units. Further, the value of insurance from welfare programs depends on marital status and expectations of changes in marital status.

The aim of this paper is to understand how time limits in eligibility for welfare programs affect labor supply, welfare participation, marital status, and ultimately individual well-being, by characterizing the dynamic trade-offs between incentives and insurance. We do so in the context of the major US welfare reform of 1996. The key element of this reform was to make access to welfare temporary. The pre-existing Aid to Families with Dependent Children (AFDC) provided coverage based on income and asset requirements, but without a time limit. This was replaced by the Temporary Assistance to Needy Families (TANF), which covers adult recipients with dependent children for up to 5 years over their lifetime.

Central to our analysis is allowing for marriage and divorce dynamics in a lifecycle framework. Family formation was an explicit target of the TANF reform. Further, the possibility of transitions between marital states is a crucial factor determining the importance of safety net programs and the impact of time limits on individuals. The importance of marriage arises, in part, because of the insurance it provides. The prospect of marriage offers the possibility of future insurance, while the prospect of divorce raises the need for insurance. In addition, marriage may limit access to benefits because of eligibility rules that depend on family income.

To motivate our framework, we start by empirically documenting the short-run effects of the time limits on labor supply, welfare participation, and marital status. In particular, we apply the quasi-experimental approach of Grogger and Michalopoulos (2003) on data from the Survey of Income and Program Participation (SIPP) and the Current Population Survey (CPS) to estimate the response of households to the prospect of losing benefit eligibility because of time limits. Identification relies on the fact that women whose youngest child is close enough to age 18 at the time of the reform would have been unaffected by the introduction of time limits because eligibility was always restricted to those with a dependent child. Women with younger children saw their potential eligibility horizon shortened by the

introduction of time limits. Other elements of the reform, such as work requirements, affect all mothers in a similar way, with the exception of mothers of very young children who were exempt from work requirements. Thus our quasi-experimental approach is designed to isolate the effects of time limits alone, which is our focus of interest.

We find that welfare utilization declined dramatically and persistently right after the introduction of TANF, both for single mothers (see also Grogger and Michalopoulos, 2003, amongst others), and as we show here, for married mothers. Employment of single mothers increased, partially offsetting the decline in benefit use (see also Grogger, 2003), but we find that it did not change for married ones. In terms of family structure, we find that the prevalence of divorce declined significantly.

These empirical results support the idea that the introduction of time limits had a substantial anticipatory effect on labor supply and household formation. However, these results are silent about the mechanisms that underlie the long-term consequences on behavior and about the effects of the reform on individual well-being. To make progress on these questions, we develop a lifecycle model where individuals make choices on being single, married, or divorced, alongside employment and savings and the decision of whether to claim welfare benefits if eligible. Married couples share resources and enjoy economies of scale in a limited commitment collective framework, where outside options affect both within-couple sharing and the prevalence of divorce. The economic environment is characterised by uncertainty and by the broad welfare system, including AFDC/TANF, the Earned Income Tax Credit (EITC), and Food Stamps. In the marriage process, uncertainty is over the probability of meeting a partner and over their characteristics (assets, earnings capacity, and match quality). When married, couples face shocks to their marriage match quality and the income of each partner. In the labor market, the primary source of uncertainty is persistent shocks to productivity, which can generate substantial life-time risk. When shocks are persistent, people on welfare anticipate that their wages will continue being relatively low in the future, and hence that time limits will be more likely to bind. With i.i.d. transitory shocks, as is common in the literature (e.g. Swann, 2005; Chan, 2013), this mechanism is not present.

We use the method of simulated moments (McFadden, 1989; Pakes and Pollard, 1989) to estimate our model on a sample of women and men without a college degree and of working age, who are most likely to be affected by changes in the welfare system. We use pre-reform data because the post-reform system included other elements that our model does not focus on and varied substantially across states. With our approach, we are able to estimate the

parameters based on the simpler welfare regime before the changes were implemented, and then focus on the impact of time limits.

We validate our approach by comparing the simulated short-term effects of time limits generated by the estimated model to our reduced form quasi-experimental results. The estimated model can fully account for the decline in welfare participation among married and single women, the increase in employment among single mothers, and the decline in divorce that we observe following the introduction of TANF. The baseline model also matches the time dynamics in the decline of welfare participation, which occurs shortly after the reform before welfare participants had hit the time limit. Alternative estimated versions of the model that do not allow for marriage transitions, divorce transitions, or asset accumulation, cannot explain these patterns.

Our estimated model highlights that time limits reduce the scope of insurance provided by welfare programs and lead mothers to “bank” their benefit eligibility in anticipation of greater future needs. The imposition of time limits creates a trade-off between using benefits today vis-à-vis having them available for insurance in the future. Given this trade-off, some mothers decide to forgo benefits today, preserving the option for periods and states of the world where the marginal utility of consumption is higher.¹ Allowing for the possibility of divorce is an important element of explaining the “banking” of benefits by married women: they may prefer not to claim now, even if they are not working and eligible, so as to have the possibility of claiming if and when divorced. On the other hand, for singles, the possibility of future marriage reduces the negative effects of time limits because marriage is associated with an income stream from the husband, reducing the risk of low consumption and the need for insurance. Thus, allowing for marriage and divorce matters for understanding the impact of imposing time limits on receipt of welfare benefits.

Our estimated model shows that the reform had the greatest effects on welfare use and on employment of women in the bottom two quintiles of the productivity distribution. These effects are substantially different if we switch off marriage and divorce transitions, especially for the bottom quintile, demonstrating the central role of marriage in determining how safety net programs affect behavior.

To investigate further, we evaluate the welfare implications of the reform under differ-

¹We use the term banking to refer to the deferral of claiming benefits. This is in contrast to claiming benefits and saving the money for future use. Such a decision is not practical because claiming means forgoing current job opportunities and the resulting need to finance current consumption would push individuals to spend current benefits rather than saving them. In principle, however, the availability of a savings vehicle may mitigate the desire to “bank” benefits. Allowing for this is one of the reasons our model includes savings.

ent assumptions on marriage and divorce prospects, and on how revenue savings are redistributed. Time limits impose a utility loss on low-educated women of 0.5% of lifetime consumption on average, after accounting for the gains in government revenue saved, but this masks substantial heterogeneity.² By contrast, the effect of time limits on the utility of men is negligible: their reduced benefit eligibility when married is offset by small gains in terms of intra-household allocations and by gains due to tax cuts. Without marriage prospects, the utility loss from time limits for women increases to approximately 1% of lifetime consumption. Time limits are substantially more costly when marriage becomes less common, as has happened since the reform (Stevenson and Wolfers, 2007). Single mothers face the greatest utility losses from time limits. Women who will be single mothers by age 25 experience a loss of approximately 1.5% of lifetime consumption, and 2.5% if marriage prospects are eliminated. Redistributing government savings through lower taxes has little effect on this group because they have relatively low rates of labor force participation.

Related Literature Our paper builds on existing work on welfare reform and life cycle behavior as well as on earlier studies of the impact of the 1996 welfare reform. The empirical literature on the effects of this reform is large, with excellent overviews by Blank (2002) and Grogger and Karoly (2005). A number of empirical studies highlighted that time limits discouraged the use of welfare (Mazzolari and Ragusa, 2012) and led women to “bank” their future eligibility (Grogger and Michalopoulos, 2003). Other studies show that the 1996 reform increased the employment of eligible women (Meyer and Rosenbaum, 2001; Grogger, 2003; Fang and Keane, 2004; Kline and Tartari, 2016). All these studies focus on single mothers, the main recipients of cash benefits. However, married women form 25% of welfare recipients.

A smaller empirical literature examined whether marriage and divorce are affected by time limits (e.g. Schoeni and Blank, 2000). Moffitt, Phelan and Winkler (2020) consider the impact of various components of the reform. They distinguish between households where the biological father is present as opposed to either no partner or one unrelated to the children. While they find that some work-related elements of the welfare reform increased single parenthood, they find no impact of time limits. Finally, Bitler et al. (2004) present strong evidence that divorces decline but do not find that marriages increased.

²If we were able to target the redistribution of revenue saved only at single mothers through lump-sum payments and without any stigma cost, women’s well-being increases with time-limits relative to AFDC. This is because the lump-sum payment is in effect compensating those who lose out from time limits.

Our approach builds on an important literature that developed dynamic models of labor supply, some of which include choices of welfare use. Notable examples include Keane and Wolpin (2010) and Blundell et al. (2016), both of which specify rich life cycle models focusing on the role of welfare use while allowing for education choice and human capital accumulation. Both allow for the birth of children and transitions between being single and married, although only Keane and Wolpin (2010) treat these as endogenous choices. On the other hand, Blundell et al. (2016) allow for savings, which are important sources of self-insurance and need to be accounted for when evaluating the impact of benefit reform.

Our paper relates to the life cycle analyses of female labor supply and marital status (Attanasio, Low and Sanchez-Marcos, 2008; Fernández and Wong, 2014; Blundell et al., 2016; Fernández and Wong, 2017) and to existing work on taxes and welfare in a static context, including Heckman (1974), Burtless and Hausman (1978), Keane and Moffitt (1998), Eissa and Liebman (1996) for the US as well as Blundell, Duncan and Meghir (1998) for the UK.³

Intrahousehold allocations are based on a dynamic collective model with limited commitment. The theoretical underpinnings for this are found in Chiappori (1988, 1992) and Blundell, Chiappori and Meghir (2005) and its dynamic extension by Mazzocco (2007). The risk-sharing framework with limited commitment draws from Ligon, Thomas and Worrall (2000) and Ligon, Thomas and Worrall (2002*b*) as extended to the life cycle marriage model by Mazzocco, Yamaguchi and Ruiz (2013) and Voena (2015).

Turning to the literature that has considered the dynamic aspects of the reform, Fang and Silverman (2009) estimate a model of work and welfare participation allowing for time inconsistency through present bias. Beyond this, there are two important papers with dynamic models that address explicitly the role of time limits imposed by the 1996 welfare reform and are therefore the closest antecedents to our paper.

The first is Swann (2005). His model considers the joint decisions of program participation, work, and marriage. However, it does not model savings, removing an important channel for self-insurance; moreover, it switches off demographic uncertainty by assuming perfect foresight for fertility. Welfare participation is limited to single mothers alone and wage shocks are assumed to be i.i.d., reducing the implied uncertainty that individuals face and hence understating the need for “banking”.

The second is the paper by Chan (2013). It models the choices to work and to claim benefits and captures in much detail the institutional framework in place at every point

³See also Persson (2014) for an example of how social policy can directly influence household formation.

in time. However, his model focuses only on continuously single mothers, overstating the role of welfare. As reported by Bane and Ellwood (1996), 29.4% of AFDC termination of claims occurred when the single mother “became a wife”, which is similar to what we find in our data. Moreover, as in Swann (2005), savings are absent. By ignoring the family and ignoring the option to save, the paper eliminates important mechanisms providing insurance (marriage and assets), potentially overstating the effects of the reform on individual welfare. Further, divorce is an important channel of risk for married women and can affect their claims behavior. Ignoring family transitions leads to an incomplete picture of the effects of benefits and distorts the assessed impact even for single mothers, the group that is the focus of Chan (2013).

Structure of the Paper. We provide detail of the 1996 welfare reform and the interaction between marriage and welfare in Section 1. The data and reduced form analysis of the effects of time limits are presented in Section 2. In section 3 we present our life-cycle model and discuss estimation of the model’s parameters. The core results are presented in counterfactual analysis in section 4 and welfare analysis in Section 5. Section 6 concludes. Further details are given in the Online Appendix, where Appendices A to E correspond respectively to sections 1 to 5.

1 AFDC, TANF and the Welfare Reform

The Personal Responsibility Work Opportunity Reconciliation Act (PRWORA) was signed by President Clinton in August 1996. It gave states considerable latitude in setting parameters for welfare within broad federal guidelines (Ziliak, 2015). While AFDC was funded through a state-federal matching system on an unconditional basis, the funding of TANF came from federal block grants assigned to states.

The introduction of time limits was a central element of the reform. Federal funds could be used to provide assistance to family units only up to a maximum of sixty months, and states started counting such months at different times between 1995 and 1998.⁴ Moreover, states could choose lower time limits, and about one-third of them did so. States could also set longer limits but would have to cover assistance beyond the statutory limit with state-specific

⁴The size of the blocks grant was based on three-year average spending computed over the years preceding the reform and was independent of the business cycle.

funds. This flexibility meant that TANF varied significantly across states.⁵ Information about the presence of time limits was systematically disseminated to beneficiaries through welfare offices, official notices and letters:

““The clock is ticking” is a common sight on welfare office walls and a catchphrase used by many caseworkers. Images of ticking clocks and hourglasses have become familiar” (Bloom, Farrell and Fink, 2002).

These changes in eligibility requirements were not accompanied by appreciable changes in the generosity of benefits available conditioning on eligibility. During the same period, the EITC was expanded to increase labor force participation among low-income individuals.

A further element of the welfare reform was the introduction of stronger incentives to work than existed under AFDC. Work incentives came in two forms: the imposition of work requirements for maintaining welfare eligibility and the availability of childcare assistance. Mothers of children below the age of 1 are, in most states, exempt from work requirements. Work requirements varied across states but typically consisted of formal work, job training, job search, or educational training. Part of the difficulty with assessing the importance of the work requirement is that individuals in most cases need only to be actively looking for work, rather than being formally employed. This may make measurement and enforcement problematic.⁶ While work requirements and child care assistance may be important and also potential empirical confounds of the effect of time limits (our main focus), the set of women affected by the three elements of the reform (as a function of the age of the youngest child) do not perfectly overlap. We use this variation to isolate the effect of time limits from other elements of the reform and perform a series of robustness checks to ensure that the empirical analysis isolates the effect of time limits.

1.1 Marriage and the Welfare System

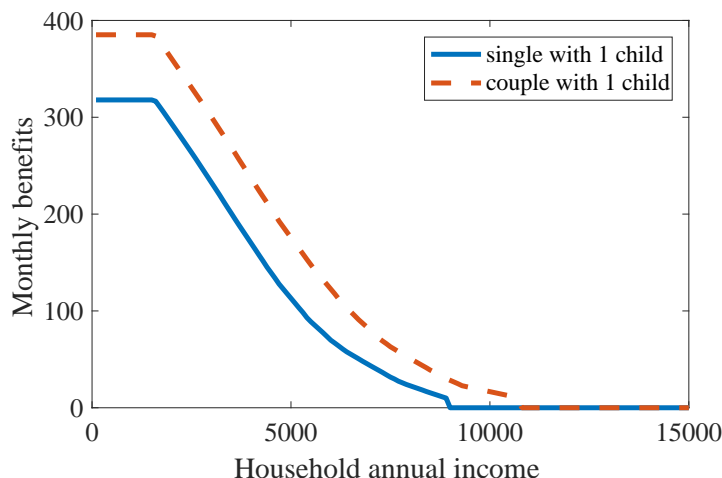
An explicit goal of the 1996 welfare reform was to promote marriage (Ziliak, 2015). When AFDC was first introduced, benefits were limited to single parents. Partly in response to concerns that this was creating disincentives to forming dual-parent households, eligibility was later extended to include couples where the second adult was unemployed. As a consequence, welfare use among married couples became more common by the late 1980s,

⁵Table A.1 in Appendix A shows how time limits differed across the 50 US states, using 2000 as a baseline.

⁶Appendix A provides more detail on work requirements. Bruins (2017) argues that work requirements for single mothers increased poverty by cutting TANF eligibility among those most in need.

accounting for 20 to 30% of welfare recipients (Moffitt, Reville and Winkler, 1998). In our pre-reform SIPP data, as shown in Appendix Figure A.1, roughly a quarter of mothers on AFDC are married.⁷ Besides maintaining eligibility for all households satisfying the income and asset tests, PRWORA also incentivized states onto implementing additional pro-family policies, such as the adoption of family caps, family planning provisions, step-parents' income disregards, etc. Moffitt, Phelan and Winkler (2020) provide a comprehensive discussion of how TANF rules changed incentives for marriage.

Figure 1: AFDC Benefit Amounts by Marital Status



Notes: Monthly AFDC benefits by household annual income. AFDC benefits are a population-weighted state-level average. Amounts are in 1995 real U.S. dollars.

Marital status is strongly associated with changes in welfare eligibility. To provide an intuition for this, in Figure 1 we show how AFDC benefits varied by income level and by marital status in 1995 (since benefit amounts vary by states, we plot a weighted average using population shares as weights). Most states condition AFDC eligibility on having gross income below the poverty line.⁸ A single mother with no sources of income receives approximately \$315 per month in AFDC benefits. If she were to marry a man who has no income, benefits would increase, but by less than needed to keep the adult equivalent amount unchanged. If she were to marry a man whose earnings are half of the poverty line, her benefits would drop by more than 50%.⁹

⁷Our sample, which comprises women without a college degree, is described in detail in the next section.

⁸In 1995, the poverty line was \$10030 a year for a single mother and \$12590 for a couple with 1 child.

⁹By contrast, for example, food stamps are available to all households, irrespective of the presence and of age of the children, and the amount paid is considerably larger for couple-headed households. Another difference between Food Stamps and AFDC is that the former is a federal program and the in-kind benefits received do not vary across states, while AFDC exhibits some variation across states.

Since marital arrangements affect welfare generosity, it is not surprising that changes in marital status are closely tied to transitions in and out of welfare participation. In pre-reform-SIPP data, the share of women who are getting divorced or separated that enter welfare is almost 10%, as opposed to less than 2% for those marrying or experiencing no change in marital status. Similarly, the share of women who become married and exit welfare is an order of magnitude larger than for women who do not change marital status or exit marriage. Further, marital status transitions for this pre-reform sample are relatively frequent. Details are shown in Appendix Figures A.2 and A.3. In our pre-reform SIPP data, among single mothers on welfare who move off benefits in the following year, 17.8% are getting married at the same time. Similarly, among married women who enter welfare the following year, 18.3% are getting separated or divorced at the same time. This evidence corroborates the earlier findings of Bane and Ellwood (1996) on the importance of marriage and divorce for understanding welfare transitions. Bane and Ellwood (1996) shows that, in the 1980s, divorce or separation were the most common factors associated with the beginning of a welfare spell and marriage or reconciliation with the end of a welfare spell.¹⁰

2 Reduced-Form Evidence on Time Limits

We use the SIPP and CPS data to examine the relationship between the introduction of time limits and key outcome variables: welfare benefit utilization, women’s employment, marriage, divorce, and fertility. In this section, we consider these outcomes separately, and then we use our model to draw out the interactions between these decisions and analyse the long-run outcomes.

2.1 Data and Descriptive Statistics

To study the dynamic effects of the welfare reform, we use seven panels of the Survey of Income and Program Participation (SIPP) spanning the 1989-2007 period and the March Current Population Survey (CPS) for the years 1990 to 2007, focusing until 2002 in our main

¹⁰In particular, “Wife became female head” was the *most* common reason behind the beginning of a welfare spell in the 1980s (42.1% of spells in the PSID sample between 1980 and 1988). Symmetrically, “Female household head becam[ing] a wife” was the most common reason behind the end of a welfare spell, accounting for 29.4% of all spells. The book clearly shows us that, in terms of correlations, changes in marital status were strong determinants of changes in welfare participation and a much stronger one than earnings shocks.

analysis.¹¹ The SIPP is a representative survey of the US population collecting extensive information on participation in welfare and social insurance programs. Starting with the 1996 panel, the SIPP has been re-designed to include an oversampling of households from high-poverty areas and hence is no longer nationally representative. In each panel, people are interviewed every four months.¹² The CPS is primarily a labor force survey that is conducted monthly. Its March supplement includes additional information on family characteristics and program participation and is nationally representative. The CPS Outgoing Rotation Group provides a limited longitudinal sample.

For this part of the paper we restrict the sample to women between 18 and 60 who are not college graduates, and with at least one child under age 19. We add men to this sample when we estimate the lifecycle model. We focus on low-skilled individuals because they are the typical recipients of welfare programs. To avoid the well-known “seam effect” in the SIPP (Young, 1989), for each household we keep only the 4th monthly observation in a given wave.

Our main analysis includes 40,405 women in the SIPP who are heads or spouses of the head of their household, leading to a total of 254,627 quarterly observations. Our CPS sample includes 65,530 women and a total of 113,399 annual observations.¹³ Table B.1 in the Appendix provides summary statistics for the SIPP and the CPS, pre- and post-reform.

2.2 Empirical Strategy

We compare households that, based on their demographic characteristics and state of residence, could have been affected by time limits with households that were not affected, before and after time limits were introduced. This strategy extends prior work about time limits and benefits utilization (Grogger and Michalopoulos, 2003; Mazzolari, 2007; Mazzolari and Ragusa, 2012) to examine the behavior of married couples and the role of household structure.¹⁴

¹¹The SIPP panels used are the 1990, 1991, 1992, 1993, 1996, 2001, and 2004 panels. We do not use the panels conducted between 1984 and 1989 because during this period most states had categorical exclusion of two-parent households from AFDC. This was changed with the Family Support Act of 1988.

¹²The number of waves differs by panels. For example, the 1990 panel covers eight waves, while the 1993 panel was conducted for nine waves.

¹³The reason for focusing on female heads or spouses is that we can more accurately identify whether a minor in the household is the woman’s child (as opposed to, say, a sibling).

¹⁴Grogger and Michalopoulos (2003) use experimental data from the Florida Family Transition Program to test whether the introduction of time limits induced “banking” and largely find evidence consistent with time limits affecting welfare use before they become binding. Mazzolari and Ragusa (2012) use SIPP data to regress welfare utilization, employment, and other “income generating” activities against a variable measuring the stock of remaining benefits, which they impute using retrospective information on welfare

We define a variable *Exposed* which takes value 1 if the household’s expected benefits have changed as a result of the reform, assuming the household has never used benefits before.¹⁵ Mothers of younger children faced more consequential cuts in welfare support than those with older children because the time period over which they could claim is longer. Who is exposed to the reform and who is not varies by state depending on the time limit imposed. For example, in a state where the limit is 5 years, women whose youngest child is older than 13 are exposed. The threshold is 16 in states with a two-year limit.

The relationship between this exposure variable and the effect of time limits becomes increasingly attenuated over time as we do not observe the actual history of welfare utilization, which, furthermore, is an endogenous variable. In most states, the reform imposed stricter work requirements, so that a level effect on employment may be expected across both treated and control groups. However, these typically do not interact with the age of the children, and consequently comparing the impact of the reforms within states and across families with children of different ages identifies the effect of time limits alone. The exception is families with very young children, who are not subject to work requirements; we thus experiment with removing them from the sample.

Exposed takes value 0 if a household’s benefits (in terms of eligibility or amounts) have not been affected in any way by the reform. Hence, *Exposed* is a function of the demographic characteristics of a household and the rules of the state in which the household resides. Appendix Figure B.1 reports the potential variation for the year 2000. The value of *Exposed* may change over time because some states change their statutory time limits during the sample period and because states differ in the date when the time limit clock starts to tick.¹⁶

To estimate the impact of the timelimits, we construct a variable *Post_{st}* indicating the post-reform period, based on the timing of the introduction of time limits.¹⁷ We look at the impacts after the reform up to 2002, as well as the longer-term effects for further validation (Appendix B). We do not observe how much of their benefits people have used, and

use and state-specific time limits policies. Their main finding is that for families who are predicted to have hit the time limit, there is evidence that the policy was enforced and such households experience a drop in monthly income from welfare payments of about \$250 on average. They find no evidence that such loss is offset by increases in other income sources and conclude that time limit enforcement resulted in an increase in the rates of deep poverty for households hitting the time limits.

¹⁵For example, if a household’s youngest child is aged 13 or above in year t and the state’s lifetime limit is 60 months, the variable *Exposed* takes value 0, while if a household’s youngest child is aged 12 or below in year t and the state’s lifetime limit is 60 months, the variable *Exposed* takes value 1.

¹⁶For example, Arizona had the clock starting in November 1995, while California started the clock in July 1997.

¹⁷Years of time limits are reported in Mazzolari and Ragusa (2012).

so we focus mostly on effects in the period shortly after the reform, where the risk of treatment/control contamination is minimal. We interact the $Post_{st}$ variable with $Exposed_{ds}$ and estimate:

$$y_{idst} = \alpha Exposed_{dst} \times Post_{st} + \mathbf{X}_{idst}\boldsymbol{\beta} + f_{st} + f_{ds} + f_{mt} + \epsilon_{idst} \quad (1)$$

where α is the average effect of the reform, identified from changes in the behavior of households with a youngest child of different ages, \mathbf{X} is a vector of individual and state-level time-varying controls, f_{st} are state-by-year fixed effects, f_{ds} are state-by-age-of-youngest-child fixed effects, and f_{mt} are month-by-year fixed effects.¹⁸

2.3 Empirical Results

We start by showing the relationship between time limits and welfare use and employment. This provides the context for thinking about household structure.

2.3.1 Benefits Utilization and Employment

Table 1 reports the main effects of time limits within the first six years after 1996. We start by examining changes in welfare utilization. Using the SIPP, in the raw data, before the reform 10% of households claimed benefits, and among unmarried women, the rate was 30%.¹⁹ These numbers fell to 4% and 11% respectively. Our reduced-form analysis for welfare utilization shows how much of this fall is due to time limits. Exposed households have a 3 percentage point (pp) lower probability of claiming benefits after the introduction of time limits. Unmarried women have an 8.7pp lower probability of claiming welfare, a large effect consistent with what was documented by Grogger and Michalopoulos (2003) and Grogger (2003).²⁰ We also document a 1.1pp decline in the welfare use of married women, who have low rates of welfare use pre-reform. CPS data shows similar declines across these outcomes.

The second panel of Table 1 shows the impact on employment levels. The introduction

¹⁸To study the dynamics of the outcome variables, we also interact $Exposed_{ds}$ with dummies for each calendar year between 1990 and 2002 (excluding 1995 for scaling). We estimate pre-reform interactions with year dummies to rule out pre-reform trends across demographic groups:

$$y_{idst} = \sum_{\tau=1990}^{2002} \alpha_{\tau} Exposed_{dst} \times \mathbf{1}\{t = \tau\}_{st} + \mathbf{X}_{idst}\boldsymbol{\beta} + f_{st} + f_{ds} + f_{mt} + \epsilon_{idst}. \quad (2)$$

¹⁹Further details of the raw numbers are in the descriptive statistics in Table B.1.

