

**Informing the Welfare Debate:  
Perspectives on the Transformation of Social Policy**

April 1997

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**Informing the Welfare Debate:  
Introduction and Overview**

Tom Corbett  
Assistant Professor, School of Social Work,  
and Acting Director of the Institute for Research on Poverty  
University of Wisconsin–Madison

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## INTRODUCTION

The Institute for Research on Poverty (IRP) began a project in 1995 titled *Informing the Welfare Debate*. The project has been funded by the Helen Bader and Joyce Foundations. The hope behind the project was that an academic entity such as IRP might mute some of the hard edges of the then rancorous welfare debate by contributing broader analysis and historical perspective to a dialogue sometimes characterized by opinion and partisan positioning. The goals of the project were:

1. To produce objective, credible, and readable documents that summarize current knowledge in critical areas of the welfare reform debate.
2. To disseminate these documents widely among policy makers engaged in welfare reform efforts at the federal, state, and local levels.
3. As necessary and feasible, to conduct workshops and conferences to discuss the material and obtain feedback on how best to present the information and maximize its usefulness.

Over the past two years, the Institute has sponsored or facilitated several events directed toward these goals. Congressional briefings were held in Washington, D.C.<sup>1</sup> Seminars for state legislators and agency personnel were organized.<sup>2</sup> Conferences and workshops have been held.<sup>3</sup>

The welfare reform debate has remained contentious and emotional, because it touches the most sensitive of societal issues: work, family, sex, abortion, personal responsibility, and community integrity. Welfare reform has become a proxy for fundamental questions about quality of life and how to allocate personal and public responsibilities. We are uncertain as a society whether assuring economic security for children is more important than providing clear consequences to parents who fail to play by the rules. We argue whether individual irresponsibility or societal barriers are at the root of welfare dependency.

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<sup>1</sup>“Welfare Reform in the 104<sup>th</sup> Congress,” Special Reports 61, 64, and 65, Institute for Research on Poverty, University of Wisconsin–Madison.

<sup>2</sup>See for example Wisconsin Family Impact Seminar, Briefing Report, *Welfare Reform: Can Government Promote Parental Self-Sufficiency While Ensuring the Well-Being of Children?* School of Family Resources and Consumer Science, University of Wisconsin–Madison, January 1995.

<sup>3</sup>See *Focus*, Vol. 18, no. 1 for an overview.

We continually debate the efficacy of available interventions: can economic sanctions and rewards effect changes in behavior? Can the human capital of recipients be raised to a competitive level? Would the most disadvantaged respond if work were really a rational economic alternative? We even debate the fundamental goals of reform—to save money or save people; to reduce poverty or minimize welfare dependency?

No one would credibly argue that information, by itself, will resolve the most intractable of these disagreements. But information, when used properly, can narrow the scope and range of prevailing confusion and identify remaining points of contention more sharply. In some instances, it can temper the most blatant expressions of unsubstantiated opinion. If information is to make a difference, however, at the least it must be seen as objective and credible.

The papers included in this Special Report are designed to provide context and information for discussions of welfare reform that will now occur in the 50 states. The paper by Thomas Kaplan reviews the history of welfare in England and the United States, giving special attention to the establishment of the Aid to Dependent Children program in 1935 and its subsequent evolution. Michael Wiseman focuses on the convergence of political developments that led to passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The paper by Rebecca Swartz and Kaplan discusses perhaps the most contentious substantive issue of the recent reform debate—limits on the amount of time participants can receive public assistance benefits. The remainder of this paper reviews selected contours of the long debate about welfare and suggests some strategies for reasoned analysis. The four papers in this document are thematically connected but were written as separate essays. Consequently, readers will notice some intentional redundancy.

Other papers will follow, but these set the stage.

## REFORM AND INFORMATION

Reforming welfare has been a concern virtually from the moment public responsibility for the poor was codified in the Elizabethan Poor Laws of 1600. Welfare in the United States was largely patterned after the British Poor Laws and remained a local responsibility until passage of the Social Security Act in 1935. Even in the nineteenth century, calls for reform of welfare in the United States were periodically heard.<sup>4</sup> The welfare reform dialogue focused on the Aid to Families with Dependent Children (AFDC) program has been on the public agenda for over thirty-five years, having begun in 1962. In that year John Kennedy held the first presidential press conference devoted exclusively to AFDC, announcing a major federal investment in social services to weaken the grip of dependency and move recipients into mainstream society.

Kennedy's proposal was based more on faith than evidence. Although the administration lacked empirical support for the proposition that service technologies could reduce welfare dependency, considerable resources were expended on hiring and training social workers to counsel clients toward self-sufficiency. Nevertheless, the AFDC caseload doubled by the end of the 1960s.

In the years since the Kennedy proposal, federal, state, and local governments in the United States have developed, debated, and sometimes attempted a variety of reforms: social service strategies (addressing individual and family problems); institutional strategies (attacking community problems); human capital strategies (improving labor market competitiveness); labor demand strategies (creating or subsidizing jobs); income strategies (giving poor people money); child support strategies (making both parents responsible); social contract strategies (conditioning aid on behavior and obligating welfare agencies to do more than give out checks); "make work pay" and "make them suffer" strategies (either

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<sup>4</sup>Calls for ending what then was called "outdoor relief," cash assistance to the poor in their own homes, were particularly strident in the 1830s and 1880s.

make work more attractive or welfare less attractive); and, most recently, the “Gordian knot” strategy (end welfare because it cannot be reformed).

The War on Poverty that emerged in the mid-1960s was a response, in part, to the fact that neither poverty nor AFDC disappeared despite a vigorous economy and intensive social service strategies. A radical community empowerment philosophy (an extreme form of devolution) prevailed in this early period, as federal dollars were often being funneled past governors and mayors to the smallest governmental and quasi-governmental units—neighborhoods. But the task of changing people and communities taken on by the early poverty warriors proved technically difficult, politically problematic, and expensive. The second wave of the War on Poverty strengthened the federal role, at least for a time.

This second wave, which emerged between the mid-1960s and mid-1970s, fostered an “income definition” of poverty. Poor people were perceived as differing from the rest of society primarily in their lack of money, and the apparent solution was to correct the income shortfall in a simple, efficient, and standardized manner heavily directed by the federal government. Social services were separated from cash assistance and no longer funded on an unlimited basis. Flat grants (as opposed to individualized budgets based on each household’s measured costs) were introduced. Client protections were strengthened. AFDC became a federal entitlement, with benefits based almost solely on categorical status (single parenthood) and income and assets that fell below a threshold. Much of the machinery of the early War on Poverty was dismantled. Government was getting out of the people-changing business, except for change that could be obtained through altering economic incentives.

In the entitlement program that emerged, the efficiency principle predominated—officials provided benefits in a simple and standardized fashion that was easily routinized and thus easy to design and operate centrally. The federal government took the lead in proposing improved methods of distribution of benefits. The result was increased federal control over the calculation and disbursement of benefits and over measuring of the accuracy of state and local determinations.

Today, public systems for providing income support for poor children are undergoing a profound transformation. Reform now calls for truncating the federal role in providing cash assistance to low-income families with children—for devolving design, management, and some financing responsibility to state and local jurisdictions. Many reformers argue that governmental units situated closer to the problems are better positioned to reflect local preferences and circumstances and to respond to the challenges with greater imagination and insight. It is widely argued that federal welfare policy has failed, so the responsibility should be turned back to the states.

The character of the devolution that evolves will generate a new set of dynamics, the consequences of which cannot be known in advance. The block grants built into the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 have capped federal contributions (so that they will decline in real terms) and have created an uncertain federal role in ensuring accountability for performance. Because states will now incur full costs of social investments at the margin, fear of welfare migration and concerns over limited funding may, over the long term, constrain state choices severely. Paradoxically, the move to enhance innovation may (again, over the long term) have the opposite effect—flexibility without resources may not be flexibility at all. Whether the current era of reform is, in fact, an unparalleled opportunity or an impending apocalypse remains to be seen. But virtually all agree that it is a dramatic break with the past, an era of policy discontinuity.

#### THE ERA OF POLICY DISCONTINUITY

Why has the welfare world been turned upside down? Have the key issues been decided? Is the debate over? In fact, no one can really answer these questions. But discussions in the last few years concerning *who* should control public assistance and *why* welfare is so unpopular provide useful insight.

***Who is in charge?*** Aid to Families with Dependent Children (AFDC), the signature program of welfare in the United States and the focal point of discussions about reform, was terminated in 1996 with



the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. This legislation effectively replaced AFDC, Emergency Assistance, and the JOBS program—and the open-ended federal appropriations that supported them—with the Temporary Assistance for Needy Families (TANF) block grant. In effect, the federal government began turning responsibility for welfare back to the states.

The federal role in providing income assistance to poor families with children had been established under Title IV-A of the 1935 Social Security Act, which provided fiscal resources enabling states to assist needy children without fathers. The states defined “need,” set their own benefit levels, established within federal limitations the income and resource limits for eligibility, and administered the program. Title IV-A was not particularly controversial when enacted, as it accorded fiscal relief to hard-pressed states while allowing substantial state flexibility and control over the program. But increased federal regulatory oversight eventually followed, particularly in the late 1960s and 1970s, when stronger rights were attached to beneficiaries and the benefits themselves came to be viewed as an entitlement. Though states always retained some program control—to set welfare guarantees, for example—control over policy development clearly had shifted to Washington by the early 1970s. Full federal control almost became a reality in the form of President Nixon’s Family Assistance Plan, which would have instituted a federally guaranteed income floor under all families.<sup>5</sup>

The decision concerning where to locate program control did not remain settled, however, as Congress gradually gave states more flexibility to seek waivers of AFDC provisions for the purpose of testing welfare reforms. The Omnibus Budget Reconciliation Act of 1981 offered states additional flexibility in designing programs to move recipients from welfare to work. In 1986, the Reagan administration began explicitly to encourage states to pursue waiver experimentation.

