

FROM WELFARE TO A WORK-BASED SAFETY NET: AN INCOMPLETE TRANSITION

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INTRODUCTION

The passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which we label welfare reform, decisively “ended welfare as we knew it” by eliminating the federal entitlement to cash assistance that Aid to Families with Dependent Children (AFDC) had provided for 60 years. The new cash assistance program, Temporary Assistance for Needy Families (TANF), is a fixed federal block grant that allows states to spend federal and state funds flexibly on cash assistance or a range of other services provided to needy families with children. PRWORA requires only that states enforce participation in work or work-related activities and impose time limits on the receipt of cash assistance from federal funds.

Because it is not an entitlement program, TANF does not require states to provide benefits to all eligible families, nor does it require them to assume responsibility for guaranteeing unemployed recipients who reach their time limit a job if they cannot find one. As a result, the transition to the new “work-based safety net” remains incomplete: neither the federal government nor the states replaced the entitlement to cash assistance with an entitlement to participate in work or work-related activities.

TANF includes incentives that encourage states to minimize their cash assistance caseloads, even when recessions increase the number of eligible families. First, the amount of block grant funds has not changed since the program was enacted. A state’s allocation is not responsive to population growth or increased economic hardship. Second, funds not used for cash assistance can be reallocated to other related purposes. Third, states can satisfy the work participation benchmarks either by getting more recipients into work-related activities or jobs (which can be expensive) or simply by keeping caseloads small.

In contrast to this reduction in public responsibility, TANF requires more responsibility from recipients. Indeed, it achieved its goal of eliminating long-term dependence on cash assistance. A recipient can no longer reject a job offer and continue to receive cash assistance. If she does not cooperate with the welfare agency, she can be sanctioned and her family can be removed from the welfare rolls. She can also be removed when she reaches her time limit, even if she is actively seeking work and willing to work for her cash assistance.

TANF’s time limits and work requirements did contribute to the post-welfare reform increase in the labor supply of single mothers during the low unemployment years of the late 1990s, even though labor demand issues were not addressed. David Ellwood, whose *Poor Support* (1988) first set out the case for time limits on cash assistance, did address both labor supply and labor demand. Under his plan, cash assistance would end when recipients reached the time limit. However, if they were unable to find work, the welfare agency would not simply close the case as TANF requires, but would offer an opportunity to work in a public or subsidized job.

Because labor demand was so strong in the late 1990s, many analysts and politicians concluded that TANF’s labor supply incentives on their own were sufficient

to make welfare reform and the transition to a work-based safety net successful. In 2015, however, with two decades of TANF experience, and with the unemployment rate for high school graduates having peaked at 11 percent and remained above 7 percent from November 2008 through December 2013, it is clear that the neglect of the demand side of the labor market calls into question the initial optimistic evaluations of the 1996 reform.

In the next section, we briefly highlight key research findings on the effects of TANF and policy changes related to the 1996 reform. We conclude with several suggestions for policies that would help complete the transition to a work-based safety net.

A BRIEF REVIEW OF THE EVIDENCE

In the immediate aftermath of welfare reform, policy analysts and politicians across the political spectrum gave PRWORA high marks as caseloads plummeted, the employment rate for single mothers increased rapidly, and child poverty fell (Haskins, 2006). Many analysts, however, cautioned that welfare reform was only partially responsible for these successful outcomes (Blank, 2002). For example, the Earned Income Tax Credit (EITC), which provides tax credits to families with children and low earnings, was increased significantly in the early 1990s, the minimum wage was increased in 1997, and access to medical care was expanded by the State Child Health Insurance Program of 1997.

In addition, welfare reform was implemented in a booming economy, in which many employers faced a labor shortage (Holzer, 1999). The national unemployment rate fell to 4 percent in 2000 and the real wages of less-educated workers increased for the first time in decades. Together, these economic and public policy changes increased the financial benefits to a single mother of moving from welfare to work at the same time that TANF's new rules made staying on welfare much more difficult (Danziger et al., 2002).

This created a much stronger work-based safety net for poor parents who were willing to work *and* who could find and maintain employment. Indeed, total spending on poor families with children has increased substantially since welfare reform. However, this aggregate increase in total spending masks a new divergence—public benefits per poor family have increased *only* for the working poor; they have actually fallen for the nonworking, nondisabled poor (Moffitt, 2015).

Caseloads

Cash assistance caseloads declined more than most observers had predicted when welfare reform was being debated. The national caseload fell from about 5 million families per month in 1994 to about 2.3 million per month in 2000. Caseloads have remained low and are now about 1.6 million families, despite population growth over the past 20 years and recent high unemployment rates. In contrast, the monthly caseload for Supplemental Nutrition Assistance Program, SNAP (formerly Food Stamps) increased from 27.5 to 46.5 million between 1994 and 2014.

TANF serves a much smaller fraction of poor families than AFDC once did—the ratio of the number of poor families with children to the caseload has fallen to 26 percent from 82 percent in 1979 (Center on Budget and Policy Priorities, 2015). In addition, caseloads increased little during the Great Recession (and in some states not at all), a time when the unemployment rate and SNAP caseloads roughly doubled.