²⁰Longer-term effects, using data until 2007 (Appendix Table B.3) are qualitatively similar.

Table 1: Use of Benefits, Employment, Marital Status and Fertility after the Reform

| <i>AFDC/TANF Utilization</i> | | | | | | |
|------------------------------|--------------------------|----------------------|----------------------|---------------------|--|----------------------|
| | Whole sample | | Married women | | Unmarried women | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | -0.030*** (0.004) | -0.016*** (0.003) | -0.011*** (0.003) | -0.003** (0.002) | -0.087*** (0.015) | -0.084*** (0.013) |
| Mean pre-reform | 0.098 | 0.077 | 0.035 | 0.019 | 0.297 | 0.304 |
| Obs | 254,627 | 112,128 | 188,483 | 88,522 | 66,144 | 23,606 |
| R^2 | 0.12 | 0.07 | 0.08 | 0.03 | 0.26 | 0.15 |
| <i>Employment</i> | | | | | | |
| | Whole sample | | Married women | | Unmarried women | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | 0.014 (0.012) | -0.002 (0.011) | -0.001 (0.014) | -0.017 (0.011) | 0.050*** (0.014) | 0.054** (0.026) |
| Mean pre-reform | 0.640 | 0.647 | 0.643 | 0.654 | 0.631 | 0.620 |
| Obs | 254,627 | 112,128 | 188,483 | 88,522 | 66,144 | 23,606 |
| R^2 | 0.12 | 0.06 | 0.11 | 0.05 | 0.21 | 0.13 |
| | <i>Divorce/Separated</i> | | <i>Married</i> | | <i>Newborn$_{t+1}$ (Annual)</i> | |
| | Whole sample | | Whole sample | | Whole sample | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | -0.027*** (0.007) | -0.015* (0.008) | 0.004 (0.007) | -0.007 (0.010) | -0.001 (0.005) | -0.002 (0.004) |
| Mean pre-reform | 0.150 | 0.126 | 0.758 | 0.796 | 0.059 | 0.049 |
| Obs | 254,627 | 112,128 | 254,627 | 112,128 | 55,142 | 47,344 |
| R^2 | 0.03 | 0.01 | 0.05 | 0.05 | 0.08 | 0.04 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use quarterly data from 1990-2001 SIPP panels, until 2002 and annual data from 1990-2002 March CPS. We annualized SIPP data for the newborn outcome. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

of time limits increases the employment probability of single mothers by about 5pp, in line with Grogger (2003). The increase in employment in the group of unmarried women is likely to be a direct consequence of the decline in welfare utilization, suggesting that labor supply is an important mechanism of mitigation. However, there is an increase of between 2 and 5pp in the fraction of single mothers who are neither employed nor on welfare and a small decline in the probability of being simultaneously employed and welfare (see Table B.4 in Appendix C). On the other hand, time limits had no detectable effect on the employment of

married women, despite the fall in benefit claiming.

Single women behave differently from married women pre-reform: only 7% of single women are neither on benefits nor employed, whereas the fraction for married women is 32%. This difference arises because married women have income streams from their husbands, and so are more often ineligible for benefits, and yet may not need to work. This means that despite the reduction in benefit use, married women do not have to return to work to smooth consumption to the extent that unmarried women have to.²¹

These average effects on utilization and on employment mask the dynamics of behavior and also whether or not time-limits induced banking of benefits. Our second specification addresses this question. Figure 2 plots the coefficients of the variable *Exposed* interacted with quarterly dummies before and after the introduction of time limits in a given state on the overall sample (subfigure a). The utilization rate begins to decline significantly within a year of the reform, even after excluding states with a limit below 2 years (subfigure b), to a persistent drop of about 4 percentage points by year 2: households reduce their benefit utilization *before* anyone is likely to have run out of benefits eligibility. The decline is over 10 percentage points for unmarried women, and around 1.5 pp for married women. The pre-emptive decline suggests forward-looking behavior (in the form of “banking” of benefits).²²

Our results focus on the average effect across mothers with children of different ages, but the intensity of treatment differs. To address this, we interact the exposure coefficient with dummy variables for the age of the youngest child: parents of younger children respond more strongly to the introduction of time limits compared to parents whose child is closer to age 13, consistent with the dynamic incentives introduced by time limits (Appendix B, Figure B.5).

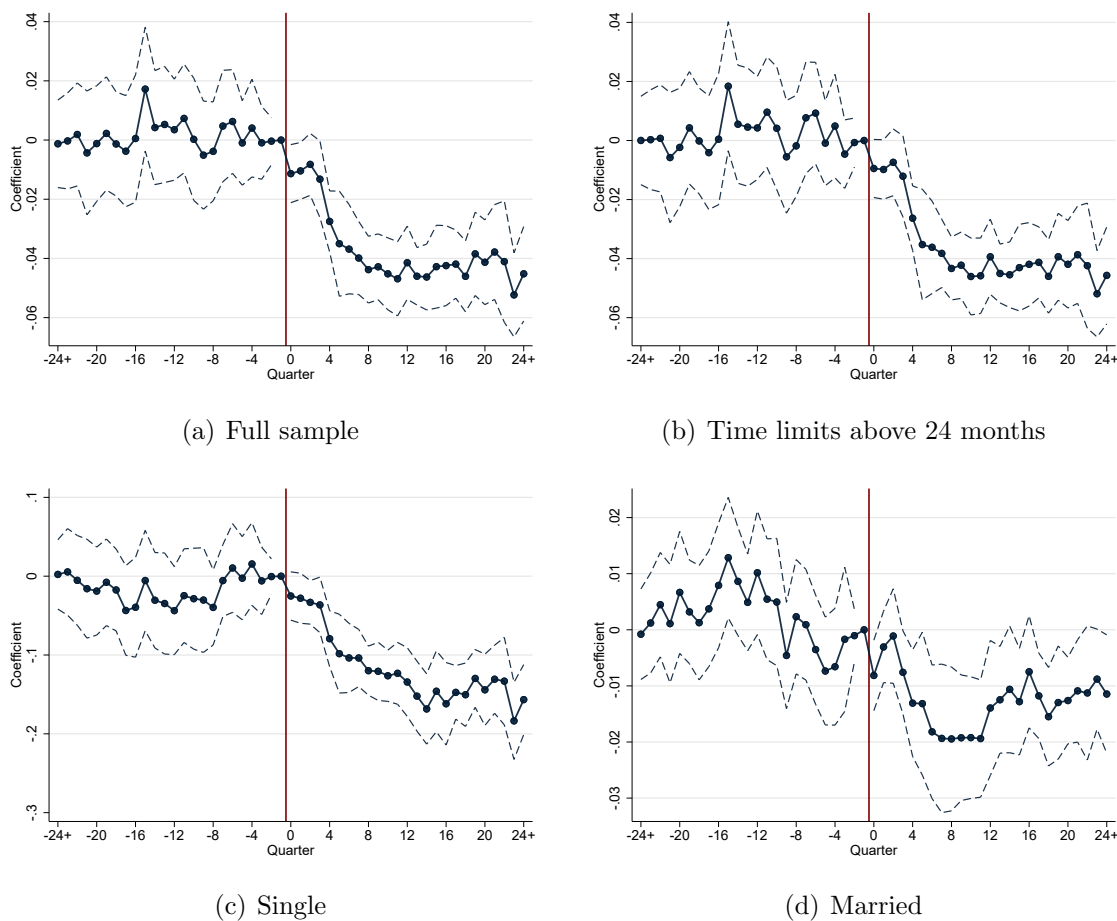
2.3.2 Household Structure: Divorce, Marriage, and Births

A central motivation, and indeed a stated goal, of the 1996 welfare reform was to encourage “the formation and maintenance of two-parent families”. In this section, we consider whether there is direct evidence that time limits affected household structure, particularly marriage, divorce and fertility. The bottom panel in Table 1 reports these outcomes.

²¹In Table B.2 in Appendix B, we re-estimate our reduced form welfare use and employment regressions for married women, splitting the sample into couples when the husband is employed compared to when unemployed. The impact of time limits on welfare use is greater for couples where the husband is unemployed, although from a larger base utilization. However, the impact on employment is not significantly different.

²²In the Appendix we estimate specification (2) for three outcomes: welfare use (see Figure B.2), employment (Figure B.3), and marital status (Figure B.4). The findings are similar to those of Table 1.

Figure 2: Program Participation Dynamics Following the Introduction of Time Limits by Quarter



Notes: 95% confidence intervals based on standard errors clustered at the state level. Data from the 1990-2001 SIPP panels, until 2002. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate- by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Marriage and divorce Women exposed to time limits are 1.5-2.7pp less likely to be divorced or separated, and this is statistically significantly different from zero in both the SIPP and CPS. This is a substantial decline: the pre-reform fraction of women who were divorced was between 12 and 15%.

The decline in divorce was not associated with an increase in the stock of married people. As discussed by Bitler et al. (2004), the effects of the welfare reform on household formation and dissolution are not obvious. The welfare reform, by curtailing the extent of public insurance available to low-income women, may have induced those who were already married to attach a higher value to marriage as a valuable risk-sharing tool (through male labor

supply, for example), and reduced the option value of being single (and potentially claiming benefits). The reform increased the gains from marriage for those who would have been eligible for welfare benefits if single and this immediately translates into lower divorce rates. However, moving from being single to married takes time because of search costs and not every match will translate into a marriage that is beneficial. As a result, any tendency for an increased marriage rate is attenuated and becomes too small to detect in the data. Further, the changes in the implied insurance from marriage will not only affect the likelihood of marriage but also women’s bargaining power and allocations of resources within marriage, as we capture in our model below. Figure B.4 reports the dynamics of marriage and divorce based on Equation (2). This highlights the time needed to adjust marital status.

Fertility Our empirical strategy relies on the age of the youngest child as a source of predetermined variation, and as a result is not suitable for estimating fertility outcomes, which directly affect the age of the youngest child. To examine whether time limits influenced birth outcomes, we focus instead on the probability that a household will have a newborn (a child below age 1) in the following year. We estimate equation (1), and use a dummy for having a newborn in $t + 1$ as the dependent variable. We annualize the SIPP data for this purpose since we are examining the effect on birth in the next year. We find no effect of time limits on subsequent births. This finding partly justifies our choice to treat fertility choices in the model as stochastic.²³

2.4 Other Aspects of the Reform

A key question is whether the approach above separates the effect of time limits from other features of welfare reform, such as work requirements, increased stigma, or childcare provisions. As long as these components of the reform did not affect women differentially depending on the age of their youngest child, their effect would be captured by the year fixed effects and by the state-by-year fixed effects f_{st} . However, work requirements were weaker for mothers of very young children. Identification of the effect of time limits stems from comparing employment increases of mothers of younger children with those of mothers of older children and so we will underestimate the increase in employment caused by time limits because mothers of older children were under more pressure to work. By contrast,

²³A separate question, that cannot be examined with this strategy, is whether welfare reform may have affected the onset of fertility and particularly teenage fertility. We leave this important topic for future research.

childcare provisions, favoring the employment of mothers of small children, would lead us to overestimate the impact of time limits. We rule out these contamination effects by re-running regression (1) only on a sample of mothers of children between ages 6 and 18, who should be facing similar regulations and claiming conditions but be differentially affected by the likelihood of incurring binding time limits.

To address whether other aspects of the reform could drive our estimates we have collected further information about additional features of the reform. In Appendix B, we describe and report the findings from controlling for variation induced by other policies, such as work requirements (Appendix Table B.7), child support enforcement (Appendix Table B.8), and waivers (Appendix Table B.9). Our strategy for controlling for other aspects of the reform accounts for the direct effect of these features in the estimation of the impact of time limits, but does not capture interactions between time limits and these features.

Robustness Checks In Appendix B, we describe and report the findings from additional robustness checks: (a) To address attrition in the SIPP sample, we only consider the first wave of each panel (Appendix Table B.10); (b) We examine the behavior of college graduates, as a sample that is less likely to be affected by time limits (Appendix Table B.11). The findings are consistent with the interpretation of our baseline results.

3 Life-Cycle Model

3.1 Overview

We specify a life-cycle model that introduces the channels through which the economic and policy environment affect labor supply behavior, savings, and family structure. The estimated model allows us to evaluate how individuals make choices to mitigate the expected increased exposure to risk resulting from imposing time limits to welfare benefits, or other policy counterfactuals. With it, we can assess the longer-run changes in labor supply and family structure and quantify the effects on well-being.

As a brief overview of the model, in each period single women may meet a man, drawn from a distribution of single men of similar age and characterized by their wealth and labor productivity. They mutually decide whether to marry or not, depending on the joint value of marriage relative to the value of being single and on a random marital match quality effect. Married couples, on the other hand, decide whether to continue in their relationship or to

divorce, a decision that depends both on the economic environment defining outside options and on the shock to a marriage match. Children are not a choice, but they arrive randomly with a probability that is a function of the mother’s marital status, her age and the age of an existing child.

Single women decide whether to work or not and how much to save or consume, and whether to claim AFDC/TANF, if they have children. The decisions of married women/couples are governed by intra-household bargaining where their relative power is defined by Pareto weights. These weights, originally set at the point of marriage, evolve based on a limited commitment framework where updates take place only when one of the household members has a credible threat to leave the marriage.²⁴ Within this framework, married women decide whether to work or not and those with children decide whether to claim AFDC/TANF benefits or not. Both members of the household save in a common asset, which upon divorce is split equally among them. Whether men work or not is exogenous and is governed by a random process.

Savings are an important source of self-insurance. Ignoring savings would distort the impact of welfare benefits. First, ignoring this source of self-insurance would lead us to overstate the impacts of reducing or eliminating benefits. Second, in the presence of time limits, it would distort the decision of whether to defer claiming (bank) benefits. We thus allow for savings, both because these households hold assets in the data and because any analysis of the welfare effects of the reform that changes insurance options would be incomplete without explicitly taking into account self-insurance.

3.2 Problem of the Single Woman

We focus on women who have completed their schooling choices and have not obtained a college degree.²⁵ The subscript s indicates that individual i is single, and F indicates a woman. The subscript j denotes a man, and ij the corresponding couple. At each age t , women decide whether to work ($P_{i,t}^{F_s} \in \{0, 1\}$), how much to consume ($c_{i,t}^{F_s}$), and whether to claim AFDC/TANF. The decision to claim is given by $B_{i,t}^{F_s} \in \{0, 1\}$; and this leads to benefit payment $b_{i,t}$. Within-period preferences for a woman, conditional on being single, are

²⁴See Chiappori et al. (2020) and Lise and Yamada (2019) for evidence in support of limited commitment.

²⁵Since we are interested in the impacts of means-tested welfare benefits, such as TANF, we focus on lower-education women. An important question is how education choices are themselves affected by the presence of welfare benefits (Blundell et al., 2016). Bronson (2014) studies women’s education decisions in a dynamic collective model of the household with limited commitment.

denoted by $w^{F_s}(c_{i,t}^{F_s}, P_{i,t}^{F_s}, B_{i,t}^{F_s})$, where the dependence on $B_{i,t}^{F_s}$ reflects any stigma associated with receiving welfare (Moffitt, 1983). In addition, she makes a choice to marry, which will also depend on meeting a man and whether he will agree to marry her. The decision to marry takes place at the start of the period after all shocks are realized, but before any consumption, welfare participation, or work plan is implemented.²⁶ Employment, savings, and program participation decisions will be conditional on the marriage decision that occurs at the beginning of the period.

If a woman remains single, her budget constraint is given by

$$\frac{A_{i,t+1}^{F_s}}{1+r} = A_{i,t}^{F_s} - \frac{C_{i,t}^{F_s}}{e(k_{i,t}^a)} + (w_{i,t}^F - CC_{i,t}^a)P_{i,t}^{F_s} + B_{i,t}^{F_s}b_{i,t} + FS_{i,t} + EITC_{i,t} \quad (3)$$

$$A_{i,t+1}^{F_s} \geq 0$$

where $A_{i,t}^{F_s}$ are assets and $CC_{i,t}^a$ is the financial cost of childcare paid only if the woman works. The woman's wage rate $w_{i,t}^F$ follows a persistent stochastic process, detailed below. The term $e(k_{i,t}^a)$, the amount of consumption obtained by spending \$1, is an equivalence scale to account for the presence of a child of age a ($k_{i,t}^a$). The arrival of children is stochastic and exogenous, albeit varying with the woman's marital status, own age, and age of an existing child. Children affect consumption, benefit eligibility, and the opportunity cost of women's time in the labor market. We account for three important social safety net programs: food stamps (denoted FS), EITC and AFDC/TANF. The value of all programs depends on demographics and income.

The state space for a single woman is $\Omega_{i,t}^{F_s} = \{A_{i,t}^{F_s}, w_{i,t}^F, k_{i,t}^a, TB_{i,t}\}$, where $TB_{i,t}$ is the number of years of benefit use. EITC is a function of the vector $\{k_{i,t}^a, w_{i,t}^F P_{i,t}^{F_s}\}$, food stamps are a function of $\{k_{i,t}^a, w_{i,t}^F P_{i,t}^{F_s}, A_{i,t}^F\}$, while AFDC/TANF are a function of the vector $\{k_{i,t}^a, w_{i,t}^F P_{i,t}^{F_s}, TB_{i,t}, A_{i,t}^F\}$. The dependence of AFDC/TANF and food stamps on assets is due to the presence of an asset test.

With probability λ_t , at the beginning of the period a single woman meets a man with characteristics $\{A_{j,t}^M, y_{j,t}^M\}$ (assets and exogenous earnings) and together they draw an initial match quality $L_{ij,t}^0$. If the match is formed $m_{ij,t} = 1$, and 0 otherwise. The process governing this decision, which involves both partners, is described below in Section 3.3 and in Appendix

²⁶Positive assortative matching arises endogenously because a match occurs only if *both* agents prefer to match rather than continue searching.

C.²⁷

We denote by $V_t^{F_s}(\Omega_{i,t}^{F_s})$ the value function for a single woman at age t and $V_t^{F_m}(\Omega_{i,t}^m)$ the value function for a married woman at age t . A single woman has the following value function:

$$V_t^{F_s}(\Omega_{i,t}^{F_s}) = \max_{\mathbf{q}_{i,t}^{F_s}} \left\{ \begin{array}{c} u^{F_s}(c_{i,t}^{F_s}, P_{i,t}^{F_s}, B_{i,t}^{F_s}) \\ + \beta E_t \left[\lambda_{t+1} \left[\begin{array}{c} (1 - m_{ij,t+1}) V_{t+1}^{F_s}(\Omega_{i,t+1}^{F_s}) \\ + m_{ij,t+1} V_{t+1}^{F_m}(\Omega_{i,t+1}^m) \end{array} \right] \right. \\ \left. + (1 - \lambda_{t+1}) V_{t+1}^{F_s}(\Omega_{i,t+1}^{F_s}) \right] \end{array} \right\}$$

subject to the intertemporal budget constraint (3).

We parameterize within-period utility for the woman as follows:

$$u(c, P, B) = \frac{(c \cdot e^{\psi(m, k^a) \cdot P})^{1-\gamma}}{1-\gamma} - \eta B. \quad (4)$$

When a woman works ($P = 1$), her marginal utility of consumption changes according to ψ , which depends on whether she has a child and on her marital status. The parameter η represents the utility cost of claiming AFDC/TANF benefits.²⁸ The model has finite horizon and is solved by backward recursion.

The problem of a single man, which is similar to the one of a single woman but with no AFDC/TANF option, is described in Appendix C.

3.3 Problem of the Couple

When a couple marries their assets are merged and they solve a dynamic collective problem with limited commitment (Mazzocco, 2007; Voena, 2015). Household choices depend on the bargaining weight of each member, which in turn depends on the outside option of being single and possibly remarrying. The bargaining weight of each household member is reflected in the Pareto weights $(\theta_{ij,t}^M, \theta_{ij,t}^F)$, which evolve endogenously. We focus in this section on transitions between marital states and the evolution of the Pareto weights. In Appendix C,

²⁷In principle, this distribution is endogenous and as economic conditions change, the associated marriage market will change, as supply and demand change. In this paper, we take this distribution as given and do not solve for it endogenously. This mainly affects counterfactual simulations. Solving for the equilibrium distribution in two dimensions is likely to be very complicated computationally.

²⁸We assume there is no utility cost from claiming Food Stamps or EITC benefits because for these two programs we do not endogenize the claiming decision.

we define the full optimization problem for the married couple, given the overall state space $\Omega_{ij,t}^m$.²⁹

There are two transitions to consider: first, for couples, whether an existing marriage continues or ends in divorce; second, for singles, whether a meeting between a single man and a single woman results in marriage.

For the marriage to continue, individual participation constraints need to be satisfied. The value of marriage must be larger than the value of being single for both spouses:

$$\begin{aligned} V_{t+1}^{F_m} \left(\Omega_{ij,t+1}^m \right) &\geq V_{t+1}^{F_s} \left(\Omega_{i,t+1}^{F_s} \right) \\ V_{t+1}^{M_m} \left(\Omega_{ij,t+1}^m \right) &\geq V_{t+1}^{M_s} \left(\Omega_{j,t+1}^{M_s} \right) \end{aligned} \tag{5}$$

When married, the Pareto weights remain unchanged as long as these participation constraints are satisfied. However, the various shocks, including those to match quality and to the wages of each partner, can change the value of becoming single and the value of remaining married. If one person's participation constraint is not satisfied, the Pareto weight moves the minimal amount needed to satisfy it. This is based on the dynamic contracting literature with limited commitment, such as Kocherlakota (1996) and Ligon, Thomas and Worrall (2002a). If there is no Pareto weight that satisfies both the spouses' participation constraints and the intertemporal budget constraint, then divorce follows.³⁰ Divorce can take place unilaterally, and if it does, it is efficient because there is no allocation such that each person can have a non-negative surplus from remaining married. This is equivalent to saying that there exists no feasible allocation and corresponding Pareto weights $\theta_{ij,t}$ which satisfy the participation constraints in equation (5).³¹

The second transition to consider is for single individuals getting married. Whether a meeting between a single man and a single woman results in marriage depends on the existence of a feasible allocation that satisfies both participation equations (equation (5)).

²⁹The state variables for the couple (represented by $\Omega_{ij,t}^m$), are: the combined assets, each spouse's productivity, whether the woman worked in the previous year, the number of periods of welfare benefits utilization, age of the youngest child present ($k_{i,t}^a$), and the Pareto weights $\theta_{ij,t}^M, \theta_{ij,t}^F$.

³⁰We can rewrite equation 10 as the weighted sum of the value of being married for men and for women at time t . This means that in making time t decisions, the weight on time $t + 1$ outcomes is determined by the time t weights even if divorce occurs. Of course, if divorce occurs in time $t + 1$, then the man and the women only optimize over their own utility, as shown by single men and single women having their own budget constraints.

³¹In our context, marriage is not a pure risk-sharing contract. Marriage also takes place because of complementarities (i.e., economies of scale in consumption), love (L), and possibly also because features of the welfare system promote it. When a marriage has the potential to be better than being single for *both* parties, overall transfers will take place and this will *de facto* lead to at least partial risk sharing.

First, because of search frictions, the relevant outside option for marriage is waiting longer for an alternative partner. Second, for a number of matches, there will be gains to be made over and above the outside option. The Pareto weights at the time of marriage, θ_{ij,t_0} , distribute these gains and we assume they are being chosen as the solutions to a symmetric Nash bargaining game between spouses, as described in Appendix C.³² Ours is a context of imperfectly transferable utility, which implies that the Pareto weight affects the size of the gains to be shared. Since the outside option depends on the possibility of future marriages, the anticipated share of future gains will affect the probability of marriage in this indirect way.³³

3.4 Sources of Uncertainty

Underlying the decisions of single women, single men, and couples, there are two main sources of uncertainty: wages and the marriage process. We describe those below. Appendix C describes the fertility process.

Female Wages and Male Earnings

The wage process for men and women takes the form

$$\log(w_{j,t}^M) = a_0^M + a_1^M t + a_2^M t^2 + z_{jt}^M \quad (6)$$

$$\log(w_{it}^F) = a_0^F + a_1^F t + a_2^F t^2 - \delta^F \mathbf{1}[P_{i,t-1}^F = 0] + z_{it}^F \quad (7)$$

$$z_{jt}^M = z_{j,t-1}^M + \zeta_{jt}^M, \quad z_{j,0}^M \sim N(0, \sigma_{0M}^2)$$

$$z_{it}^F = z_{i,t-1}^F + \zeta_{it}^F, \quad z_{i,0}^F \sim N(0, \sigma_{0F}^2).$$

The term z_t^G ($G = F, M$) represents the permanent income realization at time t , which evolves as a random walk following innovation $\zeta_t^G \sim N(0, \sigma_{\zeta^G}^2)$. Initial dispersion in wages, reflecting heterogeneity, is distributed normally with mean zero and variance σ_{0G}^2 . We do not impose correlation in the shocks to wages between men and women, but correlation in

³²In the estimation below, we experiment with varying degrees of commitment in the marriage decision. This has some effect on parameter estimates, especially for the cost of working for married women. However, our conclusions on the effects of time limits on behavior are unchanged, as we show in Appendix D.

³³Characterizations of equilibrium in *transferable utility contexts* is given in Chiappori, Costa-Dias and Meghir (2016) for frictionless environments and by Goussé, Jacquemet and Robin (2017) for a stationary environment with frictions.

wages will arise endogenously through the marriage decision.³⁴ The parameter δ^F captures the depreciation of a woman’s productivity when she did not work in the previous year.

While women’s employment is a choice, men’s employment status evolves stochastically following a Markov process. We allow for a stochastic employment shock that drives men’s income to zero.³⁵

Marriage

For those who are single, there is uncertainty about the marriage process. We parameterize the rate of arrival of meetings λ_t to vary with the woman’s age. When two individuals meet, at time t_0 they draw an initial match quality L_{ij,t_0} from a distribution $N(0, \sigma_{\xi_0}^2)$.

