



Focus

Volume 18

Number 1

Special Issue 1996

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ISSN: 0195-5705

Monitoring the effects of the new federalism

Editor's note: This special issue of Focus reports upon the first steps in a national effort by public and private organizations to develop coherent strategies for evaluating new welfare initiatives proposed by the states and the federal government. The centerpiece of this effort was a conference in Washington, D.C., on February 26, 1996 (see pp. 7–11), that brought together over a hundred representatives of the academic community, policy research organizations, and private foundations. The conference was organized by the Institute for Research on Poverty and the National Center for Children in Poverty, sponsored by the Foundation for Child Development, and cochaired by two former Assistant Secretaries for Planning and Evaluation in the U.S. Department of Health and Human Services (Henry Aaron, who served in the Carter administration, and Martin Gerry, who served in the Bush administration). IRP is grateful to the Foundation for Child Development for making possible this special issue of Focus.

In Section 1, we look at potential consequences of the “new federalism”: the challenges to the social policy community, and to the research community as it seeks to monitor and evaluate broad, state-based initiatives; how evaluation questions and methodologies should adapt to the changing welfare system; what problems states will face in moving from welfare to work-based assistance programs; what may happen if block grants replace open-ended entitlements. In Section 2, we consider information exchange: how to determine what programs states are initiating, what administrative and technical problems they are encountering; how best to stimulate the interchange of pertinent and timely information among state policy makers and administrators and the research community. This section reports upon two workshops which provided opportunities for extended discussions among state and federal officials and researchers. In particular it addresses a central concern about the new welfare proposals—their effect on child well-being—and describes two projects that will track changes in the condition of poor children under state welfare reforms. Section 3 narrows its focus to the welfare reforms that have been proposed in the state of Wisconsin and that have drawn intense national attention. The Institute has a ringside seat for welfare reform in Wisconsin, and will draw upon a distinguished tradition of evaluative research to explore issues and outcomes as the state sets out into uncharted territory.

Research challenges created by the new federalism

Barbara B. Blum

Barbara B. Blum is President of the Foundation for Child Development.

Across our nation significant changes in programs designed to support poor families are creating something akin to a revolution in service delivery systems. Those of us interested in monitoring the effects of these changes will be challenged by a number of factors that characterize their implementation.

First, in many instances the impetus for policy revisions has been value-driven. Thus we find a heavy emphasis on the value of work; on delaying the birth of a child until adequate financial support can be produced by the parent(s); and on setting conditions (time limits, work requirements, school attendance) as a quid pro quo for benefits.

Second, most of the changes will be affected by reductions in funding. These reductions are inequitably distributed by class and age. At the federal level, the drive toward deficit reduction and the reluctance to reduce Social Security and Medicare benefits has forced deep cuts in those programs supporting our least well-off citizens, and especially children.

Third, there exists a multiplicity factor which is likely to increase geometrically in the next few years. This is so because no two states have made exactly the same decisions about configuring their “reformed” income, health, and service programs. Furthermore, many states are devolving some decision making to counties and municipalities, which will generate still further diversity.

Fourth, the program changes are interactive in ways that will lead in many instances to unpredictable outcomes. We know, of course, that income is related to health status; and we know that health status affects ability to work, as does access to stable child care. What we don’t know is how the many combinations of changes in income support, health care, and child care programs may aggregate to affect the functioning of families.

Fifth, reliable data will be increasingly difficult to obtain. Some services may cease to exist or be redefined, creating a situation in which much existing baseline data is irrelevant to the new circumstances of service provision. Myriad opportunities exist for simply “losing” individuals who until recently were counted in the

SSI, Medicaid, AFDC, or child care caseloads. Even trend analysis, in many ways the simplest method for monitoring, will become unreliable at best.

It’s not difficult to describe other factors—the capacity of state and local staff, the composition of state legislatures, the state revenue base—each of which will be influential in shaping state and local changes. With all these challenging factors, one can certainly ask “What’s a researcher to do?”

Certainly this set of circumstances seems to dictate the need for open communication and collaboration among our best and brightest researchers. The magnitude of the changes to be studied and their complexity warrant recognition that disciplined dialogue is required for us to succeed in identifying the right questions to be addressed, designing the best methods to answer those questions, presenting findings in the most coherent way, and getting those findings understood by policy makers and practitioners. Furthermore, and complicating such collaboration, forums must be developed to learn from policy makers and practitioners what questions they believe are most important.

Despite these challenges, opportunities for important research do and will continue to exist. For instance, our largest cities may provide special opportunities for surveys, qualitative and quantitative studies, and even controlled experiments. These could be of great value since so many of our vulnerable citizens—particularly poor children—live in urban areas. (In New York City alone, more than 550,000 children are dependent on AFDC and many other programs targeted for change.) But to succeed:

We need to be disciplined. Some questions are more important than others.

We need to actively “search and discover” the sites and administrators that will foster strong research initiatives.

We need to work together so that research findings are understandable to the public, being particularly sensitive to the fact that across studies, some findings may seem to be contradictory unless the context for each study is fully understood.

We need to be creative in our dissemination strategies, using print and video, as well as the Internet to present positive and negative information about the new federalism.

One thing is certain. This is a new era for research. ■

The new federalism: Monitoring consequences

Thomas Corbett

Thomas Corbett is Associate Director of IRP and Assistant Professor in the School of Social Work at the University of Wisconsin–Madison.

Reconstruction of the nation's social welfare edifice is now clearly under way, though the ultimate shape of the structure has yet to be determined. Some envision a future in which major federal welfare entitlements and service programs are replaced by fixed grants to the states ("block grants"). Others envision less dramatic change: a world in which states have considerable flexibility to design and manage their own social welfare programs, but share some regulatory and fiscal responsibility with the federal government. Few appear to support the existing distribution of responsibility among the various levels of government.

The proposed transfer of authority for the design and management of social programs from Washington to the states has been labeled the "devolution revolution" or the "new federalism." It alters the relations among levels of government and potentially disrupts the ways in which institutional players in the social policy arena have structured their respective roles. University research entities, think tanks, management and evaluation firms, and advocacy and education groups must rethink what they are about and who their future audience will be. A desire to grapple with these uncertainties led to a national conference, sponsored by the National Center for Children in Poverty and the Institute for Research on Poverty and supported by the Foundation for Child Development, which brought together many of the major actors in the devolution drama (see pp. 7–11).

Welfare and devolution

Welfare reform is the stage on which the revolution in governmental responsibilities is being acted out. Congressional welfare debates have resulted in six major House bills, eleven major Senate bills, one conference bill, and thirteen minor bills. Two made it to the president's desk: HR 2491 (the conference bill) was vetoed in November 1995 and HR 4 was vetoed in January 1996. The National Governors' Association (NGA) has promoted a compromise bill that apparently has bipartisan support, but its fate remains uncertain.

The push for the "new federalism" is based on the belief that the federal government cannot solve the vexing problems of welfare, poverty, and family breakdown.

One variant—structural or legislated devolution—involves (1) termination of the entitlement status of selected income maintenance and service programs; (2) grouping related programs into broad program areas, defined either by common target populations or by common service technologies; (3) converting federal contributions for programs from matching formulae into closed-end block grants so that, on the margin at least, costs are no longer proportionately shared among local and federal governments; and (4) eliminating or reducing the federal role in regulation and rule making, in assuring accountability, and in providing technical assistance. There is considerable debate about whether structural devolution will stimulate or inhibit innovation and experimentation.

A second variant of the new federalism might be called incremental devolution. Whatever the fate of structural devolution or of block grants, states are gradually transforming the face of social welfare through the imaginative and energetic use of "waiver-based" flexibility. In recent years, states have increasingly sought, and received, authorization from the general government to waive—set aside—federal provisions governing Aid to Families with Dependent Children (AFDC) in the context of program experimentation. Such authorizations have resulted in substantial devolution of program authority over welfare from Washington to the states (see "Welfare Waivers," this issue, pp. 34–37). In the near future, we may see fifty state-generated models of welfare reform, probably with many additional variants at the level of cities and communities. Some states will pursue creative and far-reaching reform; others will retrench in order to accommodate the fiscal constraints that will accompany the new state freedom.

Program decentralization and policy deregulation have many attractive aspects, but they should not obscure potential problems:

Interstate differences may be enhanced and the resulting pressures may create a competitive "rush to the bottom." States that offer more services, training opportunities, or transitional supports into the labor market may fear adverse entry and magnet effects.¹ No state wants to be the generous outlier that risks attracting poor families, particularly from less generous states. These pressures may push even the more compassionate state policy makers toward reducing state investments in social welfare programs, particularly if states find themselves paying more at the margin (above the federal contribution) for those programs. (This issue is discussed at greater length by Howard Chernick and Andrew Reschovsky, "State Responses to Block Grants," pp. 25–29.)

The willingness of states to design and run programs tailored to their own circumstances and needs may be exaggerated. State and local officials may blame Washington for real and imagined problems, but they often draw considerable comfort from their lack of ultimate responsibility for welfare programs. Federal oversight provides a consistent policy and programmatic core within which incremental change and innovation are possible. Absent that oversight, policies may swing wildly as the political winds change within and across states. State legislators and executives will be strongly tempted to devolve program responsibility further, to local governments, when they realize the political difficulties of allocating increasingly scarce federal dollars to the many legitimate petitioners for help. The potentially adverse financial and managerial outcomes are not at all hard to imagine.

Social welfare reform is far more than a political and ideological issue. The lack of hard information about theoretical, technical, and management issues will generate an urgent need for expertise that individual states may not be capable of meeting. If federal assistance continues to diminish in real (and perhaps nominal) terms, states will bear more of the cost for the directions they adopt and will reap more of the blame for negative consequences, real and imagined. Making good choices and implementing them effectively become far more important in the emerging environment.

Clearly, the extent to which these concerns emerge depends upon the form of new federalism that triumphs. Under a block grant regime, for example, dollars spent by states beyond the capped federal contribution will be entirely their own, greatly increasing the fiscal risks of bad policy choices. State demands for neutral information and expert opinion on policy alternatives, administrative reforms, evaluation procedures, and program outcomes are likely to grow.

The potential rewards and risks of the new federalism do not fall entirely upon government but are shared by program beneficiaries. Despite the limitations of our knowledge, we do know a fair amount about the failures and successes of our present welfare system. The reform debate, unfortunately, is guided more by normative preferences than informed judgment. Claims on both sides—that reform will solve fundamental societal problems or, instead, result in some form of societal apocalypse—cannot be substantiated. Family and child outcomes associated with any radically new regime cannot be known in advance with any scientific certainty. These are empirical questions that must be seriously and carefully addressed.

In an environment dominated by the new federalism, most interested observers believe that a greater need will emerge for ways to:

1. Facilitate state and local access to existing knowledge about problems and possible solutions, perhaps through forums where analysts, policy makers, and state and federal officials share information about and experience with reform programs; ensure that states will have access to competent technical assistance, that they undertake appropriate planning and analysis, and have the skills to carry out such activities. (For examples of workshops that were directed to such goals, see this issue, pp. 30–33, 42–48.)
2. Assess the effects of new policies, programs, and administrative arrangements on disadvantaged children, families, and communities; measure the macroeffects of change, to determine if significant rethinking of a particular policy direction is warranted; ensure that the transformation in the governance structure of social welfare programs is meeting established goals.
3. Gather and evaluate the appropriate data, and promptly disseminate information about state and local efforts; guarantee that states will receive feedback, particularly about unintended consequences, so that adjustments can be made.

