The new face of welfare: From income transfers to social assistance?

Thomas Corbett

Thomas Corbett is Emeritus Professor of Social Work at the University of Wisconsin–Madison and an IRP affiliate.

TANF reauthorization—the conventional story

In one telling, the contemporary welfare reform narrative about poor families with children is straightforward. Passage of the Family Support Act (FSA) by Congress in 1988 challenged states to strengthen policies requiring welfare recipients to work or prepare for work. At the state level, a plethora of waiver-based reform activities subsequently pushed the work agenda much further than FSA required and, in addition, envisioned unanticipated directions for reform.[1] The confidence engendered in many states by their introduction of increasingly ambitious initiatives paved the way for structural reform of the national social safety net. In 1996, passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) substantially altered the way we think about welfare in the United States.

PRWORA made important changes to the Supplemental Security Income (SSI) program for children, Food Stamps, the child support enforcement and child care systems, and child nutrition programs. Other changes were directed at policy domains that intersected existing programs and policies, for example, assistance to immigrants and reduction in nonmarital births.[2] Most policy and public attention, however, has focused on the Temporary Assistance for Needy Families (TANF) program, which has replaced Aid to Families with Dependent Children (AFDC), the primary cash income support system for poor families with children that was established as part of the Social Security Act in 1935.[3]

TANF established a different federal-state relationship based on a funding mechanism rather than a new program, and articulated a somewhat broader set of program goals than existed under AFDC. These are:

1. Providing assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. Ending the dependence of needy families on government benefits by promoting job preparation, work, and marriage;
3. Preventing and reducing the incidence of out-of-wedlock pregnancies and establishing annual numerical goals for both purposes; and
4. Encouraging the formation and maintenance of two-parent families.[4]

TANF eliminated cash welfare as an individual entitlement and created a state entitlement to an annual fixed amount of dollars—a block grant.[5] It also placed a 60-month lifetime limit on the receipt of federal benefits and mandated that states require recipients to engage in work or work-related activities within two years after they have begun receiving benefits.

TANF further expects states to achieve mandatory work participation rates for recipients of cash assistance. Half of all single adult recipients and 90 percent of all two-adult families are to be engaged in work or work-related activities by 2002. In contrast, the FSA had required mothers with children three years and older (younger at state option) to participate in welfare-to-work activities and had defined such activities rather broadly to include education and training activities as well as work. TANF applies the participation requirement to mothers with younger children and defines permissible work activities more narrowly.

Most critically, however, TANF sends new signals to the state and local agencies that now exercise substantial authority over welfare programs. TANF implicitly recognizes that individual and collective behaviors are as important to being disadvantaged as is any income deficit and that states must exercise ingenuity and entrepreneurship in addressing the complex needs of low-income families.

But the story of welfare reform did not end with the structural reform enacted in 1996. Rather, reform remains a work in progress, in part because we do not yet know how it will play out in the radically changed economic landscape the United States now inhabits, and in part because we do not yet have definitive answers to some of the serious questions raised when PRWORA was enacted. We explore dimensions of this continuing drama in this issue of *Focus*.

Apocalypse revisited

When it was implemented, TANF was hailed by some as a watershed in the way that the United States would design and deliver social assistance to its most vulnerable families. Other observers assailed the enabling legislation as a disaster for the poor and a betrayal of solemn pledges made sixty years earlier when AFDC was established. When President Clinton signed PRWORA into law, three members of his administration resigned in protest; this was the only policy decision of his administration to prompt such a reaction. Among other things, critics feared a "race to the bottom" in which states would vie with one another to introduce harsh measures designed to lower caseloads and save money.

Such contention is to be expected, since cash welfare for families, although accounting for a tiny proportion of federal outlays, touches upon our most sensitive public issues: work, family, sex, abortion, personal responsibility, and community integrity.[6] Welfare has served as a proxy for fundamental questions about the quality of life in society and about how to allocate personal and public responsibilities.

We are uncertain as a society whether assuring economic security for children is more important than signaling clear consequences for parents who fail to play by generally accepted rules. We have argued—and still argue—whether individual dispositions or societal barriers are at the root of welfare dependency. We have debated the efficacy of available interventions and technologies: Can economic sanctions and incentives effect changes in fundamental behaviors—work, fertility, marriage? Can the human capital of low-wage workers be raised to competitive levels? Would even the most disadvantaged respond if work were really a rational economic alternative? And we have debated the ends of reform—to save money or to save people, to reduce poverty or minimize dependency, to get people into a job or help them secure a career.

Amidst the clamor, it appears that the vision of apocalypse for poor families feared by many critics of PRWORA has not materialized. Indeed, much of the available evidence to date has been encouraging.

Caseloads have plummeted. The number of families receiving cash welfare from AFDC or TANF fell by 57 percent from January 1994 to January 2001. From 1996 to early 2001, the caseload fell from 4.6 million families to 2.1 million.[7] The caseload decline has been sharper among younger mothers (ages 18–24) and mothers with younger children.[8]

More low-income mothers are working. From studies of women leaving welfare we know that about two-thirds work at any given time after they leave, and 80 percent give evidence of some attachment to the labor force.[9] Overall, the labor force participation of single mothers jumped from 63.6 percent in 1994 to 71.5 percent in 1999. Significantly, the proportion of never-married mothers who were working increased from slightly less than 50 percent to almost 65 percent.[10]

Incomes of disadvantaged mothers are up. Those leaving welfare, on average, secure low-paying jobs, typically earning between $6.50 and $7.00 per hour, and experience only modest increases in wages over time. Still, many of them, especially among the very poor, have gained. The poorest fifth of women with children saw their average incomes increase from $7,920 in 1996 to $8,867 in 2000. The proportion of their income from personal earnings jumped from 26 percent to 36 percent, the proportion from welfare fell from 53 percent to 37 percent.[11]

Poverty is down. All the relevant measures of poverty have been headed in the right direction. The poverty rate for female-headed families fell from 36.5 percent in 1996 to 30.4 percent in 1999 and child poverty declined from over 20 percent to less than 17 percent. Moreover, the proportion of children in deep poverty, those in families with incomes below half of the federal poverty threshold, also fell from about 9 percent to less than 7 percent.[12]

Other indicators of family well-being show promise. The nonmarital birth rate flattened out in the 1990s, after rising from 1 in 20 births in 1960 to 1 in 3 births by the early 1990s. There has been a slight increase in the proportion of black children living with both parents in recent years. At the same time, the teen birth rate has declined from 62.1 births per 1,000 in 1991 to 48.7 in 2000.[13]

Evidence, however, seldom resolves fundamental public policy issues. Not surprisingly, welfare debates never really end; they are merely recast. The evidence so far is encouraging, but the full consequences of reform are not known. What will happen to those who have exited the rolls, or to those pushed off assistance by sanctions or time limits as different economic cycles play themselves out? What is happening to those poor who no longer apply for help because the new signals discourage them? How are states exercising their new discretion and authority? Are TANF agencies focusing on the right ends? Will adequate federal and state fiscal support be maintained into the future? Will poverty take center stage again as a policy concern, and how will it be conceptualized? Will other ends—marriage or community revitalization or investments in children—become the future litmus tests for reform? The issues are numerous.

Conventional TANF issues

The reauthorization dialogue, now well underway, encompasses a broad set of very complex issues. At the risk of oversimplifying this discussion, I attempt to summarize the more important issues in a discrete number of categories—*purposes, money, social engineering, vocabulary,* and *control*:

Purposes. Should the four original purposes of TANF be revisited?[14] Observers correctly note that purposes reflect federal signals to the states about what is important.[15] These signals are more powerful when accompanied by positive and negative fiscal incentives, even though states often view existing federal incentive awards as more like winning a lottery prize than reflecting their astute management practices.

The early debate seems to be coalescing along ideological fault lines. Those of a liberal persuasion argue that the reduction of poverty, and particularly of child poverty, should be made an explicit national purpose. The most common response to this suggestion is cautionary: that TANF is a small engine to address such a lofty goal, and failure to achieve unrealistic standards might reflect badly on the program or on those responsible for the program.

Conservatives, on the other hand, wish to strengthen the social agenda introduced by TANF, particularly to encourage marriage and reduce nonmarital births. A common response is that we have little rigorous evidence regarding effective strategies for achieving these ends, nor has a societal consensus emerged around the marriage goal.

The center, insofar as it converges on any common agenda, pushes the development of work retention and advancement policies for the newly employed poor and, in a larger sense, for the legitimization of expanding services to at-risk families and children. One cautionary response is that this might create a new target population and raise expectations that will stretch available resources.

Money matters. The TANF block grant itself is the focus of intense discussion. What should be its size, given that dramatic reductions in conventional cases have been offset by an expanding array of new initiatives? How should the block grant be distributed in the future, given that the initial distribution was based more on existing state efforts to assist the poor than on any reasonable measure of need? How much of the block grant should be segregated for a variety of special purposes—contingency funds, incentive funds, and set-asides to ensure that states pursue identified national goals?[16] And what kinds of financial investments should be required of the states to match federal commitments?

Other money issues are likely to persist: How to structure a fixed block grant that can respond to dynamics over time such as migration patterns or economic cycles and how to handle the inevitable erosion in the value of the block grant—by the time TANF is reauthorized, inflation will have lowered its real value by as much as one-quarter.

Social engineering. TANF is not a pure block grant. A prescriptive federal vision of what reform should be exists in uneasy conjunction with the vision of states as inventive laboratories of innovation. For example, the PRWORA legislation restricts federal funding for longer-term recipients and for younger teen mothers living in unapproved settings. Federal work expectations for recipients of aid nudge states to adopt stiff penalties for those who do not comply with the rules.[17] The issue is centered on which vision will prevail—the one in which a residual federal prescription for social engineering remains or the vision of a more radical devolution where policy authority truly is allocated to the states.

There is also a widespread professional belief, not fully documented by the empirical evidence, that many who remain part of the shrunken caseload are women whose personal circumstances categorize them as "harder to serve"—women for whom finding and maintaining work will be very much more difficult, for a variety of reasons. Should authority to exercise some of the "tough love" provisions in TANF be delegated to the states as a consequence? Should time limits perhaps be waived for families playing by the rules—for example, those working half time and also pursuing additional vocational skills? Such delegation of responsibility would enable states to adopt a more aggressive program to support the working poor through income supplements and career advancement initiatives. The larger question, discussed below, is whose social agenda will be engineered when the agendas of state governments, who see themselves as closer to people's circumstances, differ from that of the federal government, which pays most of the bills?

Vocabulary and concepts. The world of welfare has changed dramatically, as a traditional income support program evolves into a multidimensional network of social assistance. This is reflected in changed spending priorities. Between 1996 and 2000, the proportion of state welfare expenditures going to cash assistance in seven Midwestern states fell from 72 to 30 percent. In Wisconsin, for example, only two-thirds to three-quarters of the official welfare caseload, cases actually open under the states' Wisconsin Works (W-2) program, received cash assistance; the remainder are helped only though social services. Moreover, uncounted others in Wisconsin receive help through one-stop job centers or community programs at least partially supported by TANF dollars. The "invisible case" phenomenon is a growing issue in many states; yet the federal definition of assistance is tied to the old technology of welfare—issuing a check. This definition surely needs revisiting.[18]

The old vocabulary, current since the late 1960s at least, drew on the traditional language of economics and accounting and assumed that welfare was indistinguishable from an income-transfer-based core technology. We heard words like accounting period, guarantee, break-even point, marginal tax rates, income and substitution effects, and so forth. But if the core functions of welfare are evolving, we need to refresh our vocabulary if we wish to avoid confusion. We need terms and concepts that reflect the transition toward direct investments in, and interventions with, children and families and communities in need of help.

Control and accountability. Finally, reauthorization must address core issues of responsibility and accountability. States may well argue that they were prudent stewards of the new flexibility afforded them in TANF and that a true block grant concept should be included in the next version of TANF. In such a rigorous vision of devolution, the former emphasis on process as a means of ensuring accountability would be replaced with an emphasis on a set of outcomes. The federal government would no longer specify countable work activities in detail, but might identify some outcomes to promote equity across states, leaving others to be locally determined so as to reflect variation in circumstances and preferences.

Many, of course, remain uneasy with the wide variation in effort and ingenuity across and within states. They tend to argue that federal oversight should, if anything, be strengthened and are skeptical that the country can reach any consensus on meaningful outcome measures that would replace process guarantees. But although many of the difficulties confronting any transition to performance-based accountability are technical in nature, and thus solvable, they nevertheless remain daunting. We do not at present have the data-gathering infrastructure to collect the meaningful, population-based data necessary to implement such an intergovernmental management strategy. Technical difficulties, moreover, are usually susceptible to technical solutions only if there is a willingness to invest political will and fiscal resources.

The faces of welfare

What we do in the future depends, in large measure, on how we conceptualize welfare in the first place. We are in some ways quite unsure about the essential character of assistance as it transitions from a narrow income transfer function to a broader notion of social assistance, creating what might be called a new "face" of welfare.[19] This transformation is encapsulated in Table 1.

The old face of welfare

In essence, traditional welfare programs were public transfers with two distinguishing characteristics: (1) the benefits can be received in the absence of work and (2) benefits paid to welfare recipients are reduced when they begin to earn, and the rate of reduction substantially exceeds any tax rate we would dare impose on other members of society.

Consider the second point. Today, few would consider raising the highest federal income tax rate to 50 percent—essentially the rate that existed prior to the last major overhaul of the tax system in 1986. Rates of 70 percent, which existed in the 1960s, and over 90 percent, in effect after World War II, seem confiscatory today. Yet a working AFDC client in the pre-TANF era could easily lose one dollar in benefits for each dollar earned, effectively facing a 100 percent tax rate.

Table 1

OLD WELFARE	NEW WELFARE
Problem Amelioration	*Investment-Prevention*
Benefits	Behavior
Services	Solutions
Adult recipient	Whole family
Static concept (PIT)	Longitudinal (PIP)
Bureaucratic orientation	Professional model
Autonomous worker	Collaborative worker
Autonomous agency	Transparent boundaries
Risk aversive	Risk taking
Process	Products

By 1996, decades of experience and research had made it clear that the core principles of cash welfare programs as they then existed were deeply flawed as an antipoverty strategy. Welfare created an array of perverse outcomes, unintentional consequences of policies enacted with the best of intentions. Ironically, these adverse outcomes came from trying to achieve desirable public policy principles—*target efficiency, horizontal equity,* and *management accountability*.

Target efficiency. When resources are scarce, it seems sensible to target benefits on certain categories of individuals (e.g., single-parent families) and income classes (the asset- and income-poor) that are most in need. Because benefits were targeted on one-parent families, creating at least the appearance that welfare encouraged counterproductive fertility and marriage choices, AFDC came to be seen as a deterrent to stable family formation. Because families developing assets were thrown off the rolls, the program discouraged savings and long-range thinking.

Horizontal equity. This is sometimes referred to as the "trap of equality."[20] The desire to minimize perceived abuses associated with individualized treatment of families led to routinized policies and invariant administration. All families that appeared similar, at least within the same state, were to be treated the same. In distributive justice terms, the search for a rough sense of equality sacrificed any true equity that took into account real differences among families.

Management accountability. For two decades, the dominant administrative goals focused on getting benefits out accurately (no agency error or client abuse) and efficiently (lowest possible administrative cost). In striving to meet these twin management goals the welfare system subordinated the needs of its clients and became more consumed with processing data than with helping challenged families. This led to perverse practices. Because AFDC cases involving working adults were complex and error-prone, for example, hard-pressed welfare workers were not enthusiastic about encouraging clients to work.

In the end, we wound up with an income transfer system that failed to lift dependent children out of poverty while generally ignoring the root causes of their difficulties.

The new face of social assistance

Achieving the expectations set under TANF, most states quickly realized, meant more than merely adding a few conditions—work requirements and time limits, for instance—to the traditional welfare function of getting a check out the door. It meant transforming basic program purposes and organizational cultures.