For those who are married there is uncertainty about the evolution of the match value $L_{ij,t}$, which evolves according to a random walk process:

$$L_{ij,t} = L_{ij,t-1} + \xi_{ij,t} \tag{8}$$

where $\xi_{ij,t}$ can be interpreted as a “love shock” to the marriage. The innovations to match quality $\xi_{ij,t}$ are drawn from a distribution $N(0, \sigma_{\xi}^2)$.

3.5 Claiming Benefits

In the absence of time limits, the decision to claim benefits in our model is driven by a direct financial incentive to claim offset by the utility cost of claiming. Further, there is an associated disincentive to work because AFDC benefits decline as earnings increase, which may be compensated by the depreciation of wages that occurs from not working. The decline in amount of benefits as earnings increase may discourage smaller claims because of stigma costs. These factors, together with the work disincentives of food stamps and the work incentives of EITC, determine the decision to work as well as the decision to claim AFDC. These trade-offs are particularly acute for unmarried mothers. For married mothers,

³⁴One question is the extent to which welfare reform affected the labor market and in particular human capital prices (Rothstein, 2010). Whether such general equilibrium effects are important or not depends on the extent to which the skills of those affected by the welfare reforms are substitutable or otherwise with respect to the rest of the population. With reasonable amounts of substitutability we do not expect important general equilibrium effects.

³⁵In estimation, we also allow for transitory variation in men’s earnings and women’s wages by adding an i.i.d. measurement error. This term is not relevant to the economic decision process of the agents, but is there to account for the measurement error in the data.

the decision to claim will depend additionally on their husband’s income and on the Pareto weight.

Time limits imply that claiming now reduces the availability of benefits in the future. This in turn means there will be less insurance against future fluctuations induced by wage and other shocks. Hence, claiming now may mean having to return to work at a future time of low productivity.

The strength of these incentives to claim benefits and the likely impact of time limits depend on marital status and potential transitions in marital status. For unmarried mothers, the possibility of marrying in the future, and the income stream of a potential future husband, may partially mitigate the risk of being left without benefits, and may therefore reduce the strong incentive for unmarried mothers to bank benefits. For married mothers, the possibility of divorce increases the risk associated with claiming benefits early, and this channel will increase the extent that benefits are banked. On the other hand, time limits worsen the outside option of married women compared to their husbands, potentially leading to greater early claiming since the utility cost of claiming benefits is only incurred by women.

The important point is that time limits will induce deferral of claims for both unmarried and married mothers, but the extent to which this happens depends on the marriage and divorce probabilities, respectively, and on the relative bargaining power of the spouses. The importance of marital status and marital transitions is explored quantitatively through our model.

3.6 Estimation of Model Parameters

We select the parameters of the model in two steps. First, some parameters are set using standard values in the literature or estimated directly from the data without imposing the model’s structure. Second, the remaining parameters are estimated using the method of simulated moments (MSM), matching data, and model-based simulated moments. We use moments based on pre-reform data and use post-reform data to validate the model.

3.6.1 Externally Set and Calibrated Parameters

Panel A of Table C.1 reports parameters taken from external sources or estimated outside of the model.

Welfare Programs Design We compute parameters of the AFDC, food stamps, and EITC benefit programs directly from the program rules. Eligibility for these benefits is based on a combination of economic and demographic criteria. All adult earnings within the household along with household assets determine eligibility for AFDC. We calculate AFDC benefit for different household types by taking a population-weighted average value of benefits across states for different income levels, as reported in Figure 1.

Risk Aversion, Discounting, Interest Rate, and Economies of Scale We set the coefficient of relative risk aversion to 1.5 based on Blundell, Browning and Meghir (1994) and Attanasio and Weber (1995), the discount factor to 0.98 and the interest rate to 1.5% following Attanasio, Low and Sanchez-Marcos (2008). We set the parameter defining economies of scale in marriage from the calibration in Voena (2015). We perform sensitivity analyses for different choices of each of these parameters.

Childcare Costs We estimate childcare costs using information from the Consumer Expenditure Survey for the 1990-1996 period. In our model, childcare costs are only incurred by working women. We use the average of total spending on daycare and babysitting for working women in the data (by child age) as the relevant childcare cost.

The Distribution of Characteristics of Single Men and Women Individuals in the model use the age-dependent distribution of characteristics of those currently single to form expectations about potential matches. Single men are characterized by the age-dependent distribution of $\{A_t, y_t\}$. Single women are characterized by the age-dependent distribution for $\{A_t, y_t, k_t^a, P_{t-1}^W\}$. We allow for additional mass for the cases in which $A_t^j = 0$ and $y_t^H = 0$ and model strictly-positive income and assets as a bivariate log-normal distribution.³⁶

Earnings For women, we model earnings as the product of wages, (whose process we described above) with hours.³⁷ Since we do not model the intensive margin, we assume that participating women work 1,530 hours per year (the median hours worked in the data). This

³⁶The normality assumption may not be appropriate as a characterization for the whole population, due to the long right tail in both assets and income, but it is less problematic for our education sample with no college degree who have lower income and assets.

³⁷Female wages are the sum of the reported earnings within a year divided by annual hours. Earnings are computed as the reported weekly “usual hours of work” \times the number of weeks at the job within the month \times number of months the individual reported positive earnings. We drop individuals whose hourly wage is less than half the minimum wage in the years she reported working and we drop observations whose percentage growth of average hourly earnings is lower than -70% or higher than 400% .

avoids labeling fluctuations in hours worked as uncertainty: productivity shocks are the only source of uncertainty in earnings. The parameters governing the women’s age profile for wages are estimated within the model. We estimate the standard deviation of wage shocks directly from the SIPP data, and perform robustness analysis of our main counterfactuals around these estimates.

For men, we estimate the employment transition matrix directly from the SIPP data and the variance of the permanent component of log annual earnings ($\sigma_{\zeta_M}^2$) using GMM, as described in Appendix C.

In Panel B of Appendix Table C.1, we report variances in the wage process. Both male and female earnings are subject to relatively high variance of permanent shocks (0.027 and 0.038 respectively). Initial heterogeneity is large, with a variance of initial wages for men and women of approximately 0.18 and 0.15 respectively, implying large initial dispersion in productivity. This also reflects differences in schooling among our (non-college graduate) group.

3.6.2 Method of Simulated Moments

We estimate the remaining parameters of the model by MSM (McFadden, 1989; Pakes and Pollard, 1989). The 14 unknown parameters are: the disutility from working for unmarried women without children (ψ^{0s}), married women without children (ψ^{0m}), married women with a child (ψ^{1m}), and unmarried women with a child (ψ^{1s}); the variance of match quality at marriage ($\sigma_{\xi_0}^2$); the variance of innovations to match quality (σ_{ξ}^2); the parameters characterizing the probability of meeting a partner over the life cycle ($\lambda_0, \lambda_1, \lambda_2$); the utility cost of being on welfare (η); and the parameters that govern women’s lifetime wages ($a_0^W, a_1^W, a_2^W, \delta$).

Empirical moments ϕ_{data} are calculated from the 1960-69 birth cohort in the pre-reform period (1990-95). These women are between age 21 and 35, ages for which we have a sufficiently large number of observations. We annualize data by considering the marital status, fertility, employment status, and welfare participation status that women had for more than half of the calendar year. Simulated moments ϕ_{sim} are computed using the full numerical solution of the model. We use the inverse of the variance-covariance matrix of the empirical moments as the weighting matrix, computed using the bootstrap method.³⁸ We calculate the standard errors of our parameter estimates using the standard asymptotic

³⁸We use the full variance-covariance matrix because of the correlation between different moments.

formula (McFadden, 1989).³⁹

Target Moments and Local Identification Our target moments for estimation can be classified into four sets. While all moments jointly contribute to the estimation of the structural parameters, some moments are more closely tied to a particular parameter. In Appendix Figure C.1 and C.2 we hold all parameters constant at the estimated values, except one parameter which varies along the horizontal axis. The vertical axis reports the values taken by the target moment that is best linked to the structural parameter of interest.⁴⁰

The first set of moments includes the fraction of women who are employed by marital and fertility status (Figure 3, panel a). These moments are primarily responsible for pinning down the utility cost of working $\psi(m, k^A)$. We show the impact of varying individual parameters in Appendix Figure C.1. For the utility cost parameters (panels from a to d), we show that the probability of employment is monotonically decreasing in the cost of working for each demographic subgroup.

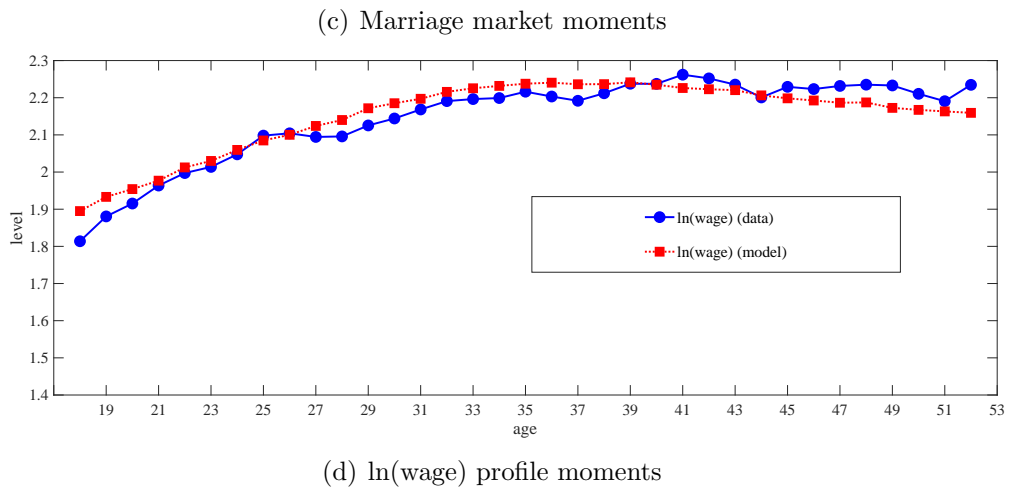
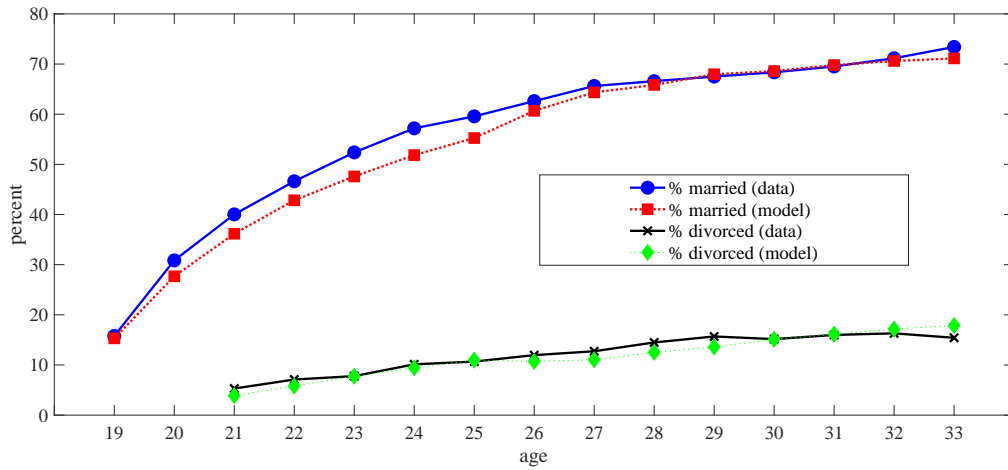
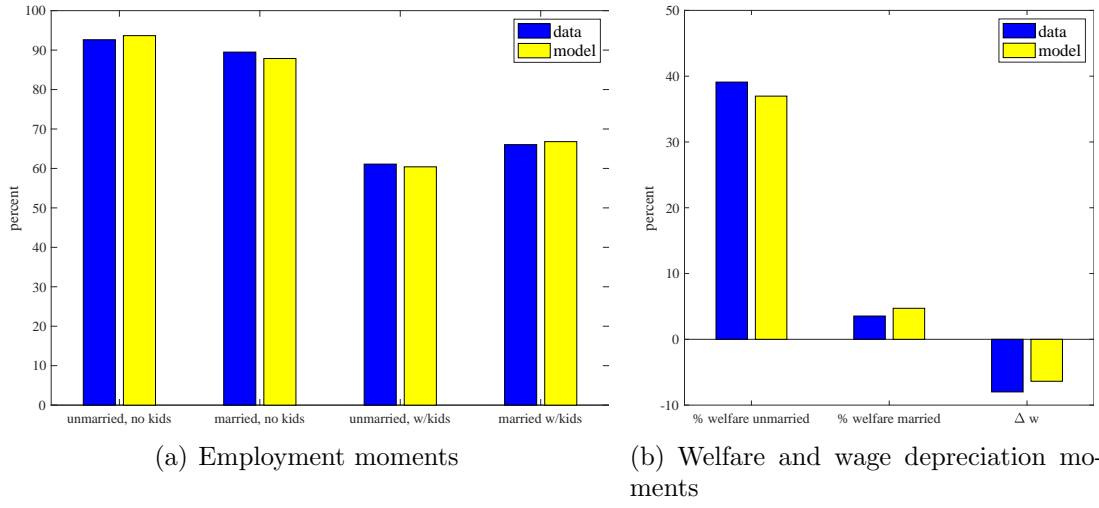
The second set of moments includes the proportion of single mothers and of married mothers who are on AFDC (Figure 3, panel b). These moments play an important role in identifying the utility cost of being on welfare η : a higher utility cost naturally leads to lower welfare use, keeping the other parameters constant, as shown in Appendix Figure C.2 (panel b). We fit both of these moments closely without η varying by marital status.

The third set of moments includes the life cycle profile of the probability of being married (evaluated between the ages of 19 and 33) and the life cycle profile of the probability of being divorced (evaluated between the ages of 21 and 33), see Figure 3, panel c. These life cycle profiles contribute to determining the parameters characterizing the probability of meeting a potential partner λ_t and how this changes with age (Appendix Figure C.1 panel g and h, and C.2, panel a). A faster decline in λ_t by age increases the probability of accepting an offered match to avoid the risk of not encountering a partner in the future. These moments contribute to determining the variance of the initial match quality draw $\sigma_{\xi_0}^2$ and of the innovations σ_{ξ}^2 : a higher initial variance increases the probability of accepting marriage and reduces the probability of early divorce while a higher variance in innovations increases the probability of divorce over time. Appendix Figure C.1 (panel e and f) show the simulated

³⁹We calculate the derivatives of each moment with respect to each parameter, the matrix J , by taking a 2.5% step of the parameter in each direction, taking the difference and then dividing by 5% of the parameter (Judd, 1998).

⁴⁰This is a similar argument to Voena (2015) and David Autor, Andreas Kostøl, Magne Mogstad and Bradley Setzler (2019), for related parameters.

Figure 3: Target Moments of SIPP and Simulated Data



Notes: Target moments in the pre-reform SIPP data and in the estimated model.

mapping from these variances to divorce probabilities at different ages.

The fourth set of moments is based on wage data. In particular, we target the age profile of women’s wages from age 19 to age 53 (Figure 3, panel d) and the difference in wage growth between women who worked at time $t - 2$ and women who did not (the right hand bar in panel b or Figure 3). These moments map directly into the profile of women’s lifetime offer wages and the wage depreciation (Appendix Figure C.2, panels c, d, e, and f).

Estimated Model Parameters Table 2 reports the estimates of the structural parameters. We estimate a large disutility of work for single women (similarly to Blundell et al. (2016)). This is driven by low employment rates in the data for unmarried women, despite the absence of income from a spouse. For married women, we estimate a lower disutility of work because the presence of spousal income itself discourages women’s employment.

The estimated utility cost of claiming welfare benefits is high, driven by women who are not claiming benefits despite being eligible. In the pre-reform period, there was no intertemporal tradeoff to claiming benefits, and so the model can attribute the decision not to claim to the utility cost of claiming. This highlights the advantage – from an identification point of view – of using pre-reform data to estimate preference parameters. Our estimate of η implies that a single woman with annual baseline consumption of \$6,000 requires minimum monthly benefits of \$140 to overcome the utility cost. In the counterfactual simulations, for the post reform period with time limits in place, we hold constant the utility cost of claiming, but the overall cost is higher because of the loss of future benefits.

The variance of innovations to match quality is one third of the variance of initial match love quality. The arrival rate of marital offers declines with age, but at a decreasing rate.

Finally, the estimates for women’s hourly wage profile leads to \$7.44 per hour at age 19. Wages increase with age but at a diminishing rate and a very small depreciation when women have not worked in the previous year, equal to 2.2%.

3.6.3 Implication of the Estimated Model for Earnings and Marriage Behavior

We consider here the implications of our estimated model for important features of the model: the estimated variability of women’s wages, the degree of (endogenous) correlation between men and women’s earnings, and the allocation of resources within the household among married people.

Table 2: Parameters Estimated by Method of Simulated Moments

| Parameter | | Estimate | (s.e.) |
|---------------------------------------|---------------------|----------|-----------|
| Cost of work | | | |
| Unmarried, no children | $\exp\{\psi^{s0}\}$ | 0.338 | (0.009) |
| Married, no children | $\exp\{\psi^{m0}\}$ | 0.584 | (0.006) |
| Unmarried, with child | $\exp\{\psi^{s1}\}$ | 0.433 | (0.014) |
| Married, with child | $\exp\{\psi^{m1}\}$ | 0.476 | (0.007) |
| Cost of being on AFDC | η | 0.003 | (0.0002) |
| Match quality | | | |
| Variance at marriage | σ_0^2 | 0.097 | (0.002) |
| Variance of innovations | σ_ξ^2 | 0.031 | (0.002) |
| Probability of meeting partner by age | | | |
| | λ_0 | 0.692 | (0.007) |
| | λ_1 | -0.033 | (0.001) |
| | λ_2 | 0.001 | (0.00002) |
| Woman's life cycle earnings profile | | | |
| | a_0^W | 1.912 | (0.004) |
| | a_1^W | 0.005 | (0.0001) |
| | a_2^W | -0.00007 | (0.00001) |
| Human capital depreciation | δ | 0.022 | (0.002) |

Notes: The cost of work is expressed as the amount of consumption if not working that is equivalent to working and consuming one unit of consumption: from the utility function, Equation (4) this is $\exp\{\psi\}$. The standard error reported is on the underlying parameter, ψ . The underlying parameter vector for ψ is given by $\{\psi^{s0}, \psi^{m0}, \psi^{s1}, \psi^{m1}\} = \{-1.0859, -0.5386, -0.8368, -0.7432\}$

Variability in Women's Wages Our baseline model takes the selection-corrected standard deviations of women's wages as inputs for the MSM estimation (Appendix Table C.1). We compare the variability of wages for working women that are simulated by the estimated model to those observed in the data. The simulated standard deviation of women's wages is equal to 0.410, whereas in the data it is 0.423; while the standard deviation of permanent shocks is equal to 0.141, compared to 0.172 in the data. As a robustness check, in subsection 4.4, we use the variances generated by the model as an input in a two-step estimation procedure.

Marital Sorting Our model generates a relatively high degree of positive sorting in partners' offer wages, generated by the endogenous marriage and divorce decision. In particular,

the correlation coefficient between spouses' log earnings for couples in which both spouses work is equal to 0.27. In the pre-reform SIPP data, it is equal to 0.23. The correlation in the model arises solely because of selection into which marriage offers are accepted. The assumed correlation in wage offers is zero.

Intrahousehold Allocations Across our simulated individuals, the average Pareto weight for women is about three-quarters of the weight for men. This is in line with estimates from the literature on collective household models for the United States, the United Kingdom, and Japan, which tends to find slightly larger weights for men than for women (Lise and Seitz, 2011; Mazzocco, Yamaguchi and Ruiz, 2013; Voena, 2015; Lise and Yamada, 2019). The average of a wife's share of consumption is highly correlated with her share of potential earnings, both at the time of marriage and over time (Appendix Figure C.3): a 1 percentage point increase in potential earnings leads to a 0.25 percentage points increase in the consumption share.⁴¹ Consumption shares remain highly persistent after marriage. This arises because, under limited commitment, Pareto weights (and hence the sharing rule) are only renegotiated if there is a credible threat and one of the participation constraints given by equation (5) becomes binding. These constraints can bind following positive shocks to wages or earnings which increase individual outside options more than they increase the value of marriage. Shocks to the match love quality can cause the participation constraints to bind. However, in practice, the constraints bind only rarely following shocks, as also documented in Voena (2015) and Lise and Yamada (2019).

4 The Effect of Time Limits on Behavior and the Role of Marriage and Divorce

In this section, we use our model to evaluate the effects of introducing time limits, focusing first on the short-run responses to the reform, to mimic what happened when the welfare reforms were enacted in 1996, as captured by our reduced-form estimates. We validate our model against the difference-in-difference estimates and show to what extent the response that we observe in the data is due to forward-looking optimizing behavior. Next, we examine the long-term consequences of the reform under several counterfactual scenarios, to show the

⁴¹The consumption share captures only one aspect of the utility because changes in potential earnings will also change labor force participation which directly changes utility for women.

role that marriage and divorce play in mitigating the effects of the reform.

4.1 Response to the Introduction of Time Limits

We simulate the introduction of time limits for women of different ages at the time when the reform took place. We match the age distribution at the introduction of time limits to the 1996 age distribution in our data, and the distribution of time limits stringency from 2 to 5 years across states. We use the simulated data to estimate short-run effects equivalent to those estimated by the difference-in-difference specification in section 2.

Table 3 reports the actual estimates in the SIPP and the estimated coefficients from the simulations. The simulated difference-in-differences estimates are very close to the empirical ones. Our baseline matches the large decline in welfare utilization and the partial offsetting increase in employment among unmarried women, the decline in welfare utilization among married women, and the reduction in the fraction of women who are divorced.

Table 3 considers alternative specifications of our model: eliminating marriage transitions, eliminating divorce transitions, and eliminating the possibility of accumulating assets to self-insure against shocks. For each of these specifications, we re-estimate the parameters of the model and use the new parameter estimates to simulate the introduction of time limits. We estimate our difference-in-difference regressions on the simulated data from each counterfactual.⁴²

Modeling marital status transitions and asset accumulation are key to allowing our model to match the reduced-form effects. When marriage transitions are not possible, time limits induce excessively large declines in welfare use among single women because the absence of marriage shuts down that insurance channel and so benefits are banked even more. Further, time limits do not induce sufficient declines in welfare use among married women when divorce transitions are not possible. Finally, in the absence of asset accumulation, time limits induce excessive labor supply responses among single women.

To address whether the documented responses reflect forward-looking behavior and the banking of benefits, we simulate the counterfactual of how would individuals have behaved if they had been myopic with respect to the time limits. By “myopic”, we mean individuals who behave as if the introduction of time limits had not occurred (until they actually run

⁴²For the “no marriage option” specification, we suppress all marriage parameters and only target non-marriage moments. Similarly, for the “no divorce option” specification, we suppress all divorce-related parameters and moments in the estimation. The “no assets” specification uses the same parameters and moments as the baseline model.

Table 3: Difference-in-Difference Estimates in the SIPP Data and in the Model

| | (1) Benefits Unmarr. | (2) Benefits Married | (3) Employed Unmarr. | (4) Employed Married | (5) Divorced |
|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| Coeff. - SIPP data | -0.093 [-0.131,-0.055] | -0.011 [-0.017,-0.004] | 0.066 [0.039,0.093] | 0.004 [-0.023,0.030] | -0.021 [-0.041,-0.001] |
| Baseline: | | | | | |
| Effect of Time limits | -0.078 | -0.010 | 0.072 | -0.018 | -0.011 |
| Alternatives: | | | | | |
| Time limits in no marriage model | -0.168 | - | 0.158 | - | - |
| Time limits in no divorce model | -0.153 | 0.002 | 0.143 | -0.011 | - |
| Time limits in no assets model | -0.117 | -0.006 | 0.117 | -0.012 | -0.012 |

Notes: Estimates from the annualized SIPP data between 1990 and 2002 (first 6 years after the reform). Sample of women without college degrees, age 21 to 53. Controls in the data include age fixed effects, education, number of children, state-by-year fixed effects, year fixed effects, age of youngest child-by-year fixed effects, dummies for having 2 or more children post-1993 and post-1996.

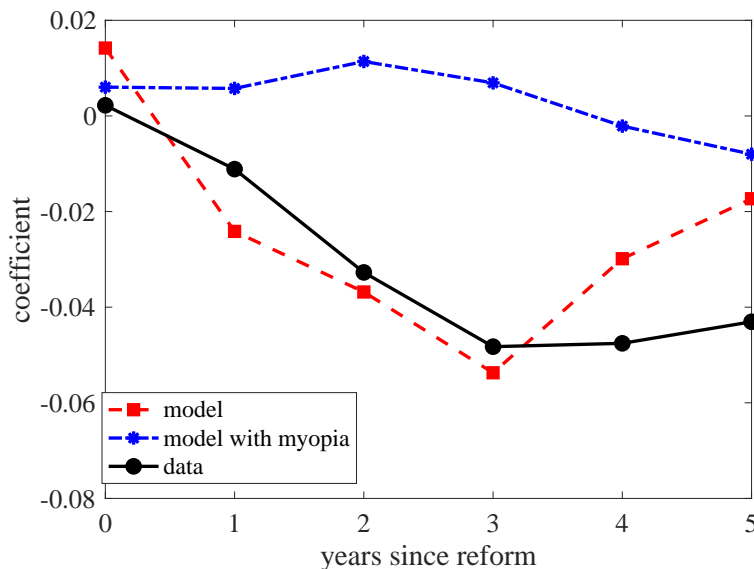
out of benefits), but are forward-looking in terms of other behaviors. Figure 4 compares welfare utilization by the number of years since the reform took place, comparing the data with the full model and with the myopic model. Myopic individuals do not cut their use of welfare when the reform takes place. By contrast, in the baseline model and in the data, there is a decline directly after the reform.