Responding to the challenge

Seriously addressing the challenges described above is a major undertaking. An informal review of the landscape in late 1995 revealed that organizations were beginning to respond to a social policy world in which the federal government might no longer be a major player. A number of large projects—and many smaller ones—were being developed or implemented (see the table, pp. 12–17).² The content of these projects made it clear that efforts would be duplicated in some areas, while other topics were left untouched.

1. The foundation community's response is illustrated by the initiatives primarily undertaken by the **Annie E. Casey Foundation**, which, in cooperation with **Grantmakers Income Security Taskforce (GIST)**, was considering establishing a National Center for State and Community-Based Welfare Reform. This Center would serve as broker, facilitator, and funding intermediary, helping states and communities to gain access to technical assistance, whether broad overviews or detailed technical and operational advice.
2. Various research firms that are not based in universities were engaged in significant efforts to understand and document the full import and consequences of the devolution revolution.

A major example is the collaborative project of the **Urban Institute** and **Child Trends, Inc.**, to assess how actions being considered by the federal government (i.e., balancing the federal budget and significantly de-

volving social welfare program responsibility to the states) would affect the well-being of children and youth over the next five years.³ The primary goal of this project (now under way) is to provide policy makers with timely indications of how spending reductions and shifts in program responsibilities will affect the most vulnerable segment of America's population. A related goal is to provide community groups and child advocates with basic analytic tools and sources of data to monitor program performance and child outcomes in their states.

3. Nonprofit and for-profit evaluation and management firms were also active players. Though many firms are attempting to carve out a niche for themselves in the new policy world, we cite only two examples.

The **Manpower Demonstration Research Corporation** (MDRC) was exploring the value of launching an information dissemination, technical assistance, documentation, and evaluation project that would focus on state welfare system reforms, and that would address changes in other elements of the social safety net: child care and child support enforcement, and possibly child protective services, foster care, and services for homeless families.

ABT Associates was preparing a prospectus for a coordinated research plan with five objectives: (a) document the planned policy changes at the state and local level; (b) monitor and describe how state and local policy changes were implemented; (c) measure the effects of the policy changes on households and individuals; (d) determine how private-sector organizations were adjusting to the restructured role of the public sector; and (e) measure how public opinion was responding to the perceived changes in the social welfare system. The study objectives would be approached through a process analysis of policy implementation and an impact analysis of the effects of the new policies, once implemented.

4. Finally, a number of academic organizations were seeking to play a role. The **National Center for Children in Poverty** was undertaking a Map and Track project with two purposes: to provide technical assistance to states and communities undertaking initiatives on behalf of young children, and to follow and assess comprehensive state and community efforts in that area. (It is described in this issue, pp. 49–51.)

The **Cross-National Research Program** at the Columbia University School of Social Work, under the direction of Sheila Kamerman and Alfred Kahn, was conducting two studies of the new politics of child and family policy in the United States (see this issue, p. 52). The projects are supported by the Carnegie and Ford Foundations.

The **Rockefeller Institute of Government**, under the direction of Richard Nathan, planned to draw upon its experience in the public management arena to study the

institutional—that is, the political, administrative, and operational—and substantive consequences of state responses to block grants.

A simple idea—get the major players together

Even from the limited review we conducted last fall, several considerations emerged. First was the substantial overlap among the proposed initiatives about which we had some knowledge. Second, the scope of the initiatives and the array of tasks being discussed were ambitious, complex, and resource-intensive; no one organization had all the talent and resources to mount a comprehensive and inclusive effort. Third, the federal role in molding, mapping, and monitoring state activity would most likely be further curtailed in the future, continuing to add to the responsibility of nonfederal organizations to pick up the slack.

In late 1995, the larger policy community seemed at a crossroads. Collectively, the initiatives just described imply a rather dramatic shift in key evaluation tasks from the public to the nonpublic sectors.⁴ At issue was the manner in which that shift would occur. One possible strategy would be to adopt a *laissez-faire* attitude. In a competitive and innovative marketplace, would it not be better to preserve the entrepreneurial spirit and to permit all interested organizations to carve out a niche? A major disadvantage is that both states and sources of financial support (e.g., foundations) might find the environment confusing as claims and counterclaims began to flourish.

A second alternative would structure the shift so that it would take place in a coordinated, thoughtful manner. There were obvious difficulties in doing so, but the very high stakes seemed to outweigh the very real difficulties of a collaborative venture. Consider only this: If the federal role in overseeing national welfare policy is eviscerated, who will (or can) look after the children and families?

Thus the other possible response—to bring together the organizations and individuals who would play a significant evaluative and monitoring role in a postfederal world—was a strategy ultimately proposed by the National Center for Children in Poverty and the Institute for Research on Poverty. The purposes of such a gathering were: (1) to clarify goals, objectives, and basic strategies being proposed to assist states in adjusting to new realities and challenges; (2) to identify ways to minimize duplication among efforts and maximize collaborative arrangements among key players; (3) to identify costs and procedures for setting up adequate and sustainable financing; (4) to think through (perhaps to develop) a comprehensive and coordinated plan; (5) to look for ways to exploit the comparative advantages

enjoyed by particular institutions and to optimize outcomes through institutional affiliation rather than institutional competition.

The conference that eventually resulted, "Monitoring the Effects of the New Federalism," was held in Washington on February 26, 1996. It is described in the following article. Project data assembled before that conference by the Institute for Research on Poverty are presented in the table on pp. 12–17. ■

¹The *entry* effect occurs when an effective program draws people onto the rolls who otherwise might not have participated (e.g., drawing individuals onto AFDC to get the training and child care designed to get them off AFDC); see, for example, Robert A. Moffitt, "Unintended Effects: Employment and Training Programs and the Welfare Caseload," *Focus* 17, no. 2 (Fall/Winter 1995): 17–20. The *magnet* effect deals with interstate relocations intended to take advantage of attractive public programs in the destination state; see, e.g., Thomas Corbett, "The Wisconsin Welfare Magnet Debate: What Is an Ordinary Member of the Tribe to Do When the Witch Doctors Disagree?" *Focus* 13, no. 3 (Fall/ Winter 1991): 19–28.

²For a more complete treatment, see Thomas Corbett, "Facilitating National Efforts to Mold, Map, and Monitor Outcomes in a Postfederal Welfare World," unpublished ms., Institute for Research on Poverty, January 1996.

³This effort is primarily funded by the Annie E. Casey Foundation, though support from other foundations has been forthcoming. A number of other organizations are playing smaller roles in this significant project.

⁴Nonpublic institutions (profit and nonprofit) have been involved in public responsibilities, leading some to observe that government has already been privatized. This represents an abrupt further shift in that direction.

FOCUS is a Newsletter put out three times a year by the

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Focus is free of charge, although contributions to the U.W. Foundation–IRP Fund sent to the above address in support of *Focus* are encouraged.

Edited by Jan Blakeslee.

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Monitoring the effects of the new federalism: A conference

The conference held in Washington, D.C., on February 26, 1996, had two primary goals: (1) to learn what researchers and other analysts were doing in response to the emergence of new programs and policies affecting children and families, as states assume more authority for the formation and administration of welfare programs; (2) to discuss the coordination of efforts to monitor and evaluate those changes.

Specific purposes flowing from those goals were to determine the central issues that evaluations of the welfare reforms must consider; to identify appropriate national and subnational data sets available or in development to address those issues; to reveal deficiencies in our information infrastructures; and to construct a list of feasible strategies to remedy these deficiencies. An additional goal was to provide private foundations that have a strong interest in supporting research and evaluation with a map of what is happening and a sense of the important questions to be answered.

To obtain background information, in advance of the conference a questionnaire was sent to researchers and analysts to learn of projects under way or about to be begun. The results were tabulated and distributed to conference participants. The table, updated through April 1996, appears on pages 12–17.

Following is a selection of the remarks that were offered in the course of the conference.

Session I: National and multistate data and studies

Barbara Wolfe (Institute for Research on Poverty): The process of devolution to the states is well under way: over half of the states are already engaged in major program experimentation. In assessing these activities, we should distinguish between monitoring and evaluation: *monitoring* tracks policy changes and the direct and indirect outcomes related to these policies; *evaluation* attempts to establish causal links of policies with a variety of outcomes. Examples of outcomes that can be employed both to monitor and to evaluate new programs include: economic well-being, employment and earnings, children's school readiness, adult literacy, child and maternal health (physical and psychological), numbers of children with severe disabilities, substance abuse, access to health care, and medical coverage.

The data now available have many limitations. National data sets contain sample sizes too small to provide adequate information on many of the states, on almost all local populations, and on particular vulnerable groups,

CENTRAL QUESTIONS IN EVALUATING THE NEW FEDERALISM

1. How do states respond to their increased freedom and changed fiscal responsibility in designing programs for the population with low incomes?

What are the fiscal readjustments within states?

What programs are developed and implemented? What programs are eliminated?

Who is eligible? Who receives benefits and who is denied?

Which programs are effective, and for whom? Which are cost effective?

What role does the private sector play, through use of vouchers, performance contracting, reorganization of social services, and charity? What is their impact?

2. What are the consequences for the well-being of children and of families?

What are the impacts on local communities and neighborhoods?

What changes take place in individual behavior?

What are the changes for those not well served by the existing social welfare system (the working poor)?

What are the impacts on vulnerable groups (children with disabilities, immigrants, children of a teenaged mother)?

such as children with disabilities. National data provide little information on child outcomes, and it is difficult to merge them with data from other sources. State data sets have other disadvantages: it is difficult to make comparisons among them, and our ability to track individuals across states and programs is impaired; they also lack information on individuals who may be eligible for welfare programs but who do not participate.

Time is necessary for data to mature and become useful for research purposes. Fiscal uncertainties threaten continued collection of the data that we now have, and we must determine the usefulness and validity of available data for understanding the new welfare policies. At the same time, we must assess the feasibility of other strategies for improving data: for example, expanding current data sets by adding relevant questions, or designing new national surveys, or merging micro data sets with other sources of data, such as administrative records and state and county information.

Isabel Sawhill (Urban Institute): The need to prepare for changes resulting from the movement toward smaller and more dispersed government has generated two major reasons for monitoring and evaluation activities: to inform the debate over whether that movement is desirable, and to learn the effects of different policies as related to particular outcomes. Six research questions have priority. Is reinvention working—will the states do a better job of policy making? What will be the fiscal re-adjustments within states? What will be the impacts on local communities, even on neighborhoods? What will be the changes in individual behavior, especially work and family behavior? What changes will occur in the private sector, and, most importantly, what will be the impacts upon the well-being of children and families?

Discussants emphasized the importance of four issues: What will be the effects on the larger community—not only those being served by the welfare system but also the working poor and those affected by labor market changes? What will be the impacts on families—on family formation, functioning, stability, and integrity? What will be the effect of state capacities—how may outcomes be limited by the capacity of states to carry out their plans? What will be the impact on service providers?

Michael Laracy (Annie E. Casey Foundation): Recently initiated research on issues raised by devolution has been innovative and of high quality. Major studies are under way or about to begin at the Urban Institute, the Rockefeller Institute of Government, the Manpower Demonstration Corporation, the Center for Study of Social Policy, among others. The new federalism reveals the prescience of the work on child indicators that began with the November 1994 conference on national indicators and continues with study of state-level indicators. The difficulty confronting all of the research on effects of the new federalism will be to succeed in establishing

causality, but we can be heartened by the creativity of approaches that are being applied now.