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<sup>5</sup>FAP failed, but welfare for the blind, disabled and aged was largely federalized and the Food Stamp program was extended to all jurisdictions, creating what some regarded as an in-kind negative income tax.

The increasing use of waivers began a new process of devolution of program authority over welfare from Washington back to the states. By the 1990s, waivers were no longer restricted to programs with the prospect of offering new knowledge that could contribute to national policy deliberations. Waivers had instead become vehicles for accommodating state preferences concerning policy goals and program strategies. The transformation of purpose unleashed a torrent of state activity, directed not just at work-related policies and programs but also at other aspects of recipient lives. Many new waivers tried to influence personal decisions about marriage and cohabitation, family stability (for example, divorce and other family composition changes over time), and fertility, and some waivers tried to address the quality of parenting. The thrust of reform activity was thus increasingly directed toward a new strain of social engineering: employing welfare innovations as strategies for influencing a broad range of behaviors society deems important.

*Why the obsession with reform?*<sup>6</sup> One reason may be concerns about costs. Federal outlays for poor children and families were estimated at about \$90 billion in FY 1994. Of that, however, only \$14 billion was spent on AFDC, less than 1 percent of the federal budget and about the same amount that was spent some two decades earlier, in inflation-adjusted terms. While recent congressional reform packages were projected to reduce the federal deficit over the next seven years by at least \$40 billion, most of those savings derive from changes in the Food Stamp program and reduction in benefits to legal aliens. AFDC reform is likely to have trivial impacts on the federal budget over the next five years.<sup>7</sup>

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<sup>6</sup>In 1992, a national survey found that 9 of 10 Americans believed that the welfare system should be changed. This opinion was held by African-Americans (81 percent) and Caucasians (92 percent), conservatives (92 percent) and liberals (89 percent), and the more affluent (93 percent) as well as the less affluent (87 percent). Republicans and Democrats responded in like fashion (both at 89 percent). Such sentiments, while not new, merged comfortably with a renewed political interest in addressing welfare reform. Survey conducted by Yankelovich, Clancy, and Schillman for Time and CNN, May 1992.

<sup>7</sup>The Congressional Budget Office estimated that the bill would reduce direct federal spending for programs providing cash aid, food benefits, Medicaid, and social services to low-income persons by \$64.1 billion over seven years, or 3.9 percent, compared with current law. The AFDC replacement component would actually increase expenditures by about \$1 billion.

Another plausible reason lies in rising AFDC caseloads and concerns about deleterious effects of public dependency. The national AFDC caseload increased by about one-third between 1989 and 1994, when the number of families receiving benefits surpassed 5 million for the first time. (However, proportionately fewer poor children received benefits in the early 1990s than they did two decades earlier. AFDC participation rates for female-headed families with children actually fell from 60 to 49 percent between 1977 and 1992; the rate for blacks fell more dramatically, from 78 to 51 percent.) AFDC caseloads began to drop sharply in 1994 (from over 5 million cases in mid-1994 to 4.87 million cases in 1995, according to preliminary estimates), but national interest in welfare reform did not abate.

Arguably, a more important motivation for reform may be the perception that welfare, especially AFDC, promoted irresponsible, self-destructive behaviors. Welfare benefits limited to those with income below a particular threshold inevitably create troublesome incentives. By design, they provide benefits to those who do not work and then (as the programs must, if they are to serve only low-income people) reduce benefits drastically as earnings rise. This inevitable feature of welfare results in marginal tax rates, “notch” effects (a point at which one dollar of increased earnings results in the loss of all welfare income), and penalties for savings that society would never impose on other income classes.

AFDC in particular targeted benefits on vulnerable groups that society generally wishes to protect—such as single-parent families and children. While sensible from a resource-allocation perspective, the targeting has unintended consequences: at least theoretically, AFDC may discourage marriage, because benefits are more easily obtained by one-parent families. It may encourage a teenager to have a child to qualify for benefits or a woman to have additional children to increase her income. It may create incentives for absent parents to avoid their responsibilities, particularly if they assume that AFDC will take care of the children with whom they do not reside. When absent parents do contribute, all but a modest amount of the contribution goes to offset AFDC costs and not to the support of the children.

*So why are we shifting responsibility to the states?* National policy makers have increasingly despaired of national solutions to these problems of welfare. A transfer of virtually full control to the states in the form of block grants apparently offers an attractive alternative.

*Are the new reforms more of the same or something really different?* The evidence suggests that the new reforms are different, both in character and, perhaps more important, in the ends they seek to achieve. As states became more comfortable with the exercise of their waiver authorities, the demonstrations they developed became increasingly bold. States used waivers for multiple ends (addressing income poverty, labor supply, family formation and stability, fertility decisions, and parenting skills); multiple target populations (the resident adult caretaker, the nonresident parent, the children and sometimes grandchildren, the public and community-based institutions that assist the poor, and the communities within which the poor predominantly reside); and multiple strategies (from reforms that improve the opportunities faced by recipients, to reforms that impose more obligations, to reforms that replace welfare altogether).

Perhaps the most important trend evidenced in recent state demonstration activity is a shift in program objectives: the demonstrations increasingly stress changes designed to alter personal and interpersonal behaviors. The theme of welfare reform in many states has been to concentrate on helping (or obligating) people to play by society's rules: get a job, get married, make responsible fertility decisions, be a good parent, and obey the law. This change in direction occurred only recently. As late as 1992, only a couple of states has shown interest in the *family cap* concept, under which benefits remain constant when a mother has an additional child while on AFDC. By the summer of 1996, about 40 percent of all states had actual or proposed family cap provisions and 18 states had (or had proposed) provisions requiring minor parents on assistance to live with their parents or in a supervised setting as a condition of eligibility. Also by 1996, about two-thirds of all states had (or had proposed) reforms explicitly linking welfare benefits with good behaviors, such as regular school attendance and

maintenance of up-to-date immunizations. Social engineering, in the sense of the use of AFDC policy to inform and shape a variety of behaviors, had become the rage.

## IS THE WELFARE DEBATE OVER, OR IS IT JUST GETTING STARTED?

The outcomes of devolution are not transparent. Despite widespread (and often justified) dislike for welfare programs, they have endured because changing welfare raises very difficult policy choices. Every dialogue on welfare reform confronts two policy challenges—how to alleviate poverty, particularly among children, and how to minimize welfare dependency among their adult caretakers. This dilemma makes the debate hard to resolve. Society is concerned about the condition of poor children, to whom no blame is assigned for their plight. At the same time, society has mixed feelings about the parents, to whom some responsibility for the family's economic situation is assigned.

Welfare systems like AFDC endured despite widespread criticism because, in part, policy makers had multiple ends in mind. If the issue were only reducing welfare dependency, the policy response would be obvious to all: simply end welfare. Generally, however, society is concerned about the degree of economic insecurity experienced by some children. As AFDC guarantees (the amount of benefits that a family with no other income would receive) have steadily declined, the number of poor children has climbed to levels not seen since the War on Poverty was launched thirty years ago. If reformers were concerned only with reducing dependency, then cutting benefits would be a simple policy solution. But when child poverty becomes part of the equation, the policy challenge becomes more daunting.

The real reform challenge is to reduce dependency and poverty at the same time, although past and current reformers have typically focused on one or the other of these goals. Repeated contests between those who worry about poverty and those who worry about dependency have led to frequent shifts in the basic goals of welfare reform. The welfare debate has wallowed in confusion partly because the underlying question of interest keeps shifting among the following areas of focus:

- *Child well-being.* The major concern of the architects of what became AFDC was the well-being of children. In the early days of the federal program (mid-1930s through the early 1960s), and during the decades when state-run Mothers' Pension programs prevailed (1910s through the early 1930s), the well-being of children was the focal concern. Earlier, poor and other "at-risk" children were routinely taken from homes and placed in institutions or in other, more "appropriate" environments. It was now thought that deserving mothers should be supported in their caretaking role and that this would better serve the interests of the child. A great deal of emphasis was placed on assuring that the home was "deserving" and the behavior of the adult caretaker was rigorously monitored.
- *Income deficits/poverty.* In the 1960s, the concern shifted to income poverty. Economists replaced social workers as the definers of the policy issues. Being poor became somewhat more closely associated with income deficits. After a brief dalliance with the human capital and community empowerment strategies of the War on Poverty, solutions focused more on "incomes strategies," in which the financial shortfall was directly addressed. The Negative Income Tax and welfare as an entitlement were direct expressions of this.
- *Labor market participation/private earnings.* Beginning in the 1960s and growing in importance over the next three decades, the labor market focus emerged. Mothers increasingly were expected both to care for the children and to work in the labor force. Nonwelfare mothers increasingly were juggling this dual role, and motherhood as a full-time avocation lost support. By the 1980s, policy innovation, program evaluations, and basic research had accepted this welfare-to-work theme as the core direction of welfare policy.
- *Child support strategies/absent parent involvement.* In the early 1970s, welfare officials realized other parents were not doing their share. The child support strategy initially focused on improving the absent parent's financial involvement with their children. More recently, the objective has been broadened to include time and energy as well as money.
- *Fertility/teen births/nonmarital births.* As researchers and policy makers slowly transitioned from a poverty and income support focus to a labor market emphasis, other policy concerns emerged. Changing demographics drove many to concentrate on a dramatic transformation in the profile of the American family, particularly those at the low end of the income distribution. The poor were disproportionately found among single-parent families, many of which were formed when the mother was a teen. It was not lost on observers that the cost of remedying the problems associated particularly by nonmarried teens was substantial. Slowly, fertility became a focus of concern.
- *Family formation/stability.* The ever-changing process of redefining what is important continued. Concern about the integrity of the family certainly can be traced to the creation of the AFDC Unemployed Parent program in the early 1960s and the strengthening of child support enforcement provisions in the early 1970s. Still, preserving and enhancing the family came to center stage by the late 1980s. Increasingly, observers talked about bringing the father more fully into the family in ways beyond ensuring economic contributions.
- *Child well-being, again.* We are, perhaps, in the 1990s returning to the beginning. Discussions in 1994 assumed forms similar to the "child-saving" debates of earlier times, including discussions of orphanages. Although the discussion of orphanages was brief, the focus on children has been more enduring, emphasizing questions of how to ensure that all children grow up to be productive members of society. The demands of full participation in society are increasing, and

this generation of kids must be better prepared than any previous cohort. Success will be measured in downstream benefits, failure in downstream costs.