An open question is how the reform changed the balance of power within a household. We examine the effect of the introduction of time limits on intra-household allocation, as summarized by the women’s Pareto weight θ_t^W . We find that women’s weight declines by 0.05 percentage points, driven by new marriages, among whom weights decline by 0.1 percentage points for new marriages formed after the reform (Appendix Table C.3). These estimates suggest that the reform had very limited implications for intra-household allocations, except through changes in the number of divorces which arise when the marital surplus is negative.

4.2 Lifetime Effects of Time Limits by Productivity

The reduced-form results in the data and in the simulations only show the transitional impact of the reform. In this section, we use our model to examine the effect of time limits in the long run, comparing the simulated lifetime behavior of women who always live without

Figure 4: Dynamic Response of Welfare Utilization to Time Limits for Mothers



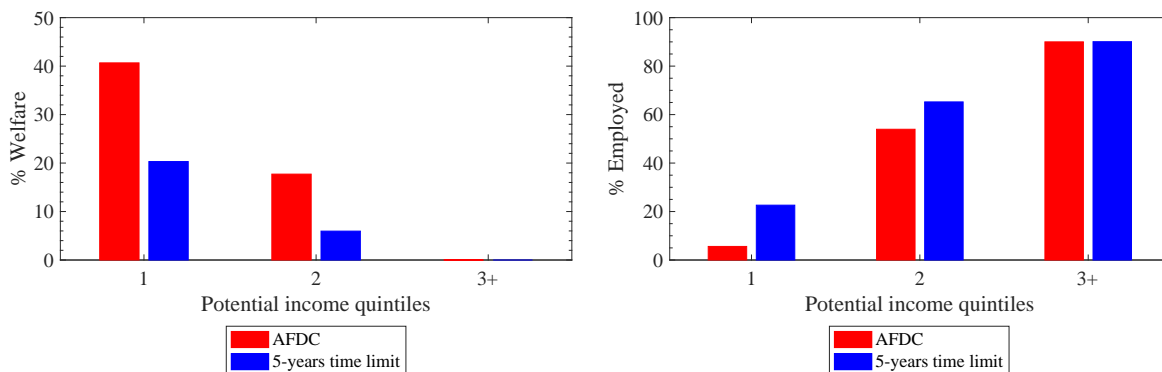
Notes: Effects estimated using data 7 years before the reform and 14 years afterwards. By *Model with myopia* we mean individuals who behave as if the introduction of time limits had not occurred (until they actually run out of benefits), but are forward-looking in terms of other behavior.

time limits to the simulated lifetime behavior of the same women who always live under time limits. Since there might be substantial heterogeneity even in this low-income group, we break the sample down into quintiles of productivity z_{it}^F .⁴³

Figure 5 shows that the effects of time limits on welfare use and employment are concentrated in the bottom two quintiles: the bottom quintile experiences the greatest decline in welfare use and the largest increase in employment, while the second quintile experiences effects of the same sign, but smaller magnitudes. We break down the effects on welfare use and employment separately for unmarried and married mothers, holding composition effects fixed (Appendix Figures D.1 and D.2, respectively). We hold composition fixed by taking a woman’s marital status under the regime with time limits and examine her behavior under both regimes. Welfare use is highly concentrated among unmarried mothers, especially in the bottom income quintile, where over 90% are using welfare in the absence of time limits. For these mothers, the introduction of time limits halves welfare use and increases employment from close to zero to around 40%. For married mothers, welfare use even in the bottom quintile is lower but not negligible, with 15% using welfare. The introduction of time limits for this group halves their use of welfare but leads to only a small increase in employment.

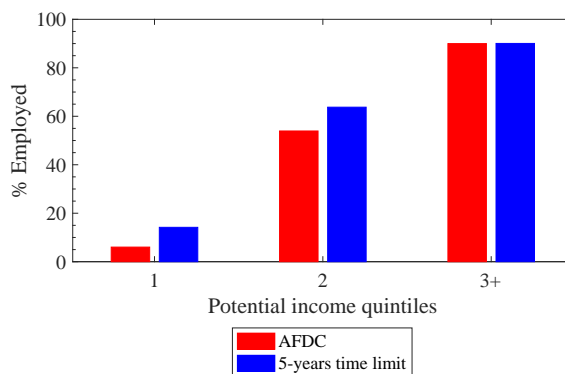
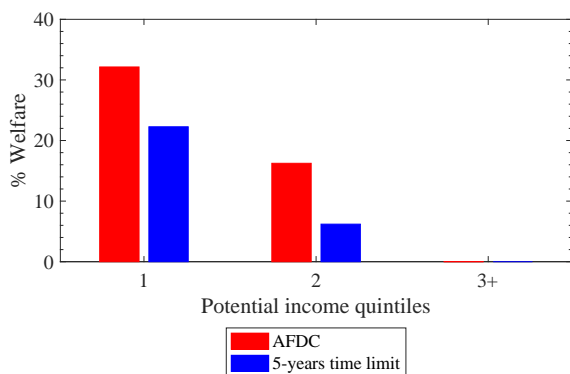
⁴³In Appendix Table D.1, we mimic this split by productivity by running our reduced-form regressions separately by education. Consistently with the productivity splits, we find that the lower the education, the greater the impact of time limits.

Figure 5: Welfare Use and Employment of Mothers by Productivity



(a) Welfare use

(b) Employment



(c) Welfare use - not run out of benefits

(d) Employment - not run out of benefits

Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t . Panels c and d are for the subset of women who, in the counterfactual with time limits, have not yet used 5 years of benefits.

The reduction in welfare use under time limits in Figure 5 happens partly because some individuals hit the limit and are refused further assistance (a mechanical effect) and partly because some anticipate exhausting their eligibility and decide to defer claiming their benefits for a time of greater need.⁴⁴ To quantify these anticipatory effects, we examine welfare use and employment among women who, even under time limits, would not have exhausted their benefit eligibility. Changes in behavior between AFDC and time limits in this subgroup are only due to anticipatory effects. The effects are sizable in both the first and second quintiles of productivity (Figure 5, panels c and d). Within the second quintile, the risk

⁴⁴Even if the children are about to age out of eligibility the mother may still not claim the remaining benefits because to do so she may have to give up a good job and a higher income stream.

of dropping further down the productivity distribution and needing benefits at that stage provides a strong incentive for banking benefits. We return below to the importance of marriage dynamics to understanding these effects and the extent of the anticipatory motives. These anticipatory effects are present for married and single mothers (Appendix Figure D.3).

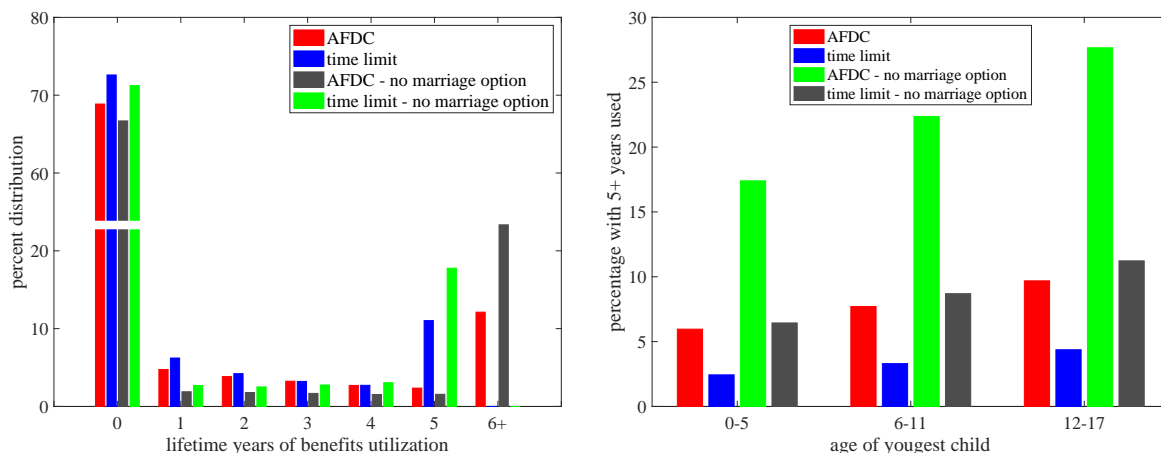
4.3 The role of Marriage and Divorce Dynamics on the Effect of Time Limits

To show the important role that marriage and divorce transitions play in shaping behavioral responses to time limits, we perform counterfactual simulations where the marriage or the divorce option is suppressed and examine the behavior of households under these different assumptions. We examine the behavior of unmarried women (in the baseline model) if they counterfactually could not expect a marriage transition, and the behavior of married women in the baseline if they counterfactually could not expect a divorce transition.

Eliminating Marriage Transitions Figure 6 shows how marriage affects the likelihood that time limits will bind. Figure 6 (panel a) shows the fraction that has used up that number of years of benefits over their lifetime. With time limits in place, the fraction who previously used more than 5 years of benefits (over 10% of women) would bunch at 5 years or reduce welfare use even further. An increased fraction never uses benefits, and an increased fraction use only 1, 2, 3, or 4 years of benefits. Individuals anticipate the cut-off of benefits at 5 years and therefore do not reach the limit. These impacts of time limits are amplified if there is no marriage option. Almost 20% of women would hit the 5-year time limit, and they would counterfactually use six or more years of welfare without time limits.

Among those who reach the 5-year limit, we cannot tell whether the restriction was purely mechanical and so individuals acted as if there were no time limit until their benefits actually ran out, or whether individuals adjusted when they were claiming but still ended up claiming the maximum. To distinguish the former mechanical effect from the latter optimal-timing effect, we show in Figure 6 (panel b) how quickly mothers use up 5 years of benefits. The decline in usage occurs right from the early years of the child. While this may be the optimal response of individuals to the presence of time limits, it does mean a substantial decline in resources from welfare for families with young children. This is consistent with the reduced form evidence in Figure B.5 in Appendix B, showing that mothers of younger children cut welfare use more, which is the premise of our difference-in-difference strategy. Eliminating

Figure 6: Welfare Use and Time Limits with and Without a Marriage Transition Option



(a) Distribution of lifetime welfare utilization (b) Benefits Exhaustion by Age of Youngest Child

Notes: Panel a: Model simulations of the distribution of lifetime welfare use in simulated data with and without a marriage transition option. Panel b: Model simulations of the fraction of mothers who would exhaust benefits by the age of the youngest child.

the prospect of marriage again leads to even more dramatic banking of benefits.

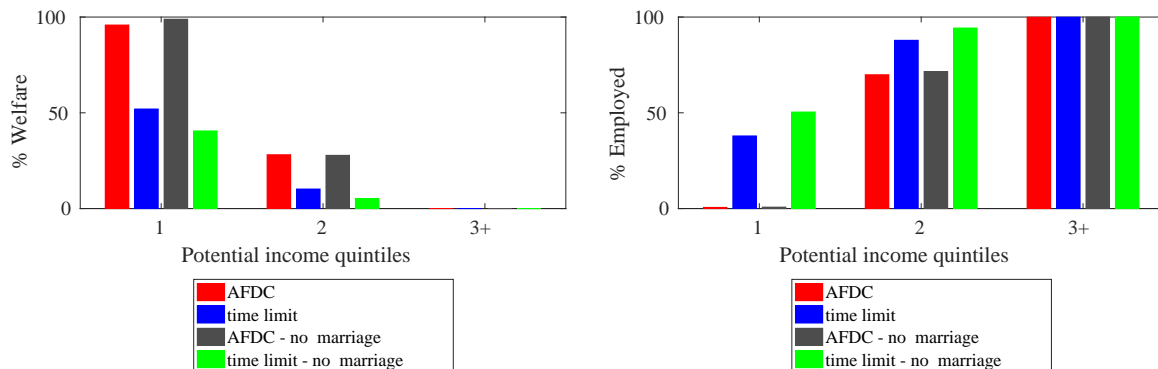
Our results show that single mothers are the most affected by welfare reform. Further, much of the literature estimates the effects of welfare reform focusing on single women (Chan, 2013). However, the possibility of marriage and the possibility of divorce in the future change the behavior of single and married women. The key question is how much marriage and divorce change the nature of banking behavior.

Figure 7 plots welfare use and employment levels under AFDC and time limits, with and without the option of marriage. We further separate out the overall effect from the anticipatory effect.⁴⁵ The key takeaway of Figure 7 is that the declines in welfare use and the rise in employment caused by time limits are significantly greater if there is no possibility of marriage. Further, a large part of the decline in welfare use that arises when there is no marriage option occurs because of anticipatory effects: when there is no prospect of getting married in the future, individuals have to bank their benefits and return to work. The difference in this effect is strongest in the lowest quintile of the productivity distribution: anticipatory effects for this subgroup are approximately twice as large when there is no marriage option.

The further decline in welfare use in the absence of marriage is partly because there is no longer an expectation of being married, and partly because there is no realization of

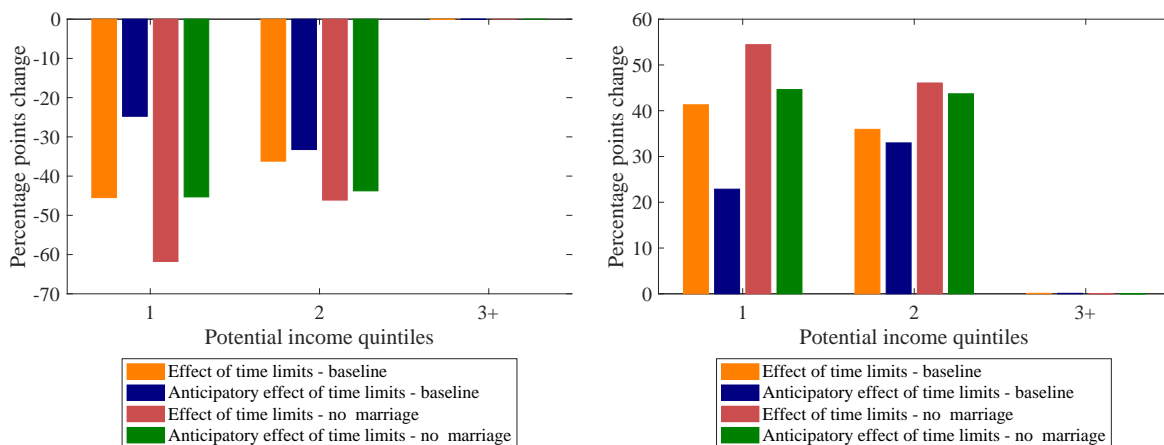
⁴⁵This figure controls for composition effects because the differences are computed from the simulated sample of women who are unmarried in the baseline model, even when the marriage option is removed.

Figure 7: Welfare Use and Employment of Unmarried Mothers with and without a Marriage Transition Option



(a) Welfare use

(b) Employment



(c) Effect of time limit on welfare - decomposed

(d) Effect of time limit on employment - decomposed

Notes: Simulated means of lifetime welfare use and employment marital status by policy regime and marriage option for unmarried women. Subfigures (a) and (b): In the baseline model B (red and blue bars), outcome $y_{it}^{r,B}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,B} = 1 | married_{it}^{1,B} = 0)$ and $P(y_{it}^{0,B} = 1 | married_{it}^{1,B} = 0)$ of mothers by age-specific productivity z_{it}^F quintile. In the counterfactual model C (grey and black bars), there exists no marriage option. Outcome $y_{it}^{r,C}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,C} = 1 | married_{it}^{1,B} = 0)$ and $P(y_{it}^{0,C} = 1 | married_{it}^{1,B} = 0)$ of mothers by age-specific productivity z_{it}^F quintile. Subfigures (c) and (d) report differences in simulated means of lifetime welfare use and employment between policy regimes, by age-specific productivity z_{it}^F quintile. For outcome y_{it}^r and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^1 = 1 | married_{it}^1 = 0) - P(y_{it}^0 = 1 | married_{it}^1 = 0)$ of mothers, pooling across i and t . Anticipatory effects are computed by taking the sample of mothers i who, at time t , have not yet used 5 years of benefits under the time limit regime $r = 1$, and calculating the difference in average welfare use and employment for this group with and without time limits. In the “no marriage option” counterfactual, we solve and simulate our model eliminating the possibility of a marriage transition, but only average the choices of women i who, at time t , would be unmarried if marriage were an option, eliminating selection effects.

marriage which would bring economies of scale and risk sharing. To separate these effects, we examine counterfactual models with agents having no expectation that they will marry but being surprised by marriage offers, and with agents having the certainty they will marry next period but being surprised by the lack of offers. The impact on welfare use, compared to the baseline model, isolates the role played by having different expectations over future marriage. Figure D.7 in Appendix D makes this comparison. The bulk of the difference in the effect of time limits without marriage comes through the expectation effect pushing individuals to bank more than otherwise (panels a and b). Without the expectation of remaining single with some probability in the future, banking drops dramatically, especially among the least productive women (panels c and d).⁴⁶

Eliminating Divorce Transitions Figure 8 shows how the effect of time limits on welfare use and employment by married women changes when the possibility of divorce is not available. Married mothers cut welfare use and marginally increase employment in anticipation of hitting time limits. However, ruling out divorce reduces the banking behavior of married women, who will not be holding back the use of benefits against the possibility of divorce.⁴⁷

This discussion highlights that conclusions about the effects of welfare reform depend in important ways on whether marriage and divorce choices are part of the model. Marriage and divorce are an important element of mother’s responses to welfare policies when there are significant dynamic considerations.

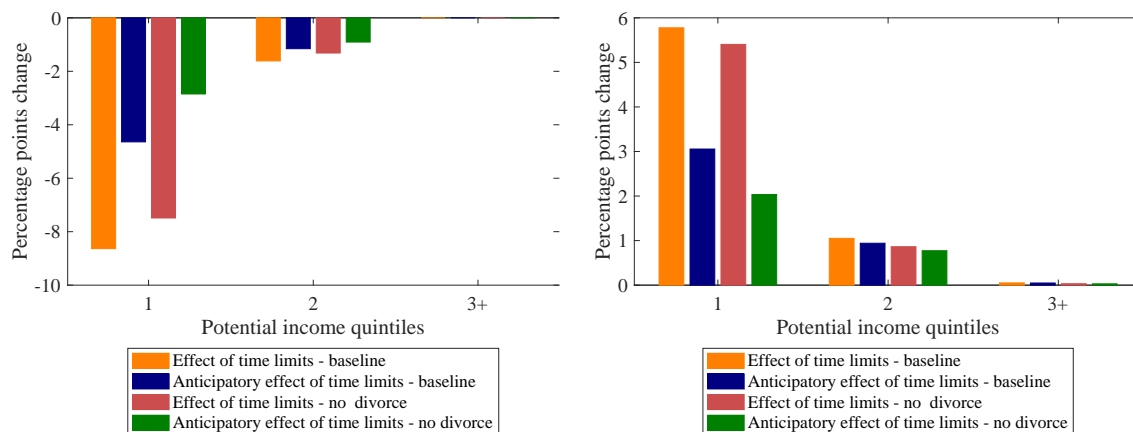
4.4 Robustness

We perform a robustness analysis of our time limit counterfactuals by considering different values for three of our preset parameters: the coefficient of relative risk aversion (originally set at $\gamma = 1.5$), the economies of scale in marriage (originally set at $\rho = 1.4023$, following Voena (2015) who calibrates the parameter to the McClements scale), and the discount factor β (which we set at 0.98). In particular, we separately estimate three variants of the model where we set: (a) $\gamma = 2$, (b) $\rho = 1.7$, which leads to an equivalence scale corresponding to

⁴⁶In the SIPP, the extent of banking among single mothers is less for those women who marry by the end of the panel period, which reinforces the importance of future marriage on welfare use when time limits are introduced. See Appendix Table D.2.

⁴⁷See Appendix Figure D.8 for the underlying levels of welfare use and employment that give rise to these effects. This figure abstracts from composition effects because the differences are computed of the simulated sample of women who are unmarried in both the baseline model and the “no divorce” counterfactual, even when the divorce option is removed.

Figure 8: Welfare Use and Employment of Married Mothers With or Without a Divorce Transition Option



(a) Welfare use

(b) Employment

Notes: Differences in simulated means of lifetime welfare use and employment between policy regimes, by age-specific productivity z_{it}^F quintile. For outcome y_{it}^r and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^1 = 1 | married_{it}^1 = 1) - P(y_{it}^0 = 1 | married_{it}^1 = 1)$ of mothers, pooling across i and t . Anticipatory effects are computed by taking the sample of mothers i who, at time t , have not yet used 5 years of benefits under the time limit regime $r = 1$, and calculating the difference in average welfare use and employment for this group with and without time limits. In the “no divorce option” counterfactual, we solve and simulate our model eliminating the possibility of a divorce transition, but only average the choices of women i who, at time t , would be married if divorce were an option.

the modified OECD one, and (c) $\beta = 0.95$, a relatively lower value within the range common in the literature.⁴⁸ Appendix Figure D.4 examines the long-term effects of introducing time limits by quintile of productivity in our baseline model and in these three alternative models. The effects of time limits in these additional cases, once all other parameters are re-estimated, are very close, quantitatively and qualitatively, to the ones simulated in the baseline case. As expected, a lower discount factor leads to a somewhat smaller banking effect (subfigures e and f), but the difference is very small.

We also assess the robustness of the model implications to using standard deviations of women’s offer wages that are estimated directly from the data. We consider an alternative two-step procedure in which we re-estimate the model using the standard deviation generated in the original model estimation as input. As discussed in subsection 3.6.3, the standard deviations of the observed wage process generated by the estimated model are similar to the ones we observe in the data. Similarly, the standard deviations of the offer wage process generated by the estimated model are similar to the selection-corrected ones we consider in

⁴⁸The McClements scale implies that an additional adult costs the household 42% of a single adult. The modified OECD scale implies an additional adult costs an additional 50%.

the baseline estimation.⁴⁹ For this reason, as shown in Appendix Figure D.5, this process leads to very similar average effects on time limits on welfare use and employment behavior.

Finally, we examine the robustness of the model implications to alternative specifications of the model in terms of the behavior of married couples. In particular, we re-estimate the model under the assumption of full commitment and of no commitment. Under full commitment, spouses choose a Pareto weight by symmetric Nash bargaining at the time of marriage and cannot change it while they remain married. Under no commitment, couples set the Pareto weight *in each period* by symmetric Nash bargaining. Figure D.6 shows that the commitment assumptions have a very small impact on the estimated effects of time limits on the behavior of married women. Full commitment and limited commitment deliver similar levels for welfare and employment, because weight renegotiations, as discussed above, are rare under limited commitment. While having no commitment leads to slightly different behavior across the productivity distribution, because women who draw low productivity shocks see their intra-household position worsen even when the match quality is high, this assumption does not lead to different implications of time limits on behavior.

5 Implications of Welfare Reform for Lifetime Utility

We now evaluate the consequences of time limits for lifetime utility. We first introduce time limits without adjusting taxes, which effectively reduces resources for the population of non-college graduates. We then redistribute the surplus generated by time limits to all workers (male or female) via a negative payroll tax (τ) ensuring revenue neutrality. We describe the procedure in full in Appendix E. The willingness-to-pay calculations likely underestimate the effects on well-being (utility) because they do not take into account the effects of limiting benefits on the children (see Mullins, 2022).

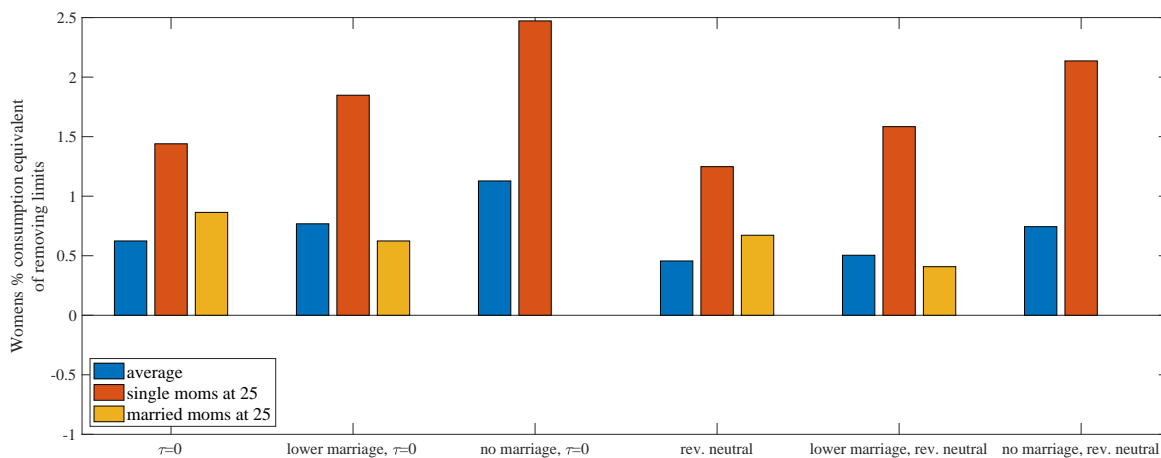
The Lifetime Utility Cost of Time Limits In the absence of compensation through lower taxes, women are willing to pay 0.62% of lifetime consumption to avoid time limits (Figure 9). The heaviest utility burden is borne by women who will be single mothers by age 25 (1.44%), but married women with children by age 25 also face a significant welfare cost (0.86%), relative to women who do not have children by age 25.

⁴⁹The standard deviations of initial wage shocks and of innovation to offer wages in the model are equal to 0.427 and 0.163, respectively. The selection-corrected corresponding standard deviations in the SIPP data are equal to 0.429 and 0.178, respectively, as reported in Appendix Table C.1.

We now consider two alternative scenarios. We first reduce the probability of meeting a partner λ_t generating a 20 percentage points decline in the probability of marriage. This is in line with the decline experienced by the 1980s birth cohort relative to the 1960s one that we use to estimate our model. The willingness to pay increases to 0.77% of lifetime consumption on average, and to 1.85% for single mothers. Finally, when we eliminate the possibility of marriage completely, we find very large willingness to pay to avoid time limits, equal to 1.13% on average and to 2.47% among single mothers.