This transformation is reflected in four common features of the various innovations unleashed by the 1996 act, and presaged by earlier waiver-based initiatives. First, the basic mission of programs came to be seen as transforming individual, family, and community behaviors, not issuing checks. Second, the locus of real program authority shifted first to the states, then to local county or state agencies, and then to the front lines. Third, programs that attempt to transform behavior have their own technological imperative—they are less rule-driven and demand more autonomy and judgment on the part of front-line workers. Given these transformations, the last feature is inevitable. Because it has become very difficult to monitor rule conformance under a highly devolved and behavior-focused system, we will most likely look to performance, what is accomplished, and not to process, what is done.

Reform has become more of an evolutionary process and less a periodic, distinct event. Over the past several years, state and local officials have been quite successful in moving low-income adults into the labor market. But this was recognized as only a first step in the reform agenda. New entrants must be kept in the labor market through a variety of work supports, functioning two-parent families need to be nurtured and promoted, and the communities in which low-income families reside must be strengthened.

Early on, the more farsighted policymakers recognized that the ultimate purpose of reform was to prevent dysfunction and dependence in the first instance, by promoting independence and through prudent investments in children, families, and communities. Today's reform landscape has moved closer to this early vision. For example, in seven upper Midwest states, proportional spending on what has been termed family stability issues increased threefold between fiscal year 1996 and fiscal year 2000. Many of these dollars are directed toward investments in children and youth or in efforts to stabilize families.[21]

The new face encompasses varied and multiple goals (work, marriage, wiser fertility decisions, and better parenting), and encompasses multiple targets (adult recipients, children, nonrecipients, families, fathers, and communities). Moreover, the new face relies upon complex, behavior-focused programs that tend to be dynamic and longitudinal—seeking fundamental change over time in those served. Interventions tend to be multidimensional—addressing several issues simultaneously as they seek to encourage positive behaviors and discourage those that are counterproductive. If welfare workers in the emerging era are to be effective, they must eschew bureaucratic rules and adopt professional norms.

As this happens, the organizations within which workers function will become structurally flatter and less hierarchical. Agency boundaries themselves will become porous as interagency agreements and one-stop models emerge. Malleable and plastic institutional forms that can respond quickly to new challenges, that are more entrepreneurial in their approaches, will supplant traditionally static and risk-averse welfare systems. Distinct program and funding streams, the "silo" approach to social policy, will be merged into networks of social assistance. Within agencies, horizontal patterns of communication, dialogue among peers, will become more prominent, and discretion at the operational level will replace traditional command-and-control organizational strategies.

The new culture of social assistance may well require a different kind of worker. Agency workers are less likely to be detail-oriented functionaries executing policies, more likely to be professionals working in teams to set policies and solve difficult social problems in creative and flexible ways. And rather than ignoring the most difficult cases, the most troubled families, they will try to engage them. Finally, the new face of social assistance will focus on products, meaningful outcomes, rather than process, e.g., activity counts or management efficiency and accuracy measures.

The new face of social assistance and TANF reauthorization

This new world of welfare generates a fundamental tension in the dialogue about TANF. We can approach reauthorization as a debate about an income transfer program that has been enhanced by "tough love" provisions and a modest shift of control to the states. Arguably, however, the opportunities for change—and the stakes at risk—may be greater. Before considering the future we might first rethink the nature and character of welfare as traditionally viewed by key stakeholders during the entitlement era of welfare, a period roughly running from the late 1960s through the early 1990s.

The seduction of economic efficacy (first the economists). Somewhere in the 1960s we came to equate social assistance with the mere transfer of economic resources to poor families, the first foundation of welfare during this period. The economic paradigm emerged and, not surprisingly, economists began to dominate poverty and welfare policy. The policy challenge was to remedy immediate income shortfalls; the dominant response involved income transfers. With the exception of human capital theory, most policy efforts involved some attempt to transform behavior by altering economic outcomes. For example, we tried to promote work by reducing benefit reduction rates or marginal tax rates, thus attempting to improve vertical equity so that those who worked more earned more.

The seduction of the equality trap (and then the lawyers). A second foundation of the modern welfare state is the notion of horizontal equity—treating like families alike. But taken to the extreme, this led to a uniformity in the treatment of clients that resulted in less equity. Easily observable characteristics such as family size predominated over real and fundamental differences, e.g., human capital levels or family functioning measures, in determining what help families actually received. Everyone got the same flat grant despite wide variation in circumstances and capabilities. It was feared that the application of professional judgment or discretion was likely to invite claims that due process had been violated and also raise the specter of agency or worker abuse.

The seduction of accountability (and the public management gurus). A third foundation is the long-standing effort to introduce accountability into the management of welfare. But this has meant an obsession with process measures: Are the checks accurate? At the same time, there emerged a concerted focus on efficiency: Is the core technology of welfare agencies being executed with low overhead costs? The focus on process and efficiency drove the "culture" of welfare offices in predictable directions. Applicants and recipients were reduced to information inputs and agencies evolved into isolated and independent information-processing systems.

The seduction of the silver bullet (and the evaluators). A fourth foundation of the welfare state, a more recent development, has been the use of rigorous analysis to identify policies and programs that "work." These efforts are laudable and much has been learned. At the same time, there is a conservative dimension to evaluative efforts. They seek to isolate and estimate the independent effects of particular policies and strategies. The search was for *the* policy or program that would solve the welfare problem, as if there were such a magic potion. This scientific imperative, along with surprisingly high levels of control-group contamination, resulted in studies measuring modest impacts at best and in a sobering sentiment that nothing works really well. Consequently, we were in no way prepared for the outcomes emanating from dramatic changes in institutional cultures tried under TANF in some areas, since such results defied the best estimates of science. Perhaps it was a good thing that some policymakers ignored the evidence and went with their instinct.

The seduction of program and funding silos (and the politicians). There is a fifth foundation in the political imperative that seems to push lawmakers toward creating new programs and funding streams. These are typically categorical in character, organized about specific target groups, service technologies, or purposes of the moment. At the operational level, it is obvious to welfare officials that challenged families need coordinated and individualized attention, not a specific intervention that is in favor or that happens to be available. This creates a tension between those who wish to ensure accountability by narrowly defining who is to be served and in what manner and those who wish to expose troubled families to whatever it takes to turn their fortunes around irrespective of the particular program category into which they might fall.

The seduction of ideological certitude (finally the social workers). Nowhere is the problem of rigid thinking more evident than in the helping professions. Those developing the new model of welfare talk openly of the need for a new kind of professional as we work directly with families to help them function better and participate more fully in society. All too often, social workers and other helping professionals have chosen to criticize welfare reform from the sidelines rather than engage in constructive efforts to make these more ambitious efforts work.

Taking the longer perspective means thinking outside existing boundaries. It means eschewing marginal changes in favor of creating an environment where entrepreneurship and risk-taking can flourish. States and their local partners have shown imagination and flair in developing new institutional arrangements and intervention strategies to help struggling families, though mistakes clearly have been made and significant challenges remain. But this era of experimentation may be short-lived if resources are constrained or the economy deteriorates.

Final thoughts

If we are to have a really meaningful discussion about reauthorization, we need to get back to some fundamental questions. For example:

What are the purposes of "assistance?" State and local officials already have developed new purposes for TANF. They have moved aggressively into programs for the working poor, have committed to strengthening families and communities, and have initiated a broad range of prevention strategies.

What do we mean by "assistance?" Assistance no longer means cash support. But what are the boundaries that constrain where a TANF agency can spend money? If we invest in parenting programs for broad segments of the low-income community, is that acceptable? Or if we invest in transportation systems to get people to jobs, is that appropriate? One person's ingenious program initiative is another's fiscal waste, and officials often worry that decisions will be questioned retroactively.

What is a welfare agency? Some of the most exciting innovations occur when services are blended and institutional boundaries blurred. In these one-stop environments, seamless services that are transparent to the customer are possible. Agency workers can be located outside the agency in schools or community centers, or with large employers. Networks of public, nonprofit, and for-profit providers can be intertwined in complex working relationships. But as these different institutional forms emerge, officials again fear that someone will second guess the decisions made.[22]

Who are the clients? It used to be clear that clients, recipients in the "old welfare" days, were the ones getting the checks. Today, that may not be the case at all. But even if we add case-management-only families to cash assistance cases, we have barely begun to include those reached by the new welfare. There are at least five target groups touched by emerging initiatives: (1) cash recipients; (2) former cash recipients who might be getting help to retain or advance in employment or to function better in society; (3) potential recipients who might get help to prepare for life, work, parenting, marriage, etc.; (4) broader segments of the community where potential problems might be addressed before intensive intervention is needed; and (5) those parts of the community infrastructure that influence the well-being of the disadvantaged.[23] The truth is we cannot count all those affected by TANF initiatives. How do we count, for example, those reached by a public awareness campaign to dissuade teens from engaging in at-risk behaviors?

What is success? How do we move to outcome-based accountability systems? Given a focused and productive public debate, we might well agree on a set of national and locally driven outcomes of interest. Agreement on measuring the likely range of outcomes important at the local level is another matter entirely. Absent an adequate investment in a data infrastructure that will give us timely, locally grounded information, our accountability mechanisms will inevitably be constrained to what it is feasible to measure, not what we care about. No other area of welfare is so clearly a federal responsibility.[24]

One irony of the TANF era welfare debate has been its predictability. The dialogue often has a conventional feel about it, as if the new face of welfare were little more than a warmed-over AFDC program touched up with time limits and a few additional behavioral requirements imposed on recipients. In reality, TANF reauthorization offers an opportunity to rethink the nature of social assistance in the United States. The dominant question is not whether TANF succeeded or failed, but rather what TANF is and what potentials might be encouraged if properly nurtured. The last few years have shown that given resources and opportunity many local officials will explore innovative policies, programs, and institutional strategies. They also suggest just how well disadvantaged families and the systems of support designed to work with them can be engaged and energized. At the same time, these new experiments might well not survive resource constraints or contradictory federal signals.

The irony is that we have had a very difficult time moving beyond the concepts and vocabulary of a welfare system that almost everyone despised and that many states and local communities consciously eschewed as they explored the frontiers of reform. The way it has always been done, or so it seems, is not the way it must always be. Perhaps what we need is an invigorated, open dialogue where stakeholders move beyond their conventional positions. Ideally, the dialogue would be premised not on the face of welfare that we are replacing but rather on a vision of social assistance that, when properly imagined and articulated, can take us into the twenty-first century. ■

---

[1]The Ohio LEAP program and the Wisconsin Learnfare program were among the first to use fiscal incentives within welfare as "social engineering" to achieve desired behaviors beyond the adult recipient entering the workforce. On Learnfare, see T. Corbett, J. Deloya, W. Manning, and E. Uhr, "Learnfare: The Wisconsin Experience," *Focus* 12, no. 2 (1989): 1–10.

[2]See the appendix to R. Haskins, I. Sawhill, and K. Weaver, *Welfare Reform: An Overview of Effects*, Welfare Reform and Beyond Policy Brief 1, Brookings Institution, Washington, DC, 2001, for a succinct summary of major provisions.

[3]AFDC was known as Aid to Dependent Children (ADC) when first established. Title I of PRWORA, Public Law 104-193 (1996) also replaced the Jobs Opportunities and Basic Skills Training (JOBS) program and the Emergency Assistance program.

[4]See PRWORA, Sec. 401(a).

[5]PRWORA also created contingency funds for states experiencing economic downturns or excessive population growth; these were to be allocated on a competitive basis.

[6]Even at its height, federal spending on AFDC was less than 1 percent of federal outlays.

[7]From data routinely published by the Administration for Children and Families of the U.S. Department of Health and Human Services.

[8]The proportion of younger mothers getting assistance fell from over 50 percent in 1993 to less than 30 percent in 1999. In 1994, 62 percent of all children received help from AFDC; the proportion had declined by one-third by 1998.

[9]See G. Acs and P. Loprest, "Studies of Welfare Leavers: Methods, Findings, and Contributions to the Policy Process," in *Studies of Welfare Populations: Data Collection and Research Issues*, ed. C. Citro, R. Moffitt, and M. Ver Ploeg. Panel on Data and Methods for Measuring the Effects of Changes in Social Welfare Programs, Committee on National Statistics (Washington, DC: National Academy Press, 2001).

[10]Haskins, Sawhill, and Weaver, *Welfare Reform*.

[11]Federal spending on TANF is fixed, and thus declining in real terms, and TANF spending on cash assistance has fallen dramatically. But spending on some other programs for low-income families and children has increased. For example, spending on the Earned Income Tax Credit jumped from $15.5 billion in 1992, the peak year of AFDC spending, to $31.9 billion in 1999. Spending on WIC, Head Start, and School nutrition programs is also up. See J. Scholz and K. Levine, "The Evolution of Income Support Policy in Recent Decades," *Focus* 21, no. 2 (Fall 2000): 9–15, for an overview of spending trends.

[12]For a summary of this issue, see R. Haskins and W. Primus, *Welfare Reform and Poverty*, Welfare Reform and Beyond Policy Brief 4, Brookings Institution, Washington, DC, 2001.

[13]Child Trends, *Facts at a Glance*, August 2001, Washington, DC, on the Child Trends World Wide Web site at
< http://www.childtrends.org/PDF/FAAG2001.pdf >.

[14]The first proposal to alter the purposes of TANF was introduced in October 2001 by Rep. Patsy Mink (D-Hawaii) as H.R. 3113. Among other things, it would make the reduction of child and family poverty a national goal.

[15]For example, see M. Greenberg, "Welfare Reform and Devolution: Looking Back and Forward," *Brookings Review* 19, no. 3 (Summer 2001): 20–24.

[16]Recently, some 17 states received supplemental grants to account for population growth and disproportionately higher need.

[17]Some 35 states adopted full family sanctions, under which the total grant was lost, though substantial variation exists in the extent of use and the circumstances in which they were applied.

18The U.S. General Accounting Office (GAO), responding to a request by Rep. Benjamin Cardin, is currently attempting to assess the extent to which nonassistance cases are being served. See also the article in this *Focus* by Swartz.

[19]Much of the following analysis emerged from the discussions over the past several years of the Welfare Peer Assistance Network (WELPAN).

[20]This characterization was suggested by Joel Rabb, a TANF official from the state of Ohio and a member of WELPAN.

[21]The seven states participating in WELPAN are Indiana, Illinois, Iowa, Michigan, Minnesota, Ohio, and Wisconsin. The state of Ohio, for example, has spent almost $700 million dollars on its Prevention, Retention, and Contingency initiative over the past several years. This is seen by state officials as a "new system" that is "proactive, looking *forward* to *prevent* and strategically *intervene* when the investment can forestall long-term dependency." In the 2000–2001 biennium, Ohio invested $92 million of TANF dollars into child welfare and protection, $89 million in youth educational support services (birth to 18), $41 million in early childhood development and parenting services, $34 million in community development initiatives, $11 million in pregnancy prevention, and $7 million to reduce domestic violence. These are just a few examples of direct investments in children and families. See *Reinvesting in Ohio's Communities*, a report prepared by the Ohio Department of Job and Family Services (Spring 2001).

[22]Eugene Bardach has estimated that about half of the innovations which rise to the finalist level in the Ford Foundation/Harvard Kennedy School of Government (Ford/KSG) Innovation in American Government competition require people in different agencies to work cooperatively. E. Bardach, "Implementing Innovation across Agency Lines," Working Paper 42, Richard and Rhoda Goldman School of Public Policy, University of California, Berkeley, 2001.

[23]This might include child care providers, the transportation system, or the housing system, or advocates, or any other group or system that systematically addresses the quality of life in the community.

[24]R. Moffitt and M. Ver Ploeg, eds., *Evaluating Welfare Reform in an Era of Transition* (Washington, DC: National Academy Press, 2001).

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

Institute for Research on Poverty
1180 Observatory Drive
3412 Social Science Building
University of Wisconsin
Madison, Wisconsin 53706
(608) 262-6358
Fax (608) 265-3119

The Institute is a nonprofit, nonpartisan, university-based research center. As such it takes no stand on public policy issues. Any opinions expressed in its publications are those of the authors and not of the Institute.