Many studies, summarized by Ziliak (2015), emphasize three factors that contributed to the caseload declines: the strong economy, TANF policies that

discouraged welfare entry and encouraged exit, and increased public benefits for the working poor such as the increased EITC. In addition, the composition of the caseload is different than it was in 1996, with higher proportions of cases where the mother is exempt from work requirements because she is pregnant or has a child under three months and where the cases contain no adults. Falk (2014) finds that the percentage of “child-only” cases rose from 17.2 to 37.4 percent between 1994 and 2011.

TANF caseloads hardly increased during the Great Recession, but the reasons remain unclear (Ziliak, 2015). One possibility is that many states reallocated their fixed TANF funds to related programs, such as state EITCs, child-care subsidies, and child welfare systems. When the unemployment rate increased, they did not move these funds back to cash assistance because state revenues fell dramatically during the recession. States now spend less than 30 percent of TANF funds for cash assistance (Center on Budget and Policy Priorities, 2015). Another possibility is that increased state discretion and work requirements have led many potential recipients to assume that TANF no longer provides support (Edin & Shaefer, 2015; Seefeldt & Sandstrom, 2015).

Employment and Disconnection from Employment

Moving recipients from welfare to work was a key goal of the 1996 reform. In 1993, 58 percent of low-income mothers were employed at some time during the year, but by 2000, nearly 75 percent were working (Haskins, 2006). The employment of single mothers, unlike TANF caseloads, is responsive to economic conditions—their employment rate declined somewhat after 2000, but has remained above pre-welfare reform levels.

Many who left welfare, however, were unable to work steadily. Whereas three-quarters of former recipients worked at some point in the year following welfare exit, only one-third worked in all four calendar quarters (Acs & Loprest, 2004). The kinds of jobs held by former recipients contribute to this instability. For example, many Wisconsin welfare leavers reported quitting jobs when they or a child became ill or they became pregnant (Collins & Mayer, 2010).

In addition, the decline in the caseload exceeded the increase in employment, suggesting that the implementation of work requirements and time limits, and the failure to provide work opportunities contributed to an increased number of single mothers who had neither earnings nor cash assistance, referred to as the “disconnected.” Loprest and Nichols (2011) find that the disconnected represented about one in eight of all single mothers in 1996 and 1997 but about one in five in 2008. Compared with single mothers who have earnings or cash assistance, the disconnected have a greater number of employment barriers, such as health and mental health problems, experiences of domestic violence, and learning disabilities (Turner, Danziger, & Seefeldt, 2006). Some disconnected mothers rely on family members, boyfriends, and the fathers of their children for support, but this help is often unstable (Seefeldt & Sandstrom, 2015).

Poverty

Research on the extent to which welfare reform reduced poverty on its own is mixed, even though child poverty did decline after welfare reform. Some studies report small to substantial income gains for mothers who left welfare for work (Danziger et al., 2002), but others find income losses (Ziliak, 2015). Some former recipients who had stable jobs were reluctant to take promotions at higher wages because they interfere with child care and other family demands (Seefeldt, 2008). Also, even

when work paid more than welfare, some single mothers expressed concerns about having less time and energy for their children (London et al., 2004). In his recent review, Ziliak (2015) concludes that “taken together, the results from leaver studies, demonstrations, and from national samples suggest that many women were worse off financially after welfare reform, especially at the bottom of the distribution. But this result becomes clear only if data post 2000 are brought to bear.”

The child poverty rate, which reflects many economic, demographic, and policy changes, did fall after welfare reform, from 20.5 percent in 1996 to 16.2 percent in 2000. This progress was lost following the Great Recession as child poverty was 19.9 percent in 2013. The post-welfare reform declines in poverty for black children were also large, from 39.9 percent in 1996 to 31.2 percent in 2000, before rising back to 38.3 percent in 2013.

These child poverty trends include both the children of the working poor, for whom the safety net is now stronger than it was in 1996, and those of the nonworking poor, for whom it is now weaker. Even for those who still receive TANF, benefits have declined either because states have cut them or because they have been eroded by inflation. In most states, real TANF benefits are worth about 20 percent less than in 1996 (Center on Budget and Policy Priorities, 2015). Edin and Shafer (2015) develop a \$2 per person, per day, measure of extreme poverty, adapted from the World Bank’s metric of global poverty. In 1996, 1.7 percent of families with children reported cash incomes equivalent to no more than \$2 per day, compared to 4.3 percent in 2011. If government noncash-income benefits are added, while the percentage in extreme poverty falls in both years, extreme poverty still increases from 1.1 to 1.6 percent.

Child Well-being

There is relatively little research on the extent to which welfare reform affected child well-being, in part because effects may not be evident for many years. Morris, Gennetian, and Duncan (2005) study the effects of welfare experiments that took place prior to the 1996 reform, such as the New Hope Program, and find that children fared better in programs that improved the economic well-being of welfare recipients. However, the typical TANF program was less generous than the programs they reviewed.