We do not know what the next generation of reforms will look like with any certainty. The multiple goals embedded in the reform debate will not be easily achieved. Achieving many of them will require a different way of thinking about the organization and delivery of services; as well as innovative ways of crafting new participant experiences through radical institutional change. If policy and program trends evident under waiver policy are any guide, we might speculate that we will see the following in state-designed responses to devolution:

- The new welfare systems will be *behavior-oriented* rather than *income-oriented*. Among the new generation of reforms, there is a marked, though not total, shift away from income support goals to behavioral change objectives. Dominant treatment modalities will shift from income support strategies to service technologies, broadly defined to extend beyond traditional social work services but also including case management, crisis management, and counseling activities resembling social work functions that marked the provision of public assistance some three decades ago.<sup>8</sup>
- The new generation of policy/program interventions will be *complex* and introduce numerous changes simultaneously, including in some cases increased benefits to people not previously eligible for public assistance.<sup>9</sup> The new interventions will also be characterized by increased policy *volatility* (continuous change across time) and *variability* (significant differences across jurisdictions or agencies within a state).
- The new welfare systems will be *dynamic* rather than *static*. They will be oriented toward change. They will take a family at a baseline status and actively work toward changing behavior and attitudes. The welfare program in Wisconsin (Wisconsin Works, or W-2), for example, explicitly talks about participants ascending the multiple tiers built into the system. The assumption is that participants will progress or move up the tiers before “graduating” into the labor market and mainstream society.

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<sup>8</sup>Social work services were an integral part of welfare systems when it was argued that recipients might be rehabilitated or counseled out of dependency. This was particularly true in the 1960s, though the rehabilitation theme can be traced back to the Scientific Charity movement of the 1880s. Income maintenance functions were formally separated from service functions in the early 1970s.

<sup>9</sup>Simply put, welfare-type programs target benefits on the income and asset poor and on vulnerable families (e.g., single parent families with children). Such targeting inevitably creates perverse incentives and so many recent reforms, including Wisconsin Works (W-2), attempt to lessen the extent to which targeting is a policy attribute (e.g., the attempts in W-2 to decouple child support, child care, and health care from welfare status).

- The conceptual and temporal bases for thinking about what is going on will be dramatically altered. Traditional public assistance programs employ monthly accounting units, each month representing a new temporal period of interest. The new generation of reforms tend to be change-oriented: the participants are expected to evidence different behaviors as a function of their experience in the system. That is, the conceptual basis for looking at a case is transformed from a *point-in-time* perspective to a *point-in-process* or *longitudinal* perspective.<sup>10</sup> The status of the participant at any given juncture is interdependent with prior experience in the program and future expectations. All participants will be subject to time-limits, both within program components and in an overall sense. The worker, or system, must remain sensitive to where they are relative to these temporal constraints.
- The new reforms intend to affect a more diverse set of actors, and thus have *multiple units of analysis*. They address several target populations: adult caretakers in participant families (the usual suspects); children, and noncustodial parents. Some reforms are also designed to change the attitudes and behaviors of those operating the program (agency culture change) and of selected populations in the community (e.g., employers, child care providers, etc.).
- The new welfare systems will be *multi-dimensional* rather than *uni-dimensional*. An extension of the principle of individualization is the notion that all participants will not proceed through the welfare experience in a lock-step fashion. They are likely to be tracked along different paths. Differential *tracking* suggests that important decision points exist where key choices are made—the assignment of participants along distinct program trajectories that implicitly recognize diversity within the welfare population.
- The new welfare systems will be characterized by complex decisions that will require a good deal of *professionalism* and involve much *discretion*. The new welfare regimes will be *craft-oriented* rather than *routinized*. Some of the decisions under the old welfare system were fairly complex, but the basic intent of the system was to treat all participants the same. This was a practice of rough justice—treating all alike. The new generation of reforms are designed to treat participating families as individuals, or in individualized ways. Many involve the negotiation of individualized “social contracts” or “individualized employment plans.”
- The new welfare systems will be *labor intensive*. The old welfare involved repetitive, routine decision making. The emphasis was on efficiency and accuracy. Participants who wanted help were referred to other systems. Not surprisingly, administrative costs often equaled less than 10 percent of benefits issued. W-2 and similar reforms will require intensive case management and a very active rather than passive participant-worker interaction.

The old welfare was thus routinized, repetitive, limited, static, and unidimensional. The new welfare is dynamic, complex, pro-active, change oriented, longitudinal, and labor intensive. This paradigm shift inevitably is accompanied by differences in management and oversight. Standardized,

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<sup>10</sup>This distinction between these perspectives was, to my knowledge, first developed by Michael Wiseman while working with Kenosha County, Wisconsin, on the development of its innovative Welfare-to-Work Jobs Center.



routinized rules and procedures lend themselves to stable policy environments and vertical, hierarchical management structures. The new welfare policy environments are neither very stable, nor do they lend themselves to control from the top. Policy and program strategies are *volatile*, and tend to be continuously in flux. States will have more difficulty in centrally managing and prescribing agency operations. Consequently, *intra-state variation* may begin to rival inter-state variation.

States face hard challenges in institutionalizing the new public assistance. They must grapple with the structural flaws of welfare that have bedeviled national experts for decades. They must reform a system in which the expectations of what reform will accomplish have multiplied over the years. And they must do this with a federal contribution that will shrink in value over time. In this context, what can the academic and evaluation communities do to **inform the future welfare debate**?

#### THE ACADEMIC AND EVALUATION COMMUNITIES: CAN THEY CONTRIBUTE TO THE FUTURE DEBATE?

Under the new legislation states theoretically will have greater flexibility in designing and managing their support programs for poor families with children.<sup>11</sup> Greater flexibility brings increased responsibility and, given the nature of the new legislation, additional risk, because under the new welfare bill the federal contribution is fixed and will certainly decline in value over time.<sup>12</sup> This suggests that states and local governments will bear the full fiscal burden of policy decisions *at the margin*, after the federal contribution is exhausted. Thus, states (or whatever level of government program responsibility ultimately is vested in) now will have a greater stake in obtaining a priori knowledge about the likely

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<sup>11</sup>Arguably, there might be less flexibility relative to that which existed under a liberalized waiver policy. Some point to the fact there are a number of prescriptive measures in the bill. Others note that the subtle shift in fiscal risk to the states will, over time, stifle innovation.

<sup>12</sup>Even assuming modest inflation rates, the \$16.4 billion capped federal commitment likely will decline by 20 to 25 percent in inflation-adjusted terms over the course of the legislation.

consequences of their policy decisions. If policy makers assume certain behavioral responses to a reform and guess wrong, they could incur substantial costs or be required to ration services and benefits as budgets come under increased scrutiny.

In this environment of change and challenge, program evaluations and other forms of analyses become critically important. Knowledge is more critical in a devolved policy environment, since the decision making vested in local governments is both more complex and more consequential. But though the *value* of knowledge is greater, the *price* of knowledge also has increased. The federal government will neither mandate that evaluations be done, nor ensure that certain methodological standards be maintained.<sup>13</sup> Many jurisdictions will hope to be free riders, letting others incur the fiscal and other costs of doing evaluations while still taking advantage of the results.

Even if costs were not a problem, evaluations of the next generation of reforms will be challenging because of their character. Many state welfare reforms emphasize varying combinations of what Lawrence Mead has termed “new paternalism” programs. These programs—which often require school attendance, work, or a daily activity that leads to work—are bundled into varying packages designed to discourage dependency on public assistance, to influence family-formation decisions, and to promote work. State officials implementing these packages expect their reform strategy to yield greater impacts than would be assumed from the sum of the impact of each individual reform, and they worry that separate evaluations of program components may understate overall impacts. They also fear that critical social messages embedded within “new paternalism” initiatives will be less effectively communicated in an environment of random assignment of individuals to varying treatment, compared to reforms that are universally implemented.

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<sup>13</sup>The federal government will, however, continue to be a player. They are expected to contribute some \$7.5 million per year to state evaluations for the foreseeable future.

In addition, the next generation of reforms are designed to change behavior rather than provide income support, and thus require a whole new relationship between agency and client. They are complex, subject to continuing change, and often call for radical changes in agency *culture* which, among other things, decentralize decision making, rendering management control more problematic. Though classic experimental methods unquestionably remain the most powerful tool for identifying causal associations, they may not always be feasible or warranted in this emerging policy milieu.

In short, the conventional approach to evaluation has been to change one or two parameters of the existing welfare program; randomly assign participating families into either an experimental or a control group; and examine “net” outcomes on a limited number of measures that virtually everyone agreed was important. None of that holds any longer. The changes are broad in scope and complex in character; the target groups of interest are numerous; the outcomes of interest are even more numerous. Policy designers want to radically alter agency cultures and communicate a whole new set of messages to low-income communities. If anything, random assignment would mute the message and make changing agency culture more difficult. In effect, it is a new ball game.

These and related challenges to the evaluation community and to the methods that have come to dominate program evaluative strategies have often been described.<sup>14</sup> A responsive strategy remains elusive, however. Over the past year, interest in developing a coherent response to what might be called *the evaluation challenge* has emerged and become more pressing.

In February 1996, the National Center for Children in Poverty (NCCP) and the Institute for Research on Poverty (IRP) brought together representatives of the academic evaluation community, top evaluation firms, policy research organizations, foundations, and various federal agencies to discuss the challenges posed by the anticipated “devolution revolution.” The results of that session were reported in

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<sup>14</sup>For example, see IRP Special Report no. 69 “Evaluating Comprehensive State Welfare Reforms,” using Wisconsin Works as its basis.