The purpose of *Focus* is to provide coverage of poverty-related research, events, and issues, and to acquaint a large audience with the work of the Institute by means of short essays on selected pieces of research. A subscription form with rates for our Discussion Papers and Reprints is on the back inside cover.

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

Edited by Jan Blakeslee.

Welfare then, welfare now: Expenditures in some midwestern states

Members of the WELPAN Network

The purposes of social assistance have shifted dramatically over the past decade, and particularly since the enactment of national reform in 1996. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) sought a new vision for helping families. First, the underlying goal of social assistance shifted from partially remedying income shortfalls to addressing behavioral change at the individual, family, agency, and community levels. And second, contemporary reform encourages the reallocation of programs and policy authority to levels closer to where families are actually helped. Members of WELPAN have conceptualized these changes as an emerging set of policy agendas—newer purposes made possible by success in meeting the early challenges of welfare reform.

Briefly, the first generation of contemporary reform saw work-first job placement programs replace the traditional income support function. State and local welfare agency officials soon acknowledged the necessity for a more complete concept of reform encompassing work support goals, job retention, and career advancement. As caseloads fell, policy attention then turned to strategic investments in challenged families and communities. More visionary reformers correctly noted that preventing problems, rather than responding to them, would return social assistance to its earliest foundations—seeking the best strategy for raising healthy and productive children.

In late 2000, WELPAN members decided to examine changes in where they were spending their resources. They surmised that they should be able to document this perceived transformation in the character of social assistance by "following the money." After much discussion, the members agreed upon a number of decision rules for aggregating expenditures under Temporary Assistance for Needy Families (TANF) into general categories that would, they believed, capture the broader missions being encompassed in reform. These rules are briefly outlined in the box on p. 14.

Dramatic shifts in expenditure patterns over time, the network assumed, would reflect changing policy priorities and service technologies that were not always consciously embodied in program mission statements and performance measures. The most meaningful changes within the new world of welfare no longer always took the form of directives from Washington or even state capitols, but came from those closest to the families and communities being served. Thus, substantive change

The Midwest Welfare Peer Assistance Network (WELPAN) is a group of senior welfare officials from seven states in the upper Midwest—Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, and Wisconsin. The network has operated since 1996, exploring the evolution and development of Temporary Assistance for Needy Families (TANF). The concept underlying WELPAN is that horizontal communications, sharing among peers, will replace vertical communications, top-down command and control patterns, as the future source of innovation in welfare policy. For more information and WELPAN publications, see the network's home page on the World Wide Web at < http://www.ssc.wisc.edu/irp/welpan/home.htm >

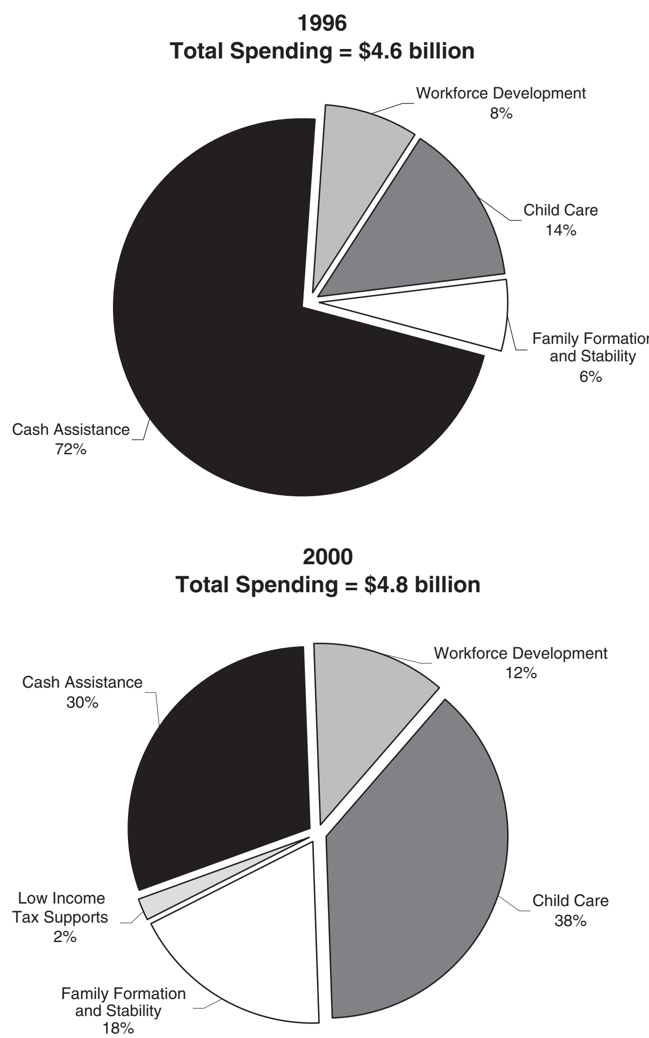


Figure 1. Average distribution of welfare expenditures for a group of upper midwestern states, 1996 and 2000. Included are Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, and Wisconsin.

Source: Data provided by member states of the Welfare Peer Assistance Network.

Table 1
Component Expenditure Trends

	Cash Assistance		Workforce Development		Child Care		Family Formation and Stability		Low-Income Tax Supports	
	1996	2000	1996	2000	1996	2000	1996	2000	1996	2000
Seven WELPAN states	72%	30%	8%	12%	14%	38%	6%	18%	0%	2%
Illinois	66	27	5	4	13	38	16	31	0	0
Indiana	65	28	8	6	22	44	4	18	0	4
Iowa	66	35	7	12	13	35	14	18	0	0
Michigan	78	29	11	15	9	40	2	15	0	2
Minnesota	74	44	5	10	13	36	8	11	0	0
Ohio	74	37	8	16	17	36	1	11	0	0
Wisconsin	74	12	8	20	16	45	2	13	0	10

could happen before most of us were aware that the welfare world was quite different.

Figure 1 shows that, between 1996 and 2000, spending on the traditional welfare function—handing out welfare checks—collapsed from almost three-fourths of all spending under the old Aid to Families with Dependent Children (AFDC) program to less than one-third of all spending under TANF. Clearly, there has been a qualitative transformation in welfare functions.

But if welfare is no longer a matter of handing out checks, what has it become? Table 1 gives us a portrait of welfare's new face in the seven WELPAN states. Just four years after the enactment of national welfare reform, *child care* emerged as the biggest expenditure item, jumping from 14 percent to 38 percent. Proportional spending on an array of policy and program initiatives labeled *family formation and stability* tripled in four years, accounting for almost one in five dollars by the 2000 calendar year. Activities organized under *workforce development* showed a modest increase over this period. Finally, some of the WELPAN states began using TANF resources to provide support to working poor families through the tax system. None of these expenditure categories includes administrative costs.

These general categories of spending are not particularly transparent, so we provide some brief definitions. First, there are the big three that account for four-fifths of all spending: *child care*, *cash assistance*, and *family formation and stability*.

Child Care includes direct payments for child care services as well as the costs of developing slots, improving the quality of child care, helping parents find appropriate child care, etc. Much of the increase is attributable to expansion of the population eligible for a subsidy and investments to eliminate waiting lists and improve quality. It is not unusual for families up to 185 percent of the federal poverty line to get some help, as states attempt to decouple child care assistance from receipt of cash welfare.

Cash Assistance consists of traditional income support payments, including payments to vendors for shelter and utility services on behalf of customers. It also includes cash payments to meet short-term economic emergencies.

Family Formation and Stability encompasses a growing number of efforts to help form stronger families, promote a positive environment within the family, invest in the development of children and youth, and address counterproductive behaviors. The list of specific initiatives falling under this label continues to grow: efforts to reduce nonmarital births and teen pregnancies (e.g., Illinois's Teen REACH program); programs to reattach fathers to their children; early childhood investments, including home visits for newborns and good parenting investments; domestic violence prevention and treatment; family preservation services; adoption support programs; adolescent and youth investment programs; intensive family development services (e.g., the Iowa Family Development and Self-Sufficiency program); family planning services; child welfare services (e.g., family foster care, protective day care, adolescent monitoring and tracking, wrap-around services, child abuse prevention help); housing and homeless initiatives (e.g., Minnesota's Bruce Vento Affordable Housing Program); life skills programs; treatment of alcohol and substance abuse; and so forth.

Growing steadily in prominence, though still relatively small, are two other sorts of initiatives: *workforce development* and *low-income tax supports*.

Workforce Development includes a host of expenditures supporting activities designed to prepare recipients for employment, assist them into the labor market, and sustain their attachment to the world of work. This includes all education and training initiatives, work subsidies,

Table 2
Socioeconomic Data

State	Population, in Millions (1999)	Population Growth (1990–99)	Nonwhite Share of Population (1999)	Per Capita Income (1999)	Unemployment Rate (1999)
Illinois	12.1	6.1%	18.9%	$31,278	4.3%
Indiana	5.9	7.2	9.6	26,092	3.0
Iowa	2.9	3.3	3.6	25,727	2.5
Michigan	9.8	6.1	16.6	27,844	3.8
Minnesota	4.8	9.1	7.1	30,622	2.8
Ohio	11.3	3.8	13.0	27,081	4.3
Wisconsin	5.2	7.3	8.1	27,412	3.0

transportation help, labor market attachment assistance, and even short-term job access loans.

Low-Income Tax Supports provide cash assistance through work-based tax payments. The federal Earned Income Tax Credit now dwarfs welfare assistance as a mechanism for distributing income assistance to low-income families. Two of the WELPAN states now use TANF dollars to help finance state EITC programs.

The expenditure patterns across the seven states making up WELPAN exhibit remarkable consistency, considering how diverse the states are in so many ways.

The WELPAN states: Diversity and convergence

The Midwest has been at the forefront of welfare reform since the late 1980s. The seven states of WELPAN have been particularly active. Still, these states represent very different socioeconomic situations (see Table 2). In population, they vary from small, mostly rural states (Iowa) to larger states with significant urban populations (Michigan, Illinois, and Ohio). They vary in rates of population growth, from 3 percent in Iowa to 9 percent in Minnesota, and in the proportion of the population that is nonwhite, from 4 percent in Iowa to 19 percent in Illinois. All had relatively low unemployment rates until the recent downturn, but per capita income varies, from $26,000 (Indiana and Iowa) to over $31,000 (Illinois).

Table 3
TANF Caseload Changes

	January 1994	January 1996	January 2001
Illinois	238,946	233,664	65,132
Indiana	74,169	52,254	39,413
Iowa	39,623	33,559	20,027
Michigan	225,671	180,790	70,468
Minnesota	63,552	58,510	38,087
Ohio	251,037	209,830	86,483
Wisconsin	78,507	65,386	17,012
U.S. Total	5,052,854	4,627,941	2,143,031

The states also vary in civic traditions, political orientation, and systems of social assistance. Some have long-standing reputations for activist social policies, whereas others typically have been more conservative in this arena. Wisconsin has integrated its TANF system with its workforce development system. Michigan and Minnesota have aggressively used TANF benefits to supplement earnings, but Wisconsin counts all earned income in determining cash benefit amounts. Illinois, Indiana, Iowa, and Michigan operate welfare through state employees; Minnesota, Ohio, and Wisconsin rely heavily on county governments.

Despite variation in environments, policy choices, and organizational arrangements, all the member states have seen steep declines in their cash assistance caseloads (see Table 3). In the seven WELPAN states, 834,000 families were receiving cash assistance in January 1996; the number had fallen to 337,000 by January 2001**.** In short, the caseload was more than halved in a little over four years.

Other programs have also been affected by the policy changes ushered in by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, as well as by the vigorous economy. For example, the population of food stamp recipients fell over time (see Table 4), although some evidence suggests that this decline has stopped, even turned around. In Wisconsin, for instance, the food stamp caseload has increased by one-third in the past two years. The reasons, as usual, are probably complex. Some states market food stamps as an earning support program for the working poor. Moreover, the economy has softened. But the fact that the food stamp decline has not been so deep as the decline in cash assistance cases may suggest that there is still considerable need in these states.

Along with declines in caseloads have been declines in aggregate poverty. TANF was never intended as a solution to poverty, yet increases in poverty during this era of reform

Table 4
Food Stamp Receipt (in thousands)

	January 1994	January 1996	January 2001
Illinois	1,189	1,105	779
Indiana	521	390	300
Iowa	196	177	123
Michigan	1,031	935	603
Minnesota	316	295	196
Ohio	1,245	1,045	610
Wisconsin	330	283	193
U.S. Total	27,468	25,542	17,158

would have been a reason for concern. What we see is encouraging: poverty rates in the WELPAN member states are below the national rate (see Table 5) and virtually all states have seen declines since the inception of reform.

Is the reform revolution over?

For some observers, these numbers might suggest that the reform revolution is over, that the need for resources and continued attention is an issue of the past. Both poverty and caseloads, even if crudely measured, are down. But the members of WELPAN believe it would be a great mistake to look at official caseloads and assume that resources can be cut back.

The reform revolution of the past several years has not been directed toward reducing investments in disadvantaged families. Notably, aggregate spending among the seven states increased (see Table 6) from $4.6 to $4.8 billion as caseloads fell by more than half. Rather, it has sought to invest in such families in ways that make better sense to both families and agencies, and that promise to address the fundamental causes of individual and family dysfunction rather than merely remedying immediate income shortfalls.

Table 6
TANF Expenditure Trends (in millions)

	1996	2000
Illinois	1,196	1,031
Indiana	235	330
Iowa	198	227
Michigan	1,076	1,165
Minnesota	450	462
Ohio	1,027	1,071
Wisconsin	413	486
All	$4.6 billion	$4.8 billion

Table 5
Poverty Rates (two-year average)

	1993–1994	1996–1997	1999–2000
Illinois	13.0	11.6	10.8
Indiana	13.0	8.2	7.6
Iowa	10.5	9.6	7.3
Michigan	14.8	10.7	9.9
Minnesota	11.7	9.7	6.6
Ohio	13.6	11.8	11.1
Wisconsin	10.8	8.5	8.9
United States	14.8	13.5	11.5

The TANF spending shifts reflect emerging purposes deemed important by the WELPAN members. Despite wide differences among the member states, they hold a remarkably similar vision of what is fundamental to the future of reform. Simply helping the jobless to get a job is not the end of the story. As a nation, they believe, we must invest in the working poor, with work supports and child care. We must invest in families, since strong families lead to productive workers and productive workers are a precondition to strong families. And we need to invest in the future, to support prevention-oriented initiatives, for there is nothing more important than raising healthy children capable of being involved, productive adults. ■

Strategy and Rules for Comparing TANF/MOE and Related Expenditures across States

WELPAN members discussed in several meetings possible alternative strategies for presenting expenditures that would be comparable across time and across states. The discussion permitted members to develop a sense of how programs and their expenditures might fit into broad categorical divisions. The categories ultimately selected were Cash Payments, Child Care, Family Formation and Stability, Workforce Development, and Low-Income Tax Supports.

The general rules adopted by WELPAN are:

1. The funds to be included for federal fiscal year 2000 are TANF, Maintenance of Effort (MOE) funds, and Child Care. For 1996, they are Title IV-A and Title IV-F of the Social Security act and Child Care.
2. Expenditures are reported in the year they were expended, not the year in which they were awarded or received.
3. All child care funds, regardless of their source (TANF, Child Care and Development Block Grant, Child Care and Development Fund, state funds) are to be included.
4. No administrative costs are to be included.

Understanding Poverty

Edited by Sheldon H. Danziger and Robert H. Haveman

The chapters in this volume were originally presented at a conference held in May 2000 in Madison, Wisconsin. The conference brought together a multidisciplinary group of scholars and policy analysts to review and synthesize what we have learned about poverty in the United States and to debate the crucial issues to be anticipated in the early years of the twenty-first century.

The conference was jointly sponsored by the Institute for Research on Poverty and the Office of Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services. The Annie E. Casey Foundation, the Ford Foundation, the Russell Sage Foundation, and the Charles Stewart Mott Foundation provided additional funding.

