

Refreshing reform: Ideas from British welfare strategy

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The United States is now beginning another welfare debate, impelled by the need to reauthorize the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) before its expiration in 2002. Many of the issues so controversial in the 1996 debates over the act are still debatable ground today. We see five main problems on which the reauthorization debate is likely to run aground (others, to be sure, may have different views).

Funding. Both the aggregate level of funding and the allocation of the welfare block grants across states are products of the politics of 1996. Current levels of funding bear little relation to the distribution of poverty, state fiscal capacity, or state performance. Any attempt to reformulate the block grant allocations for Temporary Assistance for Needy Families (TANF) will force renewed discussion of the links between PRWORA's objectives and its allocations.

Rationalization. PRWORA substantially increased the latitude granted states in constructing their TANF programs. Proponents argue that this latitude permits states to tailor programs to local circumstances and to develop, through experimentation, a sense of "what works." Neither adaptation nor convergence is readily apparent. For example, states have adopted over 40 different procedures for dealing with benefits for recipients who work, and the rationale for this variety of tweaks is difficult to uncover.¹ Lack of cohesion in the states is fostered by the uncoordinated multiplication of federal programs.

Performance. PRWORA included rigorous requirements for the rate of involvement of recipients in work or worklike activities, but permitted these standards to be reduced by percentage declines in state benefit caseloads. This provision creates both an incentive for states to divert people from TANF benefits and an opportunity to avoid the substantial administrative efforts demanded by an activist transfer policy. The benchmarks in PRWORA need to be revamped, but developing more appropriate performance measures is both technically and politically difficult.

Learning. Before PRWORA, states that wished to deviate from national requirements in their welfare programs had first to secure a federal "waiver" of regulations and to agree to evaluate the outcomes of the programs. Waivers and evaluation are no longer required even for quite significant program innovations. The ability of federal agencies to monitor state activities and promote evaluation has been curtailed, and state evaluations, if they are even undertaken, are often seriously flawed.

Vision. PRWORA was motivated by the political appeal of "ending welfare as we know it." A political consensus was achieved about what should be discarded, but we are very far from agreement about the direction of change—social assistance as we might want it.

To prevent the discussion over reauthorization from becoming ritual exchanges of views too often reiterated, rhetoric too deeply entrenched in past debates, the refreshment of new perspectives is essential. The United Kingdom, we believe, is now one place to look for such perspectives. Fundamental, work-oriented reform of social assistance has been underway in Great Britain since at least 1987. The pace of change accelerated in 1997, when the Labour Party came to power with welfare reform as a cornerstone of its social policy.² To date, the flow of reform ideas and strategies has largely been from the United States to the United Kingdom. As Congress and the policy community revisit welfare policy over the next months, we believe it is an appropriate time to reverse that flow. There are lessons and ideas in British experience relevant to the future of welfare in the United States.

How the United States influenced Britain's New Deal

The welfare initiatives of the Labour government have extended well beyond the domain of families with children staked out by TANF. They include "New Deal" welfare-to-work policies aimed at young and long-term recipients of unemployment benefits, disabled people, and single parents; tax credits and other policies intended to raise take-home pay; bridging schemes to facilitate the transition to work; area-based antipoverty and economic regeneration initiatives; and revised child support policies and increased cash benefits to help defray the costs of raising children. For convenience, we refer to this entire portfolio of social policies as the "New Deal," although in formal Labour rhetoric this convenient label applies only to the welfare-to-work schemes.

The American influence may be seen in the rhetoric and ideology of the reforms, in the strategies adopted, and in some details of implementation.

Ideology

Three ideas exported from the U.S. debate surfaced early in British policy discussions, first under the Conservatives and then in more concerted fashion under the Labour government. The first was commitment to a proactive welfare policy. Social assistance in Britain has been recast to reduce emphasis on the essentially static requirements of income support and to increase attention to changing the situation of individuals receiving assistance. The second export was the idea of mutual obligation. Beneficiaries are expected to seek work, and society should assure the opportunity to find it. The third export was concern about a persistent “underclass”—above all the necessity for confronting problems of long-term and especially intergenerational dependency.

Strategy

The promotion of “welfare to work” in British welfare strategies reflects the growing U.S. emphasis on getting recipients into a job as the first stage in a process that is intended to change their life prospects. “Work first” does not preclude training. For example, participants in Labour’s New Deal for Young People may use education programs to satisfy program requirements. Indeed each option in the program menu includes an element of accredited training, even subsidized employment. Like many U.S. welfare-to-work programs, New Deal practice is typically organized and overseen by a caseworker, called in Britain a “personal advisor.”

The push of obligation and casework is complemented with the pull of financial incentive: the introduction of Britain’s first national minimum wage and a national wage subsidy, the Working Families Tax Credit (WFTC), which is intended to increase work incentives by paying working families a supplement based on household size and composition.

Welfare-to-work and make-work-pay strategies operate nationwide. Britain has also developed programs targeted to specific subgroups; for example, 15 employment zones have been established in areas of high unemployment, and funds for training, job placement, and means-tested benefits are pooled in a “personal job account” that funds whatever activities may be necessary to get the unemployed person back to work.

Implementation

Representatives of both the Labour government and the Conservative opposition have regularly visited U.S. welfare offices over the past few years. These experiences have influenced the operations of New Deal programs in at least four ways: prompting or encouraging a willing-

ness to experiment with new approaches in “pilot” schemes, creation of “one-stop” centers that provide benefit and employment services under a single roof, formation of public-private alliances with business groups to deliver social services and promote employment, and use of individual welfare-to-work contracts that set out the reciprocal obligations of agency and recipient.

These and many other connections explain why so much of the New Deal looks and feels like welfare reform as it is known in the United States. The Labour government in particular may have made better use of the American welfare “laboratories” than has the United States itself, picking and choosing from the substantial body of American evaluation data developed over the last 30 years and incorporating this information in the formulation of general policy.

What’s in the New Deal for the United States?

Consider the last of our propositions about the state of U.S. welfare policy: the absence of an encompassing vision. If American policy makers accept the argument that American social assistance policy needs such a vision, what insights might they gain from study of the British New Deal?

First, we consider a few themes that might be adapted to the American context. We then move on to practical strategies that hold promise as models for the United States.

1. *Include security as a policy objective.* Prime Minister Tony Blair’s characterization, “Work for those who can, security for those who cannot,” usefully underscores the work orientation of social assistance while reaffirming the responsibility of government to preserve the social safety net. PRWORA arguably has reduced security both as immediately perceived by individuals and from the perspective of public finance. For those actually or potentially in need, the security of social assistance is linked to program reliability, adequacy, and access. All seem to have eroded with PRWORA as federal oversight has diminished, the purchasing power of benefits has fallen, and barriers to obtaining even entitlements such as food stamps have grown. Over and above the necessity for state governments with the will to provide, delivering reliability, adequacy, and access is a matter of reliable finance. Even though most states have TANF reserves, the provisions of the law for maintaining the safety net in the face of a substantial recession—the “rainy day” that seems now at hand—are inadequate.

2. *Link policies to social inclusion.* European social policy rhetoric in general stresses efforts to reduce social *exclusion*, the failure of some individuals to gain access to the benefits of economic transformation and to enjoy a sense of equal participation in the political and social

order. We believe that “inclusion” is more consonant with the attitudes of Americans, relating assistance to efforts to help people keep up in today’s swiftly moving economy, with its increasing demands for flexibility, training, and technical sophistication on the part of workers.

3. *Get serious—and specific—about targeting child poverty.* Ending child poverty is not a goal of PRWORA; indeed, poverty itself is hardly mentioned in the legislation. The Labour government has made child poverty a measuring rod for the achievements of social assistance policy, with a very specific promise to end it in 20 years. But because the well-being of children is first and foremost an outcome of the opportunities available to and the choices made by parents, ending child poverty is linked to strategies for parents. Evidence from the United States also suggests that the recent decline in child poverty is largely due to the growing employment and earnings of mothers.³

If the decline in child poverty is to be accelerated, it may best be done in conjunction with strategies to raise the earnings of caretakers who do work or to reach out more strenuously to those who have not yet made it into the labor force. Here, Britain provides useful ideas. For example, one indicator selected for assessing progress toward the eventual elimination of child poverty is the number of children living in homes where no one works. Progress toward this goal was prominently announced in Labour’s second annual poverty audit.⁴

4. *Link reform to modernization.* A system established 60 years ago to provide residual benefits for widows and surviving children should not be expected to meet the needs of families in a profoundly different social and economic milieu—where, for instance, most mothers work. The claim made by politicians of all persuasions to be “ending welfare as we know it” looks backward, not ahead. The Labour government, in contrast, has emphasized the need for bringing assistance strategy up to date, turning attention from the shortcomings of a system grown old to an affirmation of social change and renewal in a reinvigorated Britain.