Once government savings are rebated to the sample population (women and men without a college degree) through a negative payroll tax equal to -0.214%, women are still willing to pay 0.46% of their lifetime consumption. This shows that the 1996 reform, while achieving its stated goals of reducing welfare dependence and emphasizing self-sufficiency through work, induced a net welfare loss by reducing insurance available to low-income women. This loss of insurance impacts both married and unmarried mothers ex-ante. The declines in welfare become larger as marriage becomes less likely, even though the negative payroll tax becomes more generous. Without a marriage option, even after a tax cut, women are willing to pay 0.74% of their lifetime consumption to avoid time limits, which rises to 2.14% for single mothers.

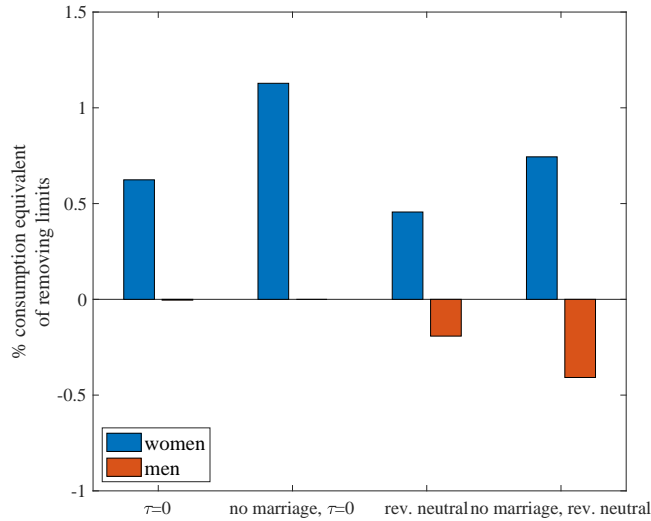
Figure 9: Lifetime Utility Costs Of Time Limits on Women



Notes: Simulated consumption equivalents of AFDC without time limits relative to AFDC with a 5-year time limit, under different assumptions for revenue impacts achieved through a negative payroll tax on women’s earnings. See Appendix E for a detailed description of how tax rates and consumption equivalents are computed. The “no marriage” case is computed by eliminating the marriage option. The “low marriage” counterfactual refers to simulations with restricted marriage opportunities: we reduce the arrival rate of offers so that the model generates a 20 percentage points decline in the marriage rate, similar to what was experienced by the 1980s birth cohort relative to the 1960s one. In this scenario, it is harder to marry and this means there is less divorce. The simulations are based on estimates from a dataset of non-college graduates. With a reduced marriage probability, the change in the tax rate that achieves revenue neutrality is by -0.311 percentage points; with no marriage at all, the tax rate declines by -0.452 percentage points.

With no access to a saving technology, as expected, the welfare costs of time limits increase substantially, going from 0.62% in the baseline model to 0.87% without revenue neutrality, and from 0.46% to 0.65% with revenue neutrality (see Appendix Figure E.2). These increases are however substantially smaller than those induced by a lack of marriage market transitions.

Figure 10: Lifetime Utility Costs Of Time Limits on Women and Men



Notes: Simulated consumption equivalents of AFDC without time limits relative to AFDC with a 5-year time limit, under different assumptions for revenue neutrality achieved through a negative payroll tax on women’s and men’s earnings. See Appendix E for a detailed description of how tax rates and consumption equivalents are computed. The “no marriage” case is computed by eliminating the marriage option. The simulations are based on estimates from a dataset of non-college graduates.

The Lifetime Utility Cost of Time Limits on Men Figure 10 shows that, without revenue neutrality, men are basically unaffected by time limits: while they lose benefits in marriage, they experience a slight gain in intra-household allocation and on the net have a negligibly negative willingness to pay.

With revenue neutrality, time limits imply a lower tax rate which increases men’s take-home pay, and they induce modest increases in men’s intra-household allocations. Despite the loss of benefits of their partner, men are better off with time limits. However, considering men and women, the overall willingness to pay to remove time limits is positive: time limits reduce well-being.

Alternative Redistribution Schemes The welfare effects of time limits in a revenue-neutral setting depend on how the government savings are redistributed across agents. When

redistribution occurs through a negative payroll tax, it transfers resources to those working and increases incentives for employment. An alternative way to redistribute the government savings would be through a lump-sum transfer independent of employment status to single mothers. We consider the welfare implication of such a transfer in Appendix Figure E.1. A lumpsum-tax annual transfer to all single mothers in the presence of time limits would be preferred by women, and especially by single mothers, to an AFDC regime with no time limits. Willingness-to-pay is -0.2% on average, and -0.8% for single mothers. The value to married mothers is also negative, albeit small, because of the risk to married mothers of becoming single.⁵⁰

Reducing Welfare Generosity If time-limits were introduced simply reduce spending on welfare, there would be alternative channels to reach the same objective. We consider a policy that reduces the generosity of AFDC to match the government savings from time limits without imposing any such restriction. Iterating on a percentage change in AFDC payments, we find that a 24% reduction in benefits would lead to the same government financial saving as time limits. Women prefer reduced generosity to the imposition of time limits and are willing to pay 0.3% of lifetime consumption to avoid time limits. This is despite welfare recipients having to keep paying the per-period utility cost of claiming and despite the sizeable cut in benefit payments. Time limits restrict access to benefits when there is persistent deprivation, and hence have substantial negative welfare effects even relative to policies with a similar revenue cost.

6 Conclusions

This paper addressed the broad dynamic implications of reforming the safety net in the US, accounting simultaneously for the various possible responses through welfare use, employment and marital status. The overarching goal of the reform was to curb disincentive effects, such as those related to the decision to work or form stable marital relationships, while preserving insurance provided to families with young children.

We focus on reforms that limit the lifetime use of benefits. These induce individuals to defer claiming benefits (“bank their benefits”) so as to be insured against adverse events

⁵⁰We assume no utility cost associated with the receipt of this cash grant, which is reasonable for universal benefits. Thus part of the welfare improvement is due to the removal of any stigma effects from such a redistributive policy.

in the future. Our reduced form results measure the impacts of time limits on welfare use, employment, and marital status for mothers.

Based on a life-cycle model of labor supply, benefit use, savings and marital transitions we quantify the longer run effects of time limits on behavior and lifetime utility. Time limits lead to lower utilization of benefits, to increased work of unmarried mothers (although not married ones), and to reduced divorce because the outside option of being single is now worse for mothers.

The importance of modelling marriage and divorce goes beyond this direct effect on the divorce rate. The possibility of future marriage for single mothers reduces the risk arising from time limits, and hence reduces banking. On the other hand the possibility of divorce for married mothers increases their risk in the future, increasing banking.

Overall the introduction of time limits reduced lifetime utility, despite the self-sufficiency brought about by increasing employment. The extent of the utility cost depends on individual productivity, on how the revenue that is saved is redistributed, and on expectations of future marital transitions.

Welfare benefits have further complex impacts, including on child development, mental and physical health, social networks, and possibly crime (for those directly affected as well as their children). Our study does not consider these effects, which although crucially important, are left for future study.

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Marriage, Labor Supply and the Dynamics of the Social Safety Net Online Appendix

Hamish Low, Costas Meghir, Luigi Pistaferri, and Alessandra Voena

Appendix A: AFDC, TANF and the Welfare Reform

Time Limits

Table A.1: Time Limits in the Year 2000

| Type of limit | Duration | State |
|-------------------|----------|---|
| No limit | n.a. | Michigan, Vermont, Maine |
| Benefit reduction | 60 | California, Maryland, Rhode Island |
| Benefit reduction | 24 | Indiana |
| Periodic | 24/48 | Nebraska |
| Periodic | 24/84 | Oregon |
| Periodic | 24/60 | Arizona, Massachussets |
| Periodic | 36/60 | Ohio |
| Lifetime | 60 | Alabama, Alaska, Colorado, D.C., Hawaii, Illinois, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, Washington, West Virginia, Wisconsin, Wyoming |
| Lifetime | 48 | Georgia, Florida |
| Lifetime | 36 | Delaware, Utah |
| Lifetime | 24 | Montana, Idaho, Arkansas |
| Lifetime | 21 | Connecticut |

Notes: Source: Welfare Rules Database (<http://wrdb.urban.org>). States with benefit reduction rules continue to provide benefits after the time limit is reached, but only to the children in the household unit. States with periodic limits of x/y months provide benefits for at most x months over a period of y months (and cap the overall time limit at y months).

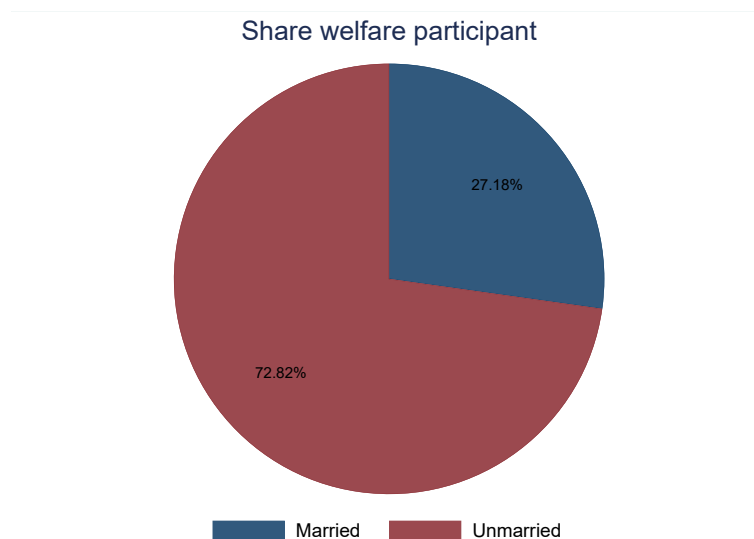
A few states have changed their limits over time. For example, Arizona moved in 2016 to a limit of just one year. Michigan started with no time limit but moved to imposing a 4

year time limit in 2008.

In addition to the introduction of time limits, the reform introduced work requirements and subsidies to child care. These subsidies were primarily to the low-income population and the administration of the program was again decentralized to states. There was a significant increase in both spending and coverage. Federal child care funding increased in real terms from \$3 billion in 1997 to \$9 billion in 2010; and the average monthly number of low-income children under age 13 receiving subsidies increased over the same period from 1 million to 1.7 millions. Since child care assistance is relevant primarily for pre-school children, while time limits apply to all ages, we verify in our reduced form that the impact of welfare reform on welfare utilization and employment is not limited to families with young children.

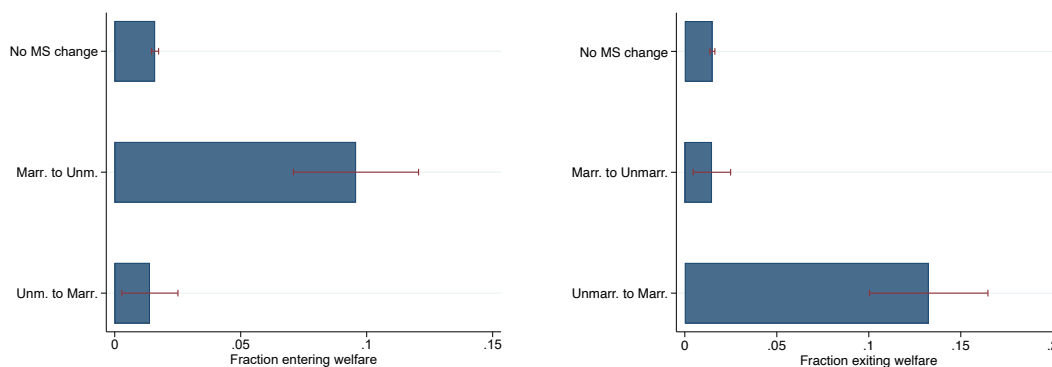
Welfare and Marital Status

Figure A.1: Distribution of Welfare Participants by Marital status



Notes: We use pre-1996 data from SIPP panels. Sample of female heads of household who are not college graduates and have children aged 18 and below.

Figure A.2: Welfare Transition Probabilities for Women Changing Marital Status

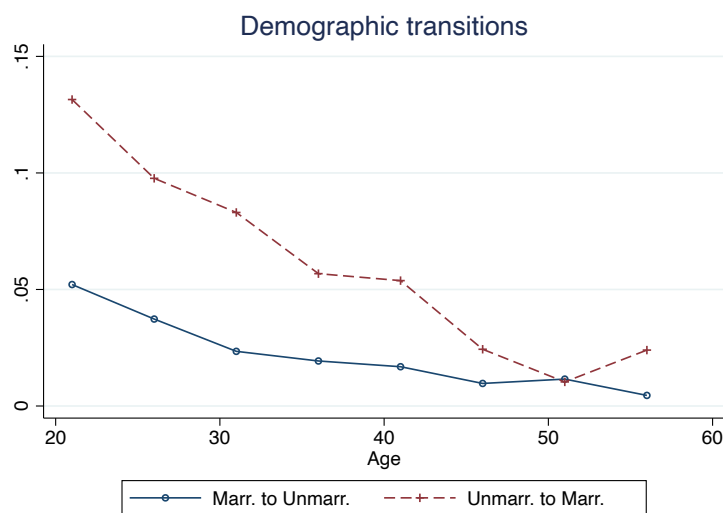


(a) Probability of entry

(b) Probability of exit

Notes: We use pre-1996 data from SIPP panels. Sample of female heads of household who are not college graduates and have children aged 18 and below. In panel (a) we plot the shares entering welfare among women experiencing no change in marital status and among those who do. In panel (b) we plot the corresponding shares leaving welfare from one year to the next. We also plot the associated 95% confidence intervals.

Figure A.3: Marital Status Transitions by Women's Age



Notes: We use pre-1996 data from the SIPP panel. Sample of female heads of household who are not college graduates and have children aged 18 and below. We plot the probability of transitioning into different marital status from one year to the next for women in the same 5-year age window.

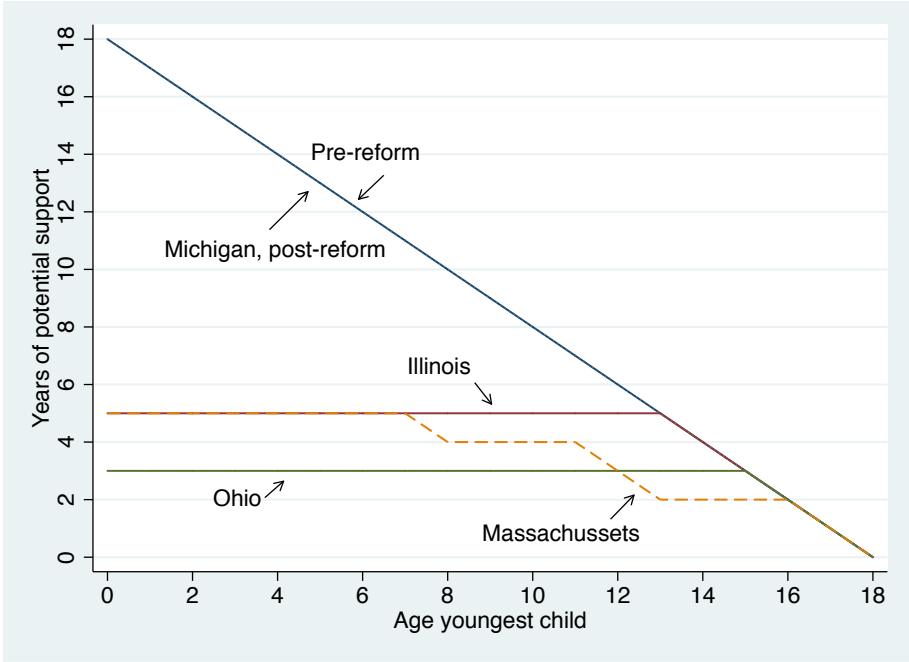
Appendix B: Reduced-Form Evidence on Time Limits

Data and Descriptive Statistics

Table B.1 reports summary statistics for the two data sets. In the first two columns, we report statistics for our regression sample in the SIPP and the CPS. In the following four columns, we break these samples into pre- and post-reform period. This is useful both because it gives a first glance at how summary statistics changed after the reform, and because our structural estimation uses only pre-reform data (with the added restriction of focusing only on the 1960's birth cohorts).⁵¹

Empirical Strategy

Figure B.1: Variation Exploited in Time Limits Across States (2000)



Additional Empirical Analysis

⁵¹The structural estimation also uses earnings and wealth data on married and single men and wage data for married and single women, from all cohorts.

Table B.1: Summary Statistics

| | Regression Sample | | Pre-reform | | Post-reform | |
|--------------------------|-------------------|---------|------------|--------|-------------|--------|
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| On Welfare | 0.086 | 0.063 | 0.101 | 0.077 | 0.040 | 0.040 |
| On Welfare (married) | 0.029 | 0.015 | 0.034 | 0.019 | 0.014 | 0.010 |
| On Welfare (unmarr.) | 0.253 | 0.240 | 0.306 | 0.304 | 0.108 | 0.148 |
| Employed | 0.650 | 0.666 | 0.642 | 0.647 | 0.674 | 0.694 |
| Employed (married) | 0.650 | 0.666 | 0.647 | 0.654 | 0.659 | 0.685 |
| Employed (unmarr.) | 0.648 | 0.664 | 0.624 | 0.620 | 0.712 | 0.726 |
| Divorced or separated | 0.152 | 0.125 | 0.151 | 0.126 | 0.154 | 0.124 |
| Div/sep if $m_{t-1} = 1$ | 0.009 | 0.013 | 0.009 | 0.014 | 0.009 | 0.013 |
| Married | 0.745 | 0.789 | 0.753 | 0.796 | 0.720 | 0.780 |
| Married if $m_{t-1} = 0$ | 0.025 | 0.047 | 0.025 | 0.047 | 0.025 | 0.047 |
| Less than high school | 0.172 | 0.245 | 0.171 | 0.311 | 0.174 | 0.142 |
| High school | 0.491 | 0.377 | 0.493 | 0.337 | 0.484 | 0.438 |
| Some college | 0.337 | 0.378 | 0.336 | 0.352 | 0.343 | 0.420 |
| White | 0.805 | 0.833 | 0.810 | 0.835 | 0.790 | 0.831 |
| Age | 36.035 | 36.256 | 35.837 | 35.921 | 36.653 | 36.780 |
| Number of children | 1.991 | 2.113 | 1.992 | 2.111 | 1.988 | 2.118 |
| Age of youngest | 7.248 | 7.562 | 7.163 | 7.436 | 7.515 | 7.759 |
| $Exposed_{dst}Post_{st}$ | 0.181 | 0.287 | 0.000 | 0.000 | 0.745 | 0.736 |
| N. of Obs. | 254,627 | 112,128 | 171,062 | 68,353 | 83,565 | 43,775 |

Notes: We use data from the 1990-2001 SIPP panels, until 2002, and the 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. *Exposed* denotes those affected by the reform and *Post* indicates the post reform period.

Controlling for Husband’s Unemployment

Table B.2: Effects of Time Limits for Married Women by Spouse Employment Status

| Sample: | <i>AFDC/TANF</i> | | <i>Employment</i> | |
|--------------------------|----------------------|----------------------|--------------------|----------------------|
| | Spouse Employed | Spouse Unemployed | Spouse Employed | Spouse Unemployed |
| $Exposed_{dst}Post_{st}$ | -0.008*** (0.002) | -0.040** (0.016) | -0.006 (0.015) | 0.022 (0.041) |
| Mean pre-reform | 0.016 | 0.194 | 0.656 | 0.522 |
| Obs | 166,001 | 16,374 | 166,001 | 16,374 |
| R^2 | 0.05 | 0.28 | 0.10 | 0.27 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female married heads of household who are not college graduates and have children aged 18 and below. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Long-run Results

In Table B.3, we estimate the baseline results for all outcomes on a longer-run pool of SIPP and CPS dataset; we use data until the 2004 SIPP panels (until year 2007) and 2007 CPS.

Table B.3: Long-run Effects of Time Limits on Benefits, Employment, Marital Status, and Fertility

| | <i>AFDC/TANF Utilization</i> | | | | | |
|--------------------------|------------------------------|----------------------|----------------------|----------------------|--|----------------------|
| | Whole sample | | Married women | | Unmarried women | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | -0.038*** (0.004) | -0.022*** (0.002) | -0.013*** (0.002) | -0.005*** (0.001) | -0.108*** (0.012) | -0.111*** (0.010) |
| Mean pre-reform | 0.098 | 0.077 | 0.035 | 0.019 | 0.293 | 0.298 |
| Obs | 336,129 | 153,498 | 242,825 | 119,905 | 93,304 | 33,593 |
| R^2 | 0.11 | 0.07 | 0.07 | 0.03 | 0.27 | 0.15 |
| | <i>Employment</i> | | | | | |
| | Whole sample | | Married women | | Unmarried women | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | 0.007 (0.011) | -0.014 (0.009) | -0.014 (0.014) | -0.031*** (0.010) | 0.055*** (0.013) | 0.053** (0.021) |
| Mean pre-reform | 0.641 | 0.648 | 0.644 | 0.655 | 0.632 | 0.623 |
| Obs | 336,129 | 153,498 | 242,825 | 119,905 | 93,304 | 33,593 |
| R^2 | 0.11 | 0.06 | 0.11 | 0.05 | 0.19 | 0.12 |
| | <i>Divorce/Separated</i> | | <i>Married</i> | | <i>Newborn$_{t+1}$ (Annual)</i> | |
| | Whole sample | | Whole sample | | Whole sample | |
| | SIPP | CPS | SIPP | CPS | SIPP | CPS |
| $Exposed_{dst}Post_{st}$ | -0.033*** (0.009) | -0.013* (0.006) | -0.002 (0.011) | -0.014* (0.008) | -0.004 (0.005) | -0.001 (0.003) |
| Mean pre-reform | 0.151 | 0.126 | 0.756 | 0.793 | 0.058 | 0.049 |
| Obs | 336,129 | 153,498 | 336,129 | 153,498 | 74,215 | 66,685 |
| R^2 | 0.03 | 0.01 | 0.05 | 0.05 | 0.08 | 0.04 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2004 SIPP panels, until 2007, and the 1990-2007 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

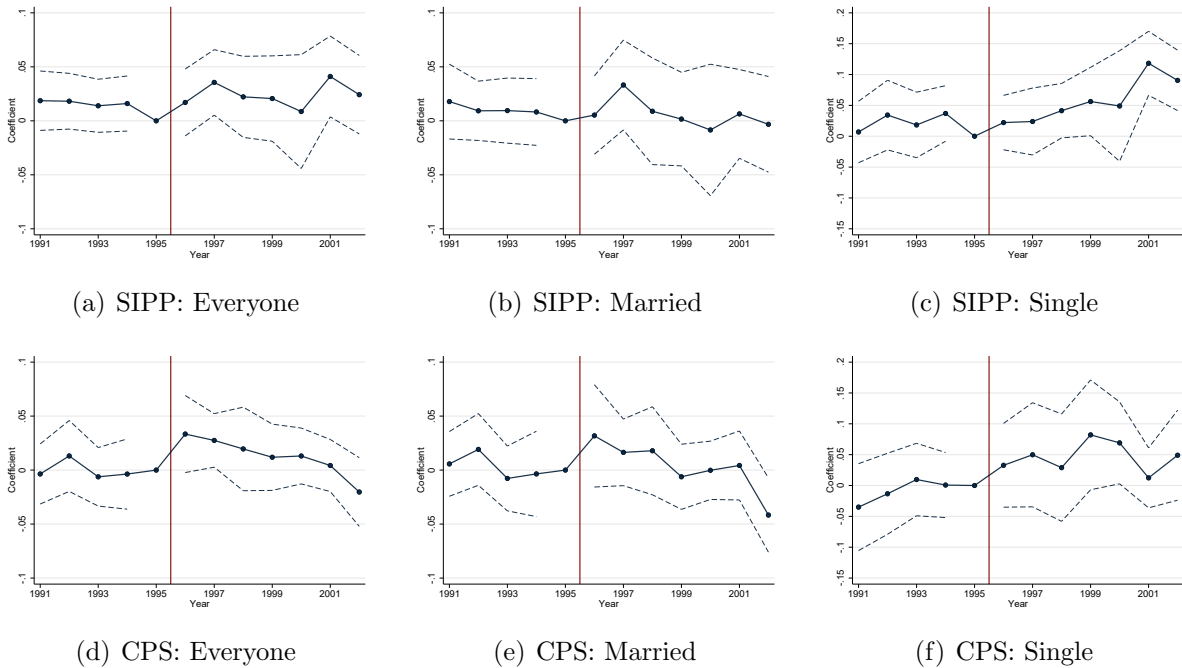
Dynamic Effects of Time Limits

Figure B.2: Program Participation Dynamics



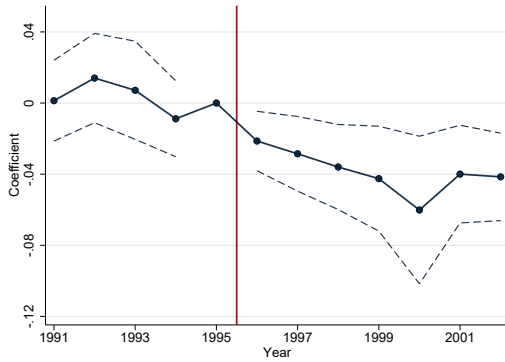
Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002, and the 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate- by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Figure B.3: Employment Dynamics

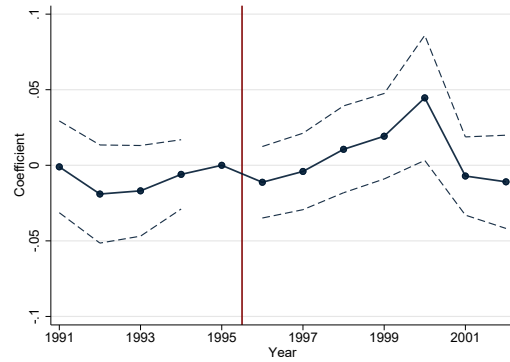


Notes: We use data from the 1990-2001 SIPP panel, until 2002, and the 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate- by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996. Standard errors in parentheses, clustered at the state level.