*Focus* (newsletter of the IRP), Vol. 18, no. 1. A concern reflected throughout the conference was that little might be learned from the anticipated explosion of innovation and investigation anticipated in a devolved policy world. It was feared that, absent a strong federal role, program evaluations would be too idiosyncratic, underfunded, poorly designed and managed, or politicized to create a stock of theoretical and practical knowledge essential to a devolved policy world.<sup>15</sup>

One suggestion was to build the notion of a “*Guild*,” to develop a commonly accepted set of understandings, practices, and methods for how to do acceptable program evaluations.<sup>16</sup> The discussion also touched upon the need for improved mechanisms through which evaluation results might be collected, organized, interpreted, integrated, and disseminated. A follow-up session of major foundations interested in welfare reform and devolution was held in New York in March 1996. Again, the idea of a guild and related strategies were discussed. Further dialogue on these concepts was not sustained, in part because legislated devolution of national welfare reform faced an uncertain future.

In November 1996, the Institute for Research on Poverty held a working conference using the Wisconsin welfare reform proposal as a laboratory for exploring methodological and other challenges associated with evaluating the new reforms. The conference devoted a half day each to three issues: a counterfactual for an evaluation of W-2, potential contents of a process evaluation of W-2, and potential contents of an impact evaluation of W-2. The presentation of papers was interspersed with group dialogues and review and comment by panels of conference participants.

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<sup>15</sup>At a meeting of welfare officials from seven Midwest states, the question of whether they would continue to use experimental evaluation designs was raised. Other than two states which said they might finish existing evaluations that employ random assignment, none were confident that experimental designs would be used in the future. In another instance, a federal official and an official from a well-known evaluation firm were present at the reporting of evaluation findings. They both concurred that the idiosyncratic method for reporting findings severely limited the study’s utility.

<sup>16</sup>We use the term Guild to represent voluntarily accepted standards of practice and behavior by the practitioners of a given trade, in this case the program evaluation trade.

Reactions from participants after the conference indicated that it was a very helpful step, but that more work was needed to:

1. Expand the discussion to the reforms of states beyond Wisconsin.
2. Give more thought to the variables which evaluations should consider—the core issues that should be known about the impacts and processes of a reform and, perhaps, secondary issues that are less critical but merit attention if resources are available.
3. Allow discussions by state program officials responsible for managing welfare reforms. These discussions might include specific variables that they would want evaluations to examine; the constraints they need to address in doing evaluations; and the primary research and management issues that must be addressed.
4. Use academic researchers, policy research organizations, and federal officials to discuss criteria necessary for cross-state comparisons and the potential of federal data-gathering efforts.

Future steps suggested by conference participants focused on broadening the evaluation discussion to encompass a more national perspective, to ensure more participation by evaluation consumers (e.g., state officials), and to give more attention to what is needed to facilitate cross-state comparisons and generalizable knowledge-building.

The academic and evaluation communities are at the crossroads as devolution becomes a reality. There are encouraging signs that states remain interested in learning from their innovations. About 60 percent of the states submitted proposals to the U.S. Department of Health and Human Services to secure funds provided under the welfare bill to continue existing evaluations or initiate new evaluations. At the same time, good intentions are not enough, and the challenges and difficulties faced by states in conducting good evaluations are unprecedented.

States are likely to require much support in answering the following kinds of questions: How does one establish a *counterfactual*? How are the correct *criterion variables* selected? How does one agree upon which *target groups* to examine? What is the appropriate *unit of analysis*, individual or case or agency or county? How does one go about determining *overall* and *component* effects? Should the implementation analysis be used in a formative way, if that increases policy instability and confound the

impact analysis? Should local discretion and flexibility be curtailed, so that the character of the intervention might better be understood?

Evaluation concerns can derive from two quite different interests: (1) the broad social and economic problems of concern to policy makers, and (2) the specific goals of current programs and policies. The former set of questions is much broader and more complex, and most of the current demonstration evaluation research, particularly that being funded by the states, addresses only the second concern. But any agenda to *inform the welfare debate* should cover not only an assessment of the success of the reforms in meeting their central objectives, but also other possible consequences and the mechanisms through which both intended and unintended consequences occurred.

Several generic strategies might be proposed to enhance the roles of research and analysis in future welfare reform discussions:

**1. *The Guild strategy***—replicate and extend the work begun at the February 1996 NCCP/IRP conference and continued, in part, at the November IRP evaluation conference, but with a broader purpose and agenda. No single event will suffice. We intend to initiate a set of activities to develop the following:

- **Consensus regarding acceptable methods.** There are two main types of evaluation—*process* and *impact*. Both are difficult to do and both are important. There are not agreed-upon methods for doing process analyses; consequently, studies permitting cross-site comparisons are not common. Since the classic experimental design may no longer be the *sine qua non* for doing impact analyses, what alternatives are reasonable and acceptable for establishing causal inferences? Establishing minimal standards may not be a reasonable goal; moving toward such standards may be a necessary objective.
- **Common terms and definitions.** Even where everyday terms are used—such as case, or successful outcome, or full employment, or noncompliance—great variation in meaning may occur in a devolved policy world. Without agreement on the meaning of terms, cross-state comparisons will be difficult.
- **Common research questions.** All evaluations start with research questions concerning management and theoretical issues about which empirical information is desired. The questions posed inform all other features of the evaluation—choice of outcomes, choice of methods, and so forth. If a consensus (or movement toward a consensus) could be developed around a set of management and research questions, more comparability across evaluations would be likely.

- **Common outcomes of interest.** Defining success in a devolved policy world will be a major challenge and a likely point of contention. Those who select the outcomes of interest and choose how to operationalize those outcomes greatly influence the political agenda of reform. Although local preferences should not be ignored, a core group of common outcomes, consistently operationalized, is needed to anchor state and local evaluations and permit analyses across jurisdictions.
- **Common reporting of findings.** Several evaluations conducted by the Manpower Demonstration Research Corporation have been quite influential, in part because they reported findings in an understandable manner. More varied evaluations by an increasing number of evaluators are likely in the future, and standards for reporting results would be helpful.

**2. The information and technology diffusion/utilization strategy**—the dissemination of information and “institutional” behavior modification. Over time, we would like to inform and shape the way selected individuals and institutions do their business. We are not looking for miracles, just progress. Some target populations and behaviors might include:

- *state officials*—develop increased appreciation for the necessity and value of evaluation that employ a common core of research questions and outcomes that facilitate cross-site comparisons, use methods that permit the articulation of causal inferences with some confidence, and actively explore the learning possibilities in the creative use of integrated administrative data sets.
- *evaluation firms*—move toward common terms, definitions, methods of reporting results; toward common ways of doing process and implementation analyses, again to facilitate comparability and the creation of a stock of knowledge.
- *academics*—get more involved in applied policy analyses and program evaluation activities at the state and local level. Develop increased ability to report findings in such a way that allows researchers and their work to become more influential and useful to policy makers.
- *foundations*—move toward common standards in making awards, improve the technical knowledge of program officers, increase interest in research and evaluation activities.
- *federal officials*—increase technical assistance and continue to play an active, though perhaps less official, role in enhancing the quality of evaluations. Increase the use by federal officials and organizations of neutral, third-party experts to perform review and monitoring functions that can no longer be performed internally.

Influencing these target populations involves continuous communication and contact.

Dissemination in this context should not be confused with one-way communication of “fact.” Rather, we are talking about a semi-coordinated effort to keep the evaluation agenda alive, move toward the common

understandings and tools suggested as part of the Guild, and communicating information that may be useful to policy audiences in ways they can use.

Each of the steering-group institutions is connected with the target-group members in some way. Each of these organizations has, or is developing, venues for communicating with relevant parts of the policy and evaluation worlds.<sup>17</sup> We intend to use the various communication vehicles that each possesses to increase and maintain this contact. The premise is that continuous dialogue and attention through a variety of communication outlets will influence the evaluation culture and move to a functioning guild concept.

**3. The “expert” review panel strategy**—evaluations of reform initiatives will inevitably vary in quality and utility, despite efforts toward common standards. Consequently, we propose to establish a pool of expert reviewers to examine more important evaluations for the following purposes:

- a. To isolate which results and findings from an evaluation might be accepted with some degree of confidence. This would be an effort to sort out credible findings from those that are questionable owing to methods or management.
- b. To identify and relate credible findings across diverse evaluations in order to build up a body of knowledge based on common findings in diverse program and situational contexts.
- c. To identify findings that seem contradictory, and thus may constitute research and management issues that require further study. This is an attempt to identify the cutting-edge issues requiring analytic attention.
- d. To articulate those issues that require additional study, and possibly suggest ways they might be examined. That is, the panel should advance the art of issue identification and resolution.

The composition and sponsorship of the panel is critical. Academics drawn from affiliates of the two national poverty centers, IRP and the Joint Center for Poverty Research (Northwestern University and the University of Chicago) would be likely participants. But methodological input is only one

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<sup>17</sup>One possibility is to use the Casey Journalism Center on Children and Families, designed to prepare journalists to cover complex issues such as devolution. Preparing journalists to make sense of confusing claims and counterclaims made about program and policy “success” would be a valuable contribution.



dimension of interest. We also want the consumer's perspective, and perhaps even input from the most common producers of program evaluations—the top evaluation firms. Thus, we potentially see panels drawn from academics, state evaluation and policy units, evaluation firms, and the federal government. Mechanisms for ensuring cross-panel communication would be developed.

There may be some urgency to moving on this particular strategy. Many evaluations of waiver-based reforms will be issued over the next 12 months. A critical review of these evaluations would both enhance their utility and help in the process of improving the next round of assessments.