British government policy offers insights into some strategies for achieving the goals laid out here.

1. *“Join-up” government.* New Labour has promoted service integration, establishing a Performance and Innovation Unit at the center and using the combined power of the Prime Minister’s Office, the Cabinet Office, and the Treasury to drive such initiatives.

“Joining-up” in the federally structured United States is complicated by tradition and by distribution of responsibility for policies and programs across different levels of government, agencies, and legislative committees. For example, five federal agencies—Agriculture, Health and

Human Services, Housing and Urban Development, Labor, and Treasury—are significantly involved in social welfare policy. In crafting PRWORA, Congress substantially reduced federal authority and expanded the authority of state governments to make welfare policy, but left much of the “stovepipe” separation of programs by agency intact. The consequence is a hodgepodge of programs with little integration and dispersed accountability.

A president committed to joining up could emphasize the difficulties presented by the existing structures for achieving the goals of social assistance, could establish a highly visible interagency task force to develop proposals for integrating programs, and could extend that message from cross-departmental efforts to a new partnership with the states, seeking to create ways to link federal and state policies. These initiatives at the federal level would provide a context for similar state and local initiatives.

2. *Integrate tax and benefit systems around assistance to and in work.* The architecture of Britain’s WFTC pays much attention to the consequences of the new system for the combined effects of the various benefit programs for work incentives. The response of the American system to job-taking involves very complex interactions among the Food Stamp, TANF, and EITC programs, among others. For the most part, each component has been structured with little consideration of the consequences of these interactions for the transition from welfare to work or the ability of working poor people to access benefits. Attention to British practice and the consequences for household behavior could be productive in planning TANF and Food Stamp reforms.

3. *Enhance accountability.* The reform of government programs is generally intended to change process (the way things are done) so as to affect outcomes (what happens to people in the program). Without careful assessment of both process and outcomes, the reasons for failure or success may be difficult to identify. The Labour government has promoted and practiced both types of accountability. For example, the performance of local agencies responsible for two major programs, the New Deal for Young People and for the Adult Unemployed, is measured monthly against nine indicators of both process and output and is posted publicly on the department’s Web site.⁵

In the United States, assessment of the consequences of work-oriented welfare reform has been hampered by lack of information about the effects of state programs on the experience of applicants and recipients. One objective for a new federal-state partnership might be to develop tools for assessing process. British experience can contribute ideas about what to measure and how to turn willingness to undertake such assessment to political advantage.

4. *Identify models.* Several of the British New Deals were piloted in such a way that the contractors had to devise their own implementation practices within a broad framework of policy objectives and financial incentives. The intention was specifically to identify best practice. Since 1999 British local authorities have competed for “beacon status,” and 42 of them now work in partnership with the Improvement and Development Agency to disseminate information and best practice in policy ranging from education through housing to sustainable development. Federal development of best-practice models could be a useful tactic for promoting the harmonization of state policies, especially if funding were provided to assure full information on procedures and case flows in our own “beacon” sites.

5. *Promote evidence-based policy making.* The Labour government has promoted evidence-based decision making, pilot programs, and research planning as a collaborative effort with other stakeholders and has established a Centre for Management and Policy in the Cabinet Office to promote evidence-based policy and “knowledge pools.” Some of these pools, no doubt, are shallow. Nevertheless, there is a strong case to be made for more active central government leadership in the development and pursuit of a welfare reform research agenda. To date, the federal government has not consistently done so.

6. *Reach out to include needy adults without children.* British reform strategy began by focusing on a New Deal for Young People aged 18–25, with work-related obligations. New Deals, involving varying degrees of compulsion, are now being extended to all people of working age without paid work, including those such as the disabled who are receiving social insurance benefits.

In the United States, assistance to childless adults is a state responsibility and, where it is available, is focused mainly on keeping people off the streets. With the exception of the New Hope project in Milwaukee, work-oriented income support experiments in the United States have not addressed the needs of the general population of low-income childless adults.⁶ The Workforce Investment Act of 1998 has gone some way to underwriting services and training for particular groups of low-income youth and older adults without children. These services are delivered through “one-stop” centers, raising the possibility of more ambitious strategies for helping single and childless adults to help themselves.

The Labour government’s Young People and 25 Plus New Deals in particular could provide models for experimenting with more ambitious help-to-work and support-in-work schemes for poor people without children.

Implementation

Unless the United States adopts strategies more like Britain’s, not much can be learned from the details of

implementation. Yet even without the convergence of strategy, there are some immediate lessons in the ways in which Britain has refined and adapted American concepts. We cite three examples here:

1. The newly created Department for Work and Pensions, formed in 2001 from parts of the Department of Social Security, the former Department for Education and Employment, and the Employment Service, may be usefully studied as another way of integrating employment and social welfare services.

2. Identifying best practice is useful only to the extent that such practices are widely promoted and applied. Britain appears to have made more progress in developing strategies for rolling out such practices than have federal and state government agencies in the United States. Both the national performance indicators used in Britain and those applied to local area agencies deserve careful evaluation and comparison to U.S. procedures.

3. In some British agencies, caseworkers have access to a special intervention fund that can be used to address exceptional problems of clients; study of the use of such funds could be helpful in structuring the responsibilities and resources of caseworkers in the United States.

The opportunities for mutual benefit

Despite rapid and radical change over the recent prosperous years, few on either side of the Atlantic could claim that the job of restructuring social assistance is complete. Traditional welfare reform is only one element in a broader program of social assistance that, in turn, is potentially a key component of strategies to foster economic and social advance. In such restructuring, the United States has a good deal of catching up to do. There are nevertheless opportunities for mutual benefit that span ideology, strategy, and implementation. Below we note just a few, all of which seem to offer opportunities for collaborative study.

1. *Determining the efficacy of community-linked strategies.* In both countries, the contraction of poverty has been uneven, socially and geographically, and substantial continued progress may require an increasing focus on communities and groups left behind. Such targeting, it is argued, is more effective than making individual circumstance—low income, joblessness—the basis for relief.⁷ But it is not clear that such targeting is efficient, and policies formulated in this way may increase the social distance between the beneficiaries of social assistance and the rest of the electorate. Both countries would benefit from better information about the consequences of place- and group-based strategies for improving the well-being of individuals and families. If such strategies are found to be effective, such information might be used to build a political consensus for targeting social assistance upon those left behind.

2. *Developing job retention and career advancement support.* Policymakers in both countries express concern about moving beyond merely placing people in jobs. What types of support in work are most productive in sustaining employment and raising wages?

3. *Assessing the trade-off between local discretion and equity.* The importance of local discretion in welfare-to-work programs is a significant aspect of American assistance ideology and an increasingly prominent feature of New Labour policy rhetoric. But both countries need to clarify how incentives for effective exercise of local control might be designed and how potential benefits from the exercise of greater local administrative latitude may be realized while sustaining equitable treatment of those seeking and receiving aid.

4. *Developing better information management systems.* Computer-based case management systems now in use are almost universally judged inadequate for support of active, goal-oriented assistance. However, it is difficult on both sides of the Atlantic to obtain systems that support effective program management without diminishing flexibility and inhibiting change. Given the importance attached to obtaining timely and mission-appropriate management information in both New Deal and TANF systems, this is an opportunity for joining up.

5. *Promoting effective case management.* Case management is central to activist policy on both sides. The character of such management may vary greatly, and both sides need to learn more about the consequences of such variation, about techniques for managing the managers, and about communicating the lessons of experience to those new to the job.

6. *Coping with scale.* In passive benefit systems, neither geographic concentration nor the absolute scale of operations poses much of an administrative problem. If mail can reach families, so can checks, and administrative

costs per capita may actually decline as the number of beneficiaries rises. Neither is true for more active interventions. It is generally easier to operate small programs than large ones, and it is particularly difficult to involve dispersed rural recipients in employment-development efforts. Both countries need to find more effective ways to move from small-scale demonstrations to widespread implementation and to extend access to employment assistance to rural or dispersed populations.

This list could surely go on. However, it is difficult to gain benefit from exchange about practical matters until the United States reaches consensus on the direction of reform. Should American policymakers choose to borrow from Britain's innovations in rhetoric and strategy, attention to the practical opportunities for collaboration will grow. ■

¹L. Giannarelli and M. Wiseman, "The Working Poor and the Benefit Doors," unpublished paper.