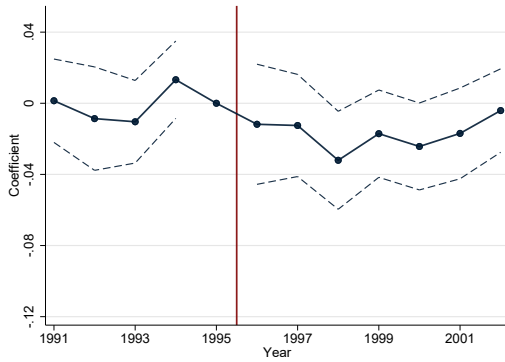
Figure B.4: Marital Status Dynamics



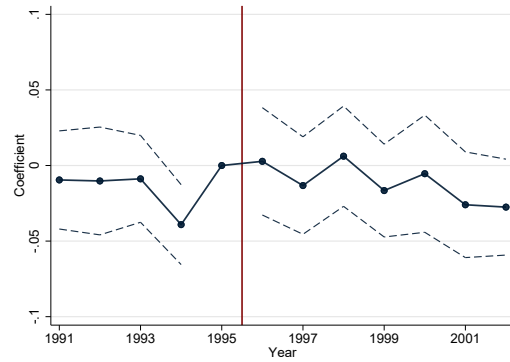
(a) SIPP: Divorce/Separation



(b) SIPP: Marriage



(c) CPS: Divorce/Separation

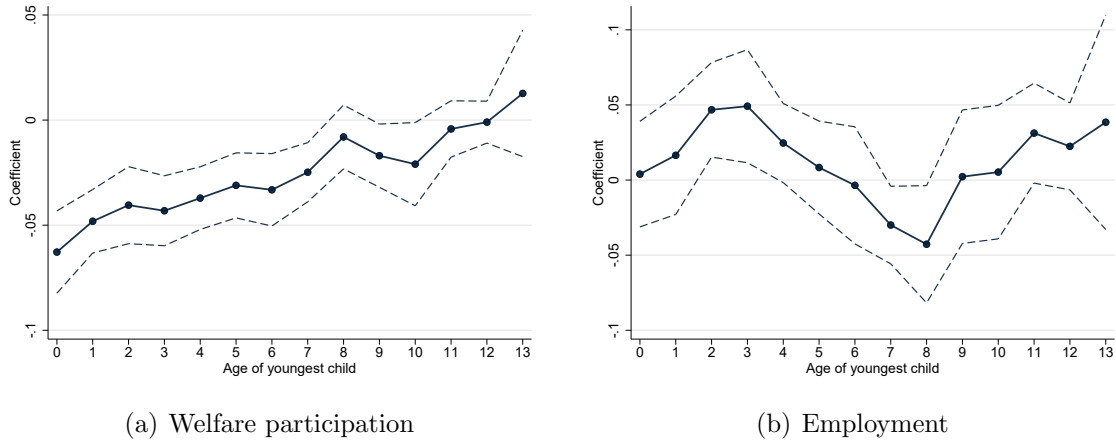


(d) CPS: Marriage

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002, and 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Effects By Age of Youngest Child

Figure B.5: Program Participation and Employment Dynamics by Child Age



Notes: We use data from the 1990-2001 SIPP panels, until 2002. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996. Child age is defined as the age of the youngest child.

Joint Employment and Welfare Use Status

Table B.4: Joint Employment and Welfare Utilization Status of Single Mothers

| Dependent Var: | SIPP | | | |
|--------------------------|----------------------|-------------------------|-------------------------|-----------------------------|
| | Employed On Welfare | Employed Not on Welfare | Not Employed On Welfare | Not Employed Not on Welfare |
| $Exposed_{dst}Post_{st}$ | -0.022*** (0.007) | 0.072*** (0.015) | -0.064*** (0.014) | 0.015 (0.013) |
| Mean pre-reform | 0.063 | 0.568 | 0.234 | 0.135 |
| Obs | 66,144 | 66,144 | 66,144 | 66,144 |
| R^2 | 0.07 | 0.23 | 0.24 | 0.10 |

| Dependent Var: | CPS | | | |
|--------------------------|---------------------|-------------------------|-------------------------|-----------------------------|
| | Employed On Welfare | Employed Not on Welfare | Not Employed On Welfare | Not Employed Not on Welfare |
| $Exposed_{dst}Post_{st}$ | -0.005 (0.009) | 0.059** (0.023) | -0.080*** (0.012) | 0.025 (0.028) |
| Mean pre-reform | 0.067 | 0.554 | 0.237 | 0.142 |
| Obs | 23,606 | 23,606 | 23,606 | 23,606 |
| R^2 | 0.04 | 0.14 | 0.15 | 0.05 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002, and the 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Robustness Checks

In this Appendix we present results for a variety of robustness checks on our reduced form evidence.

Excluding Mothers of Young Children

A potential concern is that our results are driven by changes in the behavior of households with small children after welfare reform as a result of the more generous childcare provisions in the PRWORA.⁵² Appendix Table B.5 shows that the results are robust to excluding households in which the youngest child is below the age of 6. Note that this is a sample where the decline in welfare benefits is less deep. Not surprisingly (in the light of our model), the employment effects are smaller than in the whole sample. Another important component of the 1996 welfare reform was the introduction of work requirement. The only threat to identification is that work requirement were less stringent for mothers of very young children (below age one). This should lead our estimates for employment to be downward biased. However, this is unlikely to represent a significant bias given the size of the population exempted.

Additional Features of Welfare Reform: Work Requirements, Child Support, and Waivers

There were additional aspects to the welfare reform of 1996, particularly the introduction of work requirements and the strengthening of child support enforcement. The state and time fixed effects, and their interaction will capture the common effect of these additional aspects on all mothers irrespective of the age of the youngest child. Our identification of the effect of time limits depends on differences in behaviour between mothers of young and old children. Nonetheless, the additional aspects of reform could confound our core estimates if the impact differs by age of the youngest child.

Work Requirements To study potential age-specific effects of work requirements that are not captured by the state-by-year fixed effects, we consider an specification that includes

⁵²The welfare reform eliminated federal child care entitlements and replaced them with a childcare block grant to the states. Under these changes, states became more flexible in designing their childcare assistance programs. In practice, the total amount available for state-level childcare programs could increase or decrease depending on the state's own level of investment.

Table B.5: Women with Children above Age 5

| Dependent Var: | SIPP | | | | | |
|--------------------------|----------------------|----------------------|------------------|--------------------|----------------------|------------------|
| | AFDC/TANF | | Employed | | Div/Sep | Married |
| Sample: | Whole | Unmarried | Whole | Unmarried | Whole | Whole |
| $Exposed_{dst}Post_{st}$ | -0.022*** (0.005) | -0.057*** (0.017) | 0.007 (0.013) | 0.039** (0.016) | -0.029*** (0.010) | 0.011 (0.009) |
| Mean pre-reform | 0.065 | 0.191 | 0.714 | 0.717 | 0.179 | 0.747 |
| Obs | 141,741 | 38,137 | 141,741 | 38,137 | 141,741 | 141,741 |
| R^2 | 0.09 | 0.21 | 0.10 | 0.18 | 0.03 | 0.07 |

| Dependent Var: | CPS | | | | | |
|--------------------------|---------------------|----------------------|------------------|------------------|-------------------|-------------------|
| | AFDC/TANF | | Employed | | Div/Sep | Married |
| Sample: | Whole | Unmarried | Whole | Unmarried | Whole | Whole |
| $Exposed_{dst}Post_{st}$ | -0.007** (0.003) | -0.046*** (0.012) | 0.003 (0.011) | 0.044 (0.029) | -0.009 (0.007) | -0.011 (0.010) |
| Mean pre-reform | 0.055 | 0.205 | 0.714 | 0.705 | 0.156 | 0.777 |
| Obs | 66,129 | 15,088 | 66,129 | 15,088 | 66,129 | 66,129 |
| R^2 | 0.05 | 0.14 | 0.07 | 0.14 | 0.02 | 0.04 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002, and 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

controls for stringency of work requirements policies for each state interacted with the after-policy time variable $Post_{st}$ and dummies for whether age of youngest child is less than 1 and 5 years old.

We classify each state into two of six categories as described in Table B.6, which encompass both sanctions (lenient, intermediate, and stringent), and age exemptions (lenient, intermediate, and stringent). We then group states into three categories that encompass a similar number of states: overall lenient, overall intermediate, and overall stringent. Overall lenient states are lenient on both dimensions or intermediate on one dimension and lenient on the other. Overall intermediate states are intermediate on both dimensions or stringent on one and lenient on the other. Overall stringent states are stringent on both dimensions or stringent on one and intermediate on the other.

Table B.6: Description of State-level Work Requirements Index

| | Sanctions | Age exemption |
|---------------------|---------------------------------------|---|
| Lenient | Partial or no sanction | Over 12 months |
| Intermediate | Full sanction after repeated offences | 4-12 months |
| Stringent | Full sanction at first offence | 0-3 months (incl. state with no exemptions) |

In Table B.7, we consider the interaction terms between age of the youngest child groups, stringency and time as additional controls for AFDC utilization and employment. Controlling for potential age-of-youngest-child-specific effects of having stronger work requirements does not affect the estimates of the effects of time limits.

Child Support Enforcement We coded a state-level dataset that captures whether a given state had a child support enforcement rule already in place by 1990 and, hence, at the time of the reform (Huang, Garfinkel and Waldfogel, 2004). In Table B.8 we interact the treatment variable with this child support enforcement variable. Of particular interest is the coefficient on these interactions: we find that the reform had the same effect irrespective of whether child support enforcement provisions had already been long established in the state or not, suggesting that these rules are unlikely to be confounds for the effect of time limits.

Table B.7: AFDC Utilization Regressions with Work Requirements Interactions

| Sample: | <i>AFDC/TANF Utilization</i> | | | <i>Employment</i> | | |
|---|------------------------------|----------------------|----------------------|--------------------|-------------------|---------------------|
| | Whole | Married | Unmarried | Whole | Married | Unmarried |
| $Exposed_{dst}Post_{st}$ | -0.024*** (0.005) | -0.009*** (0.003) | -0.067*** (0.017) | 0.011 (0.012) | -0.001 (0.014) | 0.045*** (0.015) |
| $[Child \leq 1_{dt}]Interm_sPost_{st}$ | -0.024* (0.013) | -0.009 (0.013) | -0.088*** (0.031) | -0.005 (0.020) | -0.020 (0.027) | 0.030 (0.027) |
| $[Child \leq 1_{dt}]Stringent_sPost_{st}$ | -0.033*** (0.009) | -0.024*** (0.008) | -0.089*** (0.020) | -0.010 (0.016) | -0.025 (0.019) | 0.037 (0.026) |
| $[Child \leq 5_{dt}]Interm_sPost_{st}$ | -0.007 (0.011) | -0.003 (0.008) | -0.010 (0.030) | 0.030** (0.013) | 0.026 (0.019) | 0.008 (0.024) |
| $[Child \leq 5_{dt}]Stringent_sPost_{st}$ | -0.015* (0.008) | 0.002 (0.005) | -0.057** (0.025) | -0.003 (0.014) | -0.011 (0.015) | -0.000 (0.027) |
| Mean pre-reform | 0.098 | 0.035 | 0.297 | 0.640 | 0.643 | 0.631 |
| Obs | 254,627 | 188,483 | 66,144 | 254,627 | 188,483 | 66,144 |
| R^2 | 0.12 | 0.08 | 0.26 | 0.12 | 0.11 | 0.21 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female heads of household who are not college graduates and have children aged 18 and below. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996. Additionally, we interact work requirement indices with the age of youngest child and the calendar year.

Time Limits Waivers As a robustness check, we coded statewide time-limit waivers (see Table 2.5 in Grogger and Karoly (2005)) as an alternative way to identify the introduction of the time limits. In Table B.9 we present results for this alternative timeline, which leads to very similar conclusions to the one using the official timeline.

Table B.8: Results with Child Support Interactions

| | AFDC/TANF Utilization | | Employment | |
|---|-----------------------|----------------------|---------------------|---------------------|
| $Exposed_{dst}Post_{st}$ | -0.087*** (0.015) | -0.084*** (0.020) | 0.050*** (0.014) | 0.053*** (0.017) |
| $Exposed_{dst}Post_{st} \times$ Pre-reform CS | | -0.012 (0.029) | | -0.013 (0.025) |
| Mean pre-reform | 0.297 | 0.297 | 0.631 | 0.631 |
| Obs | 66,144 | 66,144 | 66,144 | 66,144 |
| R^2 | 0.26 | 0.26 | 0.21 | 0.21 |

Notes: Standard errors in parentheses clustered at the state level. *** p<0.01, ** p<0.05, * p<0.1. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female single heads of household who are not college graduates and have children aged 18 and below. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996. Additionally, we interact child support state dummy with the age of youngest child and the calendar year.

Table B.9: Effects of Time Limits under Different Policy Timelines

| | AFDC/TANF Utilization | | | Employment | | |
|-----------------------------------|-----------------------|----------------------|----------------------|------------------|-------------------|---------------------|
| Sample: | Whole | Married | Unmarried | Whole | Married | Unmarried |
| $Exposed_{dst}Post_{st}$ (Alter.) | -0.028*** (0.004) | -0.011*** (0.003) | -0.083*** (0.015) | 0.015 (0.012) | -0.000 (0.013) | 0.048*** (0.015) |
| Mean pre-reform | 0.098 | 0.035 | 0.297 | 0.640 | 0.643 | 0.631 |
| Obs | 254,627 | 188,483 | 66,144 | 254,627 | 188,483 | 66,144 |
| R^2 | 0.12 | 0.08 | 0.26 | 0.12 | 0.11 | 0.21 |

Notes: Standard errors in parentheses clustered at the state level. *** p<0.01, ** p<0.05, * p<0.1. We use data from the 1990-2001 SIPP panels, until 2002. Sample of households where both spouses are present, neither are college graduates, and have children aged 18 and below. We use statewide time limit waivers from Grogger and Karoly (2005) to code this alternative timeline for the roll-out of the time limits policy. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Attrition in the SIPP Sample

To address concerns regarding the high rate of attrition in the SIPP (Zabel, 1998), we limit our analysis to the first two waves of each SIPP panel. In Appendix table B.10 we show that this adjustment leads to larger estimates in absolute value, but to qualitatively similar results.

Table B.10: OLS Regressions with First Wave of Each SIPP panel

| Dependent Var: | AFDC/TANF | | SIPP Employed | | Div/Sep | Married |
|--------------------------|----------------------|----------------------|---------------------|---------------------|--------------------|-------------------|
| | Whole | Unmarried | Whole | Unmarried | Whole | Whole |
| $Exposed_{dst}Post_{st}$ | -0.045*** (0.007) | -0.124*** (0.022) | 0.060*** (0.019) | 0.142*** (0.040) | -0.037* (0.019) | -0.010 (0.016) |
| Mean pre-reform | 0.098 | 0.292 | 0.637 | 0.627 | 0.153 | 0.748 |
| Obs | 32,928 | 8,775 | 32,928 | 8,775 | 32,928 | 32,928 |
| R^2 | 0.14 | 0.33 | 0.15 | 0.30 | 0.06 | 0.08 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

College Graduates Sample

Our sample excludes college graduates because they are unlikely to be affected by the reform, given lower rates of participation in welfare. To verify this conjecture, we replicate our regressions for welfare use, employment and marital status using the sample of college graduates. We find very small effects on welfare utilization (-0.8pp in the whole sample compared to -5pp in our main sample, again concentrated among singles) and no effects whatsoever on employment and marital status (Appendix Table B.11).

Table B.11: Effects of Time Limits on College Graduates

| Dependent Var: | SIPP | | | | | |
|--------------------------|----------------------|----------------------|-------------------|-------------------|-------------------|------------------|
| | AFDC/TANF | | Employed | | Div/Sep | Married |
| Sample: | Whole | Unmarried | Whole | Unmarried | Whole | Whole |
| $Exposed_{dst}Post_{st}$ | -0.008*** (0.002) | -0.055*** (0.015) | -0.019 (0.012) | -0.008 (0.027) | -0.015 (0.016) | 0.006 (0.017) |
| Mean pre-reform | 0.010 | 0.051 | 0.771 | 0.894 | 0.094 | 0.875 |
| Obs | 93,233 | 12,384 | 93,233 | 12,384 | 93,233 | 93,233 |
| R^2 | 0.04 | 0.28 | 0.09 | 0.23 | 0.09 | 0.10 |

| Dependent Var: | CPS | | | | | |
|--------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | AFDC/TANF | | Employed | | Div/Sep | Married |
| Sample: | Whole | Unmarried | Whole | Unmarried | Whole | Whole |
| $Exposed_{dst}Post_{st}$ | -0.001 (0.002) | -0.033** (0.015) | -0.018 (0.012) | -0.012 (0.030) | -0.005 (0.013) | -0.002 (0.016) |
| Mean pre-reform | 0.005 | 0.037 | 0.774 | 0.909 | 0.077 | 0.901 |
| Obs | 36,089 | 3,676 | 36,089 | 3,676 | 36,089 | 36,089 |
| R^2 | 0.02 | 0.20 | 0.04 | 0.21 | 0.03 | 0.04 |

Notes: Standard errors in parentheses clustered at the state level. *** p<0.01, ** p<0.05, * p<0.1. We use data from the 1990-2001 SIPP panels, until 2002, and 1990-2002 March CPS. Sample of female heads of household who are not college graduates and have children aged 18 and below. Sampling weights used in the SIPP regressions. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Appendix C: Life-Cycle Model

Problem of the Single Man

Single men are subject to an exogenous employment and wage process, and do not have an option to receive welfare benefits (other than food stamps). Children affect the man's problem only when he is married to the child's mother. The state space for a single man is defined by his asset holdings and his wage: $\Omega_{j,t}^{M_s} = \{A_{j,t}^M, y_{j,t}^M\}$. The state space when married, $\Omega_{ij,t}^m$, contains both the husband and wife's economic state variables. These assumptions determine $V_t^{M_s}(\Omega_{j,t}^{M_s})$, the man's value function when he is single, and $V_t^{M_m}(\Omega_{ij,t}^m)$, the value accruing to a married man. The budget constraint of the single man is given by:⁵³

$$\frac{A_{j,t+1}^{M_s}}{1+r} = A_{j,t}^{M_s} - c_{j,t}^{M_s} + y_{j,t}^M + FS_{j,t} \quad (9)$$

$$A_{j,t+1}^{M_s} \geq 0$$

The problem for the single man is thus defined by

$$V_t^{M_s}(\Omega_{j,t}^{M_s}) = \max_{c_{j,t}^{M_s}, P_{j,t}^{M_s}} \left\{ +\beta E_t \left[\lambda_{t+1} \left[\begin{array}{l} u^{M_s}(c_{j,t}^{M_s}) \\ (1 - m_{ij,t+1}) V_{t+1}^{M_s}(\Omega_{j,t+1}^{M_s}) \\ + m_{ij,t+1} V_{t+1}^{M_m}(\Omega_{ij,t+1}^m) \end{array} \right] \right] \right. \\ \left. + (1 - \lambda_{t+1}) V_{t+1}^{M_s}(\Omega_{j,t+1}^{M_s}) \right\}$$

This problem is similar but more complex than the simple consumption smoothing and precautionary savings problem because assets affect the probability of marriage as well as the share of consumption when married.

Since single men always work, within period utility is a special case of (4) and takes the CRRA form:

$$u(c) = \frac{(c \cdot e^{\psi P})^{1-\gamma}}{(1-\gamma)}$$

to guarantee symmetry with the women's utility function. Note that P^M is not a choice for the man, but the result of an exogenous employment process.

⁵³We do not consider EITC for men because the value of the program for an individual without a qualifying child is modest (for example, in 2017 the maximum annual credit for an individual without a qualifying child was \$510, as opposed to \$3,400 for those with a qualifying child).

Problem of the Couple

We define the optimization problem for the married couple, given the overall state space $\Omega_{ij,t}^m$.⁵⁴

At the start of the next period, $t+1$, the couple may divorce ($d_{ij,t+1}(\Omega_{ij,t+1}^m) \in \{0, 1\}$), and so the joint problem that the couple solves is

$$V_t^m(\Omega_{ij,t}^m) = \max_{\mathbf{q}_{ij,t}^m} \left\{ \begin{array}{l} \theta_{ij,t}^F u^{F_m}(c_{ij,t}^F, P_{ij,t}^F, B_{ij,t}^F) + \theta_{ij,t}^M u^{M_m}(c_{ij,t}^M, P_{j,t}^M) + L_{ij,t} \\ +\beta E_t \left[\begin{array}{l} (1 - d_{ij,t+1}) V_{t+1}^m(\Omega_{ij,t+1}^m) \\ +d_{ij,t+1} (\theta_{ij,t}^F V_{t+1}^{F_s}(\Omega_{i,t+1}^{F_s}) + \theta_{ij,t}^M V_{t+1}^{M_s}(\Omega_{j,t+1}^{M_s})) \end{array} \right] \end{array} \right\} \quad (10)$$

where $\mathbf{q}_{ij,t}^m = \{c_{ij,t}^M, c_{ij,t}^F, P_{ij,t}^F, B_{ij,t}^F\}$ are the choices of the ij^{th} couple, and $L_{ij,t}$ is the match quality of the couple, which evolves according to a random walk process:

$$L_{ij,t} = L_{ij,t-1} + \xi_{ij,t} \quad (11)$$

where $\xi_{ij,t}$ can be interpreted as a ‘‘love shock’’ to the marriage. The optimization above is subject to the budget constraint:

$$\frac{A_{ij,t+1}}{1+r} = A_{ij,t} - x(c_{ij,t}^F, c_{ij,t}^M, k_{i,t}^a) + (w_{i,t}^F - CC_t^a)P_{ij,t}^F + y_{j,t}^M + B_{ij,t}b_{ij,t} + FS_{ij,t} + EITC_{ij,t}$$

To capture economies of scale in marriage (including public goods), we assume that the individual consumptions $c_{ij,t}^F$ and $c_{ij,t}^M$ and the equivalence scale $e(k_t^a)$ imply an aggregate household expenditure of

$$x_{ij,t} = \frac{((c_{ij,t}^F)^\rho + (c_{ij,t}^M)^\rho)^{\frac{1}{\rho}}}{e(k_{i,t}^a)}$$

The extent of economies of scale is controlled by ρ and $e(k_t^a)$. If $\rho > 1$, consumption is partially public, and the sum of spouses’ consumption exceed what they would consume if single and spending the same amount. If the couple divorce at the start of $t+1$, then $A_{ij,t+1}$ is divided equally.⁵⁵

⁵⁴The state variables for the couple (represented by $\Omega_{ij,t}^m$), are: the combined assets, each spouses’ productivity, whether the woman worked last year, the number of periods of welfare benefits utilization, age of the youngest child present ($k_{i,t}^a$), and the Pareto weights $\theta_{ij,t}^M, \theta_{ij,t}^F$.

⁵⁵This assumption is a good approximation of the legal position (see Voena (2015)). After marriage, spouses’ assets merge into one value: $A_{ij,t} = A_{i,t}^F + A_{j,t}^M$ and so, in the computation, we do not keep track of individual assets going into the marriage.

The value for each spouse is defined recursively so that in the last period, it is equal to the flow utility for each spouse evaluated at the optimum

$$V_T^{Fm} = u^{Fm}(c_{ij,T}^{*F}, P_{ij,T}^{*F}, B_{ij,T}^{*F}) + L_{ij,T} \quad \text{and} \quad V_T^{Mm} = u^{Mm}(c_{ij,T}^{*M}) + L_{ij,T}$$

and in other periods

$$V_t^{Fm}(\Omega_{ij,t}^m) = u^{Fm}(c_{ij,t}^{*F}, P_{ij,t}^{*F}, B_{ij,t}^{*F}) + L_{ij,t} + \beta E_t \left[(1 - d_{ij,t+1}) V_{t+1}^{Fm}(\Omega_{ij,t+1}^m) + d_{ij,t+1} V_{t+1}^{Fs}(\Omega_{i,t+1}^{Fs}) \right]$$

and

$$V_t^{Mm}(\Omega_{ij,t}^m) = u^{Mm}(c_{ij,t}^{*M}) + L_{ij,t} + \beta E_t \left[(1 - d_{ij,t+1}) V_{t+1}^{Mm}(\Omega_{ij,t+1}^m) + d_{ij,t+1} V_{t+1}^{Ms}(\Omega_{i,t+1}^{Ms}) \right]$$

Determination of the Pareto Weight at the Time of Marriage

The baseline model solves for the Pareto weights on husband and wife's welfare through the solution to a symmetric Nash bargaining game between spouses:

$$\max_{\theta_{ij,t_0}} (V_{t_0}^{Fm}(\theta_{ij,t_0}) - V_{t_0}^{Fs}) \cdot (V_{t_0}^{Mm}(\theta_{ij,t_0}) - V_{t_0}^{Ms}).$$

The solution to this maximization is to set the weights so that each individual receives the same mark-up over their reservation value, V_{t_0} , if (and only if) $\frac{\partial V_t^{Fm}(\theta)}{\partial \theta} = -\frac{\partial V_t^{Mm}(\theta)}{\partial \theta}$. Hence, in that case, the solution is to split the surplus of the marriage equally. More generally, the implication of this bargaining game is that if the outside option for a woman worsens, for example due to a reduction in benefits for single women, the weight on that woman's utility will decline and so her consumption share will decline.

Marriages will occur if there is a positive surplus to share. This suggests that how the surplus is shared will not affect the marriage decision. However, the sharing rule that would be used in future marriages will affect outside options and so whether each person is better off continuing to search. If the surplus of future marriages was allocated exclusively to the woman, then it is worthwhile for the woman to search for the match with the highest surplus. If almost none of any future surplus was going to be allocated to the woman, there is little incentive for her to continue searching. We experiment varying the share of the surplus that goes to each person. This has some effect on parameter estimates for the cost of working

for married women, which need to be larger to deter participation when men have all of the surplus. However, our conclusions on the effects of time limits for behavior are unchanged.

Fertility

The arrival of children is stochastic and exogenous, albeit varying with the woman's marital status, own age and age of the youngest child. The conditional probability of having a child or of the child aging is taken to be

$$Pr(k_{t+1}^a | k_t^a, m_{t-1}, t). \quad (12)$$

We capture the arrival of additional children by treating the age of the child as a state variable that can re-start if a newborn arrives. This restriction is imposed for computational reasons because it limits the size of the state space, which is already large. Since the probability depends on marital status, fertility is partially endogenized through the marital decision.