Contents

Harvard University Press, 79 Garden Street, Cambridge, MA 02138. 576 pages. April 2002.
Cloth edition: $55.00 / £37.95 / €63.30 (one world price);
paper edition $24.95 / £16.95 / €28.70 (one world price).

Redefining a case in the postreform era: Reconciling caseload with workload

Rebecca Swartz

Rebecca Swartz is a Research Fellow of the Hudson Institute and the Director of the Institute's office in Madison, Wisconsin.

Since passage of the 1996 welfare legislation that created the Temporary Assistance for Needy Families (TANF) block grant, cash welfare cases have dropped 54 percent. Yet spending has remained high in most states. During the upcoming debate on TANF reauthorization, these two seemingly contradictory facts will cause many members of Congress to ask how states are spending their money. Answering this question, however, will be difficult, because the tool most policymakers use to gauge the progress of welfare reform—the cash assistance caseload—does not reflect the workload involved in implementing a successful TANF program.

The workload is not captured in the caseload because states are now providing more intensive services to those on cash assistance and a new, broad range of noncash services to low-income families. Although the federal government collects extensive data on cash assistance cases, it collects very little on the noncash services that have become a major part of most state TANF programs. A comparison of expenditures in seven midwestern states found that the states continued to invest in low-income families but reallocated their funding from cash assistance to a range of other, noncash activities—workforce development, child care, tax transfers, and family stability (see p. 11).

To fully comprehend the outcomes and impacts of TANF, one must first understand the role noncash services play in state programs as well as the change in workload associated with a work-based system. This article examines that changing workload and provides some suggestions for more effectively capturing it in a new vision of caseload. But first it is necessary to understand what data the federal government collects on families receiving services funded through TANF.

Defining a case

In an era of devolution, definitions take on heightened importance. The definition of the welfare caseload, for example, determines the type of data the U.S. Department of Health and Human Services (HHS) collects on the services states provide under the TANF block grant. The level of data, in turn, determines policymakers' ability to understand the various aspects of the TANF block grant. The next few pages examine the definition of caseload in greater detail.

The current definition of the welfare caseload is a holdover from the former welfare entitlement program, Aid to Families with Dependent Children (AFDC). The goal of AFDC, a pure income-transfer program, was to provide cash grants accurately and efficiently; little attention and less funding were devoted to employment preparation and case management. These cash grants were often the ticket to other supportive services such as food stamps and Medicaid, child care and transportation assistance, and education and training. Although families were not always required to receive AFDC first, supportive services were focused on serving those on cash welfare. As a result, the AFDC case count was a good proxy for the number of families receiving a wide range of services.

Life is not so simple under TANF. In fact, TANF is better thought of as a funding stream than as a program. Whereas AFDC funding was provided as a matching grant, in which the federal dollar matched state spending, TANF is a block grant that provides states with a set amount as long as they maintain their own funding for services to needy families at 75–80 percent of their historical spending on AFDC (this is known as "maintenance of effort," MOE).[1] Unlike AFDC, which set strict rules and regulations, states now have wide latitude to fund a range of programs and services within the framework of the four purposes of TANF—(1) providing assistance to families with children, (2) ending dependency on welfare through increased work, (3) reducing out-of-wedlock pregnancies, and (4) encouraging the formation of two-parent families (see p. 3).

The first two purposes of TANF are the most reminiscent of AFDC. Both lay the groundwork for state cash assistance programs focused on work and family stability and both refer to "needy families," a term that is left to states to define but is generally considered to be families with incomes under 200 percent of the federal poverty level. The third and fourth purposes, however, are fairly broad statements giving states extensive latitude to spend TANF funds on a range of services potentially targeted to the broader public.

Despite these wider goals, the federal definition of a TANF case, on which most data reporting requirements are based, is primarily limited to cases receiving cash grants. HHS makes two primary distinctions in determining the official TANF caseload: whether a case receives “assistance” or “nonassistance” and whether the services provided to those cases are funded with TANF funds or with MOE funds through a separate state program.

Assistance families are those that receive benefits to meet their basic needs (i.e., for food, clothing, shelter, utilities, household goods, and general incidental expenses) most often in the form of cash assistance; they also include those that receive supportive services such as transportation and child care while unemployed.[2] Most assistance cases look like AFDC cases did before 1996; they are one-parent, two-parent, and child-only cases who receive a continuing monthly cash grant.

Assistance cases funded with the TANF block grant are subject to federal eligibility restrictions, time limits, work and participation requirements, child support assignment requirements, and TANF data collection requirements. As under AFDC, states must report disaggregated data on a quarterly basis for each case, adult, and child receiving TANF-funded assistance, as well as for each case, adult, and child transitioning off or applying for such assistance.

In most instances, states must also report disaggregated data on assistance cases funded with state MOE funds. States can use MOE funds in three different ways: commingled with federal TANF funds, segregated, or in a separate state program entirely. Commingled funds have the same eligibility, work, and data reporting requirements as pure TANF funds. Segregated funds allow states to exempt portions of their assistance cases from TANF requirements. In October 1999, 15 states were providing assistance to some families with segregated state funds.[3] Assistance cases funded with both commingled and segregated funds are included in the TANF assistance caseload and work participation rate calculation, and are subject to TANF data reporting requirements.

States may set up separate state programs (SSP) to avoid TANF eligibility and participation requirements such as the high work participation rates for two-parent families. States with SSPs have two data reporting options. Under option one, the state can choose to provide disaggregated data similar to the data provided for TANF assistance cases, but in a separate caseload report. All of the 23 states with SSPs have chosen this option because providing such data qualifies the state for federal TANF performance bonuses and caseload reduction credits. The second option allows states to provide only the limited aggregate data required of all services provided with MOE funds.

HHS requires states to report some information on *all* services provided with MOE funds, both assistance and nonassistance. The catchall phrase for any service that does not fall into the assistance category is “nonassistance,” an unfortunate term which implies that services not provided as cash do not assist the families receiving them. For this reason, I use the term “noncash” services. Such services can range from child care subsidies for working families to postemployment case management to home visiting for first-time parents to a billboard campaign to reduce teenage pregnancy.

The MOE data provided by states are very basic. States must provide total expenditures, the total amount of MOE claimed, and the estimated total number of families served; no disaggregated data are required. No such caseload data, however, are currently collected for noncash services provided under the TANF block grant; for these, the federal government requires only fiscal data. These TANF funds are likely to provide the bulk of funding for the third and fourth TANF purposes, those relating to out-of-wedlock pregnancy and two-parent families, because MOE funds are restricted to families and individuals who are financially needy.

To better understand the complexities of these data, the box on pp. 18–19 examines caseload counts in three states—Florida, Minnesota, and Wisconsin.

The caseload doesn’t match the workload

Although the definition of caseload has not changed much since the implementation of TANF, state practices have changed considerably. States are providing more intensive services to those on cash assistance and are providing a range of noncash services to low-income families. This section explores these new developments by drawing on the experiences in Florida, Minnesota, and Wisconsin.

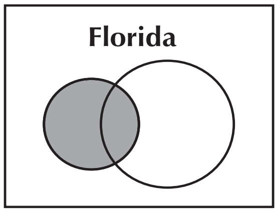
Intensive services to those on cash assistance

Although the cash assistance caseload has declined 54 percent since 1996, there has been no corresponding decline in the workload of state welfare agencies because TANF has changed the way states address their cash cases. Under AFDC, successful states had very low administrative costs, for two reasons. First, processing applications was efficient, because the process was based almost exclusively on financial criteria and because applications for multiple programs, such as food stamps and Medicaid, could be taken at one time. Second, clients, once eligible, had minimal contact with their caseworkers apart from the six-month eligibility review. Under TANF, caseworkers play a widely expanded role with increased authority and significant discretion. With these new duties comes more work. The workload is higher than under AFDC for three main reasons: work requirements, earned income, and churning.

Work requirements. Roughly half of all AFDC clients nationwide were exempt from that program’s work component, the Jobs Opportunity and Basic Skills Training

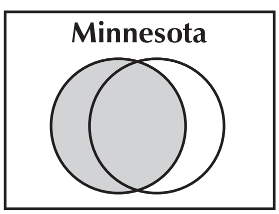
A Comparison of Three States

To better understand the consequences of the current definition of caseload, we examine the caseloads in three states, Florida, Minnesota, and Wisconsin. From 1996 to 2001, while the national caseload declined 54 percent, the cash welfare caseloads in Florida and Wisconsin declined by almost 75 percent, and in Minnesota by a more modest 35 percent. Yet the official TANF caseload can differ from the states' own definition of their caseload, as is especially true in Wisconsin. In addition, all three states spend significant funding on nonassistance services that are generally not captured in any official caseload. To illustrate this, the diagrams in this box depict state spending on "assistance" in black, on "nonassistance" in white, and the estimated overlap in caseloads in gray.



Florida is a low-benefit state ($303 for a family of three) with a work-first philosophy, a 48-month lifetime limit, and 24- or 36-consecutive-month time limits in some circumstances. Families thus leave assistance relatively quickly, despite the state's generous earned income disregard of the first $200 of earned income and 50 percent of the remainder. The Work and Gain Economic Self-Sufficiency (WAGES) program is the principal TANF assistance program. The state uses primarily commingled MOE funds to cover the costs of cash assistance so that it can reserve the more flexible TANF funds to cover its noncash services. Cash assistance, however, takes up only 35 percent of the state's overall spending. The rest is focused on noncash services like child care, work activities, support services, and expanded services to families. State officials estimate that few of the families receiving noncash services are also receiving cash assistance.

The HHS TANF assistance caseload for Florida in June 2001 (56,079) differs from the state's assistance caseload numbers (57,169) in three main ways. First, Florida has continued to fund portions of its foster care and adoption assistance programs with TANF as it did with AFDC, and these cases are counted in the TANF assistance cases even though they are not part of the WAGES program. Second, the TANF caseload also includes a small number of child-care-only cases in which the parent is not working. Third, Florida has a separate state program for its two-parent families receiving assistance. This last group accounts for about 2,200 cases.



Minnesota is a high-benefit state ($532 for a family of three). The goal of the Minnesota Family Investment Program (MFIP), the state's principal TANF assistance program, is to move families off welfare and out of poverty. MFIP allows families to continue receiving benefits until their income reaches 120 percent of poverty. Because of generous earned income disregards, families in Minnesota stay on cash assistance longer than similar families in other states. Minnesota dedicates about 50 percent of TANF and MOE funding for assistance cases and state officials estimate that most of the families receiving "nonassistance" services are also receiving cash assistance. Minnesota's few noncash separate state programs are generally small in scope and serve relatively few families.

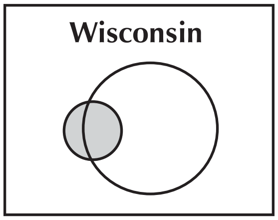
Program (JOBS). Moreover, many nonexempt clients were ultimately not required to participate because there was not enough funding. As a result, just 16 percent of the AFDC caseload participated in JOBS in 1995.[4]

By 2000, the number of TANF cases participating in work and training activities had increased to 42 percent. The increase is due in part to the 60-month time limit and the work participation rate requirements, which are tied to receipt of TANF block grants and rise incrementally over time.[5] In addition, TANF's funding and flexibility allows states to provide the more intensive services and case management that goes with increased work requirements.

Wisconsin's work and participation rate of 87 percent is more than twice the national average, in large part because Wisconsin subscribes to the philosophy of full engagement. The first ingredient of full engagement is working with *all* families receiving cash assistance. Whereas the JOBS program allowed states to "skim the cream" by working with the most employable AFDC recipients, Wisconsin exempts only parents caring for a child under 12 weeks of age from participating in appropriate activities. "Engagement," the second ingredient, requires local agencies to work closely with W-2 participants and their families to identify and attempt to resolve issues preventing the parent from gaining and maintaining employment. As such, the caseworker-to-participant ratio has declined from 350 cash cases (under AFDC) to not more than 55, and caseworkers who work with especially challenged participants have even fewer cases.

Earned income. AFDC allowed recipients to combine work with cash assistance by "disregarding" or not counting a portion of monthly earned income when determining the family's welfare check. Although it is more difficult to calculate disregards when earnings fluc-

The HHS TANF assistance caseload for Minnesota in June 2001 (39,236) differs more from the state's assistance caseload numbers (42,000) than does Florida's. Minnesota currently has three rather small separate state programs for assistance cases—some minor teen parents, caretakers over age 60, and certain categories of legal immigrants. As of October 2001, Minnesota has a separate state program for its two-parent families, which account for about 5,500 cases in the state. Although by state law child-only assistance cases (roughly 8,400 cases) are not part of the MFIP program, state officials generally include these cases in the MFIP caseload counts when talking to the media.



Wisconsin is also a high-benefit state, but its policies are more closely aligned with Florida's than with Minnesota's. The Wisconsin Works (W-2) program is the state's principal TANF assistance program. W-2 has strong work requirements with few exemptions, and provides flat grants (either $673 or $628 depending on the individual's placement). Relatively few families (roughly 260 in 2001) combine work with their welfare benefit. Instead, the state provides a range of supportive services to help make work pay. Wisconsin dedicates just 13 percent of its total funding to cash assistance. The vast majority of families receiving noncash services do not also receive cash assistance.

The HHS TANF assistance caseload for Wisconsin in June 2001 (18,107) differs significantly from the state's assistance caseload numbers (11,426). Wisconsin provides cash assistance through a separate state program to two small subgroups: cases headed by an individual applying for Supplemental Security Income (SSI) and qualified legal immigrant noncitizens. The official state W-2 caseload figures include these two subgroups, and others that do not fit the federal definition of assistance. The two largest of these are families receiving W-2 case management only (3,922) and parents caring for a newborn, who receive only short-term assistance (1,099).

Whereas these cases are included in the state's caseload figures, the 11,672 child-only cases are not. Wisconsin created two new programs to serve the former child-only AFDC cases that did not fit into the W-2 work philosophy. The Caretaker-Supplement program serves children whose parent(s) receive SSI and the Kinship Care program serves children living with non-legally-responsible relatives such as a grandmother or aunt.

Source: These data come from U.S. Department of Health and Human Services, Administration for Children and Families, *Fiscal Year 2000 Annual Report to Congress on the Temporary Assistance for Needy Families Program*, Washington, DC, Table F.

tuate than to provide a standard grant to all recipients, only 10 percent of the women on AFDC were working in 1995. The work rate under TANF is significantly higher—28 percent of all cash assistance recipients.[6] Moreover, with the exception of Wisconsin, all states currently have earned income disregards, most of which are more generous than the AFDC disregards.

Minnesota, for example, has a large earned income disregard. The state combines the cash grant with the family's Food Stamp benefits and families continue to receive at least part of their combined grant until their income reaches 120 percent of the federal poverty level. Roughly 35 percent of the caseload in Minnesota is working and can therefore take advantage of this disregard policy. For these families, the caseworker must collect earnings data on a regular basis to determine the benefit amount; this has substantially increased the agency workload.

Short stays and churning. With the traditional cash caseload, most of the workload is associated with entries and exits from assistance. For each entry, the caseworker must determine eligibility, which requires extensive checks using both financial and nonfinancial criteria. Under AFDC, women's episodes of assistance were relatively long, averaging 24 months, although families did cycle on and off assistance (roughly 45 percent of former recipients returned to AFDC within one year of leaving).[7]

With the introduction under TANF of time limits, work requirements, and more supportive services for working families, the average length of stay is shrinking as cycling continues, although at a slower pace than under AFDC.[8] Some feel that the continuation of cycling, or churning, indicates failure, but others argue that it may be a necessary part of a longer-term process as parents gain progressively more experience in the workforce and use TANF the way it was intended, as a temporary source of income when a crisis arises. Regardless of one's opinion on churning, these entries and exits from assistance increase the agency workload. Yet this workload is not captured in a point-in-time cash case count.