²F. Bennett and R. Walker, *Working with Work* (York: York Publishing Services for the Joseph Rowntree Foundation, 1998).

³K. Porter and A. Dupree, *Poverty Trends for Families Headed by Working Single Mothers: 1993 to 1999*, Center on Budget and Policy Priorities, Washington, DC, 2001.

⁴Social Security Media Centre, London, "Darling [Social Security Minister Alistair Darling] Announces Milestone in Eradicating Child Poverty." Press release 2000/262.

⁵See the statistics posted at < <http://www.dfee.gov.uk/ndimprove> >, under the new Department for Work and Pensions (with a World Wide Web site at <http://www.dwp.gov.uk/>).

⁶J. Bos, A. Huston, R. Granger, G. Duncan, T. Brock, and V. McLoyd, *New Hope for People with Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare*, Manpower Demonstration Research Corporation, New York, 2000.

⁷In the United States, neighborhood strategies are a common feature of nongovernmental assistance efforts. See D. Nelson, "Connections Count: An Alternative Framework for Understanding and Strengthening America's Vulnerable Families," in Annie E. Casey Foundation, *Kids Count 2000*, Baltimore, MD, pp. 7–20.

Immigrants and welfare reauthorization

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This is one of the provisions that went too far.

—Former Congressman Newt Gingrich, referring to the welfare law's restriction on legal immigrants' eligibility for food stamps, *New York Times*, January 9, 2002

Until passage of the 1996 welfare law, legal immigrants were generally eligible for public benefits on the same basis as citizens. The welfare law conditioned eligibility on citizenship status rather than legal status, extending to most legal immigrants the eligibility restrictions that had traditionally applied only to undocumented immigrants. These unprecedented restrictions effectively redrew the boundaries of social membership in the United States.

The immigrant restrictions have proven to be among the most controversial aspects of the welfare law. In 1997, Congress restored Supplemental Security Income (SSI) to most immigrants who were already in the United States when the welfare law was enacted, and in 1998, it restored food stamp eligibility for immigrant children and for elderly and disabled persons who were here before August 1996. Legislation that would further restore benefits has been introduced on a bipartisan basis in each subsequent session of Congress, although it has typically been limited to a specific program (food stamps), a specific population (domestic violence victims), or some combination of these two (Medicaid for pregnant women and children). More recently, President Bush's 2003 budget includes a proposal to restore food stamps to legal immigrants who have lived in the United States for five years.

Welfare reauthorization provides an opportunity to reconsider the restrictions and other immigrant provisions in the welfare law in a more comprehensive manner than has been undertaken to date. In addition, a somewhat neglected topic merits inclusion on the reauthorization agenda: the effect, on legal immigrant families who remain eligible for benefits, of the shift from Aid to Families with Dependent Children (AFDC) to Temporary Assistance for Needy Families (TANF).

Reconsideration of the welfare law's immigrant provisions is especially timely given the growing demographic importance of the immigrant population in the United States. The welfare law changes came at the same time as

the immigrant population reached near-record levels while becoming more dispersed throughout the country. A significant number of low-income children in the United States—more than one in five—now live in non-citizen families.¹ Children of immigrants face greater hardship levels than native-born children who do not have immigrant parents. Although immigrant unemployment rates fell at a greater rate than native unemployment rates during the 1990s, overall levels of hardship for immigrants remain high. Nationwide, 37 percent of all children of immigrants live in families that have worried about or encountered difficulties affording food, compared with 27 percent of natives. Children of immigrants are more than twice as likely to live in families that pay over 50 percent of their income in rent or mortgage costs, and are four times as likely to live in crowded housing.² Thus continued progress in improving the well-being of low-income children in the United States will depend in no small measure on reducing poverty and improving other outcomes for children in immigrant families.

Immigrant eligibility for benefits

The eligibility of legal immigrants for public benefits now varies among federal programs and depends on a variety of factors, including date of entry to the United States, type of immigration status, work history, age, and state of residence. Legal immigrants who entered before August 22, 1996, are generally eligible for benefits, except for food stamps. (The Food Stamp Program retains the most restrictive immigrant eligibility criteria of any of the major federal means-tested programs, although provisions that may be adopted as part of the new Farm Bill would bring it more in line with other programs.)³

For those legal immigrants who entered on or after August 22, 1996, eligibility depends largely on immigration status upon admission to the United States. The largest immigrant group, immigrants admitted for family reunification purposes as lawful permanent residents, is generally ineligible for benefits (as are a few additional categories of legal immigrants, such as parolees and certain immigrant victims of domestic violence). Immigrants admitted for humanitarian purposes (refugees, people granted asylum, and a few other related categories) remain eligible, but for a limited time only.⁴ While eligible for benefits, humanitarian immigrants represent only about 11 percent of the noncitizen population.

- Lawful permanent residents (LPRs) who entered the United States on or after August 22, 1996, are ineligible for food stamps and SSI until they become U.S. citizens or can be credited with 40 quarters of work. They are also barred from federal TANF and Medic-

aid until they have lived in the United States for five years after entering the country or, at state option, until they become U.S. citizens or can be credited with 40 quarters of work.⁵ The restriction on immigrant eligibility in the TANF program applies not only to cash assistance but also to any means-tested benefit or service (with a few limited exceptions) provided with TANF funds, including job training and work supports.

- LPRs who entered before August 22, 1996, remain eligible for SSI (except for nondisabled elderly immigrants who were not receiving SSI on August 22, 1996) and, at state option, for TANF and Medicaid.
- Adult LPRs who entered before August 22, 1996, are ineligible for food stamps unless they are disabled, were aged 65 or older on August 22, 1996, or can be credited with 40 quarters of work.
- Refugees and asylees remain eligible during their first five (TANF) or seven years (food stamps, Medicaid, SSI) in the United States. After this initial period of eligibility, states have the option to either continue eligibility or to limit TANF and Medicaid eligibility to those immigrants who have obtained citizenship or can be credited with 40 quarters of work.

Before passage of the welfare law, immigrants with sponsors were subject to “sponsor deeming” in AFDC, the Food Stamp Program, and SSI during their first three years in the United States. Under this requirement, the income and resources of an immigrant’s sponsor were counted or “deemed” in determining the immigrant’s eligibility for and amount of benefits. The 1996 welfare law continued and extended this requirement for sponsored immigrants entering the United States after December 1997. For these sponsored immigrants, deeming is now required until they obtain citizenship or have worked for 40 quarters. Moreover, for the first time, the new rules extend deeming to Medicaid. The law also provides that if a sponsored immigrant receives benefits in spite of the eligibility restrictions and sponsor deeming requirements, the agency that provided the benefits may sue the sponsor for reimbursement of the benefits.

The law gave states new authority to determine the eligibility of immigrants for both federal and state benefits. As noted above, states may opt not to provide federally funded TANF and Medicaid benefits to most legal immigrants regardless of when they entered the United States. The law includes language authorizing state-imposed restrictions on immigrants’ eligibility for state-funded benefit programs.

At the same time, the law limits state authority in other areas. States and local governments may not provide public benefits, including nonemergency health care benefits, to immigrants who are not lawfully residing in the United States, unless they enact a state law after

August 22, 1996, which “affirmatively provides for such eligibility.” Nor may state and local governments restrict their employees from reporting any immigrants to the INS. This provision means that immigrant families cannot be sure that information they provide when applying for benefits for eligible family members, including citizen children, will be kept confidential.

Responses to the immigrant restrictions: State governments and the judicial branch

States were faced with two immediate questions following passage of the welfare law. First, would they opt to continue providing federally funded TANF and Medicaid benefits for those legal immigrants who remained eligible? Second, would they create state-funded programs for those immigrants who were no longer eligible for federal benefits?

Most states decided to continue federally funded benefits where they had the option to do so. With respect to legal immigrants who entered the United States before the law’s enactment, all states chose to continue TANF benefits and all states except Wyoming continue to provide Medicaid benefits. According to the National Immigration Law Center, for those legal immigrants who enter the United States on or after August 22, 1996 and have resided here for at least five years, five states (Idaho, Indiana, Mississippi, South Carolina, and Texas) have not yet chosen to provide federally funded TANF benefits and seven states (Idaho, Indiana, Mississippi, North Dakota, Texas, Virginia, and Wyoming) do not currently provide Medicaid benefits. In at least some of the states, most notably Texas, the question of whether to extend federally funded benefits to legal immigrants entering the United States on or after August 22, 1996, remains under consideration.