Our assumptions about fertility mean that we will not capture any effects of benefits on children's welfare. Mullins (2022) shows that more generous welfare benefits have an additional value through increasing children's human capital development.

Marriage Process

We use the following process to allow marriage market opportunities to vary as people become older:

$$\lambda_t = \min\{\max\{\lambda_0 + \lambda_1 \cdot (t - 1) + \lambda_2 \cdot (t - 1)^2, 0\}, 1\}. \quad (13)$$

Externally Set and Directly Estimated Parameters of the Model

Table C.1: Externally Set and Directly Estimated Parameters of the Model

| Parameter | Value/source |
|--|-----------------------|
| <i>Panel A: Externally Set Parameters</i> | |
| Relative risk aversion (γ) | 1.5 |
| Discount factor (β) | 0.98 |
| Economies of scale in marriage (ρ) | 1.4023 |
| Welfare program parameters | Statutory rules |
| <i>Panel B: Directly Estimated Parameters</i> | |
| Childcare costs (CC^a) | CEX (see text) |
| Fertility process | SIPP |
| Distribution of single characteristics | SIPP (see text) |
| St. dev. of men's unexplained earnings in period 1 (σ_{0M}^2) | 0.464 |
| St. dev. of women's unexplained wages in period 4 (σ_{4F}^2) | 0.429 |
| St. dev. of men's earnings shocks ($\sigma_{\zeta M}^2$) | 0.166 |
| St. dev. of women's wage shocks ($\sigma_{\zeta F}^2$) | 0.178 |
| Life cycle profile of log male annual earnings (a_0^M, a_1^M, a_2^M) | 9.43, 0.0641, -0.0013 |

Earnings Process for Men

We use GMM to estimate the variance of the permanent component of log annual earnings ($\sigma_{\zeta M}^2$) and the variance of the measurement error ($\sigma_{\varepsilon M}^2$), based on the following moment conditions:

$$E[\Delta u_t^2] = \sigma_{\zeta M}^2 + 2\sigma_{\varepsilon M}^2 \quad (14)$$

$$E[\Delta u_t \Delta u_{t-1}] = -\sigma_{\varepsilon M}^2 \quad (15)$$

where u_t is the residual log earnings obtained after regressing earnings on dummies for age, disability status, and year. We use the SIPP sample of prime-aged men without a college degree.

Wage Process for Women

We estimate the parameters of the age profile of women alongside the other structural parameters of the model, with the Method of Simulated Moments (McFadden, 1989). To

estimate the variance of women’s initial ability and wage shocks, and the distribution of single women’s characteristics, we implement a two-step Heckman selection correction procedure.

Wages are given by

$$\log w_{it} = \mathbf{X}_{it}\boldsymbol{\beta} + u_{it}. \quad (16)$$

In \mathbf{X}_{it} we include age dummies, disability status, race, state dummies and year dummies. Wages are observed only when the woman works ($P_{it} = 1$), which happens under the following condition:

$$\mathbf{Z}_{it}\boldsymbol{\gamma} + \nu_{it} > 0,$$

In \mathbf{Z}_{it} we include \mathbf{X}_{it} and a vector of exclusion restrictions, assumed to explain employment decision but not wages. These exclusion restrictions are “simulated” welfare benefits, as described in Low and Pistaferri (2015). In particular, we use state, year and demographic variation in simulated AFDC, EITC and food stamps benefits for a single mother with varying number of children who works part-time at the federal minimum wage. Since we also control for time and state effects the instruments capture differential changes in policy over time and states. The first stage is reported in table C.2 and clearly demonstrates the strength of the instruments.

Table C.2: Employment Status Probit Regressions - Women

| VARIABLES | (1) coeff. | (2) marg. eff. |
|-------------------------------------|----------------------|----------------------|
| Average AFDC payment (\$100) | -0.064*** (0.007) | -0.021*** (0.003) |
| Average food stamps payment (\$100) | -0.002 (0.095) | -0.008 (0.031) |
| Average EITC payment (\$100) | 0.183*** (0.054) | 0.060*** (0.018) |
| Age dummies | | Yes |
| State dummies | | Yes |
| Year dummies | | Yes |
| Controls | | Yes |
| Observations | | 69,832 |

Notes: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Data from the 1990-2008 SIPP panels. Sample of non-college graduates. Annualized data.

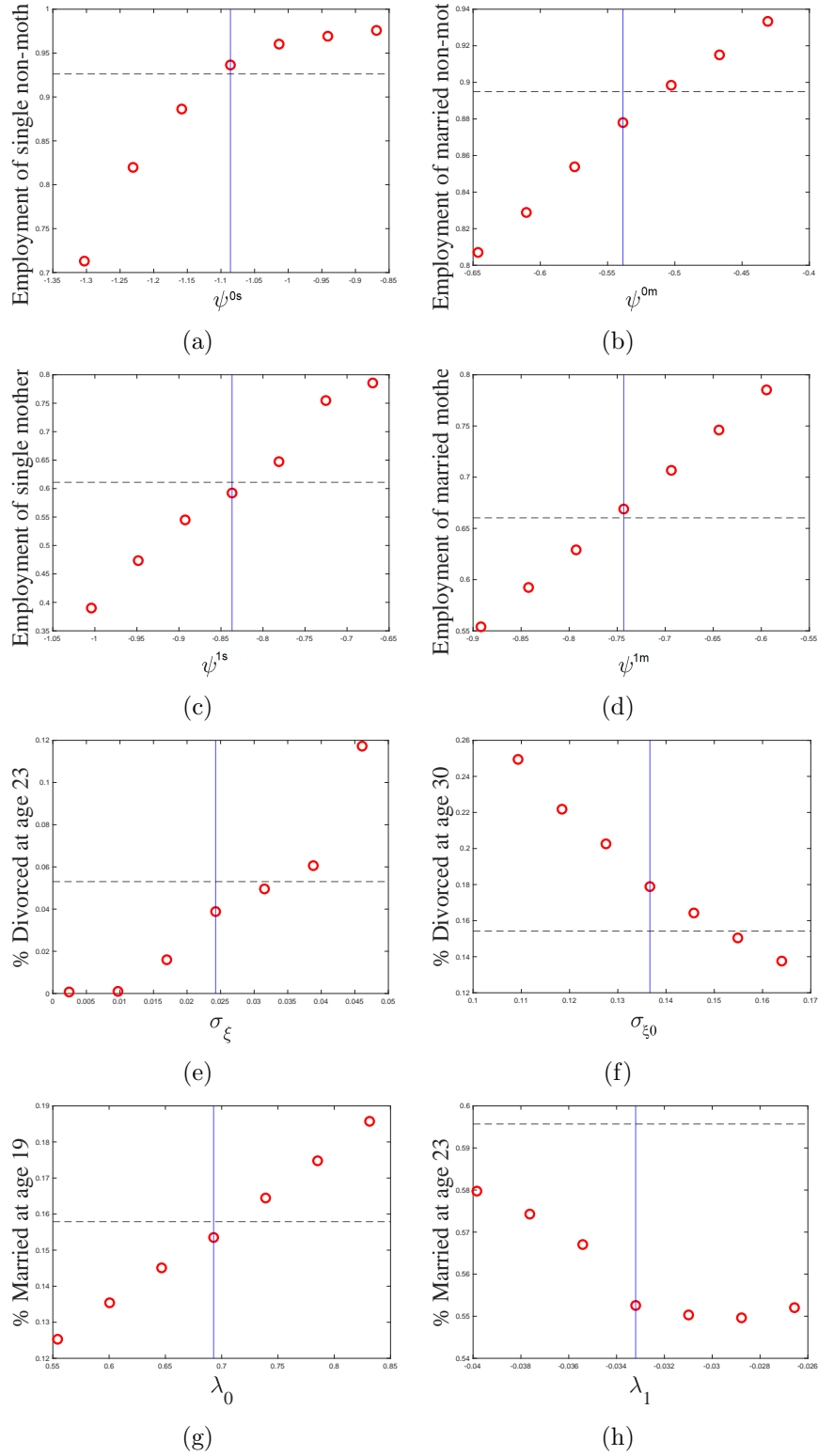
The GMM estimates of the variance of the permanent component of log income ($\sigma_{\zeta^F}^2$) is obtained by solving the following moment conditions:

$$\begin{aligned}
E[\Delta u_t \mid P_t = 1, P_{t-1} = 1] &= \sigma_{\nu\zeta^F} \left[\frac{\phi(\alpha_t)}{1 - \Phi(\alpha_t)} \right] \\
E[\Delta u_t^2 \mid P_t = 1, P_{t-1} = 1] &= \sigma_{\zeta^F}^2 + \sigma_{\nu\zeta^F}^2 \left[\frac{\phi(\alpha_t)}{1 - \Phi(\alpha_t)} \alpha_t \right] + 2\sigma_{\varepsilon^F}^2 \\
E[\Delta u_t \Delta u_{t-1} \mid P_t = 1, P_{t-1} = 1, P_{t-2} = 1] &= -\sigma_{\varepsilon^F}^2
\end{aligned}$$

where $\alpha_t = -\mathbf{Z}_t\boldsymbol{\gamma}$ and $\phi(\cdot)$ and $\Phi(\cdot)$ are the standard normal density and distribution function. Selection corrected estimates and uncorrected ones are very similar: for $\sigma_{\zeta^F}^2$, the corrected version is equal to 0.0317, the uncorrected one to 0.0294.

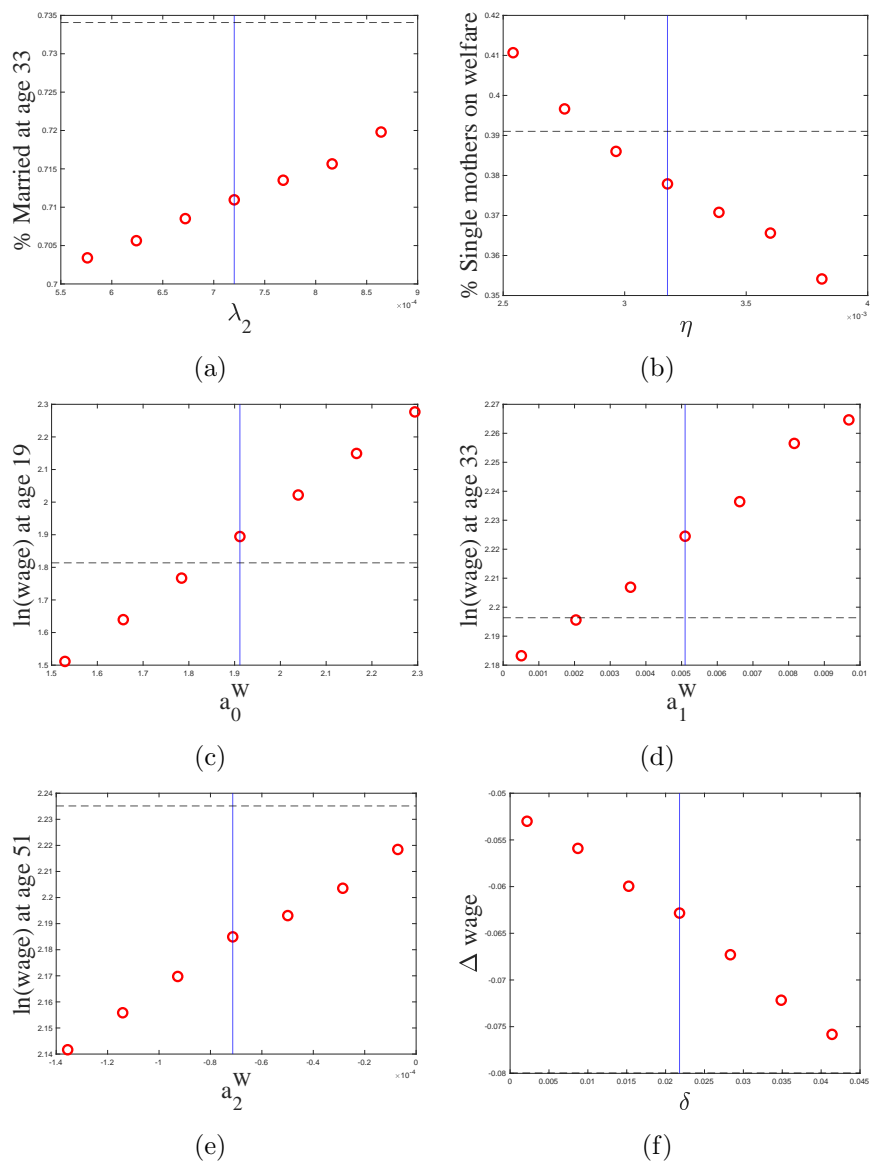
Sensitivity Analysis

Figure C.1: Sensitivity Analysis



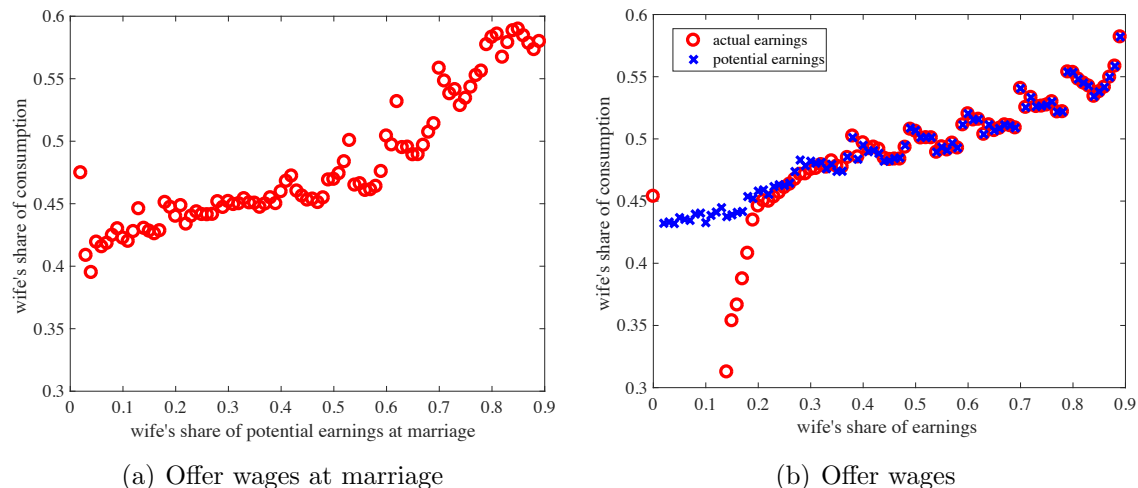
Notes: In these figures, we hold all parameters constant at the estimated values, except one parameters which varies along the horizontal axis. The vertical axis reports the values taken by a given target moment.

Figure C.2: Sensitivity Analysis (part 2)



Intrahousehold Allocations

Figure C.3: Consumption Allocation in the Household



Notes: Simulations of consumption shares $\frac{c_{ij,t}^F}{x_{ij,t}}$ from the estimated model.

Table C.3: Simulated Estimates of Effect of Time Limits on Women's Pareto Weight

| | All marriage | Existing marriages | New Marriages |
|-----------------------|--------------|--------------------|---------------|
| Effect of Time Limits | -0.0007 | -0.0003 | -0.0015 |

Notes: Model estimates of the effect of the introduction of time limits on women's Pareto weight.

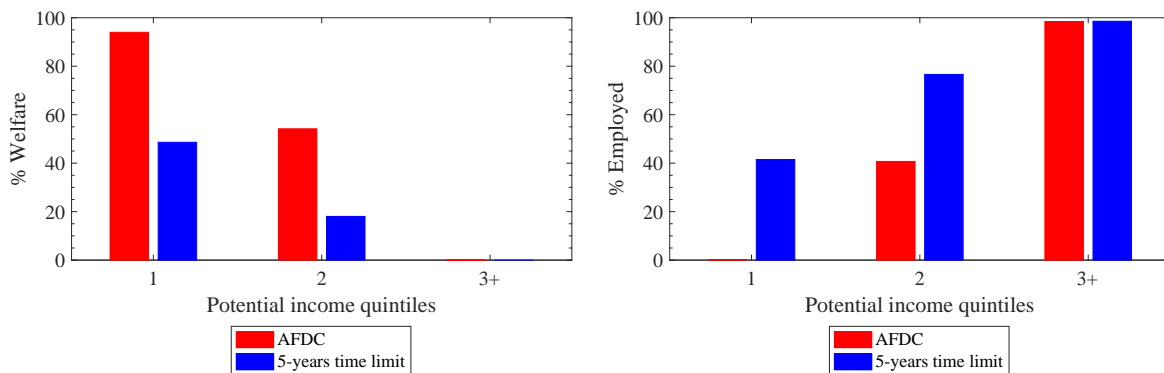
Appendix D: The Effect of Time Limits on Behavior and the Role of Marriage and Divorce

Counterfactual Distributions of Singles' Characteristics in the Marriage Market

After time limits are introduced in a counterfactual exercise, unmarried women are characterized by the vector $\{\log(A_t), \log(y_t), k_t, TB_t\}$, where $TB_t \in [0, 5]$ represents the years of welfare that the woman has used since the reform. Because TB_t is not observed in our data after reform, we use an iterative procedure. First, we assume a uniform distribution for TB_t , solve the model and simulate the reform. Then, we compute the simulated conditional distributions of TB_t for each asset, income and fertility type. Last, we solve the model again with these updated conditional distributions and use the resulting policy function to perform the counterfactual exercises.

The Effects of Time Limits by Productivity For Different Subgroups

Figure D.1: Welfare Use and Employment of Single Mothers

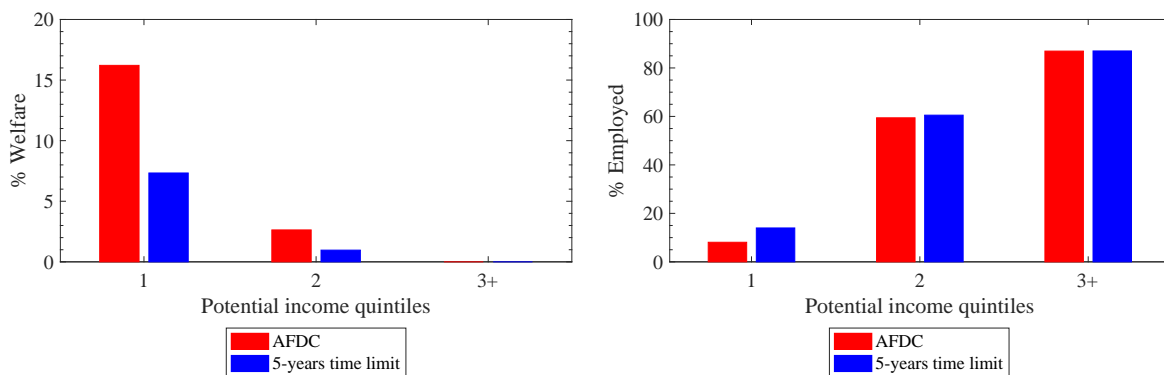


(a) Welfare use

(b) Employment

Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t , for the subset of women who are unmarried under time limits.

Figure D.2: Welfare Use and Employment of Married Mothers



(a) Welfare use

(b) Employment

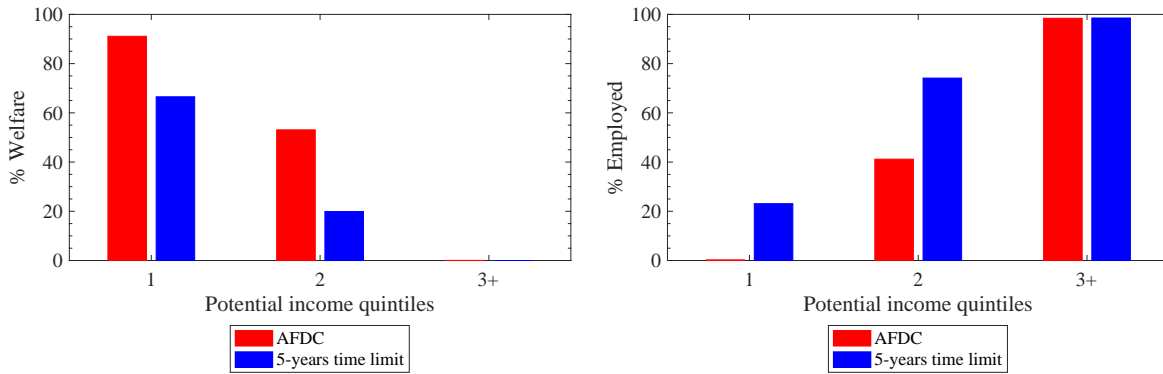
Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t , for the subset of women who are unmarried under time limits.

Table D.1: Effects of Time Limits for Women by Education Level

| Sample (Education): | <i>AFDC/TANF Utilization</i> | | | <i>Employment</i> | | |
|---|------------------------------|----------------------|----------------------|-------------------|------------------|-------------------|
| | Less than HS | HS degree | Some college | Less than HS | HS degree | Some college |
| <i>Exposed_{dst}Post_{st}</i> | -0.049*** (0.014) | -0.027*** (0.005) | -0.016*** (0.006) | 0.048* (0.025) | 0.014 (0.016) | -0.002 (0.015) |
| Mean pre-reform | 0.238 | 0.084 | 0.047 | 0.417 | 0.659 | 0.729 |
| Obs | 44,797 | 124,712 | 85,118 | 44,797 | 124,712 | 85,118 |
| R^2 | 0.18 | 0.09 | 0.07 | 0.13 | 0.09 | 0.10 |

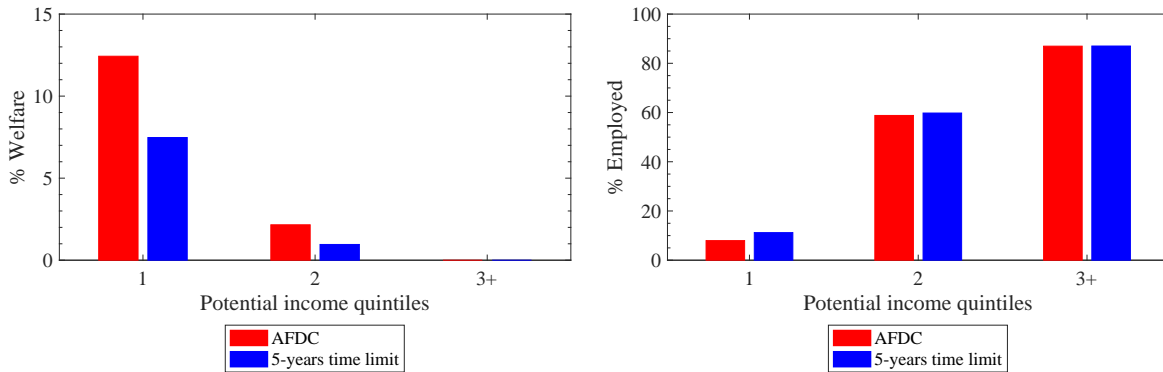
Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female heads of household who are not college graduates and have children aged 18 and below. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996.

Figure D.3: Welfare Use and Employment of Single and Married Mothers Who Have not Yet Run Out of Benefits, by Productivity



(a) Welfare use - single

(b) Employment - single



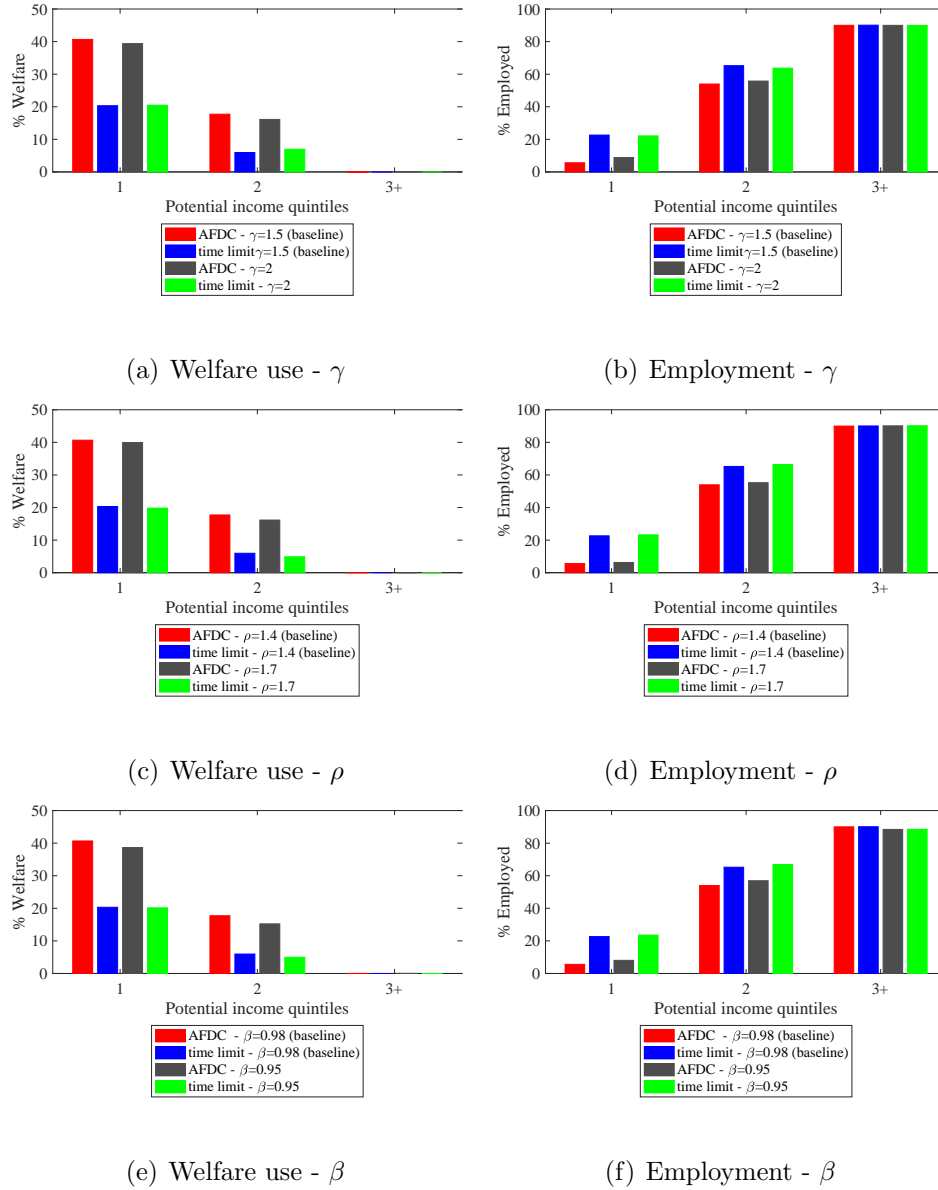
(c) Welfare use - married

(d) Employment - married

Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t . All figures focus the subset of women who, in the counterfactual with time limits, have not yet used 5 years of benefits.

