A primer on U.S. welfare reform

Robert Moffitt

Robert Moffitt is Kreiger-Eisenhower Professor of Economics at Johns Hopkins University and an IRP affiliate.

The most well-known transfer program for the poor in the United States provides cash support to low-income families with children, most of which are headed by a single mother. Called the "Aid to Families with Dependent Children (AFDC)" program prior to 1996 and the "Temporary Assistance to Needy Families (TANF)" program thereafter, it underwent a major structural reform in that year. The unprecedented reform imposed credible and enforceable work requirements for the first time in the history of the program, requirements which were extended to a large fraction of the caseload and were enforced by the use of sanctions that reduced or eliminated benefits for noncompliance. The reform also imposed lifetime time limits on the receipt of benefits.

Following the reform, the program caseload fell dramatically and employment rates of single mothers rose, as did average earnings and family income among the single-mother population. Poverty rates of single mothers fell. The often dire warnings of large-scale deprivation which were made at the time of the reform did not materialize, although there is some evidence that a small fraction of the single-mother population was made worse off by the reform. This article will review the U.S. experience and assess the origins and effects of the 1996 reform.[1]

Context: The U.S. system of means-tested transfers

The TANF program is only a small component in the larger system of means-tested transfer programs in the United States today. Table 1 shows the expenditures and caseloads for the nine largest such programs in 2004. The largest by far is the Medicaid program, which provides health care to low-income families (it is separate from the Medicare program, the social insurance program that provides medical care to the elderly regardless of income level). The Medicaid program provides medical care not only to poor families, including those single mothers who are on TANF, but also to the poor elderly and the disabled, who account for a much larger fraction of program expenditures than single mothers. The Supplemental Security Income (SSI) program, which provides cash benefits to low-income aged, blind, and disabled adults and children, is much smaller but still quite sizable in terms of expenditure. The Earned Income Tax Credit (EITC) program, an earnings subsidy program, which provides tax credits to low-income families with earnings, is third largest. The Food Stamp program, which provides food coupons to the poor, and programs for subsidized housing for the poor are fourth and fifth, respectively. The TANF program is, as the table shows, only the sixth largest program in the United States in terms of expenditure, and only half as much is spent on it as is spent on the fifth largest program. TANF's caseload is also small, although because it provides a cash benefit for all needs and not just a supplemental payment like Food Stamps and the EITC, its expenditure per recipient is larger than that of those two programs.

Table 1
Annual Expenditures and Caseloads of Nine Large Programs, FY 2004
(Current dollars)

	Expenditures (millions)	Caseloads (thousands)	Expenditures per Recipient
Medicaid	$300,300	56,100	$5,353
Supplemental Security Income (SSI)	39,839	7,139	5,581
Earned Income Tax Credit (EITC)	34,012[a]	19,163[b]	1,775
Food Stamps	30,993	24,900	1,245
Subsidized Housing[c]	29,844	4,576[d]	6,522
Temporary Assistance to Needy Families (TANF)	14,067	4,746	2,964
Child Care	11,854[e]	1,743[f]	6,801
Head Start	8,469	906	9,348
Jobs and Training	7,007	1,175[g]	6,645[g]

Source: K. Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004," Congressional Research Service, Washington, DC, 2006, Table 14.

Notes: Federal and state and local spending combined unless otherwise noted.

[a]Refundable portion only.
[b]Number of tax units.
[c]Section 8 and public housing, federal only.
[d]Number of dwelling units.
[e]Child care and development block grant (CCDBG) and TANF child care.
[f]CCDBG only.
[g]FY 2002.

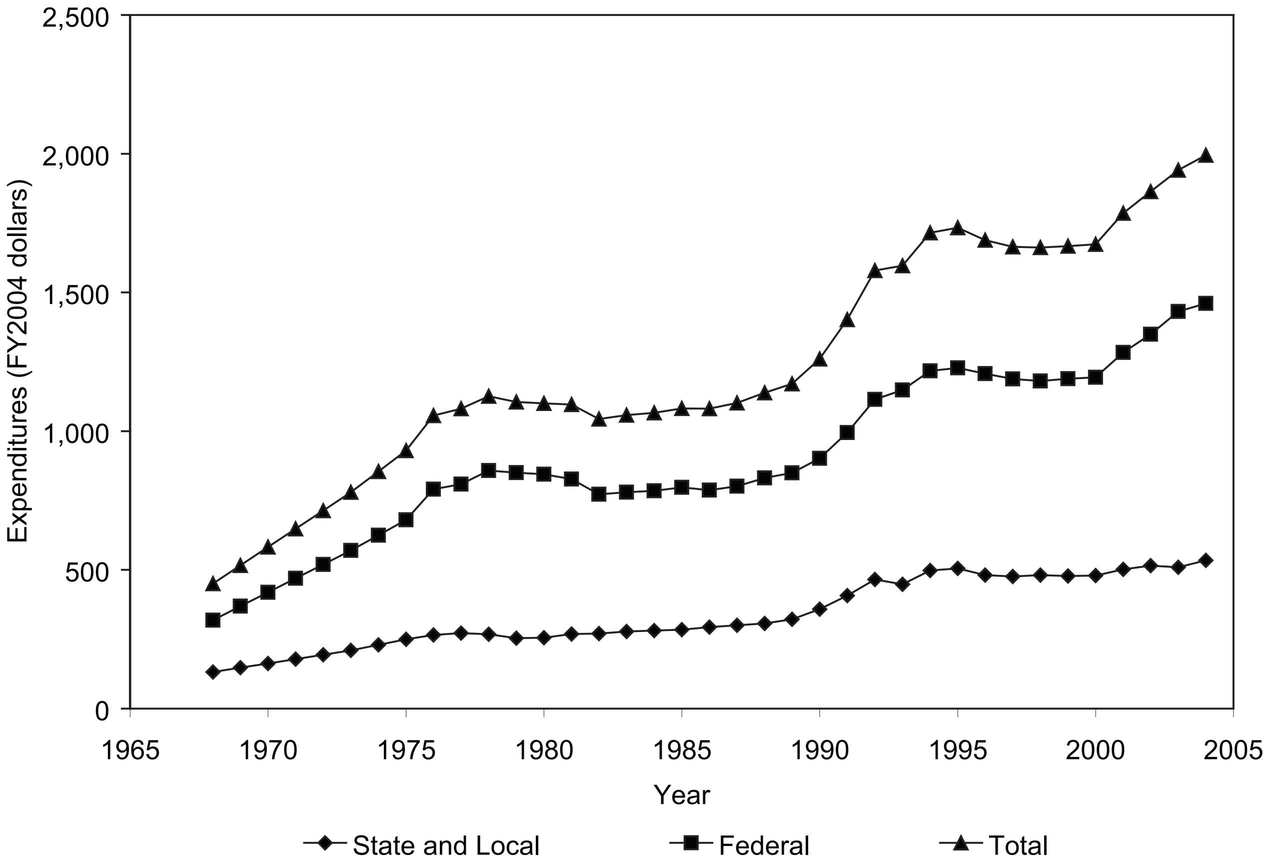

Figure 1. Real per capita expenditures on means-tested transfers, 1968–2004.

Sources: K. Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004," Congressional Research Service, Washington, DC, 2006, Tables 3 and 4; and U.S. Department of Commerce, *Statistical Abstract of the United States*, U.S. Census Bureau, Washington, DC, 2006, Table 2, Population.

The U.S. welfare reforms of the 1990s reduced expenditures and caseloads in the AFDC and TANF programs. However, many of the other programs listed in Table 1 have grown. Figure 1 shows trends in real total expenditures since 1968 in the eighty largest means-tested programs in the United States, revealing that per-capita expenditure in total is higher today than ever in its history. The spurt in real expenditure growth in the late 1960s and early 1970s was the result of growth in AFDC, Food Stamp, and Medicaid expenditures, but this was followed by a decade (approximately 1978–1988) of flat expenditure growth. However, the period of flat growth was followed by an explosion in expenditure that occurred more rapidly—in the space of six years, from 1990 to 1996—and which was the result of large increases in spending on the EITC, SSI, and Medicaid. Expenditure rose again after 2001 as a result of growth in the Medicaid and Food Stamp programs. Thus, the decline of the AFDC-TANF program is not representative of means-tested-transfer reduction in the society as a whole, but it does represent a shift in the groups to whom expenditure is directed and in the type of benefits provided. Specifically, expenditure growth has been directed more toward specific groups of individuals (the aged, disabled, workers) and toward discrete needs (food, medical care, housing) rather than general support.

So why does the TANF program continue to receive so much attention given its current minor status? First, TANF remains the only general-purpose cash transfer program in the United States and thus most closely fits the public image of "welfare" as well as the policy and academic notion of a negative income tax. Second, reforms in the TANF program have been the most prominent in reflecting U.S. society's increasing emphasis on work, and it therefore has considerable symbolic value. Third, it is still an important program for a particular group—low-income single mothers—who have difficulty working.

The AFDC program and 1996 welfare reform

In 1935, the Social Security Act created the AFDC program along with the Old-Age Social Security and Unemployment Insurance programs.[2] AFDC provided cash financial support to low-income families with "dependent" children, defined as those who were deprived of the support or care of one biological parent by reason of

Table 2
Major Legislation in the AFDC and TANF Programs

Date	Title of Legislation	Main Provisions
1935	Social Security Act	Created the AFDC program for low-income children with only one parent present in household
1961	Amendments to the Social Security Act	Created AFDC-UP program for children in two-parent families where primary earner is unemployed
1967	Amendments to the Social Security Act	Lowered the benefit reduction rate to 2/3; created the Work Incentive (WIN) program
1981	Omnibus Budget Reconciliation Act of 1981	Increased the benefit reduction rate to 1; imposed a gross income limit; counted income of stepparents; allowed waiver authority
1988	Family Support Act of 1988	Created the JOBS program for education, skills training, job search assistance, and other work activities; created transitional child care and Medicaid programs; mandated AFDC-UP in all states
1996	Personal Responsibility and Work Opportunity Reconciliation Act	Abolished the AFDC program and created the TANF program

death, disability, or absence from the home, and who were under the care of the other parent or another relative. In practice, the vast majority of such families were those with a single mother and her children. In 1935, most such families were widowed, and the program was intended to allow mothers to stay at home with their children rather than be forced to work. In keeping with the "federal" system in the United States, the AFDC program was created as a shared federal-state responsibility, with the federal government subsidizing state payments and setting certain restrictions on eligibility requirements and benefit determination, but leaving states with a large degree of latitude in both of these areas. This led to wide variation in benefit levels among states. However, most states set a 100 percent benefit-reduction rate—benefits were reduced dollar-for-dollar for every extra dollar of earnings—providing little or no incentive to work.

The AFDC program underwent several reforms prior to the 1990s, as shown in Table 2. In 1961, two-parent families were made eligible for the program if the primary earner was unemployed, at state option. However, asset and income limits for eligibility were not adjusted upward and, consequently, few two-parent families have ever been part of the program. In 1967, financial work incentives were attempted by reducing the benefit-reduction rate from 100 percent to 67 percent, an idea made popular by the "negative income tax" discussions at the time. This reform appeared to have little effect on the AFDC caseload, however, which continued to rise after the reform (see below). The benefit-reduction rate was increased back to 100 percent in 1981. In 1988, the federal government shifted toward a job-search and job-training strategy to increase employability and work instead of just using financial incentives. However, neither the level of work among recipients nor the caseload itself was much affected by the 1988 reform.

These reforms illustrate the increasing emphasis on work in the AFDC program. The emphasis has often been ascribed to the increasing labor force participation rate of women, which has occurred in other countries as well. This change altered the view that mothers should stay at home with their children to a new view that work, even by mothers of young children, was natural and even expected. Of course, this emphasis raises many issues concerning its possible effects on children themselves as well as the adequacy of child care, but the change in the views of the public and of policymakers was unmistakable.

Another shift revealed by these developments was a change from financial incentives to more direct inducements to work. The 1967 reforms failed to have an impact on caseloads and expenditures, and financial incentives were rarely considered as a main tool thereafter. In fact, even the 1967 legislation created a small work program, which mandated that women whose youngest child was over six years old enroll in a work-related program, usually some type of job placement program. However, the rule was rarely enforced and few women were enrolled. In the 1970s, the federal government considered other work programs but these never passed Congress. After the 1981 legislation, however, a number of states began, on their own, experimenting with small-scale work programs, often voluntary, offering job-search, work experience, or basic skills training programs to certain categories of recipients. The results of these experiments were fairly positive and contributed to the 1988 legislation. However, that legislation, which mandated work for many recipients and set "participation" requirements for the states, proved to be very difficult to administer. States found the creation of the complex jobs programs required by the law to be difficult and expensive. As a result, full implementation of the law was never achieved and seemed unlikely, at least in the short

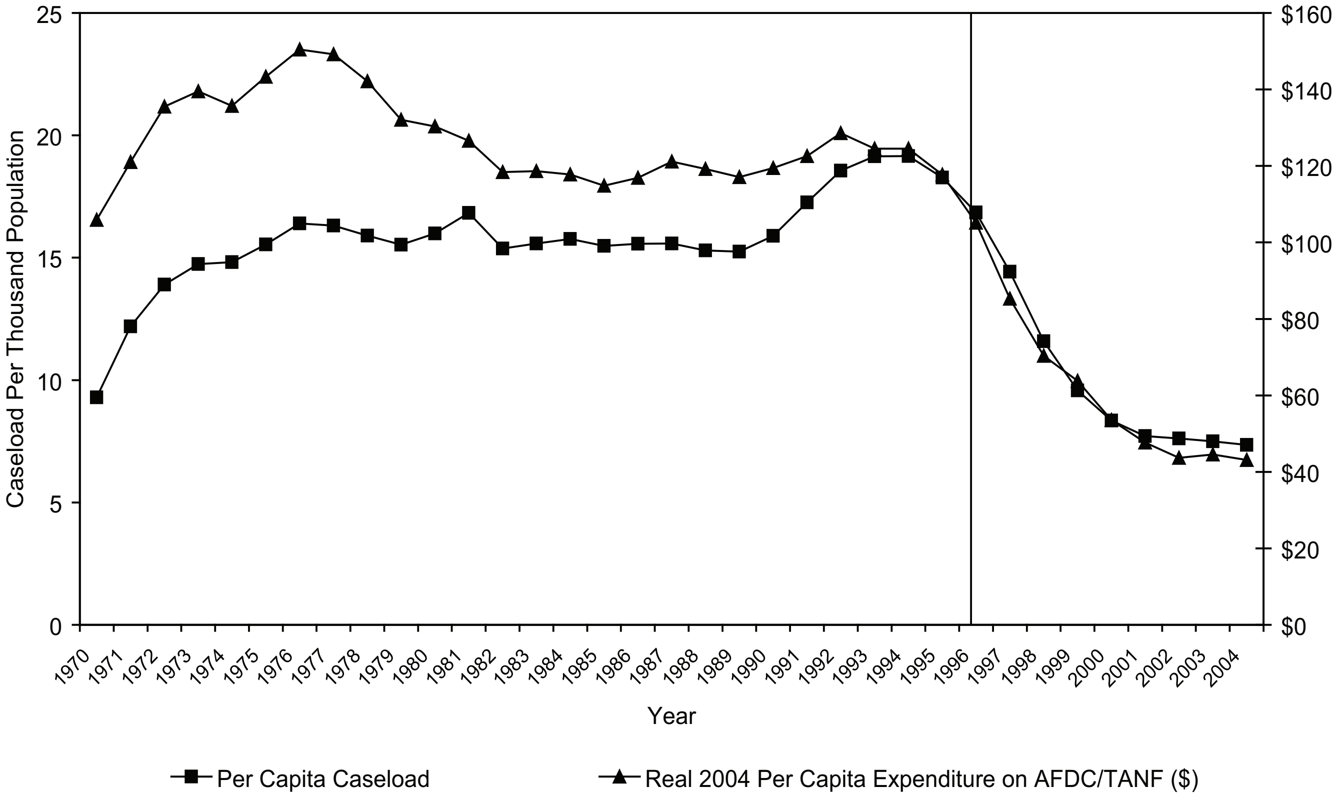

Figure 2. Per capita AFDC-TANF caseload and expenditure, 1970–2004.

Sources: U.S. Department of Health and Human Services, "Indicators of Welfare Dependence," *Annual Report to Congress*, Appendix A, Table TANF4, Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, 2006; and U.S. Department of Commerce, *Statistical Abstract of the United States*, U.S. Census Bureau, Washington, DC, 2006, Table 2, Population.

run, to reduce caseloads and expenditures. The 1988 legislation was widely regarded as a failure.

The course of program expenditures and caseloads up to the early 1990s is illustrated in Figure 2. Both expenditures and caseloads rose sharply in the early 1970s for a variety of reasons, including an increase in take-up among eligibles as welfare stigma fell, as well as the superior access to Food Stamp and Medicaid benefits for women on AFDC. The 1981 legislation had no discernible impact. Both caseloads and expenditures rose sharply in the late 1980s, an event mostly the result of a recession but which surely made implementation and the success of the 1988 legislation more difficult. Thus, by 1990, policymakers saw that a number of reform efforts had been attempted over the previous two decades, both financial incentives and more direct work programs, with little success in reducing caseloads or expenditures. In addition, the evaluation literature indicated that the incomes or employment rates of low-income single mothers were not significantly increased by the reforms.

The 1990s and TANF

Early in the 1990s, in response to the lack of effectiveness of prior reforms, individual states began experimenting with quite different types of reforms. An increased emphasis on work requirements was the most important single new element. Education and training were generally ruled ineligible to meet the requirements, instead emphasizing work. Government jobs were also not generally provided—the rules stipulated that work in a private sector job was necessary. Often an initial period of job search was allowed, but that had to be followed by actual work. To enforce these requirements, states also began imposing "sanctions"—defined as temporary or permanent withdrawal of benefits—on recipients for failure to comply with work and other requirements. Although such sanctions had been present in some form previously in the AFDC program, they had never been as aggressively enforced.

Several other features were often introduced into the state reforms: (1) a negative-income-tax-like reduction of marginal tax rates on earnings to provide financial incentives to work; (2) time limits on benefits, stipulating that recipients could not receive benefits for more than a certain number of years, at least within a given calendar period; and (3) the imposition of family caps, which specified that AFDC recipients would not receive higher benefits if they had additional children while on AFDC.

Table 3
Comparison of the AFDC and TANF Programs

Item	AFDC	TANF
Financing	Matching grant	Block grant
Eligibility	Children deprived of support of one parent or children in low-income two-parent families (AFDC-UP)	Children in low-income families as designated by state; AFDC-UP abolished. Minor mothers must live with parents; minor mothers must also attend school
Immigrants	Illegal aliens ineligible	Aliens ineligible for five years after entry and longer at state option
Form of Aid	Almost exclusively cash payment	States free to use funds for services and noncash benefits
Benefit Levels	At state option	Same
Entitlement Status	Federal government required to pay matched share of all recipients	No individual entitlement
Income Limits	Family income cannot exceed gross income limits	No provision
Asset Limits	Federal limits	No provision
Treatment of Earnings Disregards	After 4 months of work, only a lump sum $90 deduction plus child care expenses; and nothing after 12 months	No provision
Time Limits	None	Federal funds cannot be used for payments to adults for more than 60 months lifetime (20 percent of caseload exempt)
JOBS Program	States must offer a program that meets federal law	JOBS program abolished
Work Requirements	Parents without a child under 3 required to participate in JOBS	Exemptions from work requirements are narrowed and types of qualified activities are narrowed and prespecified (generally excludes education and classroom training) and must be 20 hours/week rising to 30/week for single mothers
Work Requirement Participation Requirements	JOBS participation requirements	Participation for work requirements rise to 50 percent by FY 2002
Child Care	Guaranteed for all JOBS participants	No guarantee but states are given increased child care funds
Sanctions	General provisions	Specific provisions mandating sanctions for failure to comply with work requirements, child support enforcement, schooling attendance, and other activities
Child Support	States required to allow first $50 of child support received by mother to not reduce benefit	No provision

Source: V. Burke, “New Welfare Law: Comparison of the New Block Grant Program with Aid to Families with Dependent Children,” Report No. 96-720EPW, Congressional Research Service, Washington, DC, 1996.

Note: “No Provision” means that the law had no requirement of the type (e.g., no income limits and no asset limits).

Congress subsequently took action in 1996 by enacting the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which simultaneously reduced federal authority over the program but also mandated many (but not all) of the popular state-level features. Table 3 summarizes the differences between AFDC and TANF. The PRWORA legislation converted the previous matching grant to a block grant and removed much of the federal regulatory authority over the design of the program. Thus states were free to set their benefit levels, as before, but also the tax rate, income limits, asset requirements, and even the form of assistance (cash or in-kind services). The last provision is important because it allows states to use TANF dollars to support child care, job search, social services, and other types of expenditures; there are no requirements on how much or little must be spent on cash aid directly. In addition, no federal definition of who is to be included in the assistance unit was imposed; the AFDC-UP program was abolished and states were able to cover two-parent families at their discretion. In addition, and importantly, the entitlement nature of the program was ended and states were not required to serve all eligibles.

At the same time, however, the law imposed new federal authority in some specified areas. Federal funds were not to be used to pay adults for more than 60 months of TANF benefits over their lifetimes, although states were allowed an exemption from this requirement for 20 percent of their caseloads. Minors who had dependent children were required to stay in school and live with their parents in order to receive federal TANF dollars. In addition, while the 1988 JOBS program was abolished, new work requirements were imposed that required that states enroll significantly greater fractions of the caseload in them (as many as 50 percent of single-mother recipients and 90 percent of two-parent families were to comply) and which narrowed the list of exemptions from the requirements. Recipients involved in general education and training could not be counted toward these participation requirements, as in many of the prior state reforms. The hours of work per week required were also greatly increased—up to 30 hours per week for single mothers and more for two-parent families.[3]

The most dramatic departures from the AFDC program were TANF's time limit and work requirement provisions. Lifetime time limits were a new concept in U.S. transfer programs and were based on a quite different philosophy of the aims of public assistance than had been the case theretofore. States were allowed certain types of exemptions from the time limits and were also allowed to grant temporary extensions to individual families, so long as the total number did not exceed 20 percent of the caseload. The work requirements in the new legislation were much stronger than in previous law and changed the orientation from education and training to work per se. The law also allowed states to impose sanctions on recipients for failure to comply with the work requirements, sanctions which were much stronger than in past law and which were rigorously enforced. The work emphasis of the law was further reinforced by an increase in the funds made available for child care.[4]

After the 1996 legislation, states moved forward vigorously to design TANF programs along the lines indicated by the law and, in many cases, went beyond the minimum required. For example, many states imposed time limits shorter than the five-year maximum required by the federal law. Other states imposed sanctions on recipients much stronger than those required. The states also embraced work requirements and sanctions vigorously. The most notable movement was toward a "Work First" approach in which recipients and new applicants for benefits were moved as quickly as possible into work of any kind, with a de-emphasis on education and training. Again, many states imposed strong sanctions for failure to comply with these requirements, usually beginning with an initial partial sanction at first noncompliance and then graduating to a more severe, full sanction at subsequent noncompliance. The work requirements were also often strengthened by frequent requirements for job search and work registration at the point of application for TANF benefits that had to be complied with before benefit receipt could begin. In addition, the majority of states lowered their benefit-reduction rates, usually to approximately 50 percent.

The PRWORA legislation represented more than simply a redirection of the employment goal and an increased emphasis on work. A new goal appeared, which was to reduce "dependency," a term much used in public discussions, which is more or less defined as long-term receipt of welfare benefits. Such dependency was presumed by the PRWORA legislation to have deleterious effects on adults and children, and its reduction became a goal in and of itself. Another new goal of welfare reform in the 1990s was to reduce the rate of nonmarital childbearing and to encourage marriage. This goal was explicitly stated in the preamble to the PRWORA legislation but the law itself had very few provisions directly relating to it.

Effects of the reform

There was a large effort by the research community to evaluate the effects of the welfare reform in the few years following 1996. This proved to be quite difficult because no evaluation plan was built into the legislation and its provisions were not tested prior to passage of the law.[5] In general, four basic types of evaluation methodologies were used.[6] First, analysts examined simple time trends in the outcomes of interest from before 1996 to after 1996, to determine if a break in the trend occurred.[7] This method is complicated by the fact that other things, such as the economy, may have been changing at the same time. Second, a variation on this method compared changes in outcomes over time for the groups most heavily affected by the reform—for example, less educated or low-income single mothers—to those for groups not so affected by the reform but similar in some other respects—such as more educated or higher income single mothers, married women, or women without children.[8] Third, many studies made use of the fact that different states enacted different programs prior to 1996, allowing a comparison of outcomes for women in different states as a measure of the effects of reform and allowing a control for the state of the local economy.[9] These methods are complicated by the fact that states differ in many other respects that are often difficult to control for and by the short windows of time allowed for the evaluation. Finally, there were a series of randomized experiments, all begun prior to 1996, which tested elements of the PRWORA legislation by a rigorous experimental-control methodology.[10] A drawback to this method is that the programs were not designed to replicate all features of PRWORA and hence differed from them significantly in most cases. Another limitation is that experiments, at least those tested on welfare recipients, will always miss "entry" effects.

Another research question related to whether the goal of assessing the effects of reform was to estimate the cumulative effect of all provisions of the law, or to assess the effects of each component separately. It has proven difficult to evaluate the effects of separate components because, at least after 1996, all states implemented some form of the major components; thus no one of them was introduced while the others were not. Much of the knowledge of the effects of individual components arises from the period before 1996, when different states adopted different policies, but the problem with this type of analysis is that many of the policies were quite different from the later TANF versions. In principle, the fourth methodology—randomized experiments—could be used to assess the incremental effect of a given component holding the others fixed. Most of the evidence on the effects of individual components arises from experimental studies, as discussed below.

Finally, there are a number of issues concerning the outcomes of interest. A major set of outcomes of interest to policymakers and the public relate to the effect of the reform on individual levels of employment and earnings, and on total family income and rates of poverty. Another set of outcomes of interest to some groups were the effects of the reform on child-bearing and marriage, while another set focuses on children—the effects on child development, behavior, educational levels, and so on. However, it should also be noted that many policymakers regarded a reduction in the welfare caseload, and in welfare expenditures, as an outcome of interest in its own right. In this view, even if employment, earnings, income, and the other outcomes were unaffected by the law, it could still be regarded as successful if it reduced the caseload because "dependency" had been reduced.

Findings

Several reviews of the research literature on the effects of 1990s welfare reform in the United States have been written.[11] Here, a relatively short summary of the findings is provided.

The simplest method of assessing the effects of the reform is to examine time-series trends in the outcomes of interest. For example, Figure 2 shows trends in AFDC-TANF expenditures and caseloads. These figures show a dramatic reduction in both over the relevant period, with the caseload dropping to levels in 2004 below even those in the first year shown, 1970. This historically unprecedented decline is one of the strongest pieces of evidence in support of a welfare reform effect. Two complicating factors must be stated, however. One is that the unemployment rate was falling at the same time and, indeed, it fell to historically low levels as well; this could have reduced the welfare caseload by itself. The other complicating factor is that the decline in the caseload began somewhat prior to 1996. Most analysts believe that this was partly the result of the state-level welfare reforms that began in the early 1990s, but contributing factors could have been the state of the economy as well as concomitant expansions in the Earned Income Tax Credit.

Table 4 summarizes the findings from reviews of the literature on the effects of welfare reform. The statistical studies of the effect of welfare reform on welfare use in general almost all show that the reform reduced welfare use. These studies control for the state of the economy and hence indicate that not all of the decline was a result of changing economic conditions. The central tendency of the findings suggests that caseloads fell by about 20 percent and employment increased by about 4 percent. The studies all show some contribution of the economy to the caseload decreases and employment increases as well, however, and many attempt to quantify the relative contributions of welfare reform and the economy to the decline in welfare use. The estimates range considerably but some assign at least half of the decline to the effects of an improved economy. Even if this is correct, it still implies a large effect of welfare reform.

The findings on employment and earnings confirm the time-series evidence presented earlier, indicating consistently positive effects of welfare reform. About two-thirds of women who left welfare were employed in the immediate period following reform, and many more were employed at some point over a longer period of one or two years.[12] This was one of the most surprising results of welfare reform, as historical employment rates of women on welfare had never exceeded 10 percent or 15 percent, and were usually less than 10 percent. The idea that two-thirds of these women were capable of working, or even that a selected portion of recipients (the more job-ready) were capable of working at these levels, was a major surprise and resulted in a fundamental change in policymakers' views of the work ability of women on welfare.

A high fraction of those who left welfare worked full time (defined as 35 hours per week or more), and hourly wage rates of those who worked were reasonably high.[13] Another outcome of interest is whether there were increased earnings from individuals in the household other than the welfare recipient herself—for example, older children, spouses or cohabitors, or other relatives. The evidence has indicated considerably greater increases in this form of earnings than expected.[14] The general interpretation is that families that went off welfare increased employment of many family members in order to sustain family income.

Another issue of interest is whether welfare reform affects wage growth. Conventional wisdom is that the age-

Table 4
Results of Research on the Overall Effects of U.S. Welfare Reform

Outcome	Findings
Caseload	(1) Most studies show negative effects, both pre-1996 and post-1996, although the improved economy explains a significant portion of the caseload decline as well (2) A large fraction, if not the majority, of the effect arose from decreased entry to the program rather than increased exit (3) Those leaving welfare did so partly because of sanctions; those sanctioned were sometimes the more disadvantaged families rather than the more advantaged (4) Those leaving welfare often lost access to other benefits and services
Employment	(1) Most studies show positive net effects on employment rates (2) Women who left welfare had employment rates of approximately 60 percent to 70 percent (3) Employment rates of women on welfare rose from less than 10 percent to over 30 percent (4) Those who were not employed often had income from others in the family or from other transfer programs (5) A high fraction worked full time as well as part time
Earnings	(1) Most studies show a positive net effect on earnings (2) Women who left welfare also showed increased earnings from others in the household (3) Hourly wage rates are above the official minimum wage (4) Mixed evidence on whether wages grow with experience after leaving welfare
Family Income and Poverty	(1) Most studies show increases in average family income and declines in poverty rates (2) Women who left welfare had, on average, only small increases in income and declines in poverty; those who did not enter welfare experienced strong increases in income and declines in poverty (3) The incomes of women who left welfare rose little because the loss of benefits almost cancelled out the increase in earnings and increase in other household members' income (4) Some early studies showed a decline in income and increase in poverty among very low-income single-mother families; this does not show up in consumption
Childbearing and Marriage	Most studies show no discernible effect

Source: R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature* 40 (December 2002): 1105–66; R. Moffitt, ed., *Means-Tested Transfer Programs in the United States*, (Chicago: University of Chicago Press, 2003); and J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005).

earnings profiles of low-skilled workers are particularly flat, perhaps because the types of jobs that low-skilled workers hold have little human capital and training content that would lead to increased earnings. This would suggest that former welfare recipients would also have slow wage growth after leaving welfare, and a number of studies support this suggestion.[15] This has generated a source of considerable policy concern because it was hoped that former recipients would gain experience in the labor market, leading to increased wages, which would reduce the probability of coming back onto welfare in the future. However, the evidence is completely mixed on this issue, with a significant number of high-quality studies also showing that the returns to work experience are just as high among low-skilled workers and single mothers as among other types of workers.[16]

The evidence on the effects of welfare reform on total family income, and on poverty rates, is also very important. The general findings from the statistical studies support the poverty rate time trends mentioned earlier, showing that incomes of disadvantaged single-mother families rose and poverty rates fell, relative to various comparison groups, in the years following welfare reform.[17] However, the studies have indicated that the large majority of these income gains occurred among women who did not enter welfare rather than among those who left welfare after reform. This implies that the gains from welfare reform were not evenly spread, having their largest effects on those low-income family wage-earners who already had some job skills, rather than the most disadvantaged. In addition, most studies indicated that the increased earnings that women obtained after leaving welfare were either equal to the welfare benefits lost or a bit below them. The reason that family incomes rose modestly is because other family members increased their earnings and because the families were able to secure more benefits from welfare programs other than TANF. It is consequently unclear whether welfare reform worked because it "made work pay." If "making work pay" means ensuring that earnings of a woman are greater off welfare than her benefits on welfare, the evidence does not indicate a strong effect, if any.

It should be emphasized that these results concerning earnings after welfare are based on averages of all women leaving welfare, not just those who were employed. The fact that 60 percent to 70 percent of former welfare recipients worked after leaving welfare necessarily implies that 30 percent to 40 percent did not.[18] The latter group typically experienced a reduction in family income and, obviously, did not have earnings greater than their welfare benefits. Their reductions in income were lessened by increased other-family-member earnings and increased benefits from other programs, but these did not offset the loss of welfare benefits. For those who were employed after leaving welfare, however, earnings were generally somewhat greater than the welfare benefits lost, although these families also supplemented their incomes with other-family-member earnings. Thus, it may be that "work pays" if work can in fact be achieved, but that does not necessarily mean that going off welfare pays, in general.

Another piece of information relevant to changes in family income subsequent to welfare reform is how take-up rates of those eligible for TANF on a financial basis changed. A large part of the reduction in the caseload was a result of decreases in the fraction of families that receive TANF despite being financially eligible. Participation rates among financial eligibles dropped from around 80 percent in the early 1990s to 69 percent in 1997, and further dropped to 42 percent by 2004.[19] These reductions were no doubt a result of families that were sanctioned off welfare as well as eligible families that chose not to apply for the program because of the new work requirements or that attempted to apply and were rejected for failure to meet those requirements.

Some research on former welfare recipients examined which other government programs they availed themselves of after leaving welfare. These data are available only for selected states, but indicate a rather sparse set of other government benefits were received.[20] The most commonly received form of benefit was food stamps, which 33 percent to 74 percent of former-recipient families received. However, almost 100 percent of families received food stamps prior to leaving welfare because such benefits were automatically granted to AFDC recipients, so there was a significant reduction in receipt after leaving welfare.[21] Between 7 percent and 20 percent of families received Supplemental Security Income (SSI) benefits, which are made available to families with aged, blind, or disabled adults and children. Between 4 percent and 8 percent received some form of Social Security income, often from the Social Security Disability Insurance program.

Finally, the evidence on the effects of welfare reform on family structure and marriage indicates weak effects, if any. The proponents of the 1996 legislation hoped that nonmarital fertility would fall and that marriage rates would rise as a result of the reform. However, the 1996 welfare reform had few provisions directly aimed at fertility and marriage, the main exception being optional state provisions for family caps. It is also the case that increasing earnings among women could work to decrease marriage, inasmuch as it allows women to be more economically independent. In any case, the results from the three surveys mentioned above show, overwhelmingly, either insignificant effects of welfare reform overall or of individual components on either fertility and marriage, with rare exceptions, and even the specific studies of the effects of family caps show weak effects at best, based on the highest-quality studies.[22] On the basis of these findings, it is generally agreed that if the government is to alter fertility and marriage patterns among the poor, some other types of policies will be necessary.

Findings on components

The results summarized thus far pertain to the overall effect of welfare reform and not to the effects of specific components such as work requirements, sanctions, or time limits.

From econometric studies, there is some evidence on at least two policy components, sanctions and time limits. There have been a few studies of the effects of sanctions, showing them to have a negative effect on the size of the caseload.[23] There have been more econometric studies of time limits, which have been shown to have a negative effect on the caseload and positive effect on employment rates.[24]

A larger number of experiments tested the effects of work requirements or financial incentives (i.e., reductions in marginal tax rates or increases in earnings subsidy rates), or, sometimes, both combined. Experiments that imposed work requirements—backed up by sanctions—but without financial incentives showed reductions in welfare usage ranging from 3 percent to 12 percent, increases in employment rates ranging from essentially zero to 15 percent, but no effects on family income.[25] A much smaller number of experiments tested financial incentives essentially alone,[26] the most well-known of which was the Minnesota Family Investment Program.[27] The "MFIP" program increased welfare usage by about 10 percent, had very little effect on employment rates, but increased family income. The higher welfare usage rates occurred because negative-income-tax decreases in a marginal tax rate keep more families on welfare by allowing them to work at higher earnings levels than before, and the small effects on employment occurred because such a program raises the break-even level of earnings (that is, the maximum level of earnings at which benefits can be received) and hence reduces employment relative to families that leave welfare altogether. The positive effects on family income arise because higher benefits are paid to everyone—there is no benefit reduction for any family, in contrast to work requirement programs.

A few experiments tested combined work requirements with financial incentives, the most well-known again being the MFIP program, one variant of which required recipients to work.[28] Like the first MFIP program discussed above, this program increased welfare usage and family income but had significant positive effects on employment. This result shows that financial incentives can be helpful in increasing employment even when work requirements are the major policy reform; the "pull" of financial rewards is an important supplement to the "push" of mandatory work.

Another component issue that has been examined by randomized experiments is whether work requirements that attempt to move welfare recipients into employment as quickly as possible have greater or smaller effects than programs that attempt some form of human-capital investment through increased education or training rather than immediate employment.[29] The evidence in the studies that have been conducted on this question indicates that the human-capital investment approach does not dominate and, in fact, is often inferior to the Work First approach.[30] Rapid-employment programs increase employment and reduce welfare usage quickly, whereas human-capital development programs, which cost much more, have no greater employment effects three years after the initiation of the reform. However, Hotz et al. argue that greater employment gains from the human capital approach appear if a longer-term follow-up is conducted.[31] In any case, Bloom and Michalopoulos argue that the best approach is neither rapid-employment nor human capital for everyone, but rather a more nuanced approach that separates the caseload according to their needs, requiring rapid-employment for those with significant pre-existing job skills and a human-capital strategy for those with greater needs for skill improvement.[32]

Remaining and future issues

Most of the remaining and future welfare reform issues currently under discussion in the United States concern fine-tuning and modifications in the current reform rather than wholesale change. That the 1996 welfare reform was a success, in overall terms and on average, is almost universally accepted by policy analysts and researchers.

One set of issues revolves around whether work should be substantially increased among women remaining on welfare or whether the remaining caseload should be thought of as predominantly composed of women who have great difficulties with working because of a variety of health, education, and family problems. These questions have not been resolved in any clear way. There is widespread sentiment that increased assistance of two types is needed for the approximately 40 percent of former welfare recipients who are not working and the approximately 20 percent of all low-income single mothers who are not working and not on welfare. One is increased work supports in the form of better child care and some type of human-capital strategy. A second type of assistance is increased support of non-employment-related services to address the health, substance abuse, and family and child issues of this population. Blank has proposed that states set up new programs designed specifically for those who have special difficulties with finding employment and that a variety of both employment-related and non-employment-related services be provided for such families.[33]

The concern with providing further assistance to those off welfare who have either employment or non-employment-related problems goes to the heart of the 1996 welfare reform: that reform could be viewed as having removed the "safety net" for most families by no longer guaranteeing them financial support should their incomes fall below stipulated levels. While the removal of this safety net appears to have had positive effects on many single mothers by inducing them to work and provide support to their families without the help of welfare, some have not been so successful and are in need of continued assistance. Because they are off welfare, however, providing this assistance is difficult.

An issue that still remains is the effect of time limits. Evidence to date suggests that approximately 25,000 families hit a time limit by early 2002, and since then about 3,000 families have hit their limits each year.[34] These are relatively small numbers compared to the size of the caseload, at least since 2002. As a consequence, most analysts believe that time limits have had much less effect than anticipated (although it should be reemphasized that many more women may have left welfare in anticipation of hitting the limit).

Finally, another overarching issue is the relative lack of programs and services made available to unskilled prime-age males, both married and unmarried. Most transfer programs exclude them, with the exception of the EITC for those with dependents, and food stamps are a major exception that provides universal support. But Medicaid, SSI, housing, and child care are not well targeted on this group, and TANF provides little support to low-income married men. Training programs, while important, are too small in scale to make much of a difference. This is a group that many believe is largely neglected by the current system, yet has major employment problems, which are not being adequately addressed. ■

---

[1]This article draws from a paper prepared for the Economic Council of Sweden conference "From Welfare to Work," Stockholm, May 7, 2007.

[2]A more detailed discussion of the AFDC program's history can be found in R. Moffitt, ed., *Means-Tested Transfer Programs in the United States* (Chicago: University of Chicago Press, 2003), upon which this section partly draws.

[3]The law imposed specific penalties on the states for not complying with these mandated provisions. These penalties took the form of percentage reductions in the block grant allocation for each type of violation. The work participation requirements were considerably ameliorated by another provision of the law which reduced those requirements in proportion to the amount of caseload reduction a state experienced. Because caseloads fell dramatically after the reform, the participation requirements were greatly reduced as well.

[4]However, the guarantee of child care for working recipients that existed under AFDC was abolished under TANF. That guarantee was widely seen by states as a constraint on their ability to increase employment because it meant that states could not force women to work without first providing sufficient child care slots.

[5]For extensive discussions of the nature of the evaluation difficulties, see R. Moffitt and M. Ver Ploeg, *Evaluating Welfare Reform in an Era of Transition* (Washington, DC: National Academy Press, 2001), and R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature* 40 (December 2002): 1105–66.

[6]For a detailed discussion of evaluation methodologies, see Moffitt and Ver Ploeg, *Evaluating Welfare Reform*.

[7]See, e.g., K. Murray and W. Primus, "Recent Data Trends Show Welfare Reform to Be a Mixed Success: Significant Policy Changes Should Accompany Reauthorization," *Review of Policy Research* 22 (2005): 301–324.

[8]See, e.g., D. Ellwood, "The Impact of the Earned Income Tax Credit and Social Policy Reforms on Work, Marriage, and Living Arrangements," *National Tax Journal* 53 (2000): 1063–1105.

[9]See, e.g., P. Levine and D. Whitmore, "The Impact of Welfare Reform on the AFDC Caseload," *National Tax Association Proceedings, 1997* (1998): 24–33.

[10]See, e.g., C. Miller, V. Knox, L. Gennetian, M. Dodoo, J. Hunter, and C. Redcross, *Reforming Welfare and Rewarding Work*, Vol. I, *Final Report on the Minnesota Family Investment Program: Effects on Adults* (New York: MDRC, 2000).

[11]Blank, "Evaluating Welfare Reform"; Moffitt, *Means-Tested Transfer Programs*; J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005); and R. Blank, "What We Know, What We Don't Know, and What We Need to Know about Welfare Reform," presented at the Conference on Welfare Reform Ten Years After, University of Kentucky, 2007.

[12]G. Acs and P. Loprest, *Leaving Welfare: Employment and Well-Being of Families That Left Welfare in the Post-Entitlement Era* (Kalamazoo, Michigan: Upjohn Institute, 2004).

[13]Acs and Loprest, *Leaving Welfare*.

[14]R. Bavier, "Welfare Reform Data from the Survey of Income and Program Participation," *Monthly Labor Review* 124 (July 2001): 13–24.

[15]R. Moffitt and A. Rangarajan, "The Effect of Transfer Programs on Work Effort and Human Capital Formation: Evidence from the U.S.," in *The Economics of Social Security*, eds. A. Dilnot and I. Walker (Oxford: Oxford University Press, 1989); G. Burtless, "Employment Prospects for Welfare Recipients," in *The Work Alternative: Welfare Reform and the Realities of the Job Market*, eds. D. Smith Nightingale and R. Haveman (Washington, DC: Urban Institute, 1995); D. Card, C. Michalopoulos, and P. Robins, "The Limits to Wage Growth: Measuring the Growth Rate of Wages for Recent Welfare Leavers," Working Paper No. 8444, Cambridge, MA: National Bureau of Economic Research (NBER), 2001.