Henry Aaron (Brookings Institution): Scholars can play a special role by supplementing the technical expertise needed at the state level, advising and assisting the states in their program transitions, and becoming involved in data activities. Individual studies may produce results of interest to policy makers, but repeated studies of the same subject, such as the income-maintenance experiments and the work of the Manpower Demonstration Research Corporation, seem to have produced a deeper, cumulative effect on policy.

Session II: Single-state and local information and studies

Tom Corbett (Institute for Research on Poverty), in an overview of the “devolution revolution,” discussed the costs of innovation if states no longer have federal matching funds and must pay the full price of changes at the margin; the history of changing goals of welfare reform; and the high level of complexity involved in conducting evaluations that focus upon individual behavior and the culture of organizations. Corbett identified four strategies that deserve careful consideration:

Ensure that evaluation and monitoring of well-being do not become extinct in a postfederal world: keep a federal role, build in financial incentives, build regional consortia of states.

Develop a common framework for conducting local evaluations: develop consensus on ways to operationalize criterion measures and conduct implementation and process evaluations.

Develop ways to integrate different evaluations to build a common base of knowledge: make sense of diverse evaluations and presentations of results, and disseminate results to those who need them in user-friendly ways.

Push the envelope of evaluation and monitoring: ensure continuity over time, move from policy making by revealed truth to policy making by empirical insight.

Martin Gerry (University of Kansas): Our purpose today is to identify critical outcomes of interest by developing central theories of change and the assumptions underlying them. We must determine the types of data needed to examine these outcomes and how we might obtain this information. In doing so, collaborative approaches will help us achieve what might be termed “convergent validity.” In our concern with data collection, we must not lose sight of the importance of the federal role—the Congressional Budget Office and the Office of Management and Budget are key players in data efforts.

Richard Nathan (SUNY–Albany): We should consider the separate audiences for evaluation activities. One audience is the research community, whose members will write journal articles that are refereed by colleagues. Another audience consists of those who motivate and make policies for the states. A third is the federal government, whose executive and legislative members consume the results of evaluations for policy purposes. The predispositions and expectations of those various groups must be taken into account when evaluation results are promulgated.

Henry Aaron: There are four points of view concerning social policy. According to one view, if the price of a particular phenomenon, such as teen childbearing, is reduced, this will increase bad outcomes. Another view is that people with insufficient resources are compelled by their poverty to live in bad environments, producing bad outcomes. The third view is that interventions can change the behavior and expectations of recipients. The fourth is that state and local officials should be freed of federal restrictions to the maximum extent possible. The differences in these views underline the need to establish clear causality if research is to influence policy.

Barbara Blum (Foundation for Child Development): Seven guidelines for the research community are: Be *disciplined* and rigorous, in view of the scarce resources that must be utilized to the fullest extent possible. Be *creative* in devising economic ways to gather and use data. Be *collaborative* with both the public and policy makers, when reporting evaluation results, and with fellow researchers, sharing information and results. Be *opportunistic*, to take advantage of chances wherever they arise, locating and making use of sites and program administrators receptive to research. Be *poised*, ready to move as new research questions emerge. Be *diversified* in research approaches—be willing to use randomized experiments as well as surveys, qualitative as well as quantitative studies. Be *strategic* in plans for dissemination, taking account of the varieties among audiences, making research understandable to all.

Session III: Proposed strategies to fill gaps

Ann Segal (U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation): Members of federal agencies are very concerned about being able to maintain even the current level of data collection in the face of possible fiscal cuts.

Lawrence Aber (National Center for Children in Poverty): Possible strategies to fill gaps in information and to study the impact of the new federalism on children, families, and communities include the following.

Federal: Strengthen state reporting requirements in federal reform legislation. Retain the federal funding

match for data development efforts for administrative data, automated data, rigorous evaluations, and social indicators.

National (efforts that do not necessarily presuppose a federal leadership role): Expand major national data-collection efforts to develop reliable state estimates and include more child and family outcome data. Develop a sample of states that would be demographically representative and programmatically representative, and concentrate resources on them. Expand existing surveys by adding new questions on specific issues related to changes.

State: Develop a coordinated system of child, family, and community indicators that can be tracked over time, is consistent across states, and can be disaggregated by locality. Develop common protocols for use by states in rigorous evaluations of new policy and program initiatives. Enhance the quality and utilization of administrative data sets for monitoring and evaluation purposes—merge with population-based data; merge with new surveys that permit analyses of groups screened in and out of programs.

Howard Rolston (U.S. Department of Health and Human Services, Administration for Children and Families): Private foundation resources will be needed, in view of federal fiscal cutbacks already in place. A list of priorities includes:

Preserve and strengthen national data sets. Because benefits will increasingly be in kind (vouchers), it will be more difficult to use benefit receipt as an indicator.

Preserve the quality of the random-assignment evaluations that we now have, and encourage the states to use randomized designs.

Add child impact information to evaluations. Think about sample sizes and age cohort sizes. In the future, it is not the mean but the distribution of impacts that will be important.

Think about nonexperimental designs in state settings. We will have a broader set of issues than can be captured experimentally—community effects, entry effects.

Conduct cross-state implementation studies. Demonstrations involving learnfare, family caps, and sanctions are under way in a number of states; their implementation could be captured in cross-state work.

Deborah Phillips (National Academy of Sciences, Board on Children and Families): Child outcomes and family processes must become the focus of attention. We should move away from evaluating reforms and begin to examine broader areas—the working poor, community assets. Research should move from a “top-down” (national) approach to “bottom-up” study of activities—those emerging from cities, local communities, neighborhoods.

A roadmap: Potential strategies for overcoming data limitations and bridging gaps in the information infrastructure

These strategies are based on the assumption that block grants are passed and that there is limited reporting required at the federal level.

1. *Expand the sample size of national data sets to add more items on child and family well-being.*

The purpose of this strategy is to fund the expansion of national data sets, such as SIPP or CPS. Ideally, they would be expanded to a size permitting researchers to do state-level analysis and would add items that would allow a researcher to look at the types of child and family well-being measures that are not now features of the data sets.

2. *Develop a new panel study of particular populations such as young children and adolescents.*

The second strategy would be targeted at particularly vulnerable groups that could be both low-income and from a particular age group.

3. *Administer ethnographic/detailed qualitative interviews to a subset of respondents from a national panel study.*

4. *Develop a representative sample of states on the basis of programmatic differences and collect panel data and process implementation data.*

The fourth strategy is to focus efforts on a sample of states, chosen on the basis of differences in their services to the low-income population, and to begin to collect panel data from residents of those states as well as process-implementation or administration data.

5. *Develop a set of critical indicators which include accepted methods of measurement.*

The fifth is a slightly different type of strategy: It is an attempt to agree on critical indicators, and to set up a methodology and definitions of these indicators—child indicators, indicators of family well-being, indicators of how well women are doing in terms of the labor market, maltreatment, and abuse. A broad spectrum of indicators would be viewed as important in this strategy, which would also develop careful definitions and uniform ways to measure each indicator.

6. *Initiate programs to educate state policy makers and administrators about effects and incentives of the various methods of delivering cash and services to low-income populations.*

This strategy would seek to bring together what we currently know about the effects and incentives of different methods of delivering cash and services to various low-income populations, and disseminate it to those who are currently in charge of making choices.

7. *Facilitate the use of existing data sets by increasing knowledge of their contents and increase their usefulness by merging them.*

This strategy would enhance use of all the existing data sets, including experimental program data and large national data sets, by making a listing of their contents readily available through publications or a Web site). This strategy would spend resources to develop ways to merge data sets.

8. *Supplement existing panel data sets.*

The last strategy is to supplement existing panel data sets by adding items measuring, for example, family well-being or adding particular age groups. This strategy speaks essentially to existing *panel* data sets such as the NLSY and PSID, to differentiate it from the first, which spoke primarily to CPS-type data sets or SIPP.

We face several major challenges, as follows. Capacity: There will be huge pressures on states and localities to evaluate; we must bolster their capacity to do so. Audiences with particular points of view: We must define child and family issues from the vantage point of the different audiences mentioned by Richard Nathan. Aggregation: Because we will need to aggregate local data,

research at the state and local levels should be designed with the need for ultimate aggregation in mind. Children should be kept at the forefront of attention.

This research enterprise should: Identify child and non-economic family outcomes and how they are to be measured; identify specific aspects of the processes of re-

Table 1
Rating of potential strategies for overcoming data limitations and bridging gaps in the information infrastructure

Strategy	Mean (\$) ^a	Next year ^b	Next 5–10 years ^b
1. Expand the sample size of national data sets to add more items on child and family well-being	14.87	2.68	2.42
2. Develop a new panel study of particular populations such as young children and adolescents	6.73	3.89	3.04
3. Administer ethnographic/detailed qualitative interviews to a subset of respondents from a national panel study	9.44	2.92	2.96
4. Develop a representative sample of states on the basis of programmatic differences and collect panel data and process implementation data	17.65	2.72	2.60
5. Develop a set of critical indicators which include accepted methods of measurement	15.00	2.62	2.93
6. Initiate programs to educate state policy makers and administrators about effects and incentives of the various methods of delivering cash and services to low-income populations	9.44	2.47	2.76
7. Facilitate the use of existing data sets through increasing knowledge of their contents and increase their usefulness by merging them	11.31	2.77	2.78
8. Supplement existing panel data sets	5.71	3.76	3.51

^aOut of \$100, how much would be allocated to each strategy?

^bWhich is most important on a scale of 1–5, 1 being the highest priority?

form—implementation and administrative issues; foster an ongoing exchange of information among investigators at different sites and institutions; assure that less experienced and able states are provided with access to the highest quality of expertise; develop mechanisms for integrating results across data sets; connect the collective results of this research with the broader literature on children in poverty; encourage embedded studies, cross-site evaluations, data archiving, and secondary analytic work; provide for construction of a logical sequence of research, building upon the first wave of results.

Eric Wanner (Russell Sage Foundation): There are levels of research ambition. The first level involves constructing indicators to determine, early on, whether welfare reform is harmful to those affected by it. A more ambitious effort seeks to determine, across the 50 states, the configurations of welfare reforms that are more effective or less effective. This is a demanding exercise that must take into account particular state contexts, such as economic factors. The final level addresses whether these welfare reforms, all of which reduce the flow of transfers, are a good thing—a desirable social goal. Systematic ethnographic studies are a useful means of learning about the lives of the poor.

As a result of the comments in this session, **Aber** added three items to his list of strategies: systematic ethno-

graphic research; immediate attention to implementation studies; modeling of programs that bubble up from the local and state levels.