**4. The state peer-assistance network strategy**—expand and replicate the use of *regional state networks* to facilitate communication among welfare officials representing contiguous states. It is assumed that, under devolution, peer consultation will become the best way to identify common problems and the best source for developing solutions. A prototype for such a network is being developed among upper Midwest states,<sup>18</sup> called the Midwest Welfare Peer Assistance Network (WELPAN). Welfare officials from Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio, and Wisconsin have been meeting since October 1996 to share problems and search for common solutions.

The premise of WELPAN is that, under devolution, horizontal communications (across states) will increasingly replace vertical communication (from the national level to the local level). The WELPAN group chose, as its first substantive topic, the issue of **defining success in welfare reform**. The next topic will involve sharing insights about how to effectively **alter the institutional culture** of welfare agencies. To date, the meetings have been a combination of general information and problem sharing, coupled with in-depth discussions of selected topics. Participating members control the agenda and determine who may attend the meetings. The Family Impact Seminar and the Institute for Research on Poverty provide staff support for the sessions.

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<sup>18</sup>The Joyce Foundation is providing financial support for this effort.

Experimenting with some variant of WELPAN in the Midwest or another region promises a means for creating an environment through which common evaluation strategies might develop and through which new knowledge can effectively be disseminated. The participating members in the group are upper-level management and not individuals with particular expertise in evaluation. Experimentation with a parallel network of researchers, evaluation experts, and policy makers drawn from participating states may also prove necessary. The substantive agenda would focus on the following: how best to develop and manage effective evaluation strategies in the participating states; how best to interpret findings from such studies; and how to assess the significance and utility of findings from studies and evaluations carried out in nonmember states. Member states might also explore the possibility of cross-state evaluations or combining resources to monitor performance and outcomes.

## SUMMARY

Although welfare reform has passed at the national level, it is unlikely that the debate about welfare is over. The problems are too intractable, the challenges too awesome. The debate, however, is now distributed more broadly, lacking a central audience and stage. In response, we have begun to think through a set of strategies for continuing the work of *informing the welfare debate*. The papers in this special report set the stage. The generic strategies laid out at the conclusion of this paper indicate some possible future initiatives. Clearly the work has just begun.



**Welfare Policy and Caseloads in the United States:  
Historical Background**

Thomas Kaplan  
Associate Scientist  
Institute for Research on Poverty  
University of Wisconsin–Madison

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## **Abstract**

As context for the termination of the Aid to Families with Dependent Children (AFDC) program during 1996, this paper reviews the history of welfare in England and the United States, giving special attention to the establishment of AFDC in 1935 and its subsequent evolution. A distinguishing characteristic of AFDC was a steady increase in caseloads until 1994, with two periods of especially rapid growth. The paper discusses sources of, and reactions to, that growth. The paper also argues that, despite the recent replacement of AFDC with a federal block grant, several enduring themes in the history of welfare continue.

## INTRODUCTION

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 converted the Aid to Families with Dependent Children program from a federal-state entitlement to a block grant. By eliminating national eligibility requirements and a guarantee of financial support to all qualified families, while prohibiting states from offering more than five years of assistance to most recipients, the block grant represents a major shift in U.S. social policy. Yet it is useful to view this shift in perspective. Despite the sharp break with tradition, several features long characteristic of American social welfare policy continue. Some of these enduring features have been:

- A rough acknowledgment of a degree of public responsibility to assist the poor, tempered by a concern that public assistance could reduce work effort and other forms of self-reliance;
- An understanding that the poor are a diverse group, and that policies appropriate to some of the poor might be counterproductive to others;
- A belief that welfare recipients able to work should do so;
- A degree of competition between public welfare agencies and private charitable organizations and between welfare programs for the poor and social insurance programs for people of all income levels;
- A general concern with rising welfare caseloads and, usually, an inclination to view caseload increases as reflecting the personal characteristics of welfare recipients rather than social or economic disruptions beyond the control of recipients;
- Except for the fifty years from about 1935 through 1985, a consensus that most government assistance policies are best determined at the state and local levels.

The purpose of this paper is to place current block grant policies in the perspective of several hundred years of U.S. social welfare policy and practice. Part 1 of the paper provides a broad survey of early directions in social policy in the United States; it becomes a more detailed survey as it moves toward the present. Part 2 describes caseload trends, and discusses reasons for those trends, in the Aid to Families with Dependent Children (AFDC) program, the most politically contentious social welfare program in the United States before its elimination in PRWORA. Much U.S. social welfare policy discussion from 1960, when AFDC first became an important political issue, to 1994 occurred in the context of generally rising AFDC caseloads.

**PART 1: A HISTORICAL REVIEW OF U.S. WELFARE POLICY**

Many histories of social policy in the United States have been written from a “Whiggish” perspective, holding that high-minded reformers, supported by concerned elites, led a gradual (but sometimes interrupted and often bitterly controversial) unfolding of progress toward ever more advanced forms of social provision. Viewed in this perspective, reformers were especially active in making their case for evolutionary progress in social policy during periods of intensified hardship among the poor.<sup>1</sup>

Several historians have recently tempered this sense that U.S. social policy changes primarily as a result of careful analysis and persuasive argumentation from concerned and convincing reformers. These historians have emphasized instead the importance of gendered and social class perspectives, of unique characteristics (compared to other industrial powers) of the American state, and of an enduring conflict between the needs of capital for willing and low-cost workers and the occasional ability of the poor to mount effective protests.<sup>2</sup>

This paper adheres generally to the Whiggish tradition, at least in its emphasis on the concerns of policy elites, largely because of an expectation that most readers of the paper will be current reformers and policymakers. If, as recent historical scholarship suggests, past conversations among policy elites

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<sup>1</sup>Edward D. Berkowitz, Mr. Social Security: The Life of Wilbur J. Cohen (Lawrence: University of Kansas Press, 1995) offers an example of this Whig tradition. For a quite different, but still roughly Whiggish, perspective see Marvin Olasky, The Tragedy of American Compassion (Washington, D.C.: Regnery Gateway, 1992), which argues that reformers led a gradual evolution of social policy in negative, rather than positive, directions; that is, away from Calvinist religious traditions and toward naïve Social Gospel religious formulations.

<sup>2</sup>For the importance of gendered perspectives, see Linda Gordon, Pitied but Not Entitled: Single Mothers and the History of Welfare (New York: Free Press, 1994). For a focus on state capacity, see Theda Skocpol, Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States (Cambridge, Mass: Harvard University Press, 1992). For a focus on the needs of capital and the effect of protests among the poor, see Frances Fox Piven and Richard A. Cloward, Regulating the Poor: The Functions of Public Welfare (New York: Vintage Books, 2nd edition, 1993).

have not been primary engines of policy change, they at least offer policy context for those seeking to exert contemporary influence.

### The British Precedents

Many characteristics of American social policy retain the influence of the late 16th and early 17th century Elizabethan Poor Laws, the precursors to the modern welfare state. Under these laws, parishes in England were to divide their poor into two groups: those deemed unable to work—the “lame, impotent, old, blind”—and the able-bodied. The poor who could work were provided what amounted to public service employment, an Elizabethan version of workfare.

From their inception, the Poor Laws generated controversy around an enduring dilemma of social provision: if public support is provided to the needy, then some people—perhaps especially those least likely to be able to command a market wage significantly higher than the benefit they could receive from public support—may accept the public benefit and not search hard for work, or, if they do find a job, not work as hard or save as much as they otherwise might. Poor Law critics argued that this dilemma could arise even when public support was limited to those deemed unable to work. Benjamin Franklin thus wrote, after a visit to England in 1766, that the English Poor Laws had reduced the incentive of the able-bodied to save for a “rainy day”:

The day you passed that act [the Elizabethan Poor Law of 1601] you took away ... the greatest inducements to industry, frugality and sobriety by giving [the poor] a dependence on somewhat else than a careful accumulation during youth and health for support in age and sickness.... I think the best way of doing good for the poor is not making them easy in poverty.... There is no country in the world where so many provisions are established for the poor, so many hospitals to receive them when they are sick or lame founded by voluntary charities, so many almshouses for the aged of both sexes, together with a solemn general law made by the rich to subject their estates to a heavy tax for the support of the poor. In short, you offered a premium for the encouragement of idleness, and you should not now wonder that it has had its effect in the increase of poverty.<sup>3</sup>

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<sup>3</sup>Quoted in Samuel Mencher, Poor Law to Poverty Programs (Pittsburgh: University of Pittsburgh Press, 1967), p. 96.



Despite the criticisms, Poor Law administrators hoped they could at least alleviate basic dilemmas of social provision by conditioning most public benefits on work. When work in the private market was plentiful, the work requirement could be imposed through what came to be called the “Speenhamland System,” after the British city in which Poor Law administrators developed plans to supplement with public funds the wages of relief recipients assigned to jobs on privately owned farms. When private farm work was less available, the able-bodied poor could be made to work in publicly operated workhouses designed, at least in part, to be so unattractive that no one would enter them except as a last resort. If, for some reason, cash relief had to be provided to families outside a workhouse setting, then, to assure that at least some work incentive remained, relief administrators followed the principle of “less eligibility,” under which relief payment levels were set to provide less income than the lowest-paid jobs in the area.