In Florida, for example (Table 1), the "caseload decline" of 126,000 families from 1996 to 2001 gives a wholly misleading picture. During that five-year period, over 400,000 families actually left assistance, because almost 300,000 families were briefly on welfare and hence were part of the caseload. The most common length of stay in Florida is just one month. Therefore, in any given month,

Table 1
Florida Welfare Reform Mathematics

	Adults
October 1996	150,533
Added after October 1996	+291,216
Left cash assistance before June 2001	-417,648
Remaining as of June 2001	24,101
Unduplicated count	*441,749*

Source: Florida Department of Children and Families.

one-third of cases opens, one-third closes, and one-third continues to receive assistance. Florida may be an extreme example, but it does demonstrate how misleading point-in-time case counts can be.

Noncash services

Since the implementation of TANF, state spending on cash assistance has declined while state spending on noncash services has increased. These noncash services range from work supports targeted to welfare leavers to broad-based prevention efforts. But very little is known about this large portion of state spending because federal data reporting requirements are focused almost exclusively on cash cases.

Work supports. Many states have invested heavily in supports for low-income working families. Such TANF-funded supports can include child care, postemployment education and training, job coaching, general case management, transportation assistance, and housing assistance. AFDC provided some of these same supports, but they were usually tied to receiving cash assistance. Eligible families were either on welfare, transitioning off welfare, or at risk of needing welfare. The link to welfare cash assistance is not necessary under TANF. Instead, states have the ability to set different eligibility criteria for different programs and services.

In some states, the families receiving supportive services continue to be the same families receiving cash assistance, whereas other states target supportive services to families outside the cash caseload. Minnesota and Wisconsin provide two such divergent examples. Although Minnesota dedicates 50 percent of its TANF spending to services other than cash, the majority of families receiving those services are also receiving cash, according to state officials.

In contrast, Wisconsin funds a host of overlapping employment services designed to help different groups of the low-income population, most of whom are working and only a fraction of whom are receiving cash assistance. Wisconsin has tried to make these supportive services more attractive to working parents by taking steps to disassociate them from the cash assistance program. For example, the state's child care program is called Wisconsin Shares, not W-2 child care, and the state's health insurance program for working families is called BadgerCare.

Beyond work supports. In addition to traditional work supports, states fund a range of activities with their TANF and MOE allocations. Unlike AFDC, which required extensive means testing for all its services, TANF allows states to provide services to families with incomes below 200 percent of poverty and beyond. In fact, the third and fourth purposes of TANF—reducing out-of-wedlock pregnancies and encouraging the formation of two-parent families—are not restricted to needy families.

Some activities have a specific client base, for example, a substance abuse treatment program. Other activities do not. A billboard campaign to reduce teen pregnancy may be a very effective way of getting a message out, for example, but it is impossible to count the number of teens who see the billboard. TANF funding is also used in concert with other funding sources to expand existing programs to new groups of clients. With multiple funding streams, it can be difficult to determine where to count the clients served.

In Florida, as in Wisconsin, the majority of funding is spent on noncash services. Florida's services that go beyond work supports include programs for families at risk of abuse and neglect, home visits for newborn children, services for parents at risk of substance abuse or mental illness, and support for domestic violence shelters. Some, but not all, of the families receiving these services also participate in Florida's work-first program. Because Florida uses the TANF block grant rather than MOE funds to pay for most of these services, the state does not have to provide data on the noncash cases served.

Redefining "caseload"

Given the new workload associated with TANF, the tool by which we measure the program's success—the cash assistance caseload—is incomplete. An overhaul of the definition of caseload has been slow to start for at least four reasons. First, the cash caseload is easy to count; states collect extensive data for eligibility determination. Second, the public already understands the definition of cash caseload, since it is a holdover from AFDC. Third, continuing AFDC's definition of caseload makes historical comparisons possible. Fourth, coming up with a new definition of caseload is hard.

Redefining caseload to describe the full workload is difficult in part because not all the state workload can be captured in a case count. The time caseworkers dedicate to their cash cases and the changes in culture taking place in welfare offices across the country are not easily quantified.

Many of the work supports and other noncash services can be captured in a caseload count. The challenge here, however, is determining how to get enough information, particularly for short-term services, without becoming overintrusive or creating an undue burden on states and their subcontractors. Many of the noncash services are provided by small community-based groups, like domestic violence shelters, or by faith-based organizations, agencies that may lack the size or skill to undertake extensive data reporting. The most important consideration, though, is that low-income families are not overburdened by information requirements that discourage those in need from using the available services.

Extending the current data requirement for MOE spending to TANF seems like a reasonable start to redefining the caseload. Although some of these families would be duplicated with the assistance caseload, estimates of the number of families served would be a useful first step toward understanding the new workload. In the future, unduplicated counts may be available for ongoing work supports such as child care, postemployment education and training, and general case management. States are likely to keep data on these services already, especially child care. For noncash services without strict financial eligibility, such as a community literacy program, aggregate information about the number of families served may be enough. In fact, HHS could attach different data reporting requirements to different types of cases.

The first step in redefining caseload is eliminating the term "nonassistance." In many states, nonassistance covers services essential to keeping parents in the workforce yet, as already implied, it is hard to rally support for an increase in "nonassistance." Dividing services into cash assistance and noncash services seems more appropriate.

Conclusion

In part because researchers, both in government and out, have held tight to the old definition of a "case" despite the expanded the scope of welfare created by TANF in 1996, we are missing the larger story of the 1996 welfare reform legislation.

One of the most powerful lessons of welfare reform is the importance of signals. Continuing to judge the success of a broad program by a small sliver of those served signals that the expanded role states have embraced is unimportant. It also sends a potentially dangerous message to those holding the purse strings—that the decline in cash assistance cases means a decline in workload, and therefore a decline in funding needs. After six years, it is time to stop referencing TANF as the program that replaced AFDC and start referring to AFDC as the program prior to TANF. ■

---

[1]To receive federal block grant funds, states are required to maintain funding for qualified program expenditures at a level equivalent to at least 80 percent of the state share of AFDC expenditures in federal Fiscal Year 1994. If the state meets the work participation rate requirements, the MOE requirement drops to 75 percent. In the first four years of operation, all states met their MOE requirements.

[2]Financial help is not considered assistance if it lasts for less than four months; is received in the form of a work subsidy to the employer; is a refundable earned income tax credit; or is an Individual Development Account.

[3]Illinois, for example, uses segregated state funds to "stop the clock" for working parents receiving cash assistance. Under this policy, single-parent TANF families working 30 hours per week and two-parent families working 35 hours per week receive a cash grant without losing a month of TANF eligibility on their 60-month federal lifetime limit. See State Policy Documentation Project World Wide Web site at http://www.spdp.org/tanf/separate_state_programs/ssp_findings.htm October 19, 2001.

[4]S. Bell and T. Douglas, *Making Sure of Where We Started: State Employment and Training Systems for Welfare Recipients on the Eve of Federal Reform,* Occasional Paper 37, Urban Institute, Washington, DC, April 2000.

[5]U.S. Department of Health and Human Services, *Fiscal Year 2000 Annual Report to Congress on the Temporary Assistance for Needy Families Program*, Administration for Children and Families, Washington, DC.

[6]U.S. Department of Health and Human Services, *Fiscal Year 1996 Annual Report to Congress on the Aid to Families with Dependent Children Program*, Administration for Children and Families, Washington, DC. < http://www.acf.dhhs.gov/programs/ofa/cfc_fy96.htm >; *Fiscal Year 2000 Annual Report*.

[7]U.S. House of Representatives, Committee on Ways and Means, *2000 Green Book*, Washington, DC, p. 448.

[8]The rate of TANF cash assistance cycling varies by state. According to an HHS report which looked at survey data from only four states, the proportion that ever returned for at least one month over the first 12 months after exit ranged from 23 to 35 percent; J. Isaacs and M. Lyon, "Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leavers Studies," Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services, Washington, DC, November 6, 2000. An Urban Institute report found that 21.9 percent of those who left welfare between 1997 and 1999 returned, as did 29.1 percent of those who left welfare between 1995 and 1997; P. Loprest, *How Are Families That Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers*, New Federalism: National Survey of America's Families, Report B-36, Urban Institute, Washington, DC, 2001.

Welfare reform and recession: Can the states handle both?

Howard Chernick and Andrew Reschovsky

Howard Chernick is Professor of Economics, Hunter College and the Graduate Center, City University of New York, and Andrew Reschovsky is Professor of Agricultural and Applied Economics and Public Affairs at the University of Wisconsin–Madison. Both are IRP affiliates.

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 marked a fundamental change in the role state governments play in the financial support of their low-income residents. Under the old welfare system, Aid to Families with Dependent Children (AFDC), all families meeting certain eligibility criteria were *entitled* to cash payments that were jointly financed by the states and the federal governments through a system of matching grants. Thus a portion of every dollar that a state government paid to a low-income family came directly from the federal government. The new welfare system, Temporary Assistance for Needy Families (TANF), ended federal entitlement to welfare payments, shifted the responsibility for ensuring the well-being of low-income families to state governments, and limited the role of the federal government to providing each state with a fixed amount of money in the form of a block grant and imposing certain restrictions on eligibility for cash transfers.

The dramatic reduction in state public assistance caseloads since their peak in 1994 (nationally, by 57 percent) reflects both a strong economy and changes in incentives and state policies.[1] Because the amount of each state's TANF block grant allocation has remained largely unchanged since 1996, the falling caseloads have freed up funds for other programs, some designed to assist low-income families, such as child care, housing assistance, and job training, and others less targeted to the needy.

But in much the same way as the federal budgetary situation has shifted very rapidly from large surpluses to projected deficits, state governments' fiscal outlooks have also changed dramatically for the worse during 2001. Revenue collections are lower that anticipated in 44 states.[2] Unlike the federal government, state governments are required to operate with balanced budgets. The slowing economy throughout 2001 and especially since September 11 has forced nearly all states to reduce their revenue forecasts and to begin considering steps to prevent budget deficits during the current fiscal year.

This article addresses two questions. First, in periods of recession or slow economic growth, will state governments be *able* to meet the needs of their low-income residents for public assistance? Recessions lead to job losses and make it increasingly difficult for those without jobs, especially those with little experience and education, to find new jobs. Thus, a slowing economy not only reduces state tax revenue, but also increases the need for fiscal assistance for low-income state residents.

Second, will states be *willing* to devote adequate resources to programs that provide either cash assistance or social services to their needy populations? In periods of fiscal stress, can we predict whether state governments will place a high priority on preventing holes in their "social safety nets" or will choose instead to satisfy other claims on state resources?

The economic slowdown and state fiscal health

Predicting the impact of recessions on state tax revenues is notoriously difficult. Simple rules which suggest that tax revenues are more sensitive to economic performance in states that rely more heavily on personal and corporate income taxes than on sales and excise taxes often lead to incorrect predictions. In a state that excludes most necessities from its sales tax base, the sales tax may be highly sensitive to economic fluctuations, whereas in a state with a flat-rate income tax that excludes capital gains, income tax revenue may be fairly stable during an economic downturn.

Predicting the magnitude of budget deficits in individual states is also complicated by factors affecting single states or regions of the country. Despite the promise of substantial amounts of federal aid, New York State's fiscal situation will be deeply affected by the terrorist attacks on the World Trade Center. California may face a budget deficit of nearly $10 billion next year if agreement cannot be reached on the long-run financing of energy purchases during the state's electrical energy crisis.

In past recessions we have observed a great deal of variation in the fiscal responses of state governments.[3] In general, state governments tend to respond to mild economic slowdowns by cutting state government spending; currently, political leaders in many states are pointing to spending cuts, not tax increases, as a solution.[4] Only when revenue declines become more severe do states consider tax increases.

Two important factors in predicting whether the current economic slowdown will result in cuts in spending on social welfare programs are the existence of state "rainy day" or stabilization funds, and substantial balances of unobligated TANF funds.

Rainy day funds

Although 45 states have budget stabilization funds, for over three-quarters of the states these funds would be inadequate to prevent significant cuts in state programs or substantial tax increases if the United States were to face a recession like the mild recession of the early 1990s.[5]

The aggregate amount of money in state budget stabilization funds declined from $28.8 billion in fiscal year (FY) 2000 to $22.6 billion in FY 2002. This amount is only about 3 percent of the $750 billion in revenue that states are estimated to raise in FY 2002.[6] In FY 2001, the average stabilization fund per capita was $95, but there were large differences across the states; 7 states had fund balances under $2 per capita and 13 states had balances that exceeded $100 per capita.[7]

Unobligated TANF funds

The 1996 welfare reform legislation included a provision that the unspent portion of each state's annual TANF allocation would be held by the federal government in a special fund that each state could access in future years. One way in which state governments can ensure that they have more TANF funds to spend if an economic downturn significantly increases the need is to treat unspent TANF funds as a "rainy day" fund; the actual funds remain with the federal treasury until they are needed. At the end of the first half of federal FY 2001, there were $8.3 billion dollars of unspent TANF funds for all 50 states plus the District of Columbia, equal to 11 percent of total TANF grants from the beginning of the program, and 48 percent of the FY 2001 TANF allocation.[8]

One measure of the ability of states to continue to provide fiscal assistance and services to their low-income populations in an economic downturn is the sum of their general purpose budget stabilization fund and their unspent TANF balances. On the whole, states with large unspent TANF balances also tend to have large stabilization fund balances. In fiscal year 2001, the per capita value of the sum of the two funds ranged from $2.40 in Oregon to $279 in Massachusetts.[9] Among the seven states with the largest number of TANF recipients (55 percent of the nationwide total), Texas and Illinois have total per capita balances in the two funds of under $20, New York has a below-average balance of $104, and California, Ohio, Pennsylvania, and Michigan have above-average per capita balances.

Will demand for assistance rise?

There seems little doubt that a recession will limit the employment opportunities available to recent welfare recipients, although we do not know how much employment will decline.[10] The fiscal impact of rising unemployment rates and falling incomes depends in part on how many newly unemployed workers will qualify for unemployment insurance (UI), and the extent to which unemployment benefits replace lost wages.

During past recessions, insufficient work experience, low levels of earnings, and unavailability for full-time work because of family responsibilities disqualified most low-income workers from eligibility for UI. During the next (or current) recession, eligibility for UI among low-income workers should be higher than in the past, but it appears unlikely that more than 40 percent of all unemployed former welfare recipients will receive unemployment compensation.[11] Moreover, the UI replacement rate for lost wages is now quite low, averaging only 33.1 percent in 1999.[12]

TANF funds have been used by many states for child care, child welfare services, job training, health care, transportation, and housing for the working poor. Although estimates are hard to make, it is likely that the financial costs of serving the existing population of eligibles will rise unless these programs are eliminated or curtailed, because lower incomes will increase the required state contribution. The overall fiscal effect, however, also depends on the change in the number of individuals eligible for noncash assistance. For example, if eligibility for subsidized child care is linked to employment, the loss of jobs may actually reduce eligibility and demand for child care.

How are state governments likely to respond to these increased demands?

State government fiscal responses to increased needs

One of the major advantages of the pre-1996 system of matching grants for AFDC was that federal payments to the states automatically increased if more people became eligible for cash assistance. Matching grants also reduced the *tax price* of welfare spending relative to other forms of state spending. Thus one dollar of increased spending on a state university generally cost state taxpayers a full dollar, whereas one dollar of increased spending on welfare cost less than one dollar of state tax revenues.

The conversion of federal spending on cash assistance into block grants requires that state governments bear a much greater share of the incremental costs of maintaining an economic and social safety net for their citizens.

State governments must now bear 100 percent of the additional costs of running the TANF program in a recession, although the federal government continues to finance 100 percent of the cost of the Food Stamp Program and partially finances health care and housing assistance to the needy.

How state governments respond to this changed fiscal environment depends on the severity of any recession and the extent to which program eligibility increases. Typically, the full effects of an increase in the unemployment rate do not show up in welfare caseloads until at least two years after an initial increase in unemployment. Hence, the duration of any recession is crucial to estimating the increased spending needs of states.