Session IV: Priority strategies

This session was devoted to constructing and assessing a list of strategies to achieve the goals of the conference (see box, p. 10). After the roadmap of potential strategies was developed, conference participants were asked: “1. If you were a foundation representative with \$100 to spend, how much would you allocate to each of these strategies? 2. How would you rate their importance in the short term (the next year)? 3. How would you rate their importance over the long term (in the next 5–10 years)?” The answers they gave are reported in Table 1. The meaning of these ratings should not be overdrawn. They represent the sense of the attendees at the conference who were asked to make rather quick decisions with imperfect knowledge. At the same time, those present at the conference were drawn from important groups of institutional players—government, foundations, academia, major evaluation and policy firms, and some advocacy groups. ■

Monitoring the New Federalism: A Table of Projects

National Studies	Researcher	Project title	Status	Research topics
	Smeeding/Center for Policy Research	Luxembourg Income Study	Active; in active development	Income support/Antipoverty/Welfare reform efforts
	Smeeding/Center for Policy Research	"EITC as Capital Account"	In active development	
	Chernick/Reschovsky	"State Fiscal Responses to Block Grants for the Needy"	In active development	
	Inman	"Fiscal Response of States to New Federalism" (48 contiguous states)	Submitted	
	Census Bureau	Continuation of National Data Collection: Survey of Income and Program Participation	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs
	Child Trends, Inc.	"Trends in the Well-Being of America's Children and Youth"	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Education & training/Human capital enhancement programs <i>and</i> Teenage fertility/Family formation & stability policies <i>and</i> Health care programs and policies
	MDRC	"Canada's Self-Sufficiency Project"	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Child care/Early education/Family preservation & support policies
	Families and Work Institute	"Indicators of Improvement in the Early Childhood Education and Care System"	Active	Child care/Early education/Family preservation & support policies
	ASPE/Office of Disability/IRP	"Child Care and Children with Disabilities: Utilization, Costs, and Family Labor Supply"	Active	
	Leif	"Use, Need, Outcomes, and Costs of Mental Health Services in Child and Adolescent Populations"	Active	Health care programs and policies
	Urban Institute	"Assessing the New Federalism: A Comprehensive Study of How States' Responses to Devolution Affect the Well-Being of Families and Children" (nat'l study with 2 multistate levels of analyses; states inc. AL, CA, CO, FL, IL, LA, MA, MI, MN, NY, NC, OH, TX, VA, WA, WI)	Active	All topics; Budget initiatives; State tax policy
	Kammerman/Kahn	"Confronting the New Politics of Child and Family Policy in the United States"	Active	Other
	Moffitt/Cherlin/Chase-Lansdale	"Effects of State-Level Welfare Reform on Child Development Indicators"	In active development	

Multistate Studies

Center for the Study of Social Policy et al.	“Ethnographic Research on AFDC Families in Six States” (CA, FL, IN, MA, MI, NE)		Submitted	Income support/Antipoverty/Welfare reform efforts
Institute for Research on Poverty	“Informing Welfare Debate” (CA, MI, VA, WI)	Active		
Institute for Research on Poverty	“Impact of State-Level Reform on Child Well-Being” (states to be determined, probably including CA, MI, WI)	In active development		
MDRC	“Impact of Devolution in Urban Areas/Time-Limited Welfare” (5 to 8 cities, possibly from FL, GA, IL, MD, MN, OH, OR, PA, TX)	Submitted		
Mathematica	“Postemployment Services Demonstration” (Portland, Chicago, Riverside, San Antonio)	Active; in active development		Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs
Mathematica	“Evaluation of Adding Home Visitor Services” (IL, OH, OR)	Active; in active development		
MDRC	“Parents’ Fair Share” (CA, FL, MA, MI, NJ, OH, TN)	Active		Income support/Antipoverty/Welfare reform efforts <i>and</i> Child care/Early education/Family preservation & support policies <i>and</i> Child support
Mathematica	“Evaluation of the Teenage Parent Demonstration” (Chicago, Camden, NJ, Newark, NJ)	Active; in active development		Income support/Antipoverty/Welfare reform efforts <i>and</i> Teenage fertility/Family formation & stability policies
MDRC	“JOBS Evaluation”	Active		Labor market/Employment/Job development programs <i>and</i> Education & training/Human capital enhancement programs <i>and</i> Child care/Early education/Family preservation & support policies
Mathematica	“Evaluation of School-to-Work Implementation” (27 states; 8 in-depth; FL, KY, MD, MA, MI, OH, OR, WI)	Active		Labor market/Employment/Job development programs <i>and</i> Education & training/Human capital enhancement programs
Abt	“Effect of Adult Basic Education for Low-Level Learners” (plan for 30 sites)	Active		Education & training/Human capital enhancement programs
Ladd	“How Does Fiscal Constraining Affect Resource Decisions of School Districts?” (Texas and other states)	Active		
MDRC	“The New Chance Demonstration” (CA, CO, FL, IL, KY, MI, MN, NY, OR, PA)	Active		Education & training/Human capital enhancement programs <i>and</i> Teenage fertility/Family formation & stability policies

Monitoring the New Federalism, continued

<i>Researcher</i>	<i>Project title</i>	<i>Status</i>	<i>Research topics</i>
Abt	"Family Support Evaluation" (CA, CT, FL, MD, NM, NY, VA, WI)	Active	Child care/Early education/Family preservation & support policies
Abt	"Even Start" (program sites in all states)	Active	
Abt	"Head Start Family Service Centers" (60 sites throughout the U.S.)	Active	
Abt	"CCDP" (30 sites in 10–20 states)	Active	
Chapin Hall	"Foster Care Caseload Dynamics" (CA, FL, IL, MI, MO, NY, TX)	Active	
ASPE/Office of Disability/Department of Pediatrics, Yeshiva University	"Assessment of the Policy Implications of Alternative Functional Definitions of Disability for Children" (Bronx, NY; AZ, and a national sample)	Active	Child care/Early education/Family preservation & support policies <i>and</i> Health care programs & policies
ASPE/Office of Disability/MedStat Group	"Health Care Utilization and Expenditure Patterns of Children with Disabilities under Private Insurance and Medicaid" (CA, GA, MI, NY)	Active	Health care programs & policies
ASPE/Office of Disability/MedStat Group	"Managed Care for Children with Disabilities" (CA, FL, MA, MI)	Active	
Brookings Institution/SUNY–Albany/ Brown University	"Medicaid and the Future of American Federalism" (tent. AL, CA, CO, FL, MI, MN, NY, PA, TX, WI)	Submitted	
Mathematica	"Evaluation of State Health Reform Demonstrations" (HI, OK, RI, TN, VT)	Active; in active development	
Chapin Hall	"Children's Social Services" (primarily IL, MA)	Active	Children's social services
Institute for Research on Poverty	WRISP Project (currently CA, GA, IL, MI, MN, NC, VA, WI)	Active	National and state policy analysis
Individual States			
Abt	"Evaluation of 'A Better Chance' Welfare Reform Demonstration" (DE)	Active	Income support/Antipoverty/Welfare reform efforts
Abt	"Evaluation of Indiana's Welfare Reform Program"	Active	
Abt	"Evaluation of 'To Strengthen Michigan's Families'"	Active	
Abt	"Evaluation of New York Child Assistance Program"	Active	
Center on Urban Poverty and Social Change	"Tracking the Impact of Welfare Reform on Families, Children, and Labor Markets" (OH)	Active; in active development	

Mathematica	"Iowa Welfare Reform Evaluation"	Active, in active development	
MDRC	"Connecticut's 'A Fair Chance'"	Active	
MDRC	"Florida's Family Transition Project"	Active	
MDRC	"The Minnesota Family Investment Program"	Active	
MDRC	"Vermont's Welfare Restructuring Project"	Active	
Mead	"Why Has the Wisconsin AFDC Caseload Dropped since 1987?"	Active	
UC-DATA	"Impact of MAP Reductions, Disregard, and 100-Hour Changes/Resources Limit Changes on AFDC Employment and Termination Rates"	Active	
M. Meyers/Center for Policy Research and UC-DATA	"Child Care and Employment" (CA)	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs <i>and</i> Child care/Early education/Family preservation & support policies
M. Meyers/Center for Policy Research and UC-DATA	"SSI and Disabled Children/Parents" (CA)	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs <i>and</i> Health care programs & policies
MDRC	"Ohio's Learning, Earning, and Parenting"	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Child care/Early education/Family preservation & support policies
Abt	"Evaluation of the New Jersey Work Force Development Program"	Active	Labor market/Employment/Job development programs
Center on Urban Poverty and Social Change	"Evaluation of Labor Market Opportunities for Former AFDC Recipients" (OH)	Active	
Institute for Research on Poverty	"Labor Market Project" (WI)	Active	
UC-DATA	"Impact of Financial Incentives/Disincentives..."	Active	Education & training/Human capital enhancement programs <i>and</i> Teenage fertility/Family formation & stability policies
ASPE/Office of Disability/University of Florida, Institute for Child Health Policy, Department of Pediatrics	"The Impact of Managed Care on Children with Special Health Care Needs and Family Out-of-Pocket Expenses" (FL)	Active	Child care/Early education/Family preservation & support policies <i>and</i> Health care programs & policies
ASPE/Office of Disability/Health Economics Research, Inc.	"The Impact of Managed Care on Low-Income Children with Physical Disabilities, Mental Illness, and Mental Retardation/Developmental Disabilities in the Oregon Health Care Demonstration"	Active	
ASPE/Office of Disability/Center for Policy Research	"Disabled Children and the AFDC and SSI Programs" (CA)	Active	

Monitoring the New Federalism, continued

<i>Researcher</i>	<i>Project title</i>	<i>Status</i>	<i>Research topics</i>
ASPE/Office of Disability/Johns Hopkins	"The Use of Medical Services by Chronically III Children in the Medicaid Program" (WA)	Active	Health care programs & policies
UC-DATA	Untitled Project	In active development	
UC-DATA	Untitled Projects	Active; submitted	Vocational rehabilitation; Reproductive health policy; AFDC disabilities population
Local and Regional Studies			
Families and Work Institute	"Early Education Quality Improvement Project" (Boston, Kansas City; OR, WV)	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Child care/Early education/Family preservation & support policies
Howard University, Center for Urban Progress/D.C. Private Industry Council	"Operation Jumpstart" (Washington, D.C.)	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs <i>and</i> Education & training/Human capital enhancement programs <i>and</i> Community development
Howard University, Center for Urban Progress/People's Involvement Corporation/Manna, Inc.	"Georgia Avenue Community Renaissance Initiative" (Washington, D.C.)	Active	
Howard University, Center for Urban Progress	Youth Mentoring, "Nu World Tribe" (Washington, D.C.)	Active	
MDRC/Huston et al./MacArthur Network	"The New Hope Demonstration" (Milwaukee)	Active	Income support/Antipoverty/Welfare reform efforts <i>and</i> Labor market/Employment/Job development programs <i>and</i> Health care programs & policies <i>and</i> Child care/Early education/Family preservation & support policies
Frank (Boston City Hospital)	"Measures of Child Growth and Development" (Boston)	Active; in active development	Income support/Antipoverty/Welfare reform efforts <i>and</i> Health care programs & policies
Sipe, Public/Private Ventures	"Workplus: Building on Entry-Level Jobs to Help Young People Get Ahead" (Boston, Cleveland, Sonoma County)	Active	Labor market/Employment/Job development programs
Grossman, Hugh, Public/Private Ventures	"Bridges to Work Demonstration"	Submitted	
Mathematica	"Evaluation of the Youth Fair Chance Program" (16 private industry councils received grants; no specific sites mentioned)	Active; in active development	Education & training/Human capital enhancement programs

Kotloff, Public/Private Ventures	“Assessment of the Casey Foundation Plain Talk Initiative”	Active	Teenage fertility/Family formation & stability policies
Mathematica	“Early Head Start Program Evaluation” (12 programs to participate)	Active; in active development	Child care/Early education/Family preservation & support policies
MDRC	“Observational Studies of Parent/Child Interaction in the New Chance Demonstration and the JOBS Evaluation” (Bronx, Detroit, Lexington, Manhattan, Philadelphia, Pittsburgh, Portland)	Active	
Center on Urban Poverty and Social Change	“Cleveland Community-Building Initiative Evaluation”	Active	Other: Community building/Community development
Chapin Hall	Untitled project on community initiatives (states worked with have included CA, FL, IL, MD, MI, NY, TN, WI)	Active	
Gambone, Sipe, Public/Private Ventures	“Community Change for Youth Development” (Austin, Boston, Kansas City, Minneapolis, New York City, St. Petersburg, San Francisco, Savannah)	Active	
Chernick/Reschovsky	“Impact of the New Federalism on Central Cities/Central City Residents”	In active development	Other
Kammerman/Kahn	“The Big Cities Confront the New Politics of Child and Family Policy”	Active	
Ladd/Ludwig	“Impact of HUD-Funded Moving to Opportunity Program on the Educational Opportunities and Experience of Children” (Baltimore)	Active	
Gambone, Public/Private Ventures	“Assessment of Voluntary Youth-Serving Organization (15 sites)”	Active	

Evaluating the new state welfare reforms

Robert A. Moffitt

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The remarkable explosion of state-level welfare reforms is unprecedented in the history of welfare in the United States. Evaluating the effects of those reforms should be a top priority of policy makers around the country, for one mark of a mature and progressive society is how well it applies rational methods of discourse to its actions. The variety and complexity of the reforms pose great challenges to such evaluation, but it is imperative that they be met. If they are not, policy makers will, in several years' time, be in the unfortunate situation of not knowing how to proceed to the next phase because they will not know the effects of the first.