#### The Establishment of Public Responsibility for the U.S. Poor

The American colonists were no less worried about the incentive effects of the Poor Laws than were the British. Nevertheless, few governments in the new United States found it possible to avoid reacting in some way to immediate needs of homelessness and starvation. Most states in this country established public responsibility for poor relief by the early 19th century, usually assigning the obligation to counties or municipalities. In general, local governments carried out their state-imposed responsibilities through one of four strategies: auctioning the poor off, contracting with wealthier families to care for them, placing needy people in public institutions, or providing cash or commodity assistance in the home.<sup>4</sup>

Yet state and local government officials continued to worry, as a New York report of 1824 expressed it, that “our poor laws are manifestly defective in principle, and mischievous in practice, and

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<sup>4</sup>Michael B. Katz, In the Shadow of the Poorhouse: A Social History of Welfare in America (New York: Basic Books, 1986), pp. 14–15.

that under the imposing and charitable aspect of affording relief exclusively to the poor and infirm, they frequently invite the able-bodied vagrant to partake of the same bounty.”<sup>5</sup> If cash assistance became widespread, many reformers of the 19th century worried, “pauperization” would increase and relief recipients would, over time, lose the will or self-confidence necessary to maintain control over other parts of their lives, such as their parenting roles. Dependence on the state for cash assistance might, as a result, lead to dependence on the state for other services as well.<sup>6</sup>

A series of reforms in the 1820s and 1830s in the United States and Britain attempted to replace “outdoor” relief—the giving of cash or commodity assistance to the poor—with workhouses intended to rehabilitate the poor and deter frivolous welfare use. Cash assistance did not disappear entirely, but much of the welfare reform impulse over the remainder of the 19th century was expressed through efforts to eliminate cash relief wherever possible. “Scientific Charity” reformers in the 1880s and 1890s thus emphasized careful review of the unique characteristics of each individual case, moral suasion, and early casework techniques on the part of private charity volunteers, in the hope that these efforts would enhance the functioning of impoverished families and minimize the granting of cash assistance. In some places (for example, Brooklyn, New York) welfare reformers of the late 19th century succeeded for a short time in eliminating public cash assistance entirely, although cash from private charitable organizations was still available to certain families willing to receive the ministrations of a “friendly visitor.”

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<sup>5</sup>Quoted *ibid.*, p. 17.

<sup>6</sup>Linda Gordon, “Social Insurance and Public Assistance: The Influence of Gender in Welfare Thought in the United States, 1890–1935,” *American Historical Review*, 97, no. 1 (1992): 19–54, discusses the carryover of 19th-century worries concerning pauperization into 20th-century social work. See especially pp. 27–31.

Government Policy toward Low-Income Children

By the second half of the 19th century, reformers interested in the well-being of children were noting that many state laws authorized more public intervention to address cruelty to animals than to respond to cases of child abuse or neglect. Reformers mounted an extensive “child saving” movement, arguing in courts and other settings that children deserved at least as much public protection as animals. Charles Brace, founder of the New York Children’s Aid Society, proposed that the thousands of urban children who were either orphans or had no effective adult supervision be moved to farms that would benefit from their labor and offer loving and disciplined care. Between 1853 and 1893, Brace’s organization placed some 91,000 youth on farms—about 40% in rural New York State, another 40% in the Midwest, and the remainder in southern and southwestern states.

Some of these children were quite successful in later life. The limited records of the New York Children’s Aid Society show that three became governors, 498 grew up to become merchants, bankers, or businessmen, and 81 became teachers.<sup>7</sup> Still, most of the 91,000 placements were not tracked over long periods, and some of the children clearly failed to thrive in their new settings. The chairman of the Wisconsin Prison Board charged in 1871 that the “farming out” program had corrupted his peaceful state through the placement in it of “juvenile criminals.”<sup>8</sup>

By the early 20th century, as farming became a less important part of the nation’s economy, a new policy emphasis focusing on the retention of children in their own homes emerged. A White House Conference on the Care of Dependent Children, held in 1909 near the end of Theodore Roosevelt’s presidency, formalized the policy and announced it to a broad audience. Adhering to long tradition, reformers intent on converting the new policy into action did not try to do so through national laws. Working through networks of state interest groups, reformers sparked a “wildfire spread” of state

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<sup>7</sup>Olasky, The Tragedy of American Compassion, pp. 34–41.

<sup>8</sup>Ibid., p. 41.

legislation on Mothers' Pensions laws—programs offering income support to certain mothers rendered destitute by, in most cases, the death of a husband. Pension promoters conceived of their program as a way of “honoring motherhood,” imposing on recipients an obligation to be good caretakers of their children but (in theory) freeing them of the need to work for pay.

The Mothers' Pensions movement was a political triumph: in the ten years from 1911 through 1921, an astonishing 40 states enacted Mothers' Pensions legislation. But the movement also revealed the difficulties of implementing national policy through individual state action. After expending so much effort on legislative enactment in each state, no serious attention was given to the way states carried out the legislation. In most states, the programs were mere shells: neither state nor local units of government appropriated funds to allow actual payments for many people, and the payments that were provided fell far short of meeting the reformers' dreams of fully replacing 19th-century poor laws with modern social provision.<sup>9</sup>

#### First Stirrings of National Reform: The Social Insurance Track

In the late 19th century, social reform in many European countries began to emphasize “social insurance.” In contrast to welfare programs, which typically provide assistance only to the poor and do so out of general tax revenues, social insurance programs provide assistance to people of all income levels, so long as they or their employers have contributed either financially to a public fund or in some other tangible way to a specifically defined goal. The most prominent European social insurance example was the workers' pensions program developed in Prussia.

Broadly conceived, contributory social insurance in this country dates back to the Homestead Act of 1862, which provided federal land to settlers, regardless of their income, who had contributed five years of residence and labor to their homestead. Following in this tradition, the Civil War Pension Act,

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<sup>9</sup>See Skocpol, Protecting Soldiers and Mothers, pp. 424–479.

particularly after large expansions in 1890 and 1906, provided benefits to anyone over age 62, again regardless of current income, who had made the contribution of serving for at least 90 days in the Union Army. Between 1890 and 1910, through a patronage-ridden bureaucracy that failed to inspire much confidence in further government pension programs, at least one-half of all elderly, native-born men in the North received a Civil War pension.<sup>10</sup>

### The Founding of AFDC and Social Security

The two dominant forms of social provision in the United States—welfare and social insurance—became policy competitors for the first time in the 1930s. President Franklin Roosevelt held a general preference for social insurance over welfare, having sought unsuccessfully as governor of New York to establish a state program of contributory social insurance for the elderly. Yet he had also enacted a large new welfare program in New York, and he showed no hesitation about combining welfare programs (one for the low-income elderly and one that provided federal funds to low-income single parents with children) with social insurance for the elderly and unemployed in his proposed Social Security legislation of 1935.

The welfare program for single parents was originally called Aid to Dependent Children (the Families part of the title was added in 1962), and it received much less attention than several other titles in the act. Old Age Assistance, a welfare program for the low-income elderly, proved to be the most popular title and was much discussed among Social Security Act supporters. The unemployment and retirement insurance parts of the act also generated attention.

In retrospect, it is possible to see three competing visions among officials thinking about the establishment of ADC, although none of the adherents to these visions carefully articulated their own

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<sup>10</sup>Civil War Pensions are discussed in Skocpol, Protecting Soldiers and Mothers, pp. 102–151, and in Ann Shola Orloff, “The Political Origins of America’s Belated Welfare State,” in Margaret Weir, Orloff, and Theda Skocpol, eds., The Politics of Social Policy in the United States (Princeton, N.J.: Princeton University Press, 1988), pp. 37–80.

view in comparison to the other two, and all deemed ADC subordinate to other issues.<sup>11</sup> The three groups of adherents were:

1. The Leadership of the Children's Bureau in the Department of Labor. These administrators viewed themselves as representing the professional (and largely female) social work community. Generally, they wanted the new ADC program to emphasize social casework along with the provision of cash, and they often favored program designs in which caseworkers made judgments about the worth of potential recipients as a condition of cash assistance.

Children's Bureau administrators were comfortable with the idea of administering ADC through state and local governments. Their comfort stemmed in part from the experience of the Children's Bureau with Mother's Pensions programs, for which bureau involvement was limited to gathering and reporting enrollment and expenditure data by state. Because of this experience, although the Mother's Pensions program was far from perfectly functioning, bureau administrators could at least envision the possibility of exerting policy control through sometimes indirect federal action.

President Roosevelt's Committee on Economic Security, which was responsible for developing a Social Security bill for congressional consideration, delegated to the Children's Bureau the drafting of both the ADC title and another title, covering a maternal and child health (MCH) program. Children's Bureau administrators considered the maternal and child health title to be a much higher priority than ADC, because a federal MCH program had originally been enacted in 1921 but then eliminated eight years later by a combination of conservative and American Medical Association interests. The re-establishment of an MCH program, with a requirement that states create public child welfare or hygiene agencies to administer federal funds, had come to seem a critical test of the ability of reformers to improve the condition of women and children in the United States.

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<sup>11</sup>The following discussion derives from Gordon, Pitied but Not Entitled, pp. 253–285.

2. The Federal Emergency Relief Administration and Harry Hopkins. As the Social Security Act was under development and debate in 1934 and 1935, Harry Hopkins was director of the Federal Emergency Relief Administration (FERA) and, late in that period, of the Works Progress Administration (WPA), initially a part of FERA. Not yet the dominant presidential advisor he would become in Roosevelt's second and third terms, Hopkins conceived of ADC the way he thought of FERA and the WPA. To the maximum extent possible, he wanted ADC to be federally administered, with little role for state and local governments. Despite his own background as a professional social worker, he also wanted a minimal role for social workers in the ADC program, arguing that effort spent on assessing the worth of cash relief recipients was at least inefficient and probably unnecessary.

Hopkins wanted ADC to be administered within FERA, so as to form the core of a national welfare agency that could rationalize relief, ultimately unifying separate work and cash relief programs to which families might be entitled. He successfully lobbied, over the objections of Children's Bureau staff, to revise the Children's Bureau draft of the ADC program and propose placement of ADC within FERA.

3. Social Insurance Advocates. Led by Arthur Altmeyer, Assistant Secretary of Labor in 1934 and later Administrative Director of the Social Security program, social insurance advocates generally favored the enactment of ADC. But they viewed ADC as a form of welfare distinct from the social insurance programs to which they gave far more priority. Their vigorous advocacy of social insurance—emphasizing distinctions between universal, contributory social insurance and means-tested, noncontributory welfare available only to the poor—may have contributed to the subsequent unpopularity of ADC. Primarily because of congressional concerns about more authority for either Harry Hopkins or Secretary of Labor Frances Perkins (who supervised the Children's Bureau), the Social Security Act as passed by Congress placed ADC under a separate Social Security Board, headed by three presidentially appointed commissioners.