Estimates in two studies suggest that a one-point increase in the unemployment rate would increase TANF caseloads by 4 to 6 percent. Another study finds that three years into a downturn marked by a rise of 1 percent in the unemployment rate, annual welfare expenditures would have increased by 4.75 percent.[13] The similarity of the caseload and expenditure estimates suggests that, by and large, in past recessions states have not chosen to respond to higher caseloads by reducing benefit levels. In other words, state welfare spending is countercyclical, rising during recessions.[14]

There is, however, considerable variation across states. For example, in the last recession, both California and Michigan cut their benefit levels substantially. California had a big caseload increase (37 percent) whereas Michigan's caseload was largely unchanged. New York and Texas mirrored the national trend, in that both had big caseload increases, but did not change their benefit levels. The change in a state's caseload is not solely a function of a state's economy, but also depends on politics. States with Democratic governors have significantly higher caseloads than states with Republican governors, suggesting that in a downturn some states may erect higher barriers to qualifying for assistance than other states do.[15]

Previous estimates of the unemployment-caseload linkage suggest that it would take a substantial and prolonged recession to raise public assistance costs substantially. A sustained increase in unemployment of 2 percentage points would lead to an 8–12 percent increase in annual TANF-related state social welfare expenditures (about $1 billion per year, at current levels) and a 7.8 percent increase in Medicaid enrollment (about $2.3 billion per year in state Medicaid expenditures).[16]

The unemployment rate rose from a low of 3.9 percent in October 2000 to 5.7 percent in November 2001. Given the size of the TANF surplus, these estimates suggest that even if the unemployment rate were to rise to 6.5 percent, or perhaps even as high as 7.5 percent, and remain at that level for three years, the extra costs of providing cash and Medicaid benefits may not overwhelm state treasuries, at least in states with large rainy day and unspent TANF balances.

The TANF legislation established a special contingency fund of $2 billion, to be allocated to states in dire economic circumstances. This expired in September 2001, but its usefulness is unclear, because the rules for the contingency fund required that to qualify for payments, a state's welfare spending must equal 100 percent of its 1994 levels. If the contingency fund were to be reauthorized under the same rules, states would have to increase their outlays on TANF-eligible families by close to one-third to receive money from it. But many states are currently spending at or close to the minimum level mandated by the federal regulation which requires them to maintain a level of spending on social welfare that is at least 75 percent of pre-TANF expenditures (this is known as the maintenance of effort [MOE] provision). Thus to gain access to the TANF contingency fund, which would only be available on a matching basis, states would actually have to spend over 100 percent of their MOE level.

Uncertainty in estimates

There is much more uncertainty than in the past about the increase in fiscal needs which might attend the next recession. The small estimated effects of the unemployment rate on caseloads imply that the robust economy can explain only a small portion of the rapid decline in caseloads from 1996 to the present.[17] If state policies have played an important role in the decline, then one unknown is the extent to which states will reverse their policies, and admit or readmit to the TANF caseload families that might have been diverted or removed in the late 1990s. A second unknown is the level of support states will choose to offer those recipients who have exhausted their TANF eligibility but still need assistance. Furthermore, the flexibility of the block grant and the caseload decline have allowed states to reallocate funds from direct cash assistance to social services. It may prove politically difficult to reduce these social service expenditures in order to free up funds to finance cash assistance for newly eligible recipients.

Changes in Medicaid costs are also more uncertain than in the past. Medicaid enrollment has declined, but total spending has been growing rapidly because of rising medical costs, putting additional fiscal pressure on states.[18] Given that states are more likely to trade off expenditures within the social service budget than between social services and other state spending, rising Medicaid outlays could have a significant crowd-out effect on cash assistance.[19]

The potential increase in Medicaid caseloads depends not only on the economy, but also on current participation in Medicaid, which declined after PRWORA decoupled eligibility for cash assistance and Medicaid. If an increase in welfare receipt brings with it an increase in Medicaid participation, than the growth in overall state Medicaid costs is likely to be greater than previously estimated.[20]

State fiscal incentives

Under AFDC, the state share of the total cost of assistance varied from 13 to 50 percent; in the average state it was 40 percent. With the enactment of TANF and the replacement of matching aid with a block grant, this cost (call it the "marginal price of assistance") increased from an average of 40 cents to a full dollar.

What effect will this increase in the marginal price of cash assistance have on state willingness to provide benefits to those newly eligible? Economic theory predicts that a block grant of equal magnitude to the grant that a state receives under a matching regime should lead the state to reduce spending on cash assistance. The size of the cuts has, however, been the subject of some debate. The latest studies suggest that states will be unwilling to cut benefits very much, even if faced with a substantial increase in caseloads. But we would also expect that any benefit cut that does occur is most likely to happen during a recession, when fiscal pressures are heightened.[21]

Another way of examining this issue is to consider the per capita cost to a state of raising benefits by one dollar for all welfare recipients; we might call this the "marginal cost of benefits." Our estimates suggest that in 1996 an increase of $100 in the cash benefit for each welfare recipient would have required, on average, a $3.07 per capita increase in state welfare funding. But after 1996, the marginal cost of increasing welfare benefits by $100 per recipient rose by $1.84 per capita, a 60 percent increase.[22]

The increase in the marginal cost of welfare benefits leads one to expect that state governments would respond by reducing benefit levels. In fact, between 1996 and 2000, 20 states increased and 3 states decreased their maximum TANF benefit levels; in the remaining states, benefit levels remained unchanged.[23] Thus, although the value of benefits in many states has been eroded by inflation, the sharp drop in benefit levels (known as the "race to the bottom") that some predicted has not occurred. However, the real test of whether states will resist the incentive to lower benefit levels will come if and when there is a significant increase in welfare caseloads.

Maintenance of Effort (MOE) requirements

The federal MOE requirements are but one example of the many and complicated incentives built into the TANF law. If states fail to meet these requirements, they lose TANF funds dollar-for-dollar, and must make up for the spending deficit by the next fiscal year. If state spending is increasing over time because of rising population and income, then the MOE becomes a smaller and smaller percentage of what states would have spent anyway, and it has a diminishing effect on state budgeting decisions.

Because of the sharp and continuous drop in caseloads from 1996 to 2001, however, the MOE requirement has become increasingly important. If states had kept their benefit levels per recipient the same as they were from 1992 to 1994, and paid the same share of benefits as they did under the AFDC matching rate regime, they would now be spending only 38 percent of what they spent in 1994—at least 37 percent below the MOE requirement.

How have states responded to this increasingly tight constraint on their fiscal decisions? An initial response was to spend state dollars first, "banking" unused TANF funds for future spending without penalty. This, coupled with the uncertainty over what actually constituted allowed TANF expenditures, explains why initially many states built up large TANF balances. The latest data indicate that most states are now fully obligating their annual TANF allocation, and that a few states have begun to draw down past balances.[24]

In FY 2000, 22 states spent just enough to satisfy the MOE requirement, and many other states were only a few percentage points above.[25] Since states determine TANF eligibility through their choice of the need and payment standards, state policy actually helps to determine whether state spending can count toward the MOE requirement. If states tighten their TANF eligibility standards too severely, causing the caseload to decline very rapidly, then they must put more and more funds into social services to meet the MOE requirement.

The MOE requirement was included to limit the opportunity for fiscal substitution by the states. Substitution could happen in a couple of ways. If states were to cut their benefit levels, or not raise them as fast as they would have under the matching grant, federal funds would gradually wind up providing a higher share of total cash assistance than under the AFDC program. States could also use TANF funds for other social services and allow their own contributions to these services to erode.

New York state provides an example of both kinds of fiscal substitution. In fiscal year 1998, the state used $200 million of TANF funds to replace state funds for cash assistance.[26] New York also chose to put a portion of its TANF funds into child care and the state Earned Income Tax Credit, and at least some of these funds probably substituted for the state's own spending on these programs.

It is clear that states have reallocated substantial amounts of funds from cash assistance to services to recipients and the working poor. This shift clearly reflects the general reorientation of the welfare system toward work, and the provision of services to support work, as well as the constraints of the MOE requirements. In some states, the allocation of surplus block grant funds from cash to services has become part of the baseline of funding for these services. In general, states have become quite dependent on the TANF surplus to fund the increase in social services.

Should the surplus diminish as caseloads increase, states will face an unpleasant fiscal choice between cash assistance and social services. States that have allocated substantial portions of their own funds to social services for TANF-eligible recipients may find it difficult to withdraw those funds in order to provide cash benefits to newly eligible TANF recipients.

Conclusions and recommendations for reauthorization

In this article, we have explored the question of whether state governments, when facing an economic slowdown, will be willing and able to meet the rising needs of their low-income residents for cash public assistance and for various social services. It is difficult to predict the magnitude of the increase in costs that states will face in order to maintain services for their low-income populations. In large part, predictions depend on answers to four questions:

- What impact will an economic slowdown have on the unemployment rate of low-income, low-skill workers—will a large number of former welfare clients face unemployment?
- What proportion of the newly unemployed workers will be covered by unemployment compensation, for how long, and what share of their after-tax wages will be covered?
- By how much will rising unemployment and falling incomes increase Medicaid eligibility and state government costs?
- To what extent will falling incomes lead to increases in state government costs for subsidized social services, such as child care?

Our tentative conclusion is that, on average, states should be able to weather the expected decline in state tax revenues and increases in costs without having substantially to reduce the access of their low-income residents to public assistance. This conclusion is based in part on the existence in many states of relatively large balances of unspent TANF funds, and in some cases, general-purpose rainy day funds. We emphasize, however, that the effects of an economic recession will vary substantially across states. Some states have small rainy day fund balances and are likely to face large increases in the demand for cash assistance and social services.

There is certainly no guarantee that even states in relatively strong fiscal health will choose to meet the rising demands of their low-income populations. The behavior of states during recessions in the 1980s and early 1990s provides little help in predicting how states will behave in future recessions, because the 1996 welfare reform has so fundamentally changed the "rules of the game." Likewise, the welfare-related decisions states have made since 1996 provide us with limited information about how they will behave during a recession. The combination of a fixed block grant, a very strong economy, large drops in welfare caseloads, and quite stringent MOE provisions made it possible for most states to expand programs directed toward their low-income populations, but they may not choose to maintain existing levels of fiscal support in the absence of rapid economic growth.

In light of our discussion, we offer the following suggestions to be considered in the reauthorization debate.

Capacity to build TANF rainy day balances

The interaction of four unrelated events has created a large, unanticipated fiscal cushion of unspent TANF balances that should forestall large cuts in public assistance to the neediest state residents:

- To gain sufficient political support for the passage of PRWORA, the block grants to states were set at levels equal to federal AFDC allocations in the early 1990s, a period with relatively high caseloads.
- The rapid economic growth that lasted throughout the second half of the 1990s contributed to rapidly falling welfare caseloads.
- The falling caseloads combined with the stringent MOE provisions in the welfare legislation forced states to increase the amount of state money they devoted to each welfare recipient.
- The long time period before issuance of federal regulations for spending TANF dollars led to state uncertainty and delay in the spending of federal TANF funds.

The lesson we draw from this piece of history is that Congress, in reauthorizing welfare legislation, should explicitly authorize sufficient funds so that in periods of economic growth, state governments will have the resources to build up balances of unspent TANF dollars that they can hold for use in periods when the economy slows and demand for welfare increases.

Retention of the MOE provision

Without this provision, state governments would almost certainly have shifted more resources out of poverty-related activities, and would have been much less likely to "bank" some of their TANF grant allocations for future use.

Thus, in reauthorizing TANF, state governments should be given a strong incentive to maintain their existing spending on programs that benefit their low-income populations. The creation of an effective "work-based system" that will, over time, lift former welfare clients out of dependence and poverty requires a substantial investment in ancillary services such as child care, transportation, and skills training. These programs are unlikely to receive state fiscal support, especially in times of sluggish economic growth, unless federal welfare legislation prevents state governments from shifting funds to other uses.

Establishment of an adequate contingency fund

The original TANF legislation established a relatively small contingency fund that was, in our opinion, seriously flawed. The TANF legislation made access to contingency funds extremely difficult, making it unlikely that any state would have chosen to avail itself of the fund.

In reauthorizing the welfare legislation, the Congress should recognize that state governments will need additional funds when recessions occur. Congress should renew the contingency fund, but with a rule that access to the fund is triggered by some indicator of economic activity, such as a specified increase in the state unemployment rate, that is independent of state government activity.

More ample fiscal reporting requirements

One goal in designing reporting requirements for a reauthorized welfare bill should be to allow the federal government to trace as clearly as possible the impact of welfare reform on state spending for low-income persons. It is important to be able to gather data that allows one to determine the extent to which states are able to substitute TANF funds for their own spending on cash assistance. We would like to have data that will let us know whether TANF funds have contributed to state rainy day funds, or whether states cut taxes more than they otherwise would have because of the availability of the TANF surplus.

To be able to better track TANF spending, funding shifts, and fiscal substitution, we need consistent data across all states on total state spending on the various categories of social services. The U.S. Census Bureau should consider refining the broad category of spending called "social welfare" with the goal of providing uniform definitions for spending on specific services such as child care and child welfare services. ■

---

[1]The data on TANF caseloads are from the Department of Health and Human Services, Administration for Children and Families Web site, < http://www.acf.dhhs.gov/news/stats/caseload.htm >.

[2]National Conference of State Legislatures, *State Fiscal Outlook for FY 2002; October Update*, Fiscal Affairs Program, NCSL, Denver, CO, October 31, 2001.

[3]H. Chernick and A. Reschovsky, "The Distributional Politics of Fiscal Adjustment: A Case Study of Four Northeastern States," *Public Budgeting & Finance* 10 (Fall 1990): 6–23.

[4]Nelson A. Rockefeller Institute of Government, "Fiscal Trouble Update," unpublished paper, Albany, October 4, 2001.

[5]I. Lav and A. Berube, *When It Rains It Pours; A Look at the Adequacy of State Rainy Day Funds and Budget Reserves*, Center on Budget and Policy Priorities, Washington, DC, March 1999.

[6]National Association of State Budget Officers, *The Fiscal Survey of the States: June 2001,* National Governors Association and the National Association of State Budget Officers, Washington, DC, 2001. Available at <http://www.nasbo.org/Publications?PDFs/FSJUN2001.pdf >.

[7]The average fund balance per capita was $85 if we exclude Alaska. J. Holahan and B. Garrett, "Rising Unemployment and Medicaid," *Health Policy Online,* No. 1, Urban Institute, Washington, DC, October 16, 2001. Available at < http://www.urban.org/authors/garrett.html >.

[8]Z. Neuberger and E. Lazere, *Analysis of TANF Spending Through the Middle of Federal Fiscal Year 2001*, Center on Budget and Policy Priorities, Washington, DC, September 2001. Available at < http://www.cbpp.org/9-28-01wel.htm >

[9]We exclude Alaska; because of its oil revenues it has a stabilization fund balance of over $4,500 per capita, an amount that exceeds the size of its general fund budget.

[10]H. Holzer, *Unemployment Insurance and Welfare Recipients: What Happens When the Recession Comes?* New Federalism: Issues and Options for States, No. A-46, Urban Institute, Washington, DC, December 2000.

[11]Holzer, *Unemployment Insurance*.

[12]Economic Policy Institute, "Unemployment Insurance Benefits State by State," press release of October 3, 2001. In New York and California, the two states with the largest welfare caseload, the replacement rate is even less than the average.

[13]G. Wallace and R. Blank, "What Goes Up Must Come Down," D. Figlio and J. Ziliak, "Welfare Reform, the Business Cycle, and the Decline in AFDC Caseloads," and P. Levine, "Cyclical Welfare Costs in the Post-Reform Era," all in *Economic Conditions and Welfare Reform,* ed. S. Danziger (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1999), pp. 49–90, 17–48, 249–74 respectively.

[14]R. Dye and T. McGuire, "State Fiscal Systems and Business Cycles: Implications for State Welfare Spending When the Next Recession Occurs," Discussion Paper 99-04, Urban Institute, Washington, DC, June 1999.

[15]Wallace and Blank, "What Goes Up."