Policy makers usually greatly underestimate the difficulty and the amount of resources that are necessary to conduct good evaluations of their programs. They often think that it will be easy to determine, after the fact, whether their programs “worked” or not. Nothing could be farther from the truth; on the contrary, it is almost always extremely difficult to determine the true effect of a program, where that effect is defined as its extra effect on top of whatever else is going on in the state—changes in the economy, in the demographic structure of the population, in poverty rates, and even in other parts of the welfare system. It is essential that the effects of these other simultaneous, confounding factors be controlled for and that an evaluation be designed ahead of time that can do so.

History of welfare evaluations

Formal evaluations of reforms of welfare, especially of the AFDC program, have at least a 25-year history. The 1967 Social Security Amendments, which first introduced the \$30-and-one-third disregards, were evaluated in several states.¹ The evaluations were based solely on an examination of how many recipients on the rolls were working before and after the reform, and they were deeply flawed. In the 1970s, the attention of the evaluation community was mostly focused on large-scale income maintenance experiments; these were randomized trials intended to measure the effects of earnings disregards and of benefit-reduction rates in general.² Whether those large-scale experiments were a success or a failure is still debated, but the history of welfare

evaluation has, for better or worse, bypassed them, in the sense that no new experiments of that type have been implemented since then.

Provisions of the 1981 Omnibus Budget Reconciliation Act (OBRA), which essentially eliminated the \$30-and-one-third disregards, were evaluated as well. The best-known study was conducted by the Research Triangle Institute (RTI). It was nonexperimental in nature and was based on a before-and-after “cohort” design.³ Using administrative records, the “natural” exit and reentry rates of a set of AFDC recipients were calculated for several states over the pre-1981 period; administrative records were then used to calculate the same exit and reentry rates for a set of recipients after 1981. The effect of OBRA was taken to be the difference in the exit and reentry rates between the two periods. Although this design was subjected to some criticism at the time, it is nevertheless a quite strong methodology.⁴

Over the 1980s, the major focus of welfare reform evaluation was on the numerous randomized-trial, experimental studies of work-welfare programs around the country.⁵ Unlike the experiments of the 1970s, these experiments were relatively small in scale. Also unlike the experiments of the 1970s, their results have garnered widespread credibility and have had a significant impact on policy makers.

The 1988 Family Support Act (FSA), which created the JOBS program and also provided for transitional child care and Medicaid benefits for women leaving the AFDC rolls, has not been evaluated in a comprehensive fashion. An experimental evaluation of the JOBS program, conducted by the Manpower Demonstration Research Corporation, has yet to report results. No formal evaluations, experimental or nonexperimental, of the transitional child care and Medicaid benefits have yet been published.

This history of welfare reform evaluation well illustrates some of the difficulties of different modes of evaluation. The work-welfare experiments of the 1980s are the greatest success story in the history of welfare program evaluation and provide the best case for continuing and strengthening experimental methods. Yet they also illustrate one of the weaknesses of the experimental method, which is a narrowness of focus and inability to yield generalizable results. Because the experiments tested the effects of specific program types of interest only in the 1980s, no information was obtained on any of the significant reforms under way in the state-level reforms today: time limits (cold turkey or with

mandatory work only), expanded earned income disregards, AFDC-UP reform, etc. The 1988 JOBS experimental evaluation reveals another weakness of the method, namely, the long period required for results to be obtained. This compounds the potential problem of policy irrelevance—it is not clear that the JOBS program, by itself, is highly relevant to the new reforms.

In addition, the RTI design of the OBRA evaluation, while not without flaws, was not even repeated for the 1988 FSA. The data collection and evaluation for the 1981 study was supported by federal funding, and such funding was not forthcoming in 1988. Yet it would have been relatively easy to implement and would have yielded results years ago. As a consequence, the effect of the 1988 FSA is still not known today.

Issues in evaluating the new reforms

There is no space here to provide an extensive discussion of the merits of different evaluation methodologies.⁶ However, the basic issue of whether to use experimental or nonexperimental methods must confront all state policy makers. In brief, experimental methods have the advantage of providing strong internal validity and credibility; of usually providing a clean test and estimate of a particular program; of being relatively simple to communicate and to understand; and of being inexpensive relative to some types of nonexperimental evaluations. Their weaknesses include the often long period of evaluation, the narrowness of focus (because only one thing can be tested at a time), the difficulty of incorporating entry and scale effects, as well as the practical and ethical problems of implementation.⁷ Nonexperimental methods, on the other hand, are better suited to capturing natural program variation that occurs across different counties and states, are more flexible in the types of programs whose effects can be measured, and can more directly address entry and scale effects. But the major weakness of nonexperimental methods is the frequent difficulty in assessing the credibility of the results. Another weakness is that nonexperimental methods, if requiring large-scale data collection, may be more expensive than experiments.

What do these principles imply for the new state-level welfare reforms? They are all directly applicable. In the face of rapid growth of an enormous variety of reforms, simple experimental methods have the signal advantage of providing clean tests controlling for all the other things that are happening in states at the moment. An experiment—if properly designed and conducted, it should be stressed—is still the most credible method of evaluation. But experiments are not well suited to capture the enormous variety of the systemwide, simultaneous reforms that many states are now attempting, with their major effects on entry as well as exit, and on the

overall size of the caseload. In addition, experiments will not be capable of measuring all the different types of reforms going on around the country; there are simply too many and, as noted above, experiments can measure only one thing at a time. Nonexperimental evaluations, on the other hand, have that capability but require major data collection efforts; and, in the end, their findings will have to be judged on their credibility and reliability, which are difficult to predict.

There are many special aspects to the current evaluation problem as well. Policy itself is still in flux, and programs will be only gradually put in place and will continue to evolve over the next few years, making an evaluation with a clean “before” and “after” difficult. Another major difficulty is the problem of “bundling”: most reforms change many different aspects of the welfare system simultaneously, making it equally difficult to measure the effect of each individual reform measure in the entire package. Yet, in the future, when policy makers want to modify that package, they will want to know the effects of adding or subtracting individual components.

Strategies

A basic strategic decision requires a judgment on the relative emphasis of experimental strategies.⁸ I believe that a reasonable strategy in the present circumstance would be to pursue selected experiments but to envelop them in a nonexperimental “cocoon.” Experiments on a few major, identifiable reform features—the 100-hour rule or earned income disregards, for example—would be valuable. It would be preferable to experiment with programs that add or subtract these components from comprehensive reform packages, rather than test them alone as increments only in the existing system. Given the history of such experiments, it would be preferable to keep them as small in scale and as limited as possible.

At the same time, data collection for a comprehensive nonexperimental evaluation should begin. Two types of data are required for such an effort to succeed. First, data are needed on past and future rates of entry to and exit from the welfare rolls, and on the earnings and employment of recipients and nonrecipients. Some historical data are required in order to implement an RTI-type or related design. Information on entry determines whether the reforms have entry effects; knowledge of such effects is needed to estimate how reforms affect costs and caseloads. Earnings and employment information on both nonrecipients and recipients identifies the labor market situation of first-time entrants before they enter the rolls, of those who exit from the rolls, and of those who choose not to go on the rolls. It would be preferable to collect individual-level data of these types but, at a minimum, county-level aggregates are needed.

Second, data must be collected to determine what is actually happening in the states and the counties, and implementation measures should be included. Without reasonably detailed information on the policies to which individuals are subjected, it will be difficult to connect policies with their outcomes. The aim of obtaining such information is to measure the way in which policies actually impinge on the daily lives of individual recipients; these effects are the ultimate goal of the policy itself in any case.

In addition to these data, information from surveys of recipients and nonrecipients would be helpful as a supplement and to examine outcomes other than those that can be obtained from administrative data. Surveys help reveal what is happening inside the families touched by the reforms—how adults respond, how children are affected.

Although these data collection efforts are expensive, an immediate beginning upon establishing an information base will yield long-term benefits to our knowledge of the effects of the reforms as well as to our understanding of the welfare system itself. ■

¹The \$30-and-one-third earned-income disregard allowed working recipients to retain each month the first \$30 they earned plus a third of the rest of their earned income. See, on these evaluations, W. Bell and D. M. Bushe, *Neglecting the Many, Helping the Few: The Impact of the 1967 AFDC Work Incentives* (New York: Center for Income Maintenance Policy, 1975); V. Smith, "Welfare Work Incentives: The Earn-

ings Exemption and Its Impact upon AFDC Employment, Earnings, and Program Cost," Michigan Dept of Social Services, Lansing, MI, 1974; G. L. Appel, "Effects of a Financial Incentive on AFDC Employment: Michigan's Experience between July 1969 and 1970," Institute for Interdisciplinary Studies, Minneapolis, MN, 1972.

²G. Burtless, "The Work Response to a Guaranteed Income: A Survey of Experimental Evidence," in *Lessons from the Income Maintenance Experiments*, ed. A. Munnell (Boston: Federal Reserve Bank of Boston and Brookings, 1986); R. Moffitt and K. Kehrer, "The Effect of Tax and Transfer Programs on Labor Supply: The Evidence from the Income Maintenance Experiments," in *Research in Labor Economics*, ed. R. Ehrenberg (Greenwich, CT: JAI Press, 1981).

³Research Triangle Institute, "Final Report: Evaluation of the 1981 AFDC Amendments," Research Triangle Institute, North Carolina, 1983.

⁴R. Moffitt, "Assessing the Effects of 1981 Federal AFDC Legislation on the Work Effort of Women Heading Households: A Framework for Analysis and the Evidence to Date," Institute for Research on Poverty Discussion Paper no. 742A-84, 1984.

⁵This research is summarized by J. Gueron and M. Pauly, *From Welfare to Work* (New York: Russell Sage Foundation, 1991).

⁶Relevant articles are G. Burtless, "The Case for Randomized Field Trials in Economic and Policy Research," *Journal of Economic Perspectives* 9 (Spring 1995): 63–84; J. Heckman and J. Smith, "Assessing the Case for Social Experiments," *Journal of Economic Perspectives* 9 (Spring 1995): 85–110.