### Administering the New ADC Program

The decision to place ADC under the Social Security Board had important ramifications. Although Altmeyer and other administrative leaders of the board seemed to have no strong animosity toward welfare programs, their clear priority was social insurance. They worried throughout the 1940s that the welfare programs established in the Social Security Act covered more people than did social insurance. If hard financial conditions returned, Altmeyer was concerned that social insurance programs, not seeming to provide as important a bulwark against economic want as did the larger welfare programs, would be politically vulnerable.

The difference in the number of people covered by welfare and social insurance stemmed from the way the programs had been funded in the Social Security Act of 1935. The welfare programs received support from current tax revenues, which allowed the federal government to begin making welfare payments to states immediately after legislative enactment. Social Security retirement payments, in contrast, were to be made from a self-supporting trust fund that required several years of contributions from potential recipients before payments could begin. Favoring the concept of prior contributions, the Social Security Board could not quickly correct the disparity in the number of people eligible for welfare and social insurance. But the board's general policy, consistently implemented until the early 1950s, when social insurance finally covered more people than did welfare, was to restrict the size of welfare programs and expand social insurance whenever that was possible.

The first opportunity for social insurance advocates to expand social insurance and reduce welfare occurred in the 1939 amendments to the Social Security Act. Among other changes, the amendments transferred public provision for widows from ADC to a social insurance program, through the creation of Social Security Survivors Insurance. At about the same time, social insurance leaders recommended that state ADC programs institute individualized budgeting for each ADC case, a step which usually entailed a detailed review of how recipients were spending their money. The result was a



reduction in average expenditures for ADC cases and, almost certainly, a disincentive to apply for ADC among some potential recipients.

Without explicitly stating the goal, social insurance advocates thus sought for a time to keep welfare benefits small and the program unattractive. This policy would have had limited impact if social insurance and welfare programs served the same populations. But social insurance served people with a substantial labor market history or who were dependents of someone with such a history, while welfare covered people without that labor market connection. In general, minorities (at least until program expansions in the 1950s led to Social Security coverage of agricultural and domestic laborers) and unmarried women and their dependent children were less likely to have jobs covered by Social Security and more likely to be eligible only for welfare programs. White men, women married to white men, and their children were most likely to be covered under Social Security.

To be fair to the social insurance leaders, the Social Security program they had fought so hard for was politically vulnerable in the late 1940s and early 1950s, and their attempt to increase social insurance and decrease welfare coverage was not without political merit. In addition, social insurance programs have advantages (along with some disadvantages) over welfare. Many social insurance advocates hoped that Social Security would eventually expand to provide nonwelfare assistance to all children, or at least to all young children, and Social Security officials made such proposals well into the 1960s.<sup>12</sup> Other than the creation of Survivors Insurance, however, which probably deepened the unpopularity of ADC by removing from it the category of beneficiaries receiving the most public sympathy, all such proposals

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<sup>12</sup>For an example, see Alvin Schorr, Poor Kids: A Report on Children in Poverty (New York: Basic Books, 1966).

failed.<sup>13</sup> Instead, an ADC program attracting no greater public sympathy than traditional poor relief was set in place.

### National Welfare Reform: Rehabilitating the Poor

Because ADC was to an important extent locally administered, state and local officials were as influential as federal policymakers in determining the character of the program. Throughout the first 25 years of ADC, local administrators often conditioned benefits on the behavior and “fitness” of recipients. They examined length of residence in, or familial ties to, the local community and, in some places, monitored sexual practices and reviewed school attendance and performance.

Despite these limiting criteria, ADC caseloads grew after World War II, from some 2.2 million in 1950 to nearly 3 million by the end of the decade. By the early 1960s, concerns about growing dependency began to appear in popular magazines. U.S. News and World Report raised the possibility that nonmarital births and rising ADC caseloads were casually related in an article of 1961 titled “The Growing Scandal of Relief.” The article cited several dramatic examples, such as a woman in New Jersey “with 14 illegitimate children, by 10 different fathers” who had “drawn more than \$61,000 in welfare money over an 18 year period.” Reader’s Digest followed quickly with an article on “Children without Fathers: The Shocking Truth about the Aid to Dependent Children Program,” and Look weighed in with an article on “Welfare: Has It Become a Scandal?”<sup>14</sup>

Many expressions of concern about welfare crystallized around what became known as the “Battle of Newburgh.” In October 1960, the City Council of Newburgh, New York, selected Joseph

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<sup>13</sup>Christopher Howard, “Sowing the Seeds of ‘Welfare’: The Transformations of Mothers’ Pensions, 1900–1940,” Journal of Policy History, 4, no. 2 (1992), p. 216, makes the point about the political effect of the development of Survivors Insurance on ADC.

<sup>14</sup>“The Growing Scandal in Relief,” U.S. News and World Report, September 11, 1961, p. 84; Charles Stevenson, “Children without Fathers: The Shocking Truth about the Aid to Dependent Children Welfare Program,” Reader’s Digest, November 1961, pp. 72–80; Fletcher Knebel, “Welfare: Has It Become a Scandal?” Look, November 7, 1961, pp. 31–33.

Mitchell as the new city manager. The city had administrative responsibility for both the ADC and General Relief programs, and Mitchell quickly made welfare a principal concern. He issued a series of controversial directives: General Relief and ADC recipients were to collect their checks at the police station, newly arrived welfare applicants were to show they had a concrete offer of employment before arrival, all applicants had to show they had not voluntarily left their last job, all benefits were payable in the form of vouchers rather than cash, and able-bodied men were to receive their benefits only through work relief.

Mitchell's proposals attracted support both in New York State and nationally. Mitchell gave a series of generally well-received speeches in upstate New York and in New York City. A national Gallup poll indicated heavy public support for the Newburgh measures, and Mitchell claimed to have received 10,000 to 15,000 letters supporting his position by a ratio of 100 to one. Senator Barry Goldwater met with Mitchell and said that every city should adopt a Newburgh plan.

For President Kennedy, whose interests as a senator had focused on foreign and military policy but who took office as the "Newburgh Battle" raged, the issues must have seemed troubling. It was clear that the public was, for the first time, expressing a demand for major ADC reform, yet his liberal constituency viewed the Mitchell proposals as unacceptable. The president might, of course, have tried to explain ADC caseload increases by pointing to sudden changes in agricultural technology, which had made unnecessary the work of low-skilled African American laborers in the rural south and stimulated their rapid migration to northern cities. Although this huge migration of 5 million African Americans between 1940 and 1970 is now recognized as one of the most dramatic population movements of modern times—involving more people than the migration of any single ethnic group to this country—most Americans were only dimly aware of the process as it occurred.<sup>15</sup>

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<sup>15</sup>Nicholas Lemann, The Promised Land: The Great Black Migration and How It Changed America (New York: Alfred A. Knopf, 1991), pp. 5–7.

Even if the president had been aware of the shift and its implications, an attempt to point to it as an explanation for larger welfare caseloads may not have helped him much politically, for he still had to propose a response. The historian Edward Berkowitz has suggested that Kennedy's policy response, which emphasized the notion of rehabilitation, was crafted in part to satisfy both supporters and opponents of Mitchell's Newburgh plan. If welfare families could be rehabilitated, then Kennedy could tell those who had supported the Newburgh proposals that he was addressing the problems of welfare, but he was doing so in a humane way that satisfied liberals.<sup>16</sup>

The initial expression of the president's rehabilitation strategy appeared in the Social Security Amendments of 1962, proposed with some fanfare through the first-ever presidential news conference devoted primarily to welfare issues. The amendments added "Families" to the ADC title and provided unlimited federal funding, through a 75% federal-25% state ratio, to states for social casework strategies to assist the poor.

#### National Welfare Reform: An Entitlement War on (Income) Poverty

The strategy of rehabilitating poor people through social casework lasted no more than five years as a centerpiece of national welfare policy. Rehabilitation themes remained in President Johnson's War on Poverty, through the development of federal educational initiatives for the disadvantaged (an effort at intensive "rehabilitation" of children before the "culture of poverty" could overpower them) and through Community Action Agencies ("rehabilitating" the poor through an increase in their political power and a reduction in the social pathologies they faced). But the casework strategy of rehabilitation came quickly to an end: despite a vibrant economy and large funding increases for social services, AFDC caseloads grew even faster in the 1960s than they had in the 1950s.

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<sup>16</sup>Edward D. Berkowitz, America's Welfare State: From Roosevelt to Reagan (Baltimore: Johns Hopkins University Press, 1991), pp. 106–111.

Between the mid-1960s and mid-1970s, an “income definition” of poverty emerged. Poor people were perceived as differing from the rest of society primarily in their lack of money, and the solution was to correct the income shortfall in a simple, efficient, and standardized manner. Social services were separated from cash assistance, ending the presumption that all welfare recipients needed services, and flat grants as opposed to individualized AFDC budgets were introduced. AFDC became an entitlement, with benefits based almost solely on single parenthood and economic need. Much of the machinery of the War on Poverty was dismantled. Government removed itself from the people-changing business, except for change that could be obtained through altering economic incentives, and instead emphasized methods of benefit distribution that presumably encouraged work. Congress considered several national mega-plans, ranging from universal demogrants to variants of the negative income tax concept, in the period 1965–78.<sup>17</sup> The Family Assistance Plan, introduced by President Nixon, came closest to enactment.<sup>18</sup>

#### The Retreat from Federal Action and from an Incomes Solution

The period of attempted federal “rationalization” of state-administered welfare programs—and of official policy holding that poverty stemmed in part from market problems beyond the control of the poor—proved almost as brief as the social casework period. By the early 1980s, a new paradigm had emerged. Official explanations of poverty returned to the personal characteristics of poor people. The challenge of chronic and geographically concentrated poverty—often referred to as the “underclass” issue—gained scholarly attention, and the locus of policy action returned to the states.