Several states created state-funded benefit programs for legal immigrants. Seventeen states provide state-funded food stamps to some or all legal immigrants ineligible for federal benefits. However, in some of these states, eligibility is limited to very narrow categories of legal immigrants. Twenty-three states provide state-funded cash assistance to some or all legal immigrant families with children who are ineligible for federal benefits. Taken as a whole, however, the state-funded programs extend eligibility to only a limited portion of those immigrants who lost eligibility nationally as a result of the restrictions. Only nine states extend eligibility for food stamps to all immigrants who lost federal food stamp eligibility. Only 21 states extend TANF eligibility to almost all immigrants who lost federal TANF eligibility. Only eight states provide a complete or nearly complete restoration of both cash assistance and food stamps to legal immigrants, and just about one-third of noncitizens in the United States live in one of these states.

The provision of state-funded benefits does not appear to have acted as a “magnet” drawing immigrants from states that choose not to provide benefits to states that do provide them. In fact, during the 1990s, the states with the largest growth in immigrant populations were less likely to provide state-funded immigrant benefits than most states with lower immigrant growth rates.⁶

The restrictions on providing federally funded benefits to legal immigrants were challenged in several lawsuits, primarily on the grounds that the restrictions violated the equal protection guarantee of the U.S. Constitution. In each of these cases, the courts ruled that the restrictions were allowable under Congress’s broad power to regulate immigration. Last year, the U.S. Supreme Court denied a request to review one of the cases that upheld the federal restrictions. As a practical matter, these decisions leave any changes in the federal benefit restrictions up to Congress and the president.

Questions remain about the extent to which Congress can delegate authority to the states to discriminate against legal immigrants in setting eligibility criteria for state or federally funded benefit programs. Courts have generally held that state laws that discriminate on the basis of alienage are due much less deference than federal laws. In June 2001, New York’s highest court ruled that the state cannot deny state-funded Medicaid to otherwise eligible legal immigrants. The court based its decision on both the U.S. Constitution and the New York State constitution, which includes a provision that requires the state to provide aid to persons it has classified as needy. Although language in the welfare law explicitly authorizes state discrimination against legal immigrants, the New York court ruled that Congress does not have the power to authorize such discrimination.

Trends in welfare participation by immigrant households

During the last half of the 1990s, the percentage of immigrant-headed households receiving public benefits declined substantially. In 1994, 7.1 percent of immigrant-headed households received AFDC and 12.6 percent received food stamps; in 1999, 3.2 percent received AFDC and 6.7 percent received food stamps.⁷ Participation declines among immigrants were steeper in states that provided a “less generous” state-funded safety net for those immigrants who lost federal assistance than in states that provided a “more generous” state-funded safety net. For example, food stamp participation (including participation in state-funded food stamp programs) by noncitizens in the “less generous” states fell by 55 percent, compared to a 32 percent drop in the “more generous” states.⁸

Michael Fix and Jeffrey Passel of the Urban Institute have conducted the most sophisticated recent analysis of

participation trends among low-income, noncitizen-headed families with children. Using a methodology that allows them to distinguish between legal permanent resident household heads and refugee household heads, they find steep declines in TANF and food stamp utilization, especially among families headed by refugees, who mostly remain eligible for benefits.⁹ Between 1994 and 1999, TANF participation by low-income families headed by legal permanent residents fell by 53 percent—roughly the same rate as for citizen families; food stamp utilization fell by 38 percent, a somewhat greater rate than for citizen families. Over those same years, TANF participation by low-income, refugee-headed families fell by 79 percent, and food stamp utilization by 53 percent.

Although refugees historically had much higher participation rates than comparable citizen families, Fix and Passel find that their usage rates are now no different from the citizen rate. This is a striking finding, given that refugees come to the United States to flee persecution and are generally more disadvantaged than other immigrant groups. Special efforts are made upon their entry to the United States to connect them with welfare and social services, so that high levels of welfare usage would be expected.

Because most households headed by noncitizens include citizen members, particularly citizen children, household participation rates do not fully capture the effect of the eligibility restrictions on individuals. An estimated 940,000 immigrants receiving food stamps in 1997 lost eligibility for the Food Stamp Program. The limited food stamp changes enacted by Congress in 1998 restored eligibility to about 250,000 of these immigrants, although significantly fewer actually returned to the food stamp rolls. According to administrative data from the U.S. Department of Agriculture, the number of noncitizens receiving federally funded food stamps fell by 60 percent between 1994 and 1999, from nearly 1.9 million to less than 750,000.¹⁰ Food stamp participation overall also declined during that time, but at only modestly more than half the rate (35 percent) of the drop in noncitizen participation. Even though U.S. citizen children living with noncitizens remained eligible for benefits, their participation in the Food Stamp Program declined 42 percent, from nearly 1.9 million to less than 1.1 million.

Although the eligibility restrictions explain part of the decline in public assistance participation rates, especially in the Food Stamp Program, other factors clearly contributed to the decline. Between 1994 and 1997, cash welfare receipt (use of AFDC/TANF, SSI, and General Assistance) among noncitizen households fell by 35 percent compared to a 14 percent drop for citizen households, even though most legal immigrants remained eligible for cash welfare benefits during this period.¹¹ In California, where state funds were used to continue pre-welfare-law eligibility rules, immigrant participation fell at a faster

rate than in the rest of the country between 1994 and 1999.¹²

At least part of the decline is likely due to confusion about eligibility and the “chilling effects” that welfare reform and immigration reform had on immigrant participation. These “chilling effects” included the anti-immigrant rhetoric surrounding the passage of Proposition 187 in California and the welfare and immigration reform legislation passed by Congress in 1996, and heightened concern among immigrants that public benefit usage would have a negative impact on their ability to adjust status or naturalize. Several studies have documented the widespread nature of these concerns among immigrants.¹³

In addition to the benefit restrictions and the other “chilling effects” of welfare reform, improvements in the labor market that were stronger for immigrants than for natives also may explain part of the decline. The gap between immigrant and native unemployment rates fell from 2.7 percentage points in 1994 to 1 percentage point in 1999. One study finds that the change in labor market conditions may explain a significant part of the relatively greater decline in immigrants’ participation in means-tested benefit programs in the late 1990s.¹⁴

Increases in hardship and health insurance declines

There is now strong evidence that the eligibility restrictions have had an adverse impact on many legal immigrants and citizen children. For example, food insecurity rose significantly among immigrant-headed households in the states that did the least to ameliorate the federal restrictions, while declining among immigrant-headed households in states that provided more generous state-funded safety nets for immigrants.¹⁵

Insurance coverage for low-income immigrant families also has deteriorated since the passage of the welfare law. National data show that the number of noncitizen children and noncitizen parents receiving Medicaid fell by 7 to 8 percentage points between 1995 and 2000.¹⁶ Moreover, the percentage of low-income, noncitizen children and parents who lack health insurance, including job-based insurance, increased by 6 to 7 percentage points, even as uninsurance rates for native children fell.

These early findings of increases in immigrant hardship levels came during a strong economy when a limited number of immigrants (except in the Food Stamp Program) were subject to the new benefit restrictions. By 2002, the Urban Institute estimates that immigrants admitted after August 1996 will make up approximately one-third of the lawful-permanent-resident population. This fact, combined with the adverse effect that the re-

cent economic downturn is likely to have on immigrant employment levels, suggests that hardship levels for immigrant families could increase considerably in coming years.

The effect of “work first” welfare reform on immigrants who remain eligible for benefits

About 11.7 percent of adult TANF recipients were noncitizens in 1999.¹⁷ Many immigrants who receive TANF have significant barriers to employment, including low education and skill levels, and limited proficiency in English. For some immigrants, religious beliefs or cultural norms may discourage female employment outside the home or the use of persons other than relatives for child care.

- Among foreign-born adult TANF recipients, 69 percent do not have a high school diploma or GED, as opposed to 37 percent of native-born adult recipients who do not have either credential.¹⁸
- A survey of Mexican and Vietnamese noncitizens receiving TANF benefits in late 1998 in Santa Clara County, California, the fifth largest county in California, found low levels of education and English proficiency. The immigrant women surveyed tended to be less educated, older, and less proficient in English than the average welfare recipient in California. Ninety percent of the Mexican participants and 68 percent of the Vietnamese participants had less than a high school education, compared to 53 percent of all women receiving TANF in the county. Forty-eight percent of the Mexican participants and 87 percent of the Vietnamese participants had “poor to no” proficiency in English.¹⁹
- The Economic Roundtable examined employment outcomes for AFDC participants in Los Angeles County who left welfare between 1990 and 1997 and were reported to have found work.²⁰ The study found that recent immigrants had higher unemployment rates in 1997 than citizens (33.5 percent of immigrants were unemployed compared to 28.1 percent of citizens). Two years after leaving AFDC, persons with limited proficiency in English had worked about the same number of quarters as other adults, but had significantly lower earnings.