⁷R. Moffitt, "Evaluation Methods for Program Entry Effects," in *Evaluating Welfare and Training Programs*, ed. C. Manski and I. Garfinkel (Cambridge: Harvard University Press, 1992).

⁸A somewhat separate issue is how to regard the experimental evaluations that are currently under way for the approximately 60 waiver requests in almost 40 different states. It is this author's view that those evaluations, where they are well designed and sufficiently funded, should be continued and strengthened.

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From welfare to work: Problems and pitfalls

Robert Haveman

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The key word in welfare reform today, among state and federal policy makers alike, is “devolution,” a policy shift that involves the transfer from the federal government to states of both money and responsibility for assistance to the low-income population.¹ Ultimately, that money and that responsibility will flow to local units. Several states and local jurisdictions are already well into the process of rethinking the nature and purpose of traditional welfare programs. This rethinking has taken its most advanced form as states seek and implement federal welfare waivers. What is being sought in these waivers gives us an indication of what is likely to be in store under devolution.

In looking at the nature of these waivers, several common themes stand out.

- Many states seem determined to make Aid to Families with Dependent Children (AFDC) a transitional program, by emphasizing the need for recipients to work in order to receive support and limiting the period for which support is received. In some states—Wisconsin is an example—welfare as an “entitlement” will no longer exist (see pp. 53–76, this issue).
- Many states are seeking to change the behavior of participants by engaging in “social engineering” (see the article on “Welfare Waivers,” pp. 34–37, this issue).
- Nearly all of the requested waivers are designed to reduce budget costs, which means making support levels less adequate, often less than adequate. Many of the requested waivers demonstrate less concern than in the past with maintaining the living standards of those in our society who are least able to cope.

In this article I focus on efforts aimed at encouraging (or requiring) work, which are likely to be the key element in “post-devolution” welfare reform. This theme automatically leads into issues of the labor market, the state of the economy, economic development, and the role of the business community in helping solve the nation’s dependency and poverty problems. My intention here is to flag possibilities and pitfalls that may open up as different approaches are planned and undertaken. I raise ten questions regarding likely welfare reforms.

1. What can we expect from early job placement efforts?

This strategy underlies many reform ideas and requested waivers. It involves confronting welfare applicants at the intake door and emphasizing to them the merits of work rather than reciprocity. It requires caseworkers to become immediately involved with new applicants, directing them toward job search, and away from benefit reciprocity and nonwork. It also requires caseworkers to become intimately involved with the potential employers of these applicants. To be successful, four elements would seem necessary: Exemptions from the work requirement need to be reduced. Support from employment-related services (placement, monitoring) needs to be increased. A mix of administrator enthusiasm and firmness needs to be fostered. Regular contacts, and perhaps contracts, with employers need to be established.

Some states have reported substantial results from these efforts—California and Wisconsin are examples. Yet obstacles are already appearing in the pathway.

First, many welfare recipients—up to one-quarter, by some estimates—bring with them insurmountable barriers to employment. These barriers come in many forms: unwillingness to work, difficulty retaining jobs, chronic mental/physical problems, lack of basic skills, serious language deficiencies. Nationally, the average recipient has reading-math skills of about the typical eighth grader, and 30 percent have basic skills below the minimum of all women in the lowest-skill occupation (household workers).

Second “creaming” is a problem with this strategy: the most job-ready recipients are placed first, so that gains are experienced early, and tough slogging follows. The case of Wisconsin is revealing. Employing a strategy of early intervention, reduced benefits, and substantially increased efforts and expenditures on the JOBS program (the employment and training program in AFDC), Wisconsin managed to reduce welfare rolls from a caseload of nearly 100,000 families in 1986 to about 80,000 in 1990; today it is below 60,000. But those declines in caseloads have begun to taper off, even in the face of continuing large expenditures on JOBS and early job-finding efforts.

Third, the “culture” of the welfare system and those who work in it must be changed from performing administrative tasks associated with eligibility establishment and benefit transfers to activities devoted to job finding, job search, and job counseling. These activities require skills and training quite different from those that led to the hiring of most caseworkers as primarily administra-

tive personnel—people whose job is to meet deadlines and pay close attention to details and rules. Changing the culture of welfare workers and welfare offices toward active job search is not an easy thing to do, and no one should be misled regarding it.

Fourth, this undertaking is not cheap. The costs of effective employment support alone—job search, job placement, employment monitoring—can range up to \$5,000 per year, per recipient.

2. Can the labor market absorb the influx of low-skilled workers if work mandates and time limits are taken seriously?

If time limits are imposed and few exemptions are granted, there will be a large influx of low-skilled, poorly educated workers into the job market. If the time limits in the most prominent congressional bill were imposed immediately, over one million more women would be searching for something like full-time work over the next few years. About 60 percent would be minorities; nearly one-half would have less than a high school education; about one-half would have had no work experience at the time that they began receiving benefits.

The best evidence available suggests that the bulk of this inflow of low-skilled workers will ultimately be able to find work. The American economy is a very large and dynamic enterprise. During the second half of the 1980s and the early 1990s, the American labor force grew by about two million workers each year. Although most of these new labor force participants were well educated and reasonably highly skilled, a good number of the new entrants came into the market with few skills. Some people find it hard to believe that so many additional jobseekers could be absorbed by the economy, failing to realize that employers change their production procedures in response to the availability of workers. They also fail to recognize that the increased flow of welfare recipients into the job market will tend to depress wages that are already very low. While jobs will be found, they will be neither good nor well paying.

Having said this, the real answer to whether jobs will be available depends on the state of the economy. Should unemployment rise, the job-finding task faced by low-skilled welfare clients, current and future, will become substantially more difficult, and the difficulty will rise exponentially the more slack there is in the economy.

Also important is the role of employers. To what extent do they stand ready to work with public agencies seeking to secure income support for people of limited skills through work, rather than through writing checks drawn on the public treasury? Unfortunately, only spotty and isolated evidence exists regarding the willingness of the business community to be an active and helpful partner on the scale necessary for success in this effort.

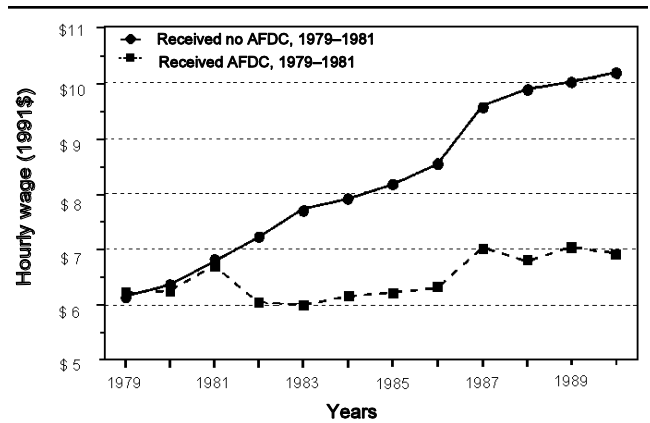


Figure 1. Average hourly wage of young women in the NLSY, 1979-1990.

Source: *The Work Alternative: Welfare Reform and the Realities of the Job Market*, ed. Demetra S. Nightingale and Robert H. Haveman (Washington, D.C.: Urban Institute Press, 1995), p. 79. Reproduced by permission of the Urban Institute Press.

3. What are reasonable income expectations for recipients or new applicants who are required to work for their income?

My third question is premised on the assumption that jobs will be found for these recipients. Consider Figure 1, plotting the earnings trajectories of two groups of women over a decade. The researcher followed a nationally representative sample of women for ten years, beginning in 1979. Some were welfare recipients during 1979-81; some were not. For the nonrecipients, the hourly wage rose steadily from about \$6 to over \$10 (1991 dollars). For those who were recipients in 1979-81, however, the hourly wage stayed around \$6 and never rose to more than \$7. The evidence is strong that people with the characteristics of women currently on the rolls and likely to be applying for assistance in the future will not be able to earn nearly enough to support their families. Indeed, if they are required to pay for the child care necessitated by full-time work, they will have to commit nearly one-half of their take-home pay simply to cover the care of their children while they are at work.

Many of the new welfare reformers speak about requiring recipients of assistance to work full time, but the real world of work for women is quite different. Although mothers who are not welfare recipients do work substantially more than do welfare recipients, the number of hours per year that they work is nowhere close to full time, full year. Calculations for Wisconsin indicate that only about one-third of all women aged 20-40 who lived with a child worked full time, full year. This proportion is smaller for women with low education and substantial child care responsibilities. (See the article by Maria Cancian and Daniel Meyer, pp. 58-62, this issue.)

The bleak prospect of work but very low net income leads to the next question.

4. *Can training programs improve the low earnings capacity and dim earnings prospects of low-skilled recipients?*

The research on this issue does not lead to much optimism. Studies suggest an increase in employment levels of 5 to 10 percent resulting from training programs of different types and different durations. These studies found about the same increase in earnings levels (\$600 to \$1,000). Such effects pass a benefit-cost test, but they fall far short of the sort of gains necessary for self-sufficiency. There is no quick and cheap fix for the low earnings capacity of this population.

5. *If work is required or mandated, will there not be sizable program costs for child care? Can child care slots be found; if so, at what cost and with what standards?*

This is a problem that has been little recognized in policy debates, yet is likely to be serious. The experience in Wisconsin is revealing. Largely because the legislation proposed for creation of the major reform program, Wisconsin Works, required full-time, year-round work from nearly all recipients, the addition of child care support became necessary for passage of the legislation. The added costs raised the program's total costs substantially, and Wisconsin Works is now budgeted to be about 15 percent more expensive than the current AFDC system. The Clinton welfare reform proposal also failed to provide child care support; even its supporters were lukewarm about a plan so stingy in support of working mothers. Public child care costs rose along with work mandates and job expenditures in all states reviewed in a recent Urban Institute study. Again, there is no easy or cheap way out. (See also Karen Folk's comments on child care under Wisconsin Works, pp. 66–68, in this issue.)

Recent studies of various state experiences have concluded that “no state found the lack of child care to be a substantial barrier to participation, but all states had difficulty in finding certain types of care—infant care, evening and weekend care, school break care, and summer care.”²² From an economic point of view, this should not come as a surprise. Entry into the industry is not a problem; start-up costs and scale can be minimal, and most adults have had experience caring for and nurturing children. This, of course, says nothing about standards and quality.

6. *What if private sector jobs are unavailable for some? What is the potential for public service employment?*

Returning to the work option, most state plans have relied on job opportunities that may become available in the private sector. But if private jobs are not available to all recipients, public service employment is always possible. Here, too, a number of pitfalls exist. First, public sector trade unions have always opposed the creation of public service jobs. Second, there is much scepticism regarding this strategy, resulting from experience with

programs that operated in the 1970s under CETA (the Comprehensive Employment and Training Act of 1973). Finally, the strategy is not low cost. Including the losses associated with possible job displacement, costs of up to \$15,000 per year of public service employment provided are likely to be encountered.

The next questions cover some broader issues.