Slowly at first, and then more quickly, state-sponsored welfare demonstrations began. These demonstrations drew from the tapestry of reform themes that had accumulated in the past. Previous issues

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<sup>17</sup>See Robert H. Haveman, Poverty Policy and Poverty Research: The Great Society and the Social Sciences (Madison: University of Wisconsin Press, 1987), pp. 98–104.

<sup>18</sup>James Patterson, America’s Struggle against Poverty, 1900–1985, 2nd ed. (Cambridge, Mass.: Harvard University Press, 1986).

and concerns were discussed as if revealed for the first time. Under the title of the “new social contract,” the basic welfare structure that prevailed as recently as two decades earlier was partially restored.<sup>19</sup>

The passage of the Family Support Act (FSA) in 1988 was hailed as a fundamental restructuring of welfare. The Job Opportunities and Basic Skills Training program (JOBS) provisions of FSA would presumably make self-sufficiency rather than income support the guiding principle of the system. Whether the performance of FSA could match the expectations attached to it at its inception remained in doubt, even as new block grant possibilities superseded attention to the JOBS program at the federal level. JOBS legislation directed the states to carry out reforms paid only partly by federal funds and, initially, just 20 percent of the states invested enough of their own resources to draw down the full amount of federal dollars available for JOBS.<sup>20</sup> AFDC caseloads and costs went up, not down.

National welfare policy since the early 1960s, then, has variously emphasized the following approaches, none of which remained dominant for more than a few years:<sup>21</sup>

*Social service strategies.* Best exemplified by the amendments of 1962 to the Social Security Act, this strategy stemmed from a hope that social workers could counsel recipients out of poverty and dependency. The credibility of the strategy declined when welfare caseloads began to increase at an accelerating rate, but the approach has partially reemerged in the tough-love and social-contract initiatives described below.

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<sup>19</sup>This development is discussed in Hugh Heclo, “Poverty Politics,” in Sheldon H. Danziger, Gary D. Sandefur, and Daniel H. Weinberg, eds., Confronting Poverty: Prescriptions for Change (Cambridge, Mass: Harvard University Press, 1994), pp. 396–437.

<sup>20</sup>Julie Hagen and Irene Lurie, “Implementing JOBS: Initial State Choices,” report from the Nelson A. Rockefeller Institute of Government, State University of New York at Albany, March 1992.

<sup>21</sup>Many of these strategies have been identified in the writings of Thomas Corbett. See, for example, Corbett, “Welfare Reform in Wisconsin,” in Donald F. Norris and Lyke Thompson, eds., The Politics of Welfare Reform (Thousand Oaks, Calif.: Sage, 1995), pp. 19–54.

*Institutional strategies.* As part of the War on Poverty and Great Society, the federal government initiated efforts to revitalize social and political institutions at the local level. These efforts reflected a desire to empower individuals and neighborhoods, a strategy consistent with the “blocked opportunity” thesis that helped shape the War on Poverty. Some of the institutional initiatives, such as the Community Action program, encountered severe political problems and were short-lived. In the 1980s, enterprise zones and public housing ownership initiatives were advocated to counter disinvestment and disorganization in disadvantaged areas.

*The “New Institutions” Strategy.* This strategy, now associated with former presidential candidate Lamar Alexander, proposes to allocate federal antipoverty resources to local charities and foundations. The approach is another in a series of attempts to rebalance the relative antipoverty roles of public organizations and private not-for-profit agencies in the United States. In the past, however, public funds for private agencies have generally been channeled through purchase-of-service contracts written by state and local governments, not through direct federal grants.

*Human capital strategies.* By the early 1960s, it was argued that some people were poor because of insufficient skills and education. The remedy was to enhance their “human capital”—their earnings capacity and their attractiveness to employers. The approach began in the early 1960s with the Manpower Development and Training Act (for the disadvantaged in general) and the Community Work and Training programs (for welfare recipients). Since then, shifts in program design and administration have occurred, but the approach continues under the federal JOBS initiative and in residual initiatives from the War on Poverty, such as the Head Start program.

*Job creation and subsidization strategies.* Public service employment (PSE) jobs have been used to offset deficient demand for disadvantaged job seekers. At the height of the New Deal in the 1930s, some 4.6 million jobs were created, covering about a third of the jobless at any one time. PSE strategies continued to be in favor, at least sporadically, until the 1980s, when private sector solutions to

insufficient demand for labor gained favor. Unpaid public employment as a condition for receiving welfare (workfare) was introduced in the mid-1960s and has been employed occasionally since. A variety of subsidies to employers to offset the costs of hiring disadvantaged job seekers have been tried—becoming a major strategy in the late 1970s. The Targeted Jobs Tax Credit and WIN (Work Incentive) Tax Credit were two such subsidies. A variant of this approach was the AFDC grant diversion program, in which the AFDC grant was used to defray employers' expenses incurred in hiring AFDC recipients.

*Income strategies.* The best examples of the income approach to reducing poverty were the comprehensive federal mega-plans proposed during the 1970s: President Nixon's Family Assistance Plan, Senator George McGovern's universal demogrant proposal, and President Carter's Program for Better Jobs and Income. Their roots can be traced to proposals for a negative income tax, initially suggested by Milton Friedman and others during the 1960s. Programs to supplement the income of the working poor through the tax system (for example, the Earned Income Tax Credit) are a more recent version of the approach.

*Child support strategies.* The changing composition of the AFDC caseload—proportionately fewer widows with children and more women with children whose other parent was alive but absent from the home—suggested a series of initiatives designed to ensure that both legally liable parents contribute to the economic well-being of their children, whether or not they were living with them. The federal Office of Child Support Enforcement (OCSE) was established in 1975, and child support programs were strengthened by federal legislation in 1984 and 1988.

*Macroeconomic strategies.* For several decades, monetary and fiscal policy have been used as a tool to address poverty. The Kennedy tax cuts of the early 1960s, and their alleged positive effects on a sluggish economy, were seen as evidence that the economy could be fine-tuned to combat economic want. Until the 1980s, demand-focused approaches (such as expanding the money supply or increasing



spending on public works) were favored. After 1980, “supply-side” approaches, involving lower marginal tax rates on individuals and businesses, grew in popularity.

*The “make work pay”<sup>22</sup> strategy.* This approach is conceptually similar to aspects of the job creation and subsidization initiatives introduced in the 1960s. The underlying principles are these: work should be a rational option; adult AFDC recipients who work more should have more income; and those who really play by the rules and work full time should be able to get their families out of poverty. An earlier version of this approach was the reduction in marginal “tax” rates imposed on employed AFDC recipients (the rates at which their AFDC benefits were reduced as earnings increased) starting in 1967. This partial “disregard” of earnings in the calculation of AFDC benefits was largely curtailed in 1981.

*The “make ’em suffer”<sup>23</sup> strategy.* This label refers to a broad set of proposals to impose penalties on what are classified as inappropriate or counterproductive behaviors. All or part of a recipient’s benefits are made to depend on such activities as school attendance, partaking in work or work-preparation activities, immunizing children in the care of the recipient, paying the rent, not having more children while on public assistance, and avoiding certain crimes such as illegal drug use or dealing.

*Social contract strategies.* In principle, the “social contract”<sup>24</sup> approach balances both institutional and individual explanations for poverty/dependence and both liberal and conservative approaches to reform, thus borrowing elements from both the “make work pay” and the “make ’em suffer” strategies. The recipient is obligated to work toward self-sufficiency, and government is obligated to provide the instruments and opportunities that will enable the individual to reach that goal.

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<sup>22</sup>This phrase is found in Sar Levitan and Isaac Shapiro, Working but Poor (Baltimore: Johns Hopkins University Press, 1987), and was popularized in David Ellwood, Poor Support: Poverty in the American Family (New York: Basic Books, 1988).

<sup>23</sup>This phrase appeared in Christopher Jencks, Rethinking Social Policy (Cambridge, Mass.: Harvard University Press, 1992).

<sup>24</sup>A good introduction to this principle can be found in Lawrence Mead, Beyond Entitlement: The Social Obligations of Citizenship (New York: Free Press, 1986).

*The state block grant strategy.* This strategy encourages each state to seek its own solutions to the problem of welfare without federal control.

## **PART 2: AFDC CASELOAD TRENDS**

### The Puzzle of Generally Increasing Caseloads

Rising caseloads were a frequent, and often surprising, feature of AFDC. Despite some policy changes designed to reduce caseloads, and despite a steady reduction since the early 1970s in the real value of AFDC benefits that should also have exerted downward pressure on caseloads, the number of AFDC cases rose fairly consistently from the beginning of the program through 1994.

Increasing caseloads and declines in real AFDC benefits are easily demonstrated. Table 1 shows average monthly AFDC caseloads and the percentage of all U.S. children who were on AFDC in selected years since 1970. From 1970 through 1990, caseload numbers fluctuated, but overall in that period, the number of AFDC cases doubled. Because the average size of each case dropped, the increase in the number of individuals receiving AFDC was lower—a 54% increase among all persons, 41% among children. In the early 1990s, caseload growth was still sharper, before moderating in 1994: the number of children covered by AFDC grew half as much between 1990 and 1994 as in the preceding twenty years. The percentage of all children who are on AFDC also rose steeply in the period from 1990 through 1993.

Table 1 also indicates the decline in real (after taking account of inflation) AFDC benefits. Real benefits per family in the median state dropped by 46.4% between 1970 and 1995. Because the average number of people per AFDC household declined, real per person AFDC benefits fell by much less (25.8%) between 1970 and 1995.

Figure 1 depicts AFDC caseloads over a longer period, showing the average annual number of AFDC cases and recipients since 1940. Viewed over this longer period, the 1960s and early 1970s and the period from the late 1980s through the early 1990s stand out as the times of most rapid caseload