There is a small body of research examining the experiences with TANF of immigrants and of persons who have limited English proficiency. It suggests that immigrants may be having some difficulty navigating the TANF system. For example, in Minnesota, Washington, and Wisconsin, immigrants and those with limited English proficiency appear to have been leaving TANF at slower rates than other recipients.²¹

Although there is some evidence that programs that emphasize labor force attachment can increase the employ-

Table 1
Los Angeles County Jobs-First Effects on Employment
and Earnings among Single Parents,
by Level of English Proficiency

	Jobs-First	Control Group	Impact
<i>Ever Employed in Years 1 and 2</i>			
English-Proficient	69.3%	60.3%	9.0
Limited-English-Proficient	59.1	46.7	12.4
<i>Average Total Earnings in Years 1 and 2</i>			
English-Proficient	\$8,479	\$6,936	\$1,543
Limited-English-Proficient	6,169	4,264	1,905

Source: S. Freedman, J. Knab, L. Gennetian, and D. Navarro, *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Center*, Manpower Demonstration Research Corporation, New York, June 2000.

ment and earnings of immigrants and those with limited English, immigrants' employment and earnings levels remain low relative to other participants. For example, a random-assignment evaluation of Los Angeles County's Jobs-First program (a precursor to the county's current TANF program) found the program had positive employment and earnings effects on both English-proficient and non-English-proficient participants compared to control group members who did not participate in the program.²² After two years, however, participants who were not proficient in English had lower employment and earnings, on average, than English-proficient participants, even though overall effects were larger for the group that was not proficient (see Table 1). A "mixed strategy" combining an emphasis on employment with opportunities for developing skills (and, for those whose English is poor, activities designed to enhance their acquisition of the language) may prove more successful at narrowing the gap between persons who are not proficient in English and those who are than does an approach that is limited to labor force attachment.

Options for welfare reauthorization

In summary, the 1996 restrictions have clearly had a negative impact on low-income immigrant families and the many citizen children living in those families. In the labor market, immigrants gained ground in the 1990s, but food insecurity increased among those most likely to be affected by the changes, and health insurance coverage declined during the last half of the 1990s. States now bear a greater portion of the costs associated with providing a safety net to immigrants. The immigrants hit hardest by the law, those who entered after it was signed, are an increasing portion of the entire immigrant population.

The welfare law as a whole was designed to move families from welfare to work while continuing to provide a safety net and work supports. In a stark departure from this overarching purpose, the law conditions the provision of benefits to legal immigrants on citizenship status rather than work. For the most part, the immigrant restrictions also run counter to the law's emphasis on devolution, in that states are not able to use federal funds to provide Medicaid and TANF benefits to recent legal immigrants.

Immigrant families with children have lower income levels than native-born families with children, and this disparity is not explained by lack of work effort or family structure. Most low-income children of immigrants live in working, married, two-parent families. Their parents have low-wage jobs with limited benefits. Work supports and other economic mobility policies could improve immigrants' position in the U.S. labor market and foster greater social integration, just as they have among the nonimmigrant low-income population. The immigrant eligibility restrictions are especially ill-conceived in that they limit the ability of states to extend work supports and economic mobility policies to low-income immigrants.

Welfare reauthorization offers an opportunity to rethink the restrictions and bring them more in line with the law's overall emphasis on work-based reform.

Restore equal access to public benefits

Legal immigrants should have the same access to public benefits as U.S. citizens (subject to reasonable sponsor deeming requirements, as discussed below). As taxpayers, immigrants help to pay for the costs of education, roads, national defense, and benefits and services to low-income families. They should not be excluded from programs that could help them attain skills needed to advance in the labor market and that provide them a safety net when temporary hardship interrupts their employment. If TANF and Medicaid benefits are not fully restored, at a minimum the reauthorizing legislation should lift restrictions imposed by the 1996 law on the flexibility of states to provide federally funded TANF and Medicaid benefits to recently arrived immigrants.

Effective work supports and welfare-to-work programs could help speed the economic mobility and integration of legal immigrants. Given that TANF already includes mandatory work requirements and a five-year limit on assistance, both of which apply regardless of immigration status, additional eligibility restrictions that apply specifically to immigrants serve no useful purpose.

Retain sponsor deeming in cash assistance programs and food stamps, subject to reasonable limits

Sponsors clearly should have some responsibility for helping the immigrants they sponsor to settle in the

United States, locate housing, obtain employment, and meet basic subsistence needs during their first few years here. However, deciding the appropriate length and scope of a sponsor's responsibility presents more difficult questions. Should a sponsor's responsibility last indefinitely? Does it extend beyond ensuring that basic subsistence needs are met to providing goods that cannot be easily obtained in the private market, such as health insurance? Should it apply even when an unforeseen circumstance, such as a disabling condition or temporary job loss, limits the earnings ability of a sponsor or a sponsored immigrant? Do sponsors have an obligation to support unsponsored members of an immigrant's family, such as U.S. citizen children born after a sponsored immigrant was admitted to the United States?

By extending sponsor deeming requirements until citizenship and holding sponsors liable for any benefits provided, including health care benefits, the current law effectively shifts the full burden of immigrant support indefinitely onto sponsors. There is a role for sponsor deeming in cash and food assistance programs, but it should be subject to reasonable limits on the length of the deeming period and the scope of the sponsor's obligation.

The best option would be a return to the deeming rules that formerly applied to the AFDC and Food Stamp programs, including the three-year limit that these rules placed on sponsor deeming. Income should only be deemed after an amount to meet the sponsor's own basic needs is excluded. Efforts also should be made to ensure that the deeming rules can adjust when the circumstances of the sponsor change substantially. Deeming should only apply to TANF cash assistance benefits, rather than to the full scope of services, such as child care and employment services, funded with TANF resources. In addition, although reasonable sponsor deeming rules make sense in cash and food assistance programs, they are inappropriate in health care programs. The private market for health care in the United States is such that few sponsors can reasonably be expected to purchase coverage for sponsored immigrants.

Improve employment outcomes for immigrants and limited-English-proficient individuals

The low employment and earnings levels of immigrant TANF recipients are largely due to immigrants' low skills and levels of English proficiency. The following changes would improve employment outcomes for immigrants and limited-English persons:

- English-as-a-second-language (ESL) instruction and other language acquisition activities should be included as a separate work activity that is countable toward the first 20 hours of a TANF recipient's work requirement.²³ Because traditional classroom ESL approaches may not be well suited to meet the demands of welfare reform, states should be encouraged to

develop vocational ESL programs, support work-based English-language instruction, and integrate language acquisition activities with job skills training.

- Congress should provide grants to states and localities for research, planning, technical assistance, and demonstration projects to promote and fund best practices in the following areas: improving employment and earnings outcomes for low-income, limited-English-proficient persons, increasing their English proficiency, and enhancing the linguistic and cultural competence of staff in TANF and child care services generally.

Congress has revisited the immigrant restrictions in the welfare law annually and in piecemeal fashion since 1996. Welfare reauthorization provides an opportunity to reconsider the restrictions in a more comprehensive and integrated manner. Congress should restore equal access to benefits, while leaving reasonable deeming rules in place. For those immigrants who are eligible for benefits, a greater emphasis should be placed on improving earnings and employment outcomes. This will require the redesign of existing programs to ensure that they help immigrants overcome barriers to advancement, including limited English proficiency, low skills, and limited acculturation. ■

¹Some 22 percent of low-income children (that is, in families with incomes under 150 percent of poverty) lived in families headed by a noncitizen in 2000. CBPP calculations, based on 2001 CPS.

²R. Capps, *Hardship among Children of Immigrants: Findings from the 1999 National Survey of America's Families*, New Federalism: National Survey of America's Families, No. B-29, Urban Institute, Washington, DC, February 2001.

³At the time this article was written, the version of the Farm Bill passed by the Senate Agriculture Committee included provisions that would allow legal immigrants who can claim 16 quarters of work history to qualify for benefits, restore eligibility to all legal immigrant children, lift the seven-year limit on eligibility for refugees and asylees, and restore eligibility to disabled legal immigrants who entered the United States after August 22, 1996.

⁴In addition, immigrants who are U.S. veterans and active-duty service members and their spouses and children remain eligible for benefits.