7. *If block granting occurs, how will states change benefit levels and eligibility requirements? Will there be a “race to the bottom,” or will states on their own seek to create a safety net for needy families?*

Under a block grant, cash assistance will no longer be available to families that exceed the anticipated federally imposed time limit on welfare eligibility. What safety net, if any, will states establish for such families, or will states simply let people adjust and cope as best they are able? A great deal of discussion surrounds the incentives that states face in their effort to avoid becoming a “welfare magnet.” Incumbent governors or legislators are vulnerable to damage from the claim that, on their watch, the state has become a haven for dependent citizens—and those with unappealing other characteristics as well—because of a support environment that is more attractive than that of neighboring states. This is the basis for the claim of a “race to the bottom.” (See also the article by Chernick and Reschovsky, pp. 25–29, this issue, on state responses to block granting.)

Political realities and the economic incentives that states will face under block grants strongly suggest that cuts in the level of support and reductions in the rolls of people being assisted will occur. The counterargument, of course, is that states will offer varied responses depending in part on the state of the budget and their commitment to helping their poorest citizens. Nevertheless, the question stands.

8. *Over time and through recessions, if welfare is no longer an entitlement, how will states respond to the changing needs of people and erosion in the level of federal support?*

If poverty rises in the next recession, states will face three options, and the choice among them will not be easy. Will they spread the block grant among more families? Will they finance additional assistance costs from their own scarce funds? Or will they deny assistance to otherwise eligible people? There is no way to predict with confidence, though finding additional money will not be easy. Again, the question stands.

9. *If entitlement to foster care is retained while benefit entitlement is abolished, will costs simply shift from welfare to the already stretched foster care system? Will states tend to shift their costs to local governments?*

Under a new block grant arrangement, incentives exist for states to shift resources and clients among programs.

In the case described in the question, the first shift would tend to be disastrous, as the foster care system in most states is already stretched to the limit. The potential for maltreatment of children is substantial. Unstable living arrangements carry with them long-term consequences. (See also Mark Courtney's report on the child welfare implications of Wisconsin's welfare reform, pp. 69–71, this issue.)

More problematic is the incentive for states, many of which have the capacity to effectively manage their welfare systems, to shift responsibility to counties, cities, and towns. Such lower levels of government vary enormously in their management and implementation capabilities.

10. *How will states enforce federally imposed work requirements? Or will "administrative discretion"—effectively a denial of support—lead to a reduction in the rolls?*

The point here is a simple one: if "sum-certain funding" is imposed on a major work-related reform, the ultimate way of constraining costs is simple denial of service. "I'm sorry, but we just can't help you." While this arbitrary and inequitable option has always existed, it becomes a more realistic option when tied to a major system overhaul.

There are still other questions, but these, too, rarely have firm answers.

How will the finances of the nonprofit sector be affected by a block grant strategy? Many important service providers in the nonprofit sector rely on publicly financed grants for their existence. Depending on the scope of block grant legislation, this flow of support may be in grave jeopardy.

In the long run, what are likely to be the effects of the changes on the well-being of children and their fami-

lies? What will happen to the poverty rate for families with children? As with all leaps in the dark, no one knows the answer. One must conclude, however, that the downside of welfare reform is the real danger it presents to family well-being.

How will the state-based reforms be evaluated and monitored? Will there be federal evaluation requirements? What incentive is there for states to require and pay for serious evaluation efforts? The problem, I fear, is that evaluations will have to be imposed on most states. Little incentive is present to look closely at the major policy shifts that state responses to devolution are likely to bring forth.

Perhaps my main message is that there is no cheap way to bring our lowest-skilled citizens and their children to a position where, for them, "work will work." The list of tasks in this complex process is staggering and bank-breaking. Perhaps there is a lesson in many of the personal experiences of those who are not poor. First, they give their children lots of education, with monitoring and advice and expectations and parental participation in schools. When schooling is done, they may support them for a time while they "get their acts together." Parents may actively, one to one, help with job search, helping their children prepare résumés, putting them in touch with friends and acquaintances, preparing them for job interviews—all so they can find their own niche in the world of work. All this guidance and nurturing is costly. There is no way to do it on the cheap. This truth makes it the more distressing that people so readily talk of making welfare recipients self-sufficient with reforms that will not violate budget neutrality. ■

¹This article is a revised version of a presentation at "A Working Puget Sound: Meeting the Welfare Challenge," Tacoma, Washington, May 1, 1996.

²"Lessons from Five State Welfare Reform Initiatives," *Urban Institute Policy and Research Report* 25, no. 3 (Winter 1995–96): 11–12.

State responses to block grants: Will the social safety net survive?

Howard Chernick and Andrew Reschovsky

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The current welfare system is financed jointly by the federal government and state governments, the federal government paying a specified share of every dollar a state spends on its welfare system. A number of congressional proposals would replace this financing system with block grants to each state. Would a switch to block grants lead state governments to reduce spending on welfare and Medicaid, and if so, by how much?

The federal government pays a share of any eligible expenditure by state governments on programs such as Aid to Families with Dependent Children (AFDC) and Medicaid through open-ended matching grants, with no limits on the total amount of federal aid. The federal share equals, on average, 60 percent, but it varies by state, depending on per capita income. In 1996 it ranged from 50 percent in the 11 states (and the District of Columbia) with the highest incomes to 78 percent in Mississippi, the poorest state. From the federal government's perspective, a major advantage of matching grants is that they encourage states to increase the generosity of their Medicaid and welfare systems by lowering the cost of extra state spending on these programs. If a state decides to spend an extra dollar on police protection or on public education, that extra spending will cost the state's taxpayers an extra dollar. But if a state decides to spend an extra dollar on Medicaid or welfare benefits, that extra spending costs state taxpayers, on average, only 40 cents (one dollar minus the 60-cent federal share in the average state). States have in fact responded to the incentives provided in open-ended federal grants by increasing their spending on welfare and Medicaid, but research suggests that those increases are less than the amount of the federal grant, therefore freeing up state resources for other uses.

Most recipients of AFDC are automatically eligible for Medicaid and food stamps. The three programs provide differing financial incentives to the states, and states have the opportunity to substitute among the programs in order to maximize federal contributions. Food stamps

are a fairly close substitute for cash assistance, are (almost) 100 percent financed by the federal government, and are indexed to the cost of living. These features provide an incentive for states to allow food stamps to replace cash assistance. The incentive is strengthened by the fact that, for every dollar of income above a base income level (currently \$338 per month), food stamp allocations are reduced by 30 cents, whether the income is derived from work or welfare. Increased Medicaid benefits result in no such "tax." For the typical state, then, the "price" of an additional dollar of benefits is zero for food stamps, 40 cents for Medicaid, and 57 cents for AFDC. While the total dollar amount of spending per AFDC recipient has not declined since 1980, there has been a substantial shift in the composition of the benefit package, away from cash and toward in-kind spending, particularly Medicaid. Research suggests that this shift is at least partly due to the financial incentives just described. Moreover, the particularly rapid growth of Medicaid may have been unintentionally fueled by the Food Stamp Program; states appear to have used at least some of the savings from substituting food stamps for AFDC to finance the state matching share for Medicaid.

What might happen under a block grant regime? Under such a regime, Medicaid and welfare would be put on an equal footing with other state programs. State governments would bear the complete cost, dollar for dollar, of increased Medicaid and welfare spending. By how much would spending on the poor decrease as a consequence, particularly when federal funding of state government programs is declining? Both the congressional and Clinton administration proposals to achieve a balanced federal budget by the year 2002 require substantial cuts in a wide range of grants to state and local governments. These cuts will substantially weaken the fiscal position of state governments, increasing the pressure on them to reduce funding for welfare and Medicaid. A number of governors, especially those who are strongly supporting the move to block grants, have argued forcefully that they will not respond to welfare block grants by reducing their commitment to protect their most vulnerable

This article is based upon a report prepared for the Economic Policy Institute and on Howard Chernick's working paper, "Fiscal Effects of Block Grants for the Needy: A Review of the Evidence." The EPI report will be published later this summer. Copies may be obtained from EPI, Suite 1200, 1600 L St., NW, Washington, D.C. 20036 (phone: 202-775-8810; e-mail: economic@cais.com).

citizens. We can make an informed guess about the validity of this claim from an examination of how states have responded to the existing matching rate policy and from experience with the Supplemental Security Income (SSI) program.¹

Fiscal incentives under block grants

Benefit levels

The econometric evidence regarding the effects of a change to block grants is conflicting. Some studies find large state government responses to differences in matching rates, small impacts of differences in state income, and relatively little substitution of food stamps for AFDC. Others find small spending responses to matching rate differences across states, large responses to income differences, and a substantial amount of substitution between AFDC and food stamps.² The results of the first set of studies suggest that the conversion from matching grants to block grants for AFDC will have very substantial impacts on total welfare spending. The results of the second set of studies suggest that total redistributive spending by state governments is approximately constant, and hence a decrease in the federal role in these programs will be largely offset by increases in state expenditures. In general, it appears that using block grants for the financing of AFDC would lead to a decline in AFDC benefit levels. But the magnitude and statistical significance of state government responses to changes in matching rates vary substantially, and so does the predicted decline in benefit levels or total welfare spending under a block grant.

Interstate benefit differentials and the “race to the bottom.” Welfare benefit levels vary substantially across states. For a three-person family in 1994, combined AFDC and food stamp benefits ranged from \$415 in Mississippi to \$1,208 in Alaska. Even after adjusting for cost-of-living differences among the states, these benefit differentials remain large. The conversion from matching grants to block grants for the major federal entitlement programs provides an incentive for further widening of these benefit differences. The elimination of matching aid will result in the largest increases in state costs for AFDC and Medicaid in the lowest-income states, since they currently benefit from the highest federal matching rates. In these states, the cost of each dollar of extra welfare spending will more than triple. Many of these states start with very low benefit levels, and their response to higher costs may well be to completely eliminate the expenditure of state funds on welfare and Medicaid. State attitudes toward government assistance to poor and needy citizens, always much affected by idiosyncratic and historical factors, will play an even greater role in explaining interstate differences in welfare spending.

An alternate hypothesis to the widening of benefit differentials is summarized by the widely used phrase, the “race to the bottom.” With the elimination of open-ended matching grants, states would bear the full cost of providing benefit payments to migrants from other states. Thus the enactment of block grants would increase the fiscal penalty faced by states that chose to provide relatively generous welfare and Medicaid benefits to the poor. The race to the bottom is set off as a few states cut their benefits sharply or restrict access to benefits. Neighboring states, fearing an influx of destitute welfare recipients, or perhaps actually seeing an increase in welfare migration, would now be fiscally exposed to 100 percent of the increase in cost from any addition to the welfare rolls. They respond by quickly matching their competitors’ cuts in benefits. It is precisely the potential for this type of interstate competition that provides a strong rationale for a major federal role in the financing of redistributive programs.³

Even with matching grants, individual states have incentives to compete with other states by cutting welfare benefits. It is possible, however, that block grants will increase the incentives for a race to the bottom by providing political cover for all states to ratchet down spending on the poor. The econometric evidence which suggests that welfare benefit levels are highly sensitive to changes in matching rates would be consistent with a race to the bottom. Our assessment of the econometric results, however, leads us to believe that state government responses to changes in matching rates will be more modest. If we are correct in this assessment, then a race to the bottom would only be possible if state responses to changes in grants are asymmetrical: whereas lowering the cost of welfare through open-ended matching grants leads to a relatively small increase in benefits, raising the cost through block grants leads to a much bigger cut in benefits.