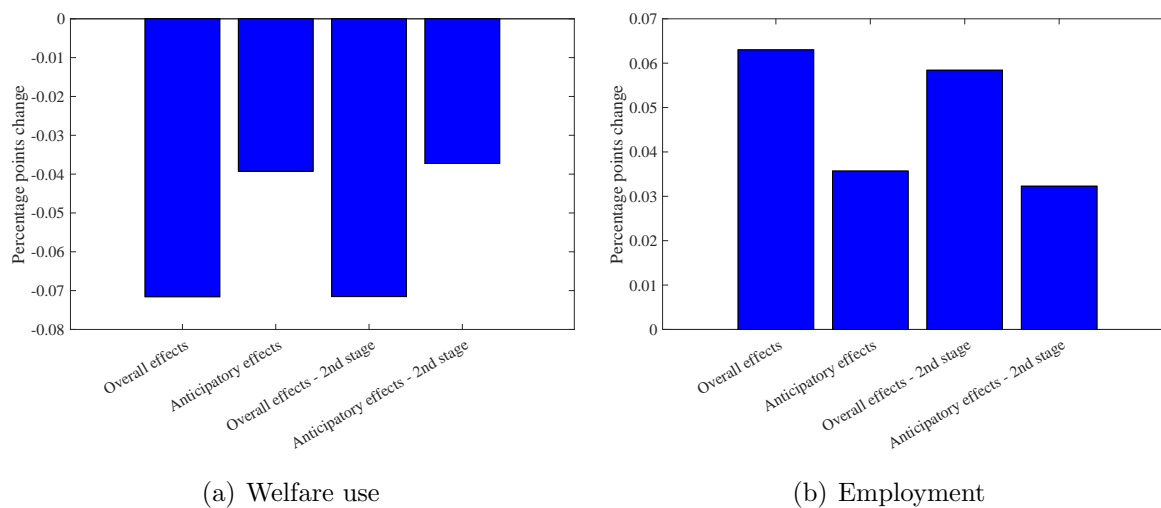
Robustness to Modeling and Estimation Assumptions

Figure D.4: Welfare Use and Employment of Mothers by Productivity: Robustness Analysis to Externally Set Parameters



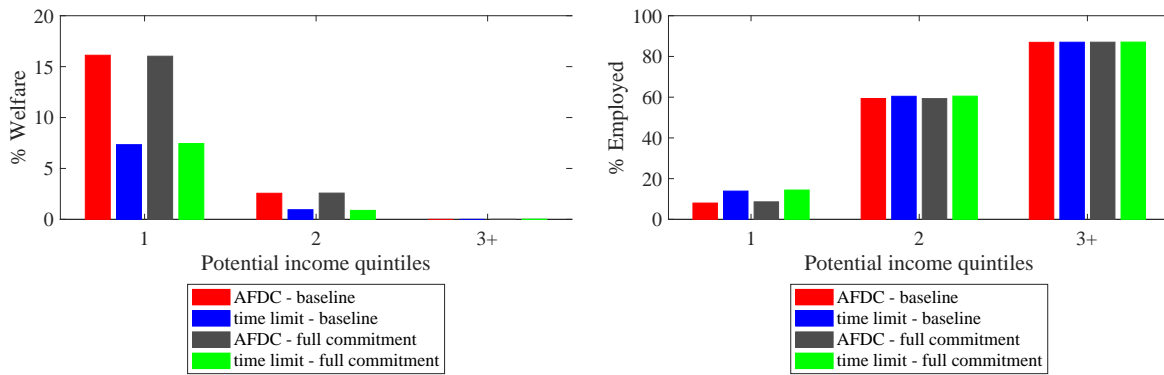
Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t . Red and blue bar are baseline model counterfactuals. Grey and black bars are model counterfactual estimated to account for a modified pre-specified parameter.

Figure D.5: Welfare Use and Employment of Mothers by Productivity: Robustness Analysis to Standard Deviation of Women's Wage Shocks



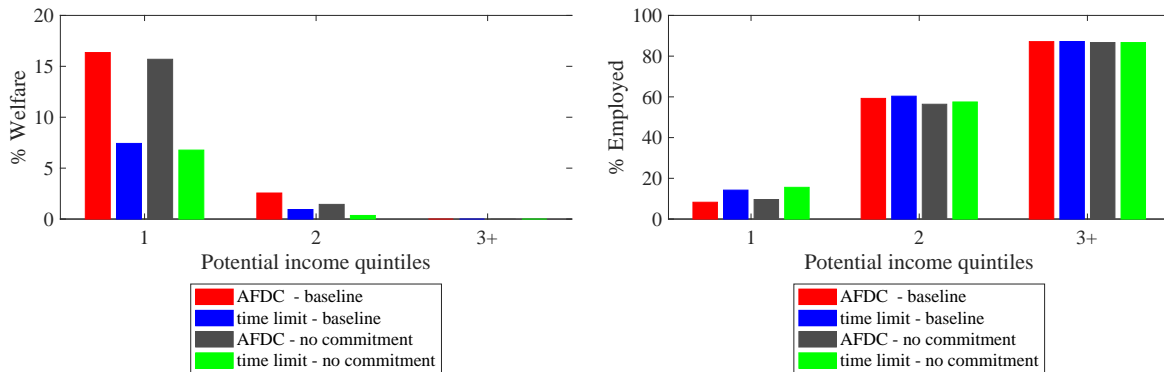
Notes: Simulated changes means of welfare use and employment und alternative policy regime. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t .

Figure D.6: Welfare Use and Employment of Married Mothers by Productivity: Robustness Analysis to Limited Commitment Assumption



(a) Welfare use, full commitment

(b) Employment, full commitment



(c) Welfare use, no commitment

(d) Employment, no commitment

Notes: Simulated means of welfare use and employment by policy regime and by age-specific productivity z_{it}^F quintile. For outcome y_{it}^j and $j \in \{0, 1\}$ where 0 is without any time limit and 1 is with a 5-year time limit imposed, the bars represent $P(y_{it}^1 = 1)$ and $P(y_{it}^0 = 1)$ of mothers, pooling across i and t . The red and blue bars are baseline model counterfactuals. The grey and the green bars are model counterfactuals re-estimated under no commitment. In a full commitment model, spouses never renegotiate Pareto weights after marriage. In a no-commitment model, spouses renegotiate their Pareto weight each period by symmetric Nash bargaining.

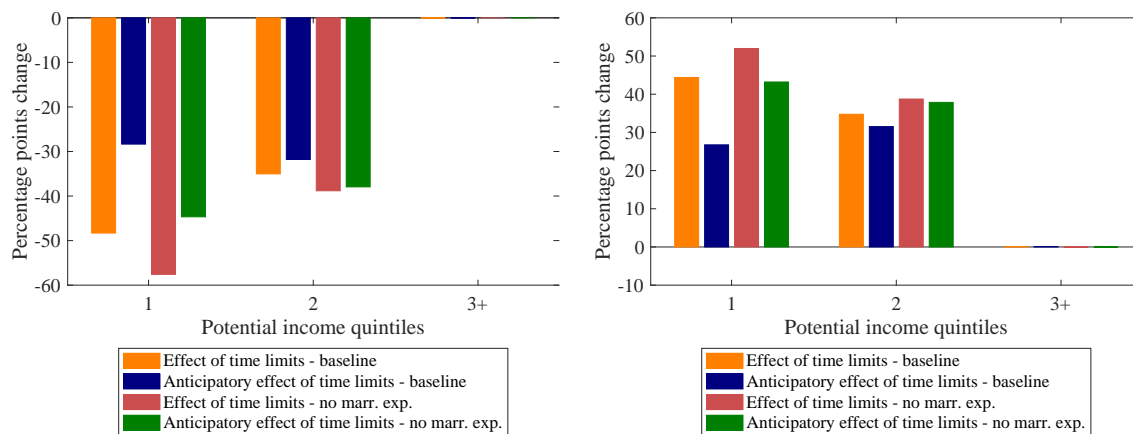
Role of Household Structure

Table D.2: Effects of Time Limits for Single Women by Future Marital Status

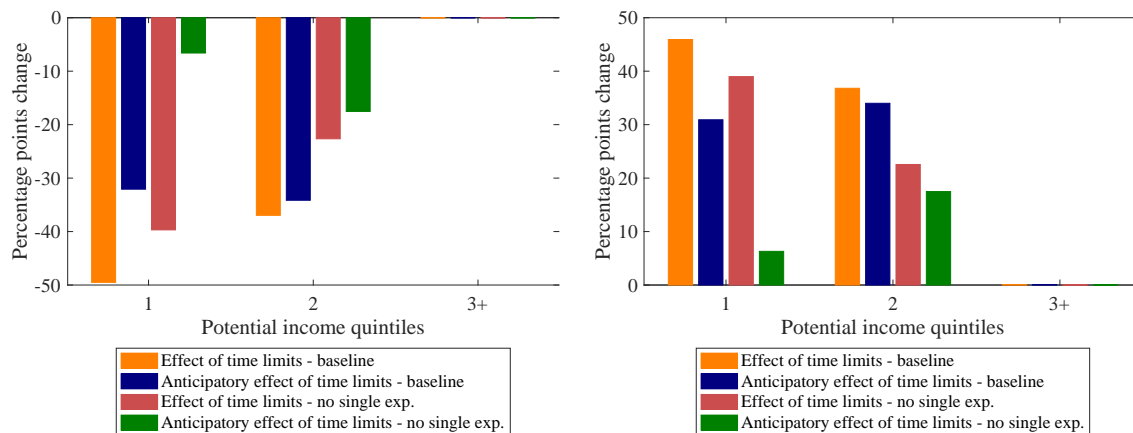
| Sample: | <i>AFDC/TANF Utilization</i> | | <i>Employment</i> | |
|--------------------------|------------------------------|----------------------|-------------------|---------------------|
| | Future Marriage | No Future Marriage | Future Marriage | No Future Marriage |
| $Exposed_{dst}Post_{st}$ | -0.047 (0.041) | -0.091*** (0.016) | 0.090* (0.046) | 0.051*** (0.015) |
| Mean pre-reform | 0.195 | 0.305 | 0.699 | 0.626 |
| Obs | 4,373 | 61,771 | 4,373 | 61,771 |
| R^2 | 0.53 | 0.27 | 0.50 | 0.22 |

Notes: Standard errors in parentheses clustered at the state level. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. We use data from the 1990-2001 SIPP panels, until 2002. Sample of female single heads of household who are not college graduates and have children aged 18 and below. The full set of controls includes age dummies, education dummies, number of children dummies, year-by-month fixed effects, state-by-year fixed effects, state-by-demographics fixed effects, unemployment-rate-by-demographics fixed effects, and a dummy for two or more children interacted with dummies for post-1993 and post-1996. "Future marriage" sample includes currently unmarried women that marriage in some future observation in the panel. "No future marriage" includes currently unmarried women who never marry afterwards in the panel.

Figure D.7: Changes in Welfare Use and Employment of Unmarried Mothers With Different Expectations about Future Marriage



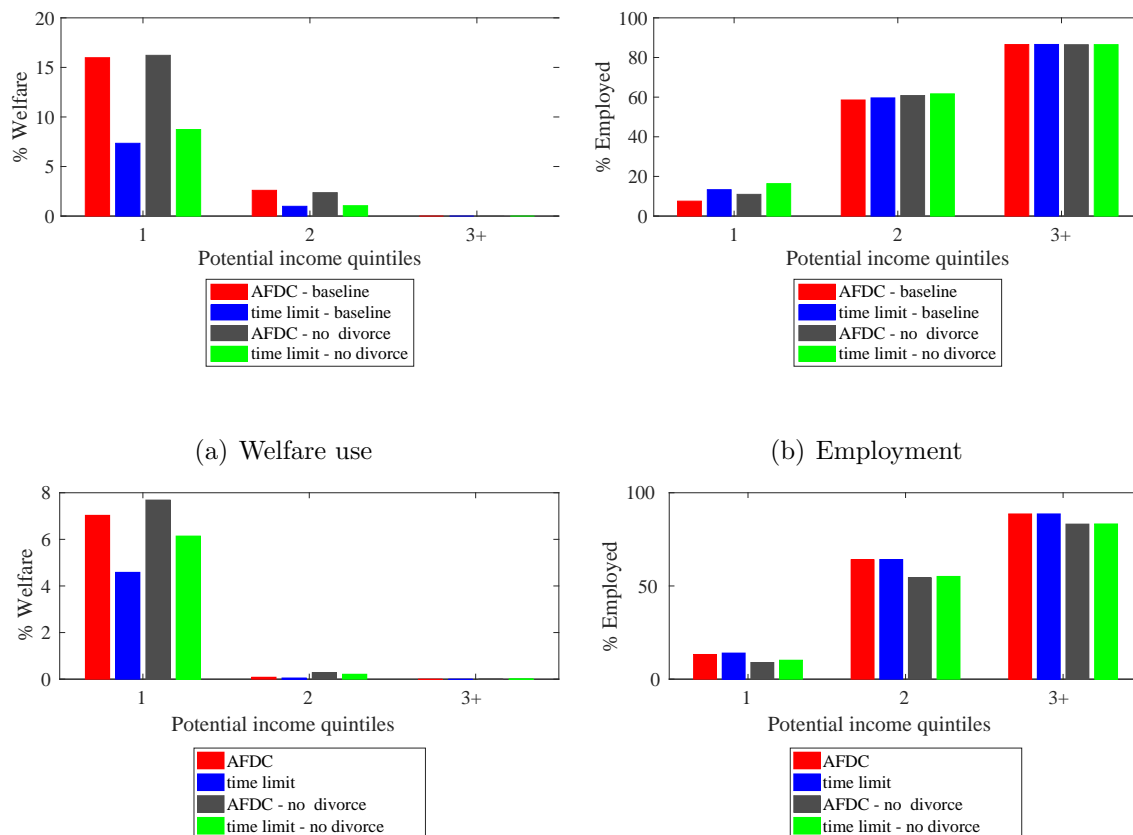
(a) Welfare use, no expectations of being married (b) Employment, no expectations of being married



(c) Welfare use, no expectations of being single (d) Employment, no expectations of being single

Notes: Differences in simulated means of lifetime welfare use and employment between policy regimes, by age-specific productivity z_{it}^F quintile. For outcome y_{it}^r and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^1 = 1 | married_{it}^1 = 1) - P(y_{it}^0 = 1 | married_{it}^1 = 1)$ of mothers, pooling across i and t . Anticipatory effects are computed by taking the sample of mothers i who, at time t , have not yet used 5 years of benefits under the time limit regime $r = 1$, and calculating the difference in average welfare use and employment for this group with and without time limits. In the “no expectations of being married” counterfactual, we solve, estimate, and simulate our model under the assumption that women never expect to marry, and are hence surprised by marriage offers. In the “no expectations of being single” counterfactual, we solve, estimate, and simulate our model under the assumption that women always expect to marry, and are hence surprised by lack of marriage offers.

Figure D.8: Welfare Use and Employment of Married Mothers with and without a Divorce Option



(c) Welfare use, < 5 years of past welfare use (d) Employment, < 5 years of past welfare use

Notes: Simulated means of lifetime welfare use and employment marital status by policy regime and marriage option for married women. Subfigures (a) and (b): In the baseline model B (red and blue bars), outcome $y_{it}^{r,B}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,B} = 1 | married_{it}^{1,B} = 0)$ and $P(y_{it}^{0,B} = 1 | married_{it}^{1,B} = 1)$ of mothers by age-specific productivity z_{it}^F quintile. In the counterfactual model C (grey and black bars), there exists no divorce option. Outcome $y_{it}^{r,C}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,C} = 1 | married_{it}^{1,B} = 1)$ and $P(y_{it}^{0,C} = 1 | married_{it}^{1,B} = 1)$ of mothers by age-specific productivity z_{it}^F quintile. Subfigures (c) and (d) focus on women who have not hit their time limit. In the baseline model B (red and blue bars), outcome $y_{it}^{r,B}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,B} = 1 | married_{it}^{1,B} = 1, E_{it}^{1,B})$ and $P(y_{it}^{0,B} = 1 | married_{it}^{1,B} = 1, E_{it}^{1,B})$ of mothers by age-specific productivity z_{it}^F quintile. In the counterfactual model C (grey and black bars), there exists no marriage option. Outcome $y_{it}^{r,C}$ and $r \in \{0, 1\}$ where 0 is AFDC and 1 is a 5-year time limits, the bars represent $P(y_{it}^{1,C} = 1 | married_{it}^{1,B} = 1, E_{it}^{1,C} = 1)$ and $P(y_{it}^{0,C} = 1 | married_{it}^{1,B} = 1, E_{it}^{1,C} = 1)$ of mothers by age-specific productivity z_{it}^F . Here, $E_{it}^{1,B} = 1$ represents having used fewer than five years of welfare under time limits in the baseline model and $E_{it}^{1,C} = 1$ r in the counterfactual model.

Appendix E: Implications of Welfare Reform for Lifetime Utility

Revenue Neutrality

In our baseline model, the payroll tax rate on labor is set to 0, and hence we let the government run a deficit \bar{D} . When introducing time limits, we hold the government budget deficit \bar{D} constant. This is achieved by adjusting the proportional payroll tax on women's earnings, τ^F , such that the present discounted value of net revenue flows remains constant:

$$\sum_{i=1}^N \sum_{t=1}^T \frac{1}{(1+r)^{t-1}} [FS_{it} + EITC_{it} + b_{it}] = \sum_{i=1}^N \sum_{t=1}^T \frac{1}{(1+r)^{t-1}} \tau_w w_{it} P_{it} + \bar{D}$$

where b captures the payment through AFDC or time limits. This calculation can be carried out using realized payments. By doing this we are able to evaluate the welfare implications of the reform by allowing the same population to benefit from (or pay for) the resulting changes in government deficits and thus abstracting from redistribution from other groups. Moreover any distortionary taxes needed for this calculation are accounted for.⁵⁶

In practice, we first calculate the left hand side in the baseline. This gives the size of \bar{D} per woman/year when $\tau^F = 0$. Second, we change the policy rule into a 5-year limit and recalculate the LHS. This gives the new deficit if the tax rate remains at zero (\bar{D}' per woman/year). Third, we iterate on τ^F so that the deficit under the new policy is equal to \bar{D} . As τ^F adjusts, the choices individuals make will change and so the model needs to be solved again at each iteration. However, the final iteration gives the behavior of individuals in the new policy regime holding revenue constant, which occurs when $\tau^F = -0.375\%$ for the case of a 5 year time limit.

⁵⁶Note that the summation is taken over the women only. This is because our simulations do not keep track of men unless they are in a relationship. So, benefits are being spent on the women and the extra tax to cover those benefits is being taken from the women. Hence, the amount of taxes raised from the men is held constant and budget balance comes only from women.

Welfare Calculation

To define the welfare cost or benefit of introducing time limits, we compute the lifetime expected utility of a woman in our model as

$$E_0 U(s, \tau) = E_0 \sum_{t=1}^T \beta^{t-1} \left(\frac{(c_t^s \cdot e^{\psi(M, k^a) \cdot P_t^s})^{1-\gamma}}{1-\gamma} - \eta B_t^s + L_t m_t^s \right),$$

where $\{c_t^s, P_t^s, B_t^s, m_t^s\}$ refer to the implied consumption, labor supply, benefit stream and marital status in the baseline economy ($s = AFDC$) or in an alternative economy with different welfare parameters (e.g. $s = 5TL$ (5 year limit)) and τ is the revenue neutral tax rate. E_0 represents the expectation at the beginning of working life, before initial conditions are known.

We calculate the proportion of consumption an individual is willing to pay ex-ante to be indifferent between environment $s' = 5TL$ and $s = AFDC$.⁵⁷

$$E_0 U(5TL, \tau_w) |_{\pi} = \sum_{i=1}^N \sum_{t=0}^T \beta^t \left(\frac{((1-\pi) c^s \cdot e^{\psi(M, k^a) \cdot P^s})^{1-\gamma}}{1-\gamma} - \eta B_t^s + L^t m_t^s \right) \quad (17)$$

We solve for π such that

$$E_0 U(5TL, \tau_w) |_{\pi} = E_0 U(b), \quad (18)$$

where π can be interpreted as the consumption cost of going from AFDC to a 5-year limit.⁵⁸

We also consider which demographic groups are affected the most, by conditioning the sample over which the the expectation is computed based on ex-post outcomes, such as marital status and fertility at age 25. Finally, we also compute a further counterfactual utility calculation, which includes the lifetime utility of men as

$$E_0 [U^M(s, \tau)] |_{\pi} = \frac{1}{N} \sum_{i=1}^N \sum_{t=0}^{T-R} \beta^t \left(\frac{((1-\pi^s) c_{i,t}^{M^s} \cdot e^{\psi^{00} \cdot P_{i,t}^{M^s}})^{1-\gamma}}{1-\gamma} + L_{i,t} m_{i,t}^{M^s} \right)$$

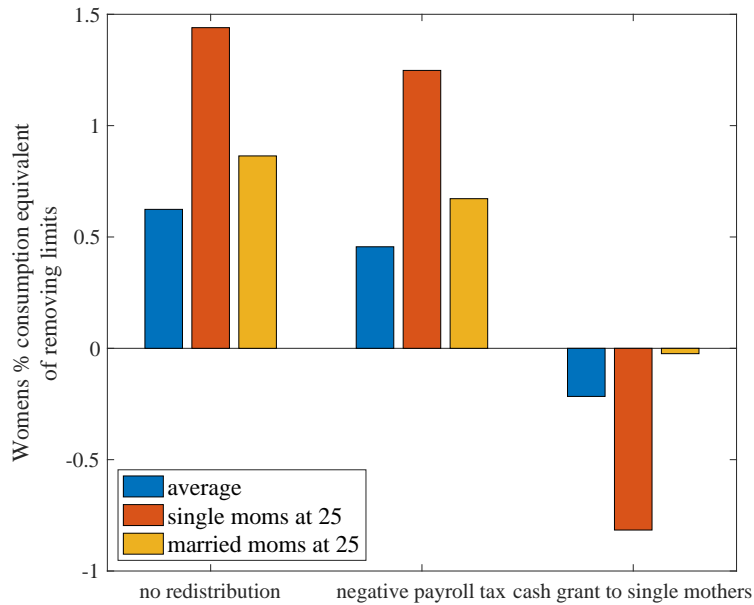
⁵⁷Ex-ante, no one knows the sequence of shocks that will be realized and so since there are no aggregate shocks, realized discounted lifetime utility averaged across all individuals will be equal to expected utility.

⁵⁸In varying π we do not reoptimize.

where $\{c_t^{M\varsigma}, m_t^{M\varsigma}\}$ refer to the implied consumption (with $P_{i,t}^{M\varsigma}$ being, in the men's case, an exogenous employment process) and marital status in economy ς , and τ is the revenue neutral tax rate paid by both men and women. E_0 represents the expectation at the beginning of working life, before initial conditions are known. We solve for π such that

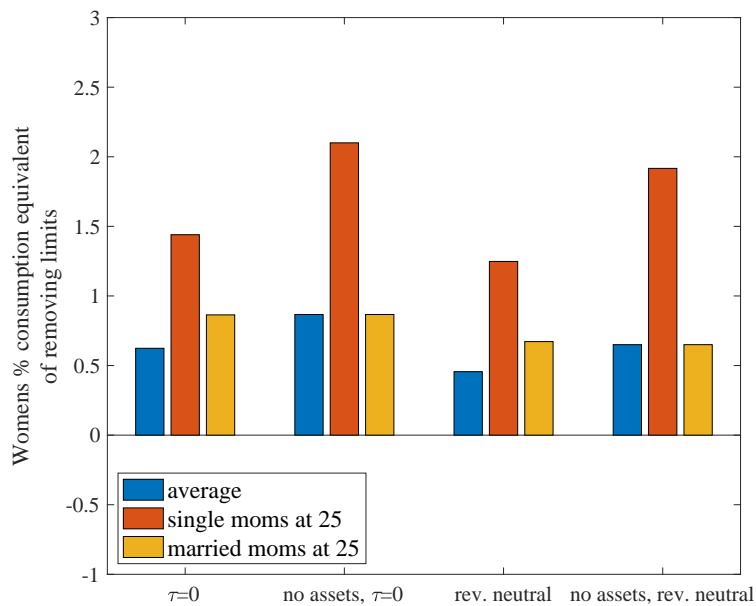
$$E_0 U^M (5TL, \tau)|_{\pi} + E_0 U^F (5TL, \tau)|_{\pi} = E_0 U^M (AFDC, 0) + E_0 U^F (AFDC, 0)|_{\pi}. \quad (19)$$

Figure E.1: Lifetime Utility Costs Of Time Limits on Women without College Degree by Revenue Saving Redistribution Scheme



Notes: Simulated consumption equivalents of AFDC without time limits relative to AFDC with a 5-year time limit, under different assumptions for revenue neutrality achieved through a negative payroll tax on women's earnings or an annual cash grant to all single women. The simulations are based on estimates from a dataset of non-college graduates.

Figure E.2: Lifetime Utility Costs Of Time Limits on Women by Asset Option



Notes: Simulated consumption equivalents of AFDC without time limits relative to AFDC with a 5-year time limit, under different assumptions about the availability of asset accumulation. The simulations are based on estimates from a dataset of non-college graduates.