[16]Holahan and Garrett, "Rising Unemployment."

[17]Rebecca Blank concludes that "the economy seems to have mattered less in the post-1996 period, and welfare policy has mattered more in reducing caseloads than it did in the earlier period." See "Declining Caseloads/Increased Work: What Can We Conclude about the Effects of Welfare Reform?" in Conference Proceedings: Welfare Reform Four Years Later: Progress and Prospects*, Federal Reserve Bank of New York Economic Policy Review* 7 (September 2001): 25–36.

[18]The federal government pays a share of all Medicaid spending, with the federal share ranging from 50 percent in the nation's 10 richest states to 76 percent in the poorest state. See the *Federal Register*, November 17, 2002. Available at < http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2000_register&docid=00-29112-filed >.

[19]K. Baicker, "Government Decision-Making and the Incidence of Federal Mandates," *Journal of Public Economics* 82 (November 2001): 147–94.

[20]L. Ku and B. Garrett, *How Welfare Reform and Economic Factors Affected Medicaid Participation: 1984–96*, Assessing the New Federalism, Discussion Paper 00-01, Urban Institute, Washington, DC, February 2000; B. Garrett and J. Holahan, *Welfare Leavers, Medicaid Coverage, and Private Health Insurance*, New Federalism: National Survey of America's Families, No. B-13, Urban Institute, Washington, DC, March 2000. Some contrary evidence from New York and Wisconsin suggests that many of those no longer on public assistance have in fact retained their Medicaid coverage. In a recent study of multiple program receipt in New York City, Chernick and Cordelia Reimers find that between 1994–95 and 1997–99, among households most at risk of needing public assistance, the rate of Medicaid receipt has not declined, even though receipt of cash assistance is substantially lower. A similar result has been found by Cancian and colleagues for former welfare recipients in Wisconsin. However, this result may not apply as strongly in other states. See H. Chernick and C. Reimers, "Welfare Reform and New York's Low Income Population," in Conference Proceedings: Welfare Reform Four Years Later: Progress and Prospects, *Federal Reserve Bank of New York Economic Policy Review* 7 (September 2001): 83–97; M. Cancian, D. Meyer, and C-F. Wu, "Program Participation of Mothers on W-2," in *Child Support Demonstration Evaluation, Phase 1, Final Report*, ed. D. Meyer and M. Cancian, Institute for Research on Poverty, University of Wisconsin–Madison, 2001.

[21]H. Chernick, "Federal Grants and Social Welfare Spending: Do State Responses Matter?" *National Tax Journal* 53 (March 2000): 143–52.

[22]If caseloads had not declined dramatically in the period following the enactment of TANF, our calculations suggest the increase would have been 150 percent.

[23]G. Rowe and T. Roberts, *Welfare Rules Databook: State TANF Policies as of July 2000*, Urban Institute, Washington, DC, November 2001.

[24]Neuberger and Lazere, *Analysis of TANF Spending*.

[25]E. Lazere, *Unspent TANF Funds at the End of Federal Fiscal Year 2000*, Center on Budget and Policy Priorities, Washington, DC, February 23, 2001.

[26]New York City Independent Budget Office, "New York's Increasing Dependence on the Welfare Surplus," *Fiscal Brief*, August 2001.

Social policy and the macroeconomy: What drives welfare caseloads?

James P. Ziliak

James P. Ziliak is Associate Professor of Economics, University of Oregon, and an IRP affiliate.

In astonishment, welfare commentators, policymakers, and researchers witnessed welfare caseloads first soar and then decline over the past decade.[1] Between 1990 and 1994 the number of families receiving assistance from Aid to Families with Dependent Children (AFDC) exploded by 27 percent; between 1994 and 1999 the number plunged by nearly 50 percent. Changes in Food Stamp Program caseloads were equally dramatic, increasing by 42 percent in the early 1990s and then falling over 30 percent in the last half of the decade. Observers of welfare are very far from agreeing about the reasons underlying the caseload changes. Yet if we are to craft a more informed fiscal policy, we must gain greater insight into the determinants of welfare caseloads. This is the more urgent because Congress will soon begin deliberating the reauthorization of Temporary Assistance for Needy Families (TANF), the cash assistance program integral to the 1996 welfare reforms, and of the Food Stamp Program.

If, for example, the recent caseload declines are largely the result of strong macroeconomic performance, then states that failed to save for a "rainy day" may face difficult fiscal constraints as the economy takes a significant recessionary turn. If, in contrast, caseload declines are the result of social policy and respond only weakly to macroeconomic conditions, then the surpluses in many state welfare budgets are likely to persist even into the current economic slowdown. In particular, should Congress decide to tie state block grants to the current level of caseloads, rather than to the record levels of 1992–95 as current policy dictates, then any surplus would be "taxed" away during the reauthorization debate. Indeed, state surpluses could rapidly turn into deficits if Congress were to cut block grants during the present economic downturn because, as detailed below, welfare caseloads are highly cyclically sensitive.

What drives caseload declines?

The remarkable developments in welfare caseloads in the 1990s have prompted a flurry of research, with primary emphasis on the declines after 1993.[2] Researchers generally agree that the bulk of the caseload decline can be attributed to both the longest economic expansion in U.S. history and radical changes in social policy. Among the policy changes two stand out: expansions in the Earned Income Tax Credit (EITC), which made work more attractive, and welfare reform, implemented through state-level waivers from federal rules in the early 1990s and through federal legislation in 1996. Harmony of opinion ceases, however, when discussion turns toward determining how much to credit the economy and how much to credit policy for the rapid and far-reaching changes.

The research community has offered policymakers two competing explanations for the relative roles of the economy and of policy in accounting for caseload declines. In the first group are studies which conclude that the economy was the leading contributor to caseload declines, and that the aggregate impact of welfare reform (excluding the EITC expansions) was minimal, especially during the waiver period. For example, David Figlio, Elizabeth Davis, Laura Connolly, and I estimate that about two-thirds of the caseload decline during the waiver period (1993–96) can be attributed to the economy and very little to the *overall* impact of welfare waivers, which were in place in about 35 states by the end of 1996. However, we find that the impact of the welfare waivers varied widely across states. Some waivers, such as time limits and responsibility measures, led to caseload declines and others, such as higher earnings disregards and asset limits, led to caseload increases. In the aggregate, these effects canceled each other out. When we extended our earlier study through 1998, welfare policy appeared modestly to reduce caseloads, but the aggregate effect of welfare reform was still small in relation to the impact of the economy.[3]

In the second group are studies concluding that the economy mattered, but that, in the aggregate, welfare reform also contributed to caseload declines (modestly in some cases, substantially in others). Representative of this group is the widely publicized study by the President's Council of Economic Advisers (CEA), which found that from 1993 to 1996 the macroeconomy accounted for 44 percent and welfare waivers for 31 percent of the decline in AFDC caseloads. Updating the study two years later, the CEA found that welfare reform accounted for 36 percent of the decline in caseloads between 1996 and 1998.[4]

Caseloads are a dynamic process

Why the discrepancy? David Figlio and I addressed this question head-on by conducting a step-by-step reconcili-

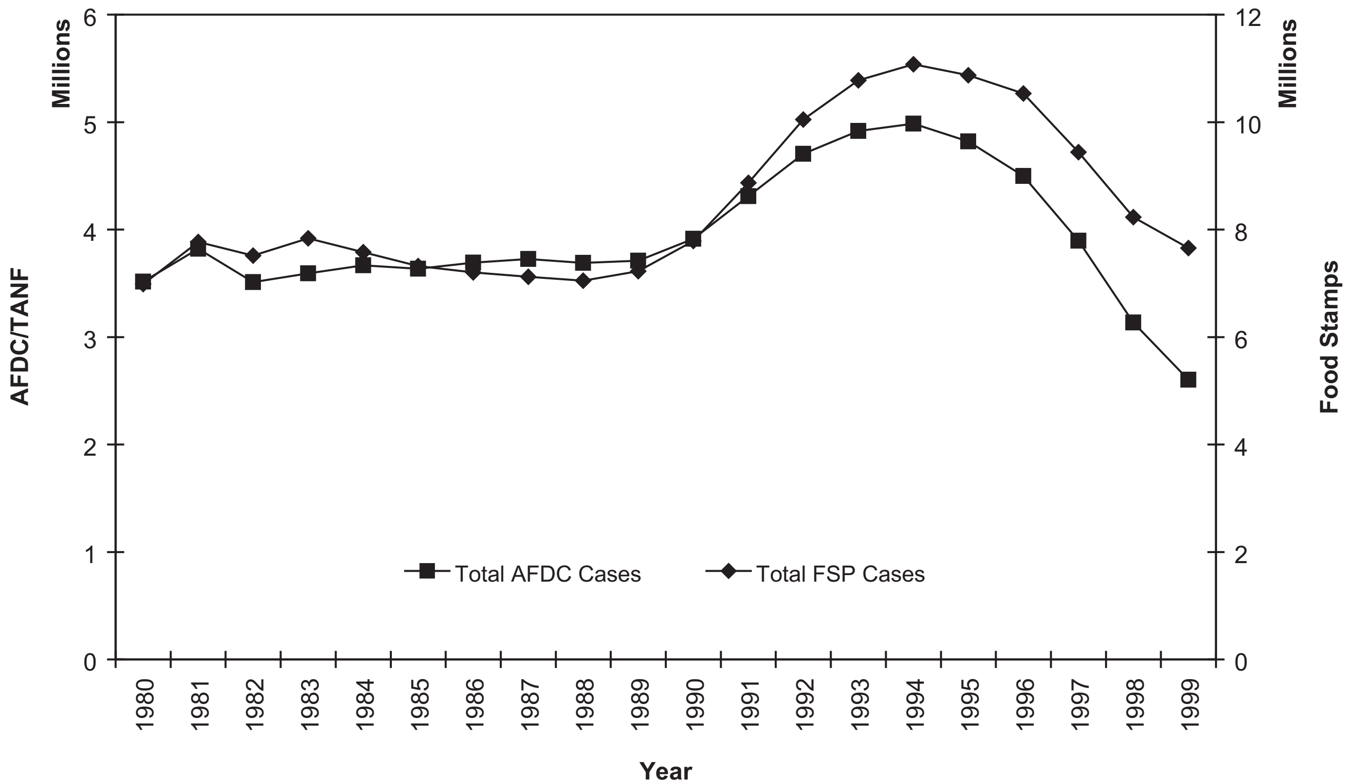


Figure 1. Total AFDC/TANF and Food Stamp caseloads, 1980–1999.

Source: Author's calculations. Data are from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture, and can be obtained from the author upon request.

ation of the two opposed approaches. Specifically, we examined how the relative impacts of the economy and welfare reform differ under alternative statistical specifications—for example, when welfare recipients instead of caseloads are used as the outcome of interest, and when the study takes into account or ignores state-specific welfare benefits. Our study shows unequivocally that the driving force behind the discrepancy in the estimated impacts of the economy and welfare reform is, simply put, a technical model misspecification that biased the CEA study (and others using methods similar to the CEA) toward finding a larger welfare-policy effect.[5]

The misspecification arises because researchers in the second group assume that caseload levels adjust immediately, and not sluggishly, to their own past levels and to economic or policy events. In econometric terms, these authors assume that there is no persistence (state dependence) in welfare caseloads. At the individual level, this assumption implies that there are no fixed costs of entering or exiting welfare, that jobs are readily available and costless to take, and that one's past usage of welfare has no impact on one's current likelihood of welfare participation. These assumptions are not supported by the data, either at the state or at the household level.[6] Once one accommodates caseload dynamics into the empirical model, the impact of welfare policy on caseloads is dampened substantially and the impact of the economy is enhanced.[7]

The 1980s versus the 1990s: Not all expansions are created equal

The welfare-reform policies implemented in the 1990s were very different in scope from those in place in the 1980s and earlier decades—work requirements, responsibility measures, marriage, separating the "deserving" from the "undeserving" poor.[8] The dramatic recent decline in welfare caseloads has led many commentators to declare welfare reform a success.[9] To bolster their claims they pose a stiff challenge to those researchers who found the economy to be the driving factor in the declines—if the economy is so important, why didn't caseloads fall in the expansion of the 1980s?[10]

A quick examination of the trends in aggregate AFDC and food stamp caseloads in Figure 1 makes it obvious why this challenge arises. During the expansion of the 1980s, food stamp caseloads fell, but AFDC caseloads actually increased. In the expansion of the 1990s, in contrast, both AFDC and food stamp caseloads fell in all states except Hawaii. To understand why aggregate AFDC caseloads remained stubbornly high in the 1980s,

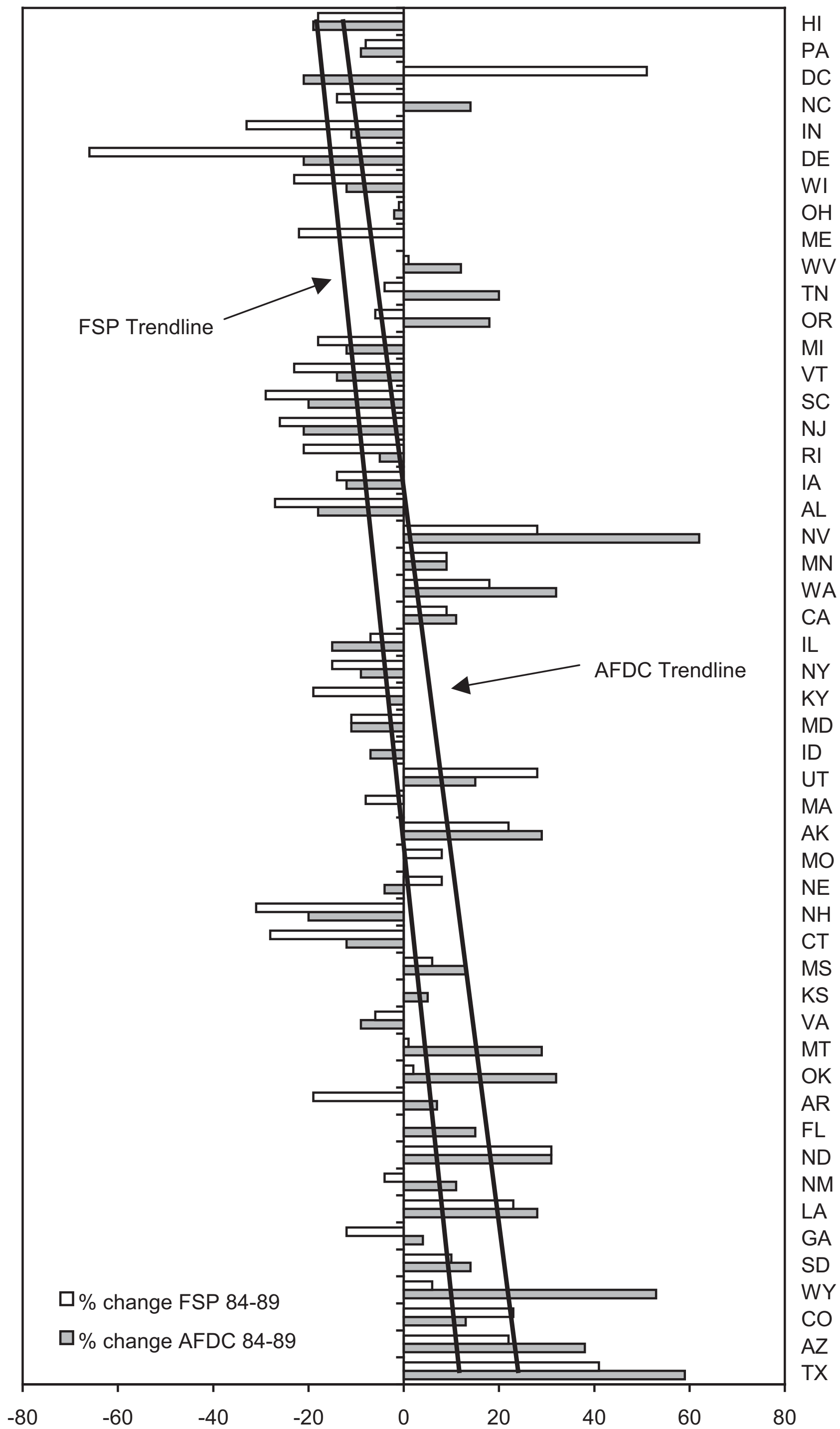


Figure 2. Change in AFDC and Food Stamp caseloads, 1984–1989.