The empirical basis for the race to the bottom rests on the degree of interdependence of state benefit levels. Several studies in the 1980s suggest that welfare benefits are directly influenced by the generosity of a state’s geographic neighbors. Whether or not this fiscal interdependence is based on actual migration flows is quite uncertain. The empirical difficulties of this type of study are manifest, because people move for more than one reason, and many of the desirable characteristics of destinations—e.g., better jobs or a safer environment—may be correlated with higher welfare benefits. Although earlier studies found that the total number of welfare recipients in a state is higher if surrounding states have lower benefit levels, studies from the 1980s show no such effect. Similarly, earlier studies of actual welfare migration found some evidence for the role of “welfare magnets.” However, more recent studies, using what appear to be sharper tests of the migration hypothesis, find no evidence for welfare migration.

The fact that actual migration appears to be rather limited, yet states do appear to link their benefit levels, suggests that the political costs of even small numbers of welfare in-migrants are very high, and that states face strong political constraints to keep their welfare benefit levels in line with other states. Taking together the results of the matching rate analyses and the fiscal interdependence studies, we would predict that under the block grants states will continue to pay close attention to the generosity of their neighbors, and most states will reduce the level of cash benefits. However, it seems unlikely that the more extreme race to the bottom will occur.

Although we predict that, in the long run, interstate variation in welfare and Medicaid benefit levels will rise, it is possible that in the short run, these interstate differentials could actually diminish. If state governments are not permitted to shift welfare and Medicaid block grants to other uses, the decline in total welfare and Medicaid spending will be relatively modest in states where the federal government currently finances a large share of these expenditures. For example, in low-benefit states such as Mississippi, a decision to completely eliminate state-financed spending on welfare and Medicaid would in the short run limit total spending reductions to around 20 percent (Mississippi's current share of state Medicaid and AFDC spending). Enforcement of "maintenance of effort" provisions (see note 1) would constrain reductions in state welfare spending even further.

Lessons from SSI

Another helpful approach to predicting state responses to block grants draws upon past experience—for example, how states responded when the financing of the program now called Supplemental Security Income (SSI) was converted from a matching to a block grant. In 1974, SSI replaced Aid to the Aged, Blind, and Disabled (AABD), a program that provided financial assistance to needy, low-income individuals. The AABD program was structured in the same way as AFDC, the federal government providing states with open-ended matching grants. The establishment of SSI had the effect of converting the AABD program into a block grant from the federal government. States remain free to supplement the federal guarantee, but any SSI spending they choose to make is not matched with additional federal aid. In contrast to the proposed block grant for AFDC, federal SSI benefits are indexed to the inflation rate.

In 1974, when the SSI program began operating, the federal payment was set at approximately the level of benefits in the median state. Most low-benefit states immediately eliminated their own contributions to SSI. High-benefit states generally maintained their existing level of benefits by supplementing the federal grant.

Although 26 states currently supplement federal SSI payments, most of these states have not increased the level of their state-financed benefits since 1974. By allowing the real value of benefits to erode over time, states have gradually substituted federal for state financing. To quantify the magnitude of the substitution away from state financing, we used data on state and federal spending on the SSI program to calculate that an increase of one dollar in federal SSI benefits leads to only a 45-cent increase in total (federal plus state) SSI spending. Because of the rapid increase in the SSI rolls since 1988, even this estimate may be too high.

The SSI program provides assistance to three groups of people—the blind, the disabled, and the low-income elderly—who have often been called the "deserving poor." The fact that states have reduced funding for cash assistance for these groups suggests that when states are given the opportunity, expenditures targeted to a much less sympathetic group of people—mothers on welfare—may be dramatically reduced.

Summary estimates of the likely state response to block grants for the needy

Putting together the available evidence, our best estimate is that over the course of several years, states will respond to the imposition of block grants for welfare by reducing benefit levels by about 20 percent. Total welfare spending will decline by more than this, perhaps as much as 30 percent, as greater eligibility constraints and lower benefits reduce the number of beneficiaries. Benefit differentials between states will widen somewhat. The degree of substitution between a Medicaid program that has become much more optional and cash assistance of the kind represented by AFDC will vary across states. Federal mandates extending Medicaid coverage have been quite important in driving up its costs, and a relaxation of mandates in both programs would act to free up more resources from Medicaid than from AFDC. The small number of studies of Medicaid suggest that the conversion from matching grants to a block grant would generate large, unfavorable effects on medical care spending on the poor, even if states received the same amount of aid as before. Health care providers can be expected to exert considerable political pressure to minimize reductions in Medicaid coverage. One might, however, expect that any reductions in benefits will be greater for AFDC recipients, the group with the least political power, than for the elderly and disabled.

No one can predict with precision how individual states will respond to block grants. To give a perspective on our very general numbers, we projected welfare spending and caseloads for sample states for the year 2002, under three different scenarios:

Table 1
State Responses to a Welfare Block Grant: A Projection for California

	Welfare Spending in 1994 (1)	Impact on Total Welfare Spending		
		Matching Aid (retain 1995 benefit levels) (2)	Block Grant (in 1995 dollars)	
			Small Response (3)	Large Response (4)
		(in billions of dollars)		
Total welfare spending	\$6.8	\$7.0	\$4.8	\$4.2
State-financed spending	\$3.4	\$3.5	\$2.1	\$1.4
Federal aid	\$3.4	\$3.5	\$2.7	\$2.7
Total welfare spending in 2002 % change from 1994 levels		3%	-28%	-38%
Impact on Welfare Spending per Case, if Caseloads Not Reduced				
AFDC caseload (families) in 1994	894,965			
Estimated caseload in 2002 ^a	1,132,517			
AFDC spending per case in 1994	\$7,549			
Maximum possible spending per case in 2002		\$6,136	\$4,268	\$3,686
% reduction from 1994 levels		19%	43%	51%
Impact on Caseload if 1994 Nominal Benefit Levels Maintained				
Maximum possible no. of cases in 2002		1,132,517	640,366	553,043
% change in caseload				
From actual 1994 caseload		27%	-28%	-38%
From projected caseload in 2002		0%	-43%	-51%

Note: Totals may not match because of rounding. Annual inflation rate of 3 percent assumed.

^a Assuming 3 percent annual rate of growth.

1. Retain matching grants with benefit levels unchanged from their 1994 nominal levels;
2. Adopt block grants for welfare, but assume relatively *small* fiscal responses by state governments;
3. Adopt block grants for welfare, but assume relatively *large* fiscal responses by state governments.

Here we report the results for California, a high-income state with relatively generous AFDC and Medicaid benefits; it is one of the states with the lowest federal matching rate for AFDC (50 percent).

In 1994, California spent nearly \$6.8 billion on AFDC, half of which was paid for through a matching grant from the federal government. Table 1 estimates benefit levels in 2002 under the three scenarios above. Column 2 assumes that matching aid will continue, at 1994 benefit levels. Given an annual rate of inflation of 3 percent between now and 2002, and a projected average annual increase in the welfare caseload of 3 percent, inflation-adjusted welfare spending would increase by 3 percent.⁴ Columns 3 and 4 present estimates of how the

state might respond to the imposition of a federal block grant for welfare (following present legislative proposals, we assume that the block grant will remain fixed in nominal terms at least until 2002). Drawing on econometric evidence, we suggest both a “small” response—a 24 percent reduction in state-financed welfare spending—and a “large” response—a 48 percent decline in spending. When combined with the block grant, then, total welfare spending in 2002 would be reduced by 28 to 38 percent from 1994 spending levels.⁵

Current congressional legislation tightens welfare eligibility, mandates new work requirements for those remaining eligible, and places new time limits on the receipt of benefits. States may reduce welfare caseloads by successfully placing some current recipients in jobs, by categorically denying welfare payments to certain groups of individuals such as immigrants, or by pursuing harsher policies that deprive individuals of welfare whether or not they have a job. If our predictions concerning fiscal responses to block grants are correct, those states that are unable or unwilling to reduce their caseloads will be forced to cut welfare payments to those who remain on the rolls. The bottom panels of

Table 1, therefore, explore the range of possible strategies California welfare officials might pursue in response to declining welfare budgets.

If caseloads are not reduced, then the real value of benefits drops drastically, from \$7,549 (in 1994) to between \$3,600 and \$4,300 (in 1995 dollars), depending on the magnitude of the state's response to block grants. If California's public officials instead seek to maintain the 1994 nominal value of welfare payments per family, Table 1 suggests that they will be forced to reduce the welfare caseload by 43–51 percent, compared to what we would expect if block grants are not imposed and the caseload continues to grow as currently projected.

Under either block grant scenario, California would need to place nearly one-half of its current welfare recipients in jobs between now and 2002. But efforts to place welfare recipients in jobs are costly, requiring substantial investments in job training, job placement, and child care. If the state does not succeed, a substantial number of low-income individuals will lose eligibility for cash assistance yet be unable to find jobs. They, and their children, are likely to face severe hardships. Some may turn to illegal activities, some may become homeless, placing upon local governments and non-profit organizations an increased burden that they may have difficulty in shouldering.

Under the proposed restructuring of the AFDC and the Medicaid programs, no individual, regardless of how urgent his or her needs, will be *entitled* to the receipt of public funds. States will be given nearly complete authority to decide who is entitled to public assistance, and under what conditions. The role of the federal government will be dramatically reduced, with the primary federal authority becoming one of providing block grants to the states. Shifting the major responsibility for maintaining a social safety net from the federal to state governments represents a radical change in the basic system of intergovernmental finance in the United States. A careful review of the literature leads us to conclude that these changes will lead to substantial reductions in expenditures for the needy. These new fiscal constraints will conflict with efforts to move individuals off welfare into jobs, and result in substantial reductions in the income of many needy individuals. ■

²Studies finding large responses include, e.g., work by Edward Gramlich ("An Econometric Evaluation of the New Federalism," *Brookings Papers on Economic Activity*, 1982, no. 2, pp. 327–60); studies by Robert Moffitt ("Has State Redistribution Policy Grown More Conservative?" *National Tax Journal* 43, no. 2 (1990): 123–42) find smaller responses.

³As a nation, the United States have been willing to tolerate a great deal of variation in the provision of public services, because of the value placed on the inherent desirability of decentralized choice. The arguments for decentralized financing break down, however, when we consider the financing of explicitly redistributive programs: those that provide either income or goods and services to the poor and needy. Economists have generally argued that the central government should play a dominant role in the financing of redistributive services—paradoxically, because of the responsiveness of government to the preferences of its citizens. When it comes to programs for the poor, particularly income-support programs, local provision is more likely to thwart than to satisfy voters' desires. This is because in an open economy, taxpayers and businesses, as well as the beneficiaries of government redistributive programs, are free to move to the jurisdiction which gives them the best fiscal deal.

⁴Caseload projections come from a sophisticated California welfare caseload projection model developed by Peter Brady and Michael Wiseman.

⁵Evidence from Wisconsin suggests that cuts in benefit levels may result in drops in caseloads. However, in California, although between 1990 and 1994 inflation-adjusted benefit levels were reduced by 21 percent, caseloads over the same period *grew* at an average annual rate of nearly 6.5 percent.

¹Legal constraints on reductions in state welfare spending appear unlikely to be effective. The block granting reform proposal passed by the Congress (but vetoed by President Clinton) included a "maintenance of effort" provision that placed a limit of 25 percent on the amount by which state governments could reduce welfare spending financed from state funds under a block grant system. This provision might constrain state responses to block grants in the period immediately following its imposition. But in the past, maintenance of effort provisions have rarely been adjusted for the effects of inflation or of population and caseload growth, so that within several years they have lost their effectiveness in constraining the fiscal behavior of states.