⁵States may use TANF maintenance-of-effort (MOE) funds to provide benefits and services to legal immigrants.

⁶M. Fix, "Comment on George Borjas, Welfare Reform and Immigration," in *The New World of Welfare*, ed. R. Blank and R. Haskins (Washington, DC: Brookings Institution, 2001).

⁷M. Lofstrom and F. Bean, "Labor Market Conditions and Post-Reform Declines in Welfare Receipt among Immigrants," paper presented at APPAM Conference, November 2001. As used here, the term "immigrant" includes all persons who are foreign-born, including naturalized citizens.

⁸G. Borjas, "Food Insecurity and Public Assistance," working paper, Harvard University, May 2001 (presented at USDA, Economic Research Service Conference, October 11, 2001). Borjas uses an index developed by the Urban Institute to classify states as more or less generous.

⁹M. Fix and J. Passel, "Scope and Impact of Welfare Reform's Immigrant Provisions," paper presented at APPAM Conference, November 2001.

¹⁰United States Department of Agriculture, *The Decline in Food Stamp Participation: A Report to Congress*, Washington, DC, July 2001.

¹¹M. Fix and J. Passel, *Trends in Noncitizens' and Citizens' Use of Public Benefits Following Welfare Reform: 1994-97*, Urban Institute, Washington, DC, March 1999.

¹²G. Borjas, "Welfare Reform and Immigration," in *The New World of Welfare*, ed. Blank and Haskins.

¹³See, e.g., P. Feld and B. Power, *Immigrants' Access to Health Care after Welfare Reform: Findings from Focus Groups in Four Cities*, Kaiser Commission on Medicaid and the Uninsured, November 2000.

¹⁴Lofstrom and Bean, "Labor Market Conditions."

¹⁵Borjas, "Food Insecurity and Public Assistance."

¹⁶L. Ku, "Immigrants' Access to Health Insurance and Health Care in a Post-Welfare Reform Era," paper presented at APPAM Conference, November 2001.

¹⁷U.S. Department of Health and Human Services, *Third Annual Report to Congress: TANF*, Washington, DC, 2000.

¹⁸W. Zimmerman and K. Tumlin, "What Does 'Work-First' Mean for Immigrants? A Look at Immigrants on Welfare in Three Cities," paper presented at APPAM Conference, November 2001.

¹⁹D. Ng, *From War on Poverty to War on Welfare: The Impact of Welfare Reform on the Lives of Immigrant Women*, Equal Rights Advocates, April 1999, available on the organization's World Wide Web site at < <http://www.equalrights.org/welfare/iwwp/index.htm> >. Similarly, a study of Hmong TANF participants in Wisconsin found many barriers to employment among this extremely disadvantaged

refugee group. Some 90 percent of Hmong respondents read little or no English and over 70 percent had little or no literacy in Hmong. T. Moore and V. Selkove, *The Impact of Welfare Reform on Wisconsin's Hmong Aid Recipients*, Institute for Wisconsin's Future, December 1999, available on the Institute's web site at < <http://www.wisconsinfuture.org/reports/6Hmongstudy.pdf> >.

²⁰M. Drayse, D. Flaming, and P. Force, *The Cage of Poverty*, The Economic Roundtable, Los Angeles, CA, September 2000.

²¹See S. Fremstad, *Immigrants and TANF: What Do We Know?* Center on Budget and Policy Priorities, Washington, DC, January 2002.

²²S. Freedman, J. Knab, L. Gennetian, and D. Navarro, *The Los Angeles Jobs-First GAIN Evaluation: Final Report on a Work First Program in a Major Urban Center*, Manpower Demonstration Research Corporation, New York, June 2000. Jobs-First emphasized rapid employment and increased the amount of money participants could earn while remaining eligible for assistance (relative to previous AFDC rules in California). Most participants were assigned to job search as an initial activity. According to the evaluators, the program provided Spanish-language employment services and Spanish-speaking case managers. Speakers of other languages often received case management in their native languages and sometimes received full employment services in their native languages.

²³Although most states allow some limited-English-proficient persons to participate in ESL courses, anecdotal and other reports suggest that access is limited in many states. This may be in part because the TANF law does not explicitly list ESL as a work activity that counts toward state work participation rates. There are limitations on the extent to which the federal activities that most clearly encompass ESL (job skills training and education related directly to employment, job readiness assistance, and vocational education) can count toward these participation rates.

Evaluations of State TANF Programs IRP Conference, April 2002

An IRP-organized conference focusing on evaluations of up to nine state TANF programs will be held in Madison, Wisconsin, on April 4-5, 2002. Participants will compare methodological issues, consider effective approaches used to address methodological problems, and discuss lessons for the design of future evaluations.

This invitation-only conference is receiving support from the Annie E. Casey Foundation, the Joyce Foundation, and the Office of the Assistant Secretary for Planning and Evaluation in the U.S. Department of Health and Human Services. For further information: Betty Evanson, phone 608 262-6358; e-mail: evanson@ssc.wisc.edu.

Funding issues in TANF reauthorization

Zoë Neuberger, Sharon Parrott, and Wendell Primus

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Many important issues will be debated as Congress moves ahead with the reauthorization of the Temporary Assistance for Needy Families (TANF) block grant, including whether changes should be made to work participation requirements, time limits, and family formation policies. But whatever the outcome of those debates, without adequate resources states will be unable to provide the services and supports to low-income families necessary to achieve welfare reform's goals.¹

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 established the TANF block grant as the federal mechanism for funding welfare programs previously funded through uncapped federal matching funds to the states. The reauthorization debate this year will not revisit the basic block grant structure, but there are three critical areas in which improvements are needed in the overall funding level and structure:

- The block grant needs to be increased and adjusted to keep pace with inflation.
- Increased funding should be devoted to reducing the large disparities that now exist among state block grant allocations relative to the size of needy populations in the states.
- A workable, federal, countercyclical funding mechanism needs to be established so that the federal government shares in the costs associated with an economic downturn.

The next section of this paper discusses how states have used their TANF funds over the past five years. The last section explains why certain changes are needed and presents reauthorization proposals to address the key funding issues.²

How have the states used TANF funds?

Since 1997, states have received \$16.5 billion annually through the TANF block grant. To qualify for these federal TANF funds, states are required to spend roughly \$10.5 billion annually in state funds to meet their "maintenance of effort" (MOE) requirement.

The TANF block grant allows states to allocate resources to an array of services and assistance that promotes four broad purposes: assisting needy families so children may be cared for at home, ending dependence of needy families on government benefits by promoting work and marriage, reducing out-of-wedlock pregnancies, and encouraging two-parent family formation and maintenance. As the number of families with children receiving basic cash assistance fell, states increasingly devoted TANF block grant funds to supports for low-income working families, such as child care; to more intensive employment efforts to help families that have not yet made the transition to work; and to efforts to meet the law's family formation goals, for example, through programs to reduce teen pregnancy.³ It took time for states to adjust to the expanded purposes of TANF, the reduction in cash assistance caseloads, and the funding flexibility inherent in the TANF block grant structure, and thus many states did not spend all of their TANF funds in the first couple of years of TANF implementation.

This is no longer the case. Most states spend nearly all of their annual block grant and many states now spend even more than their annual allocation. Indeed, some 16 states in fiscal year (FY) 2000, and likely a larger number in FY 2001, have drawn upon unspent TANF funds accumulated earlier. In 2001, for the first time, total expenditures in the TANF program *exceeded* the annual block grant level (see Figure 1).⁴

Expenditures on child care, the single largest category of work-support spending, more than doubled in just two years—from \$2 billion in FY 1998 to \$5.1 billion in FY 2000, when they constituted 19 percent of all TANF and MOE expenditures. States now are providing more in the

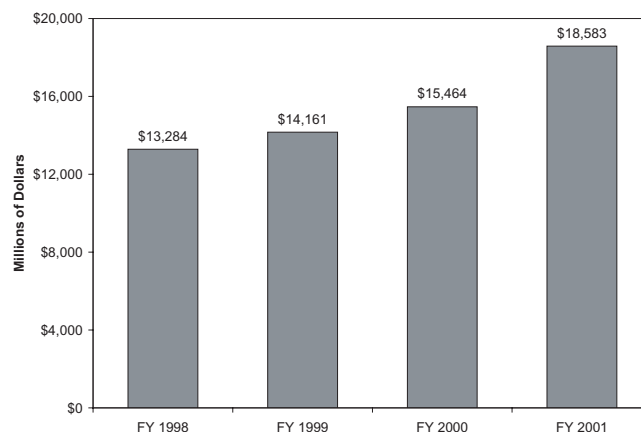


Figure 1. TANF outlays, FY 1998–FY 2001. The TANF block grant is \$16.5 billion annually.