Note: States are in descending order of macroeconomic performance, from the largest percentage decline in unemployment rates (Hawaii) to the smallest percentage decline (Texas).

Source: Author's calculations. Data are from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture, and can be obtained from the author upon request.

it is critical to abandon the national time-series data in favor of more disaggregated state-level data, at the same time taking a deeper look at the differences in the business-cycle expansions of the 1980s and 1990s.[11]

Consider Figure 2, which depicts the percentage change in AFDC and food stamp caseloads from 1984 to 1989 by state, arranged in descending order of state macroeconomic performance.[12] Figure 2 reveals a simple, but powerful, bifurcation in state experiences. Of the 15 states with the strongest economies, 9 experienced declines in both AFDC and food stamp caseloads, and 14 of the 15 had declines in at least one of the programs. Of the 15 states with the weakest economies, 9 had *higher* AFDC and food stamp caseloads, and 14 of the 15 saw higher caseloads in at least one program.[13] The data in Figure 2 are not intended to capture the complex relationship between caseloads and the macroeconomy, but the simple correlations are quite clear—macroeconomic performance mattered for welfare caseloads in the 1980s.

If the economy influenced caseload movements in both the 1980s and the 1990s, why was there such a dramatic difference between the expansions? The likely reasons are that the 1990s expansion was longer, reached deeper into the labor pool, and affected all regions of the country. To understand the impact of these developments on the economic opportunities for low-income Americans, it is necessary to turn to recent labor market research.

A common barometer used by economists to gauge the health of the labor market is the nonaccelerating inflation rate of unemployment (NAIRU)—the level of unemployment that is associated with price stability. For the better part of the last twenty years there was general agreement that an unemployment rate below 6 percent should be seen as an inevitable precursor of inflation.

Although recent estimates of the NAIRU differ depending on the methods employed, most indicate that it fell between 1.0 and 1.5 percentage points from the mid-1980s to the late 1990s—a decline attributed by some researchers to a rise in the growth rate of labor productivity.[14] This was a surprising development because it implied that in the 1990s the country was able to enjoy the simultaneous benefits of low unemployment and low inflation, a phenomenon not seen since the late 1960s. Not coincidentally, welfare caseloads also dropped to levels not reached since the 1960s (especially TANF caseloads, since the Food Stamp Program was in its infancy in the 1960s). The growth in labor productivity in the 1990s allowed employers to reach deep into the lower tail of the income distribution for workers and to reward them with higher real wages. In contrast, during the 1980s falling real wage rates for low-wage workers had resulted in falling (absolute and relative) real incomes and, inevitably, upward pressure on welfare caseloads.[15]

Another special feature of the 1990s expansion was that it was experienced across all regions of the United States. Indeed, in over 80 percent of the states, unemployment rates in 1999, the peak of the 1990s expansion, were at least as low as those in 1989, the peak year of the 1980s expansion. In that earlier expansion, the domestic auto and steel industries in the "Rustbelt" recovered, and the "Massachusetts Miracle" moved into high gear, but a bust in the oil industry led to recessions in Texas and some Rocky Mountain states, which saw increases in AFDC and food stamp caseloads (see Figure 2). The mid- to late 1990s, however, were devoid of regional shocks; this undoubtedly contributed to the large, across-the-board declines in state welfare caseloads. Some have speculated that this lack of regional business cycles is the result of the "New Economy," the so-called information revolution that led to the productivity growth during the decade. Events of recent months, including shocks to energy markets in the West and the tragedies in New York City and Washington, DC, indicate that the New Economy is not immune to regional influences. Thus the experience of the 1990s is likely to prove the exception rather than the rule.

The contribution of the EITC to caseload declines

Even after we take into account the effects of the economy and welfare policy on welfare caseloads, a sizable amount of the decline remains unexplained. For certain there are state-specific political and demographic influences that capture part of this unexplained gap, but other tax policy and macroeconomic forces are at work.[16] Among the most important is the EITC.

After its inception in 1975, the EITC was quite modest until a series of expansions, beginning with the Tax Reform Act of 1986 and culminating in the 1993 Omnibus Budget Reconciliation Act, made it a major part of the social safety net. These expansions, it has been argued, can account for upward of 60 percent of the recent rise in labor force participation among single women with children. If this is true, it suggests that the EITC might be the most successful antipoverty program in U.S. history targeted to the working-age population.[17]

The caseload studies discussed in this article do not explicitly identify the impact of the EITC on caseload declines. The difficulty arises because these studies use state-level panel data, but the EITC expansions affected all states at the same time. This implies that it is not possible to distinguish the effects of the EITC from the effects of other aggregate factors that might affect simultaneously state-level caseload movements, such as national unemployment rates, oil price shocks, and even presidential elections.[18] Indeed, there might also be a larger dimension to welfare reform that is entwined with the EITC and other national forces (e.g., national political pressure).

To account for these macroeconomic factors, most of the studies include a set of year-specific indicator variables, which pools the EITC, national political and economic forces, and any other aggregate influence into a single variable whose impact varies over time.[19] Results indicate that incorporating these time effects into the model does not increase or diminish the estimated cyclic nature of the caseload, but does substantially diminish the effect of welfare policies. Thus, although the exact impact of the EITC is unknown, it clearly played a role in the recent caseload declines, and failure to control for aggregate forces such as the EITC overstates the influence of welfare policy changes.

Economy or policy? A summation

It should go without saying that social policy matters for our understanding of changes in TANF and food stamp caseloads; indeed, we can all envision a set of policies that drives caseloads to zero. The task at hand, however, is to understand the magnitude and direction of the set of policies enacted as part of the 1990s welfare reforms—policies that were first begun by individual states and then enacted by Congress. An empirical model that serves as a framework to identify the impact of welfare policy reforms must admit dynamic feedback, in the form of lagged economic conditions and lagged values of caseloads.[20] In addition, the model must permit aggregate forces that vary over time, such as the EITC, to influence state- or household-level caseload movements.

Once dynamic and aggregate factors are brought into the analysis, the overall impact of welfare-waiver policies on AFDC/TANF and food stamp caseloads in the period leading up to the 1996 reforms appears to have been minimal. This is not because policy didn't matter, but because policies enacted in some of the states led to modest caseload increases whereas policies in other states led to modest caseload decreases, yielding an aggregate effect near zero. Since passage of PRWORA in 1996, caseload-reducing policies have moved to the forefront, so that the aggregate effect of welfare reform, albeit still small in relation to the economy, has resulted in lower assistance caseloads.

The high-pressure U.S. economy of the mid- and late 1990s, not the recent welfare policies, was the driving force behind the caseload declines. The expansion offered low-income Americans the most favorable labor-market conditions in three decades, and they responded by entering the labor force, increasing hours of work, and receiving the first real wage gains in 20 years.

Because welfare caseloads are strongly countercyclical, caseloads will likely increase as the economy moves further into the current slowdown. This is indeed happening in many states at the time of this writing. But there is considerable inertia in the welfare caseload, and some of the effects of welfare reform and the economic expansion have yet to manifest themselves in the caseload. This inertia will continue to exert downward pressure on the caseload for some time to come.

How much, then, will caseloads rise in response to the slowdown? That is an open question and is clearly a function of the depth and length of the downturn. In U.S. recessions of the decades after World War II, unemployment rates typically rose 2 to 4 percentage points, suggesting that TANF and food stamp caseloads could rise 5 to 10 percent in the first year of a recession.[21] Still unknown, however, is the interaction of welfare reform and a sour economy. Before PRWORA, AFDC was an entitlement, available to all who were eligible for as long as they met the criteria. Thus it was one of many "automatic stabilizers" in the economy (food stamps remain an entitlement). To what extent will AFDC's replacement, TANF, which operates under much stricter eligibility rules and time limits, still fulfill the automatic insurance role? The answer to this question must await the completion of a full business cycle. ■

---

[1]I wish to thank David Figlio, Craig Gundersen, and Steven Haider for many insightful comments. All opinions and errors are my own.

[2]See, for example, J. Ziliak, D. Figlio, E. Davis, and L. Connolly, "Accounting for the Decline in AFDC Caseloads: Welfare Reform or the Economy*?" Journal of Human Resources* 35(2000): 570–86; R. Blank, "What Causes Public Assistance Caseloads to Grow?" *Journal of Human Resources* 36(2001): 85–118. S. Bell, "Why Are Welfare Caseloads Falling?" Discussion Paper 01-02, Urban Institute, Washington, DC, 2001, critically reviews the literature and provides further references.

[3]See, e.g., D. Figlio and J. Ziliak, "Welfare Reform, the Business Cycle, and the Decline in AFDC Caseloads," in *Economic Conditions and Welfare Reform*, ed. S. Danziger (Kalamazoo, MI: W. E. Upjohn Institute for Employment Research, 1999): 17–48. Ziliak et al. "Accounting for the Decline," found evidence that it took time for the welfare-waiver policies to be implemented and transmitted to the welfare caseload. Hence, one would expect to capture a larger policy effect with the additional two years of post-PRWORA data in the sample.

[4]Council of Economic Advisers, *Technical Report: Explaining the Decline in Welfare Receipt, 1993–1996*, Executive Office of the President, Washington, DC, 1997, and *Technical Report: The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: An Update*, Executive Office of the President, Washington, DC, 1999. For this perspective, see also Blank, "What Causes Public Assistance Caseloads to Grow?" and J. O'Neill and M. Hill, *Gaining Ground? Measuring the Impact of Welfare Reform on Welfare and Work*, Civic Report No. 17, Manhattan Institute, New York, NY, 2001.

[5]Figlio and Ziliak, "Welfare Reform." We used data from Aid to Families with Dependent Children (AFDC), the forerunner to TANF. Specifically, we compared the work reported in Ziliak and others, "Accounting for the Decline," with the 1997 CEA technical report, *Explaining the Decline in Welfare Receipt*. Among other differences in technical specifications that we explored were (1) using year dummies in lieu of a cubic trend to control for macroeconomic factors; (2) using weights in the regression model versus no weights; (3) using the first difference of caseloads instead of the level of caseloads as the dependent variable; and lastly (4) using a dynamic framework that includes lagged caseloads and economic conditions instead of a static framework that omits these factors, particularly lagged caseloads.

[6]For expositions of these econometric issues, see, e.g., J. Klerman and S. Haider, "A Stock-Flow Analysis of the Welfare Caseload: Insights from California Economic Conditions," unpublished paper, Rand Corporation, Santa Monica, CA, 2000; H. Hoynes, "Local Labor Markets and Welfare Spells: Do Demand Conditions Matter?" *Review of Economics and Statistics* 82 (2000): 351–68; M. Bane and D. Ellwood, "Slipping Into and Out of Poverty: The Dynamics of Spells," *Journal of Human Resources* 21(1986): 1–23; R. Blank and P. Ruggles, "When Do Women Use Aid to Families with Dependent Children and Food Stamps? The Dynamics of Eligibility versus Participation," *Journal of*

Human Resources 31(1996): 57–89. An advantage of static models lies in the fact that the coefficients offer ease of interpretation compared to coefficients from dynamic models, because the latter require that a time horizon (e.g., short-run versus long-run) be specified. Although this feature of static models should not be easily dismissed, the evidence shows clearly that dynamic models, though demanding extra care, more accurately characterize welfare-caseload movements.

[7]Indeed, Klerman and Haider, "A Stock-Flow Analysis," show that the estimated impact of the economy on caseloads in the first group of studies is, if anything, conservative.

[8]Interestingly, though, the policies of the 1990s share many features with those policies in place in 19th century public relief programs. See, for example, S. Ziliak, "Kicking the Malthusian Vice: Lessons from the Abolition of 'Welfare' in the Late Nineteenth Century," *Quarterly Review of Economics and Finance* 37(1997): 449–68, and M. Katz, *In the Shadow of the Poorhouse: A Social History of Welfare in America* (New York: Basic Books, 1986).

[9]See, for example, C. Murray, "What Government Must Do: Make Welfare Unappealing or Reform Will Fail," *American Enterprise* 9(1998): 72–73; R. Haskins, "Giving is Not Enough: Work and Work Supports Are Reducing Poverty," *Brookings Review* 19(2001): 13–15.

[10]This criticism is not expressed only by conservative commentators, as two former members of the Clinton Administration echo the challenge; see R. Blank and D. Ellwood, "The Clinton Legacy for America's Poor," Working Paper W8437, National Bureau of Economic Research, 2001.

[11]A similar puzzle arose over aggregate poverty rates, which barely budged in the 1980s expansion, although they should have declined judging by experience in previous expansions. There is a large literature on this topic; see R. Blank and D. Card, "Poverty, Income Distribution, and Growth: Are They Still Connected?" *Brookings Papers on Economic Activity* 2(1993): 285–339, and C. Gundersen and J. Ziliak, "Poverty and Macroeconomic Performance: A View from the States in the Welfare Reform Era," unpublished paper, University of Oregon, 2001, for comprehensive examinations based on regional and state-level data, respectively.

[12]For these purposes, macroeconomic performance is defined by the percentage change in unemployment rates; states are ranked from the largest percentage decline in unemployment rates (Hawaii) to the smallest percentage decline (Texas).

[13]Unemployment rates actually rose between 1984 and 1989 in Arizona, Colorado, and Texas.

[14]See, for example, L. Ball and R. Moffitt, "Productivity Growth and the Phillips Curve," unpublished paper, Johns Hopkins University, 2001; L. Katz and A. Krueger, "The High Pressure US Labor Market of the 1990s," *Brookings Papers on Economic Activity* 1 (1999): 1–65.

[15]For discussion of these issues, see D. Cutler and L. Katz, "Macroeconomic Performance and the Disadvantaged," *Brookings Papers on Economic Activity* 1(1991): 1–74; L. Karoly, "The Trend in Inequality among Families, Individuals, and Workers in the United States: A Twenty-Five Year Perspective," in *Uneven Tides: Rising Inequality in America*, ed. S. Danziger and P. Gottschalk (New York: Russell Sage Foundation, 1993): 19–97.

[16]Blank, "What Causes Public Assistance Caseloads to Grow?"; J. Ziliak, C. Gundersen, and D. Figlio, "Welfare Reform and Food Stamp Caseload Dynamics," Discussion Paper 1215-00, Institute for Research on Poverty, University of Wisconsin–Madison, 2000.

[17]See V. J. Hotz and J. K. Scholz, "The Earned Income Tax Credit," in *Means-Tested Transfer Programs in the United States*, ed. R. Moffitt (Cambridge, MA: National Bureau of Economic Research, forthcoming). On the size of its effect, see B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 109 (2001): 1063–14.

[18]Meyer and Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," achieve identification of the EITC using microlevel data from the CPS and a difference-in-difference strategy, i.e., they exploit the fact that the EITC policy changes affected single women without children differently from single women with children.

[19]A notable exception is the article by G. Wallace and R. Blank, "What Goes Up Must Come Down? Explaining Recent Changes in Public Assistance Caseloads," in Danziger, ed., *Economic Conditions and Welfare Reform*, pp. 48–89. Wallace and Blank eschew the use of aggregate time controls on the ground that it "overadjusts the data and misestimates the actual effects of program changes over time" (p. 83). However, they note that by including the time effects "the long-run effect of unemployment remains virtually unchanged while the long-run effect of waiver implementation decreases by over half" (p. 83).

[20]Klerman and Haider, "A Stock-Flow Analysis," also argue for the possibility of interactions between the lagged dependent variable and lagged economic conditions.

[21]Figlio and Ziliak, "Welfare Reform"; Ziliak, Gundersen, and Figlio, "Welfare Reform and Food Stamp Caseload Dynamics."