[16]T. Gladden and C. Taber, "Wage Progression among Less Skilled Workers," in *Finding Jobs: Work and Welfare Reform*, eds. R. Blank and D. Card (New York: Russell Sage, 2000); J. Grogger, "Welfare Reform, Returns to Experience, and Wages: Using Reservation Wages to Account for Sample Selection Bias," Working Paper No. 11621, National Bureau of Economic Research, 2005; H. Connolly and P. Gottschalk, "Do Earnings Subsidies Affect Job Choice? The Impact of SSP Subsidies on Wage Growth," working paper, Chestnut Hill, MA: Boston College, 2006.

[17]Blank, "Evaluating Welfare Reform"; J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005).

[18]R. Blank, "Improving the Safety Net for Single Mothers Who Face Serious Barriers to Work," *The Future of Children* 17 (Fall 2007): 183–197, estimates that 20 percent to 25 percent of all low-income single mothers—whether former welfare recipients or not—are neither on welfare nor working, and have low incomes and high poverty rates.

[19]U.S. Department of Health and Human Services, "Indicators of Welfare Dependence," *Annual Report to Congress*, Table 4a, Washington, DC: Office of the Assistant Secretary for Policy and Evaluation, 2007.

[20]Acs and Loprest, *Leaving Welfare,* Table 6.2.

[21]In the general population of all families, participation rates of families that were eligible for the Food Stamp program fell from 70 percent in 1994 to 48 percent in 2000, although they rose back to 55 percent by 2004, see U.S. DHHS, "Indicators of Welfare Dependence," Figure 4.

[22]For an illustrative study, see R. Schoeni and R. Blank, "What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty and Family Structure," Working Paper No. 7627, Cambridge, MA: NBER, 2000.

[23]Levine and Whitmore, "Impact of Welfare Reform."

[24]J. Grogger and C. Michalopoulos, "Welfare Dynamics Under Time Limits," *Journal of Political Economy* 11 (June 2003): 530–554; J. Grogger, "Time Limits and Welfare Use," *Journal of Human Resources* 39 (Spring 2004): 405–24; and B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 116 (2001): 1063–1114.

[25]See Tables 5.1, 6.1, and 7.1 in Grogger and Karoly, *Welfare Reform,* for the results from 13 experiments of this type; and D. Bloom and C. Michalopoulos, "How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research," Next Generation Project report, MDRC, New York, 2001, for a discussion of 11 experiments.

[26]Financial components were considered to be tested "essentially" alone because other reform components were also bundled into the treatments.

[27]Miller et al., *Reforming Welfare*.

[28]Miller et al., *Reforming Welfare*.

[29]See, e.g., S. Danziger and K. Seefeldt, "Ending Welfare Through Work First," *Families in Society* 81 (2000): 593–604.

[30]Bloom and Michalopoulos, "How Welfare and Work Policies Affect Employment and Income."

[31]V. J. Hotz, G. Imbens, and J. Klerman, "Evaluating the Differential Effects of Alternative Welfare-to-Work Training Components: A Reanalysis of the California GAIN Program," *Journal of Labor Economics* 24 (July 2006): 521–566.

[32]Bloom and Michalopoulos, "How Welfare and Work Policies Affect Employment and Income."

[33]Blank, "Improving the Safety Net."

[34]M. Farrell and S. Rich, "Time Limits: An Update on State Policies, Implementation, and Effects on Families," presented at the Welfare Research Conference, Washington, DC: U.S. Administration for Children and Families, 2007.

Out of Reach: Place, Poverty, and the New American Welfare State

Scott W. Allard

Sweeping changes in welfare programs since 1996 have transformed the way America cares for its poor. Today, for every dollar spent on cash welfare payments, some twenty dollars are spent on service programs targeted at the working poor—job training, adult education, child care, emergency assistance, mental health care, and other social services. *Out of Reach* examines our current system and the crucial role that geography plays in the system's ability to offer help.

Drawing on unique survey data from almost 1,500 faith-based and secular service organizations in three cities, IRP affiliate Scott W. Allard examines which agencies are most accessible to poor populations and looks at the profound impact of unstable funding on assistance programs. Allard argues that the new system has become less equitable and reliable, and he concludes with practical policy recommendations that address some of the more pressing issues in improving the safety net.

Yale University Press, forthcoming December, 2008, 280 pp.,
http://yalepress.yale.edu/yupbooks/home.asp

Recent IRP Discussion Papers

Holzer, H. "Living Wage Laws: How Much Do (Can) They Matter?" DP no. 1358-08. 2008. 32 pp.

Handel, M. J. "Measuring Job Content: Skills, Technology, and Management Practices." DP no. 1357-08. 2008. 63 pp.

Baum, C. L. "The Effects of Food Stamp Benefits on Weight Gained by Expectant Mothers." DP no. 1343-08. 2008. 31 pp.

Dahl, M., and T. DeLeire. "The Association between Children's Earnings and Fathers' Lifetime Earnings: Estimates Using Administrative Data." DP no. 1342-08. 2008. 42 pp.

Schmeiser, M. D. "Expanding New York State's Earned Income Tax Credit Program: The Effect on Work, Income, and Poverty." DP no. 1341-08. 2008. 30 pp.

Imbens, G. W., and J. M. Wooldridge. "Recent Developments in the Econometrics of Program Evaluation." DP no. 1340-08. 2008. 91 pp.

Schmeiser, M. D. "Expanding Wallets and Waistlines: The Impact of Family Income on the BMI of Women and Men Eligible for the Earned Income Tax Credit." DP no. 1339-08. 2008. 33 pp.

Carlson, D., R., Haveman, T. Kaplan, and B. Wolfe. "Long-Term Effects of Public Low-Income Housing Vouchers on Work, Earnings, and Neighborhood Quality." DP no. 1338-08. 2008. 51 pp.

Flinn, C., and J. Mabli. "On-the-Job Search, Minimum Wages, and Labor Market Outcomes in an Equilibrium Bargaining Framework." DP no. 1337-08. 2008. 33 pp.

Plotnick, R. D. "Childlessness and the Economic Well-Being of Elders." DP no. 1336-08. 2008. 33 pp.

Hamersma, S., and C. Heinrich. "Temporary Help Service Firms' Use of Employer Tax Credits: Implications for Disadvantaged Workers' Labor Market Outcomes." DP no. 1335-08. 2008. 43 pp.

http://www.irp.wisc.edu/publications/dps/dplist.htm