Source: Final Monthly Treasury Statement of Receipts and Outlays of the United States Government, Table 5, for September of FY 1998, 1999, 2000, 2001.

way of job preparation, wage subsidies, transportation subsidies, and refundable tax credits for working families. Together these work support activities constituted 11 percent of TANF and MOE spending in FY 2000.

Although examining collective state spending is a useful way to understand trends in the TANF program, it masks the tremendous variation in state policies and their associated spending patterns. For example, even though nationally cash assistance constituted 43 percent of TANF and MOE spending in FY 2000, eight states spent less than 25 percent of their block grant on cash aid while four states spent more than 60 percent. Similarly, nine states devoted less than 10 percent of their expenditures (including transferred funds) to child care, while in eight states child care programs garnered more than 30 percent of TANF funds used.

Reauthorization proposals

After five years of experience with the TANF block grant structure, reauthorization offers an opportunity to identify improvements in the funding mechanisms that are needed to ensure that states can maintain important services while building on their experiences to develop new initiatives to achieve the purposes of TANF. TANF reauthorization should strengthen the long-term funding of TANF, make further progress in reducing the disparity in TANF block grant allocations among states relative to their needy populations, and ensure that the federal government shares in the increased costs associated with economic downturns. These funding improvements should be accompanied by better financial accountability measures, to ensure that TANF funds are used by states to further welfare reform goals.

Base block grant funding

Unlike most other federal programs, the TANF block grant was not structured to automatically keep pace with inflation, and since 1997 it has fallen in real value by 13.5 percent. Reauthorization should include automatic annual increases so that the block grant keeps pace with inflation. If the federal government increases its base TANF funding level, states should be required to increase state spending by an equal percentage, to maintain the balance between state and federal responsibility for funding programs for low-income families.

Why should the block grant be adjusted for inflation? The drop in the inflation-adjusted value of the TANF block grant during the past five years did not cause significant problems for most states because they were able to use the substantial funds freed up by falling cash assistance caseloads to expand programs that help recipients find jobs, provide supports to low-income working families, and strive to meet the welfare law's family formation goals. The situation has now changed mark-

edly. In response to the current recession, welfare caseloads in many states now are rising, not falling—between March and September 2001, 33 states reported increased cash assistance caseloads. Even if the economy recovers, it is unlikely that cash assistance caseloads will fall *below* their lowest levels for a considerable period of time. Thus, states can no longer count on additional funds being freed up as a result of further declines in cash assistance costs, and many will need to devote more TANF resources to cash aid. Moreover, most states no longer have substantial reserve funds to draw upon to augment their annual block grant allocation in future years.

If TANF reauthorization legislation does not adjust future TANF funding for inflation, by 2007 the inflation-adjusted value of the block grant will be 14 percent lower than in FY 2001 and nearly 22 percent below its value in 1997. Because the cost of providing child care, employment and training services, and transportation assistance rises over time as wages increase, so large a reduction in purchasing power will make it difficult for states to maintain their current welfare reform efforts. They will, for example, be able to afford fewer child care slots or slots in employment and training programs.

Additional resources to address unmet needs of low-income families. Adjusting the block grant for inflation would substantially strengthen long-term TANF funding, but it does not provide the funding necessary to develop new initiatives or to expand and improve supports for low-income working families—including child care subsidies, earnings supplements, transportation assistance, and help in acquiring work-related skills. There is substantial evidence that more such poverty-reducing efforts are needed.

Between 1995 and 2000, the number of children in poverty fell by 22 percent, a much smaller reduction than the 50 percent decline in cash assistance caseloads.⁵ Part of the explanation for this difference is that families who leave welfare often remain poor. Although about 60 percent of former cash assistance recipients are working in any particular quarter following their exit from welfare, and a larger share reported working *at some point* since leaving TANF, the wages reported by these former recipients are low, averaging between \$6 and \$8.50 per hour.⁶

In addition, U.S. census data show that the poorest 700,000 single mothers living only with their children in 1999 had *less income*—when earnings, the Earned Income Tax Credit, and benefits such as cash assistance and food stamps are taken into account—than similar women in 1995, even though their *earnings* increased. This trend suggests that the lowest-income single-mother families became poorer, even while the combination of a strong economy, state welfare reform efforts, and strengthened work supports (such as the Earned Income Tax Credit) increased the total number of single mothers who were working and led to reductions in child pov-

erty.⁷ Recent evaluations of welfare-to-work programs that predated TANF show that, with regard to outcomes for children, total income matters. Programs in which earnings increased, but incomes did not increase because benefit losses offset earnings gains, did not show clear, positive effects on child outcomes such as school achievement and behavior. In contrast, programs that increased *incomes* as well as earnings showed positive effects on such child outcomes.⁸

The programs needed to address lingering poverty, to continue moving welfare recipients into the workforce, and to help low-income working families secure jobs that pay above-poverty wages are likely to be more costly than programs already in place. Many parents still receiving cash assistance have substantial barriers to employment—such as physical or mental health impairments, substance abuse problems, limited English proficiency, or very low basic skill levels—and have difficulty finding and retaining employment (see the article in this *Focus* by Danziger and Seefeldt). Intensive, and expensive, services may be needed to help such parents secure stable jobs.

Finally, some state and federal policymakers are interested in doing more to meet the family formation goals of TANF, such as employment and parenting services that help nonresident parents increase the child support they pay and their involvement with their children. In the context of reauthorization, federal policymakers need to consider whether additional resources should be provided to states to encourage experimentation or investments in promising programs, for example, to reduce nonmarital childbearing or to serve fragile two-parent families that are not currently being reached.⁹

Reducing funding disparities among states

Although all states need increased TANF funds to account for the effects of inflation, those states that receive very low block grant allocations relative to their needy populations need more substantial funding increases. The TANF block grant is allocated among states on the basis of historical spending in the AFDC program, in which the bulk of state spending was on cash assistance benefits. Many poor states chose to have very low cash assistance benefit levels that to an extent reflected their cheaper cost of living but were largely driven by state policy decisions. As a consequence, these states received far less in federal AFDC resources relative to their number of needy families than states that set higher benefit levels.

One way to measure a state's block grant allocation relative to its needy population is by dividing the state's block grant by the number of poor children in the state. In FY 2001, eight states received less than \$600 in block grant funding per poor child, whereas 12 states received more than \$1,600 on that basis (see Table 1). The na-

tional average block grant allocation per poor child was roughly \$1,200. These figures include additional TANF funds provided in "supplemental grants" that went to 17 states and increased over time. These grants were designed, in large part, to ameliorate the very substantial disparities among states, but they were authorized only through FY 2001 and will not be provided to states for the current fiscal year (2002) unless Congress approves legislation to extend them.¹⁰

The costs of the employment and other support services that states are providing under TANF vary far less than do the TANF block grant allocations per poor child, making it much more difficult for states that currently receive very low grants to fund the range of services needed for low-income families to enter and remain in the workforce. Reauthorization legislation should establish "equity grants" that would be awarded to states with low per-poor-child block grant allocations. These grants should be in addition to the supplemental grants for prior years, which should be incorporated into the base TANF grant at their FY 2001 level of \$319 million. While differing in the way the funds are distributed, these equity grants would continue the policy established in the 1996 welfare law of gradually reducing funding disparities among states each year. Between FY 1998 and FY 2001 the supplemental grants increased by \$80 million each year, reducing disparities further over time.

There are many ways to structure equity grants. For example, they could be awarded to states with per-poor-child block grant allocations below a certain threshold. Each qualifying state would receive a grant based on the number of poor children in the state.¹¹ Because a few states have large TANF reserves, and therefore do not currently need additional funding to expand their welfare

Table 1
TANF Grants per Poor Child

Selected States (Shaded states receive Supplemental Grants)	Basic TANF Grant per Poor Child	Basic TANF Grant plus Supplemental Grant per Poor Child
<i>Lowest 5</i>		
Alabama	\$356	\$398
Arkansas	369	410
Texas	372	413
Idaho	381	425
Mississippi	496	547
<i>Highest 5</i>		
Rhode Island	\$2,106	\$2,106
District of Columbia	2,217	2,217
Vermont	2,279	2,279
Connecticut	2,478	2,478
Alaska	2,462	2,750
Total U.S. Average*	\$1,181	\$1,198
Supplemental State Average*	607	655
Nonsupplemental State Average*	1,497	1,497

*Averages weighted by the population of poor children.

reform efforts, equity grants could be limited to states with TANF reserves below a certain level, such as 50 percent of a state's annual block grant allocation. If equity grants were structured in this manner and funded at \$80 million in FY 2003, each qualifying state would receive an estimated \$22 extra per poor child.¹² Alternatively, all states with per-poor-child allocations below the national average could be given additional resources, with the states with the lowest per-poor-child allocations receiving proportionately larger grants.