Johnson, Kalil, and Dunifon (2012) examine the relationship between maternal employment patterns of former welfare recipients and the behavioral and academic outcomes of their children. They find detrimental associations between child behavior and academic achievement if the mothers worked in unstable jobs, had fluctuating work hours, or required full-time employment. However, in the minority of cases where former recipients had good jobs, “the negative consequences of long work hours are completely offset when this work experience is in jobs that require cognitive skills that lead to higher wage growth prospects.”

SUMMARY AND POLICY OPTIONS

Findings on caseloads, employment, the disconnected, poverty, and child well-being support several conclusions. First, the post-welfare reform safety net that reduced public benefits for the nonworking, nondisabled poor and increased them for the working poor was more successful when jobs were readily available in the late 1990s and much less successful in recent years when unemployment was high. Second, welfare reform and the related policy changes have had heterogeneous effects. Some families are better off financially under the new safety net—particularly those who maintain stable employment across the business cycle. Others, however, are worse

off—particularly those who have barriers to employment, such as health and mental health problems and few labor market skills.

The 1996 welfare reform, policy changes such as the increased minimum wage and the EITC expansion, and the booming economy all contributed to declines in cash assistance and increases in employment. But the reform alone contributed to the increase in disconnected mothers and households with extreme low cash incomes. Also, the incentives TANF provided to state governments encouraged them not to expand assistance in response to the Great Recession at the same time that SNAP caseloads roughly doubled.

Evaluating the effects due solely to TANF is difficult. But given the many publications summarized in Ziliak (2015), we conclude that the high marks given to the 1996 reform at its 10-year anniversary are much lower as we approach its 20-year anniversary. It is now time to use what we have learned to complete the transition to a work-based safety net. Here, we offer four suggestions for policies to increase employment and reduce poverty that do not require a return to AFDC's entitlement to cash assistance.

First, the emphasis on “personal responsibility” should be balanced with a “public responsibility” to provide work opportunities to those for whom there is limited employer demand, especially when unemployment rates are high. Those who are willing to work but cannot find employment should be offered the opportunity to work to support their families instead of having their benefits terminated.

The American Recovery and Reinvestment Act of 2009 (the “stimulus”) provided \$5 billion in TANF emergency funds. One of the possible uses for these funds was to subsidize jobs in public or nonprofit agencies or with private-sector employers. Among the 39 states plus the District of Columbia that took part, employers created 260,000 jobs with a federal investment of \$1.3 billion (Roder & Elliott, 2013).

About two-thirds of participating employers said they created positions that would not have existed otherwise, and a (nonrandomized) evaluation found that many participants made gains that lasted after the program ended, and that the subsidized jobs garnered “strong support from employers, workers, and state and local officials from across the political spectrum” (Roder & Elliott, 2013, p. 1). Creating a permanent program of work opportunities for those willing to work but unable to find a job would help complete the transition to a work-based safety net.

Second, many former welfare recipients found jobs but had difficulty paying for child care. Ziliak (2014) reports that out-of-pocket child-care costs represent 15 to 25 percent of the earnings of the median single mothers, depending on state of residence. Because the former welfare recipients earn less than the median, their cost burden is even higher. In 2011 only about one in six children who were eligible for federal subsidies received them (U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, 2015). Increasing public funds for child-care subsidies would both raise the economic well-being of single mothers, but also contribute to increased labor supply by raising the net gain from work.

Third, TANF should extend cash assistance to a greater percentage of eligible families, with work requirements, time limits, and other restrictions automatically relaxed during recessions. Currently, only the SNAP program provides near-universal access to basic assistance for families with children. Indeed, one lesson of the TANF experience is that attempts to add further work requirements to SNAP without also providing work opportunities would increase both the number of disconnected mothers and the extent of extreme poverty.

Edin and Shaefer (2015) document that many families who need temporary cash assistance have difficulty enrolling in TANF. Reducing barriers to entry requires restraining state discretion to divert TANF funds for other uses. For example, states might be required to spend some fraction of their block grant and maintenance

of effort funds on cash assistance and work opportunities. The states could better afford these restrictions if the TANF block grant were finally increased from its 1996 level, with additional automatic increases provided during recessions.

Fourth, the TANF experience revealed that many AFDC recipients had barriers to employment that prevented them from finding steady work even when the economy was booming (Danziger et al., 2000). Expanding work opportunities is one option. But for those whose barriers to work are so severe that they cannot work, but not severe enough to qualify them for disability benefits, Blank and Kovak (2009) propose modifying the Supplemental Security Income (SSI) program that now provides benefits only for permanent disabilities by adding a new part-time or temporary disability benefits program. This allows TANF to focus on those able to work steadily.

The 1996 reform ended the cash-based safety net that had been in place since the 1930s and started the transition toward a work-based safety net. The reform and related policies did increase the economic well-being of working poor families with children. But given the economic conditions in the last 15 years, TANF has decreased the economic well-being of the nonworking, nondisabled poor, as evidenced by the increased number of disconnected and extremely poor families. The modest policy changes proposed here would help us achieve a more effective work-based safety net.

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