Countercyclical funding

Reauthorization legislation should create a workable, countercyclical funding mechanism so that both the state and federal governments share in the increased costs associated with recessions. The 1996 welfare law recognized the importance of providing additional resources to states to meet recession-related costs and included a \$2 billion "contingency fund" intended to provide states with additional funds if they met certain criteria related to economic hardship.

The design of this now-expired contingency fund, however, was deeply flawed. States meeting the law's basic MOE requirement would have had to increase state spending substantially to qualify for contingency funds. A state also had to demonstrate economic distress, either with high and increasing unemployment or food stamp participation increases, but the specific criteria adopted quickly became outdated (see the article in this *Focus* by Chernick and Reschovsky).

Some have argued that a contingency fund mechanism is not needed and that states should bear all of the fiscal risks associated with an economic downturn. The lack of a workable contingency fund, however, is problematic. During a recession, the number of poor families needing basic cash assistance increases, and if no contingency funding is available, states that see an increased demand for basic assistance will face three undesirable choices—meeting those increased costs with additional state resources (very difficult to do when state revenues are declining), cutting cash benefits or reducing services for working families, or limiting access to benefits for the increasing numbers of families in which parents cannot find jobs. In addition, if all of the fiscal risk is placed on states, some states may choose to accumulate very large reserve balances in normal times to protect themselves in case of recession. Although the federal government should encourage prudent savings for economic downturns, states will not have the resources needed to meet important welfare reform goals if they save too large a share of federal funds.

To help states strike a balance between spending and saving federal TANF funds for a rainy day, states in which an increased number of families need assistance

because of an economic downturn should receive additional federal resources to help meet those costs, without having to increase their overall state TANF expenditures through an explicit matching requirement or an increase in the MOE requirement. Contingency funding should be available only to states that are providing basic assistance to *additional* families, and states should be required to use their TANF reserves before accessing contingency funding. In addition, the economic triggers that allow states to qualify for contingency funds should be redesigned to ensure that states facing economic difficulties qualify for these funds.

Accountability and use of funds

The 1996 welfare law provided states broad programmatic and spending flexibility. Currently states are required to submit limited information to the federal Department of Health and Human Services (HHS) about how TANF and MOE funds are spent.¹³ Financial and programmatic reporting requirements should be strengthened in reauthorization to enhance state accountability to taxpayers as well as HHS's ability to oversee the use of program funds.

Even though most TANF spending over the past few years has been used to maintain or expand a broad array of programs for low-income families, several states have used federal TANF funds to replace or "supplant" funds the state had previously spent on programs that met the broad TANF purposes, such as low-income tax programs or child welfare services. States could then use the freed-up state funds for other purposes, often unrelated to welfare reform goals. The 1996 welfare law prohibited states from using MOE funds to replace state funds committed to non-AFDC programs that nevertheless meet the broad TANF criteria, but this restriction was not applied to the use of federal TANF funds. Reauthorization provides an opportunity to fix this inconsistency in the treatment of state and federal spending.¹⁴

How much do these proposals cost?

In general, when Congress or the administration estimates the cost of a legislative proposal, the cost is measured relative to a ten-year "baseline" of projected costs that often extends beyond a program's authorization period. It may seem counterintuitive, but projected spending increases only count as increases if they are above the level assumed in the baseline. The assumptions embedded in the baseline of any program are determined by a set of budgeting conventions and sometimes by specific statutory instructions.

The baselines for most federal programs include an automatic annual inflation adjustment. When the 1996 TANF law was enacted, however, there were large federal defi-

cits and TANF funding levels were set so as not to exacerbate those deficits. As a result, the TANF baseline does *not* include an automatic inflation adjustment like other programs. Likewise, the baseline does not include a continuation of the funding distributed as supplemental grants (this started at \$80 million in FY 1998 and increased by \$80 million each year through FY 2001), or any of the \$2 billion contingency fund. Since the cost of reauthorization proposals will be measured against this stripped-down baseline, treating TANF like other federal programs by adjusting the block grant for inflation would be considered to cost \$6.6 billion over five years. Maintaining the supplemental grants at their FY 2001 level and extending the policy of providing an additional \$80 million annually to reduce funding disparities would be considered to cost \$3 billion over five years. Reinstating the contingency fund would be considered to cost \$2 billion.

Thus, together these proposals would be considered to cost roughly \$12 billion over five years. Although it may be difficult for members of Congress to allocate these funds to TANF at a time when we are again facing deficits, failure to make these critical funding changes would likely lead to program cuts.

Conclusion

In order for states to maintain current welfare reform efforts, build on their successes, and meet new challenges, they need sufficient TANF resources that do not erode in value over time. If reauthorization legislation addresses the three key areas discussed in this paper—increasing and adjusting the base block grant to keep pace with inflation, reducing disparities among states in TANF allocations relative to needy populations, and sharing the financial risks associated with cost increases during recessions—states would be better able to continue their efforts to meet the critical goals of reducing poverty, moving low-income families into the workforce, supporting working families that continue to have modest earnings, and strengthening families. ■

⁵The figure cited here on the reduction of the number of children in poverty considers a child poor if his or her family's income *excluding* means-tested benefits such as TANF cash assistance or food stamps falls below the poverty level.

⁶E. Richer, S. Savner, and M. Greenberg, *Frequently Asked Questions about Working Welfare Leavers*, Center for Law and Social Policy, November 2001, on the CLASP Web site at < <http://www.clasp.org/pubs/TANF/leaversFAQ.pdf> >.

⁷R. Haskins and W. Primus, "Welfare Reform and Poverty," *Welfare Reform and Beyond Policy Brief no. 4*, Brookings Institution, Washington, DC, July 2001.

⁸P. Morris, A. Huston, G. Duncan, D. Crosby, and J. Bos, *How Welfare and Work Policies Affect Children: A Synthesis of Research*, Manpower Demonstration Research Corporation, New York, March 2001, on the MDRC Web site at < <http://www.mdrc.org/Reports2001/NGChildSynth/NG-ChildSynth.pdf> >.

⁹See articles in this *Focus* by Cancian and Meyer, by Garfinkel and McLanahan, and by Fremstad and Primus.

¹⁰The Senate passed a bill extending the supplemental grants for FY 2002. The House has not acted on the Senate-passed bill, but a provision to extend these grants was included in the House-passed economic stimulus bill which was approved in December 2001 but did not pass in the Senate.

¹¹Considering grant levels on a per-poor-child basis is a proxy for assessing the grant level relative to the state's population of needy families. A broader measure, such as children living in a family with income below 200 percent of the federal poverty level, could be used instead.

¹²This estimate assumes that states in which per-poor-child FY 2001 TANF allocations (including supplemental grants) below 75 percent of the national average—and unspent funds at the end of FY 2000 were below 75 percent of their TANF allocation—would qualify. This "reserve" requirement was used for this estimate because it is likely that many states that had reserves in FY 2000 just above the 50 percent level have drawn upon some of those reserves, so that their current reserve balances are now below the 50 percent threshold.

¹³On state reporting requirements under TANF, see the article in this *Focus* by Swartz.

¹⁴For example, states could be prevented from using TANF funds to substitute for state funds by prohibiting state increases in TANF spending on preexisting programs unless the state maintained the prior level of state funding for the program. This restriction should *not* apply when a state wishes to use federal TANF funds to replace state spending that could be counted toward the MOE requirement. In these cases, the MOE requirement itself ensures that appropriate state effort is maintained.

¹The analysis and recommendations presented in this paper were developed collaboratively with the Center for Law and Social Policy.

²This paper does not address all the TANF recommendations that would require funding, nor the appropriate funding level for programs closely related to TANF, but instead focuses on TANF's funding structure.

³For examples of changes in state spending, see the article in this *Focus* by the WELPAN members.

⁴For a more detailed discussion, see Zoë Neuberger, *TANF Expenditures Increased in the Last Fiscal Year*, Center on Budget and Policy Priorities, Washington, DC, November 1, 2001, on the CBPP Web site at < <http://www.cbpp.org/11-1-01wel.pdf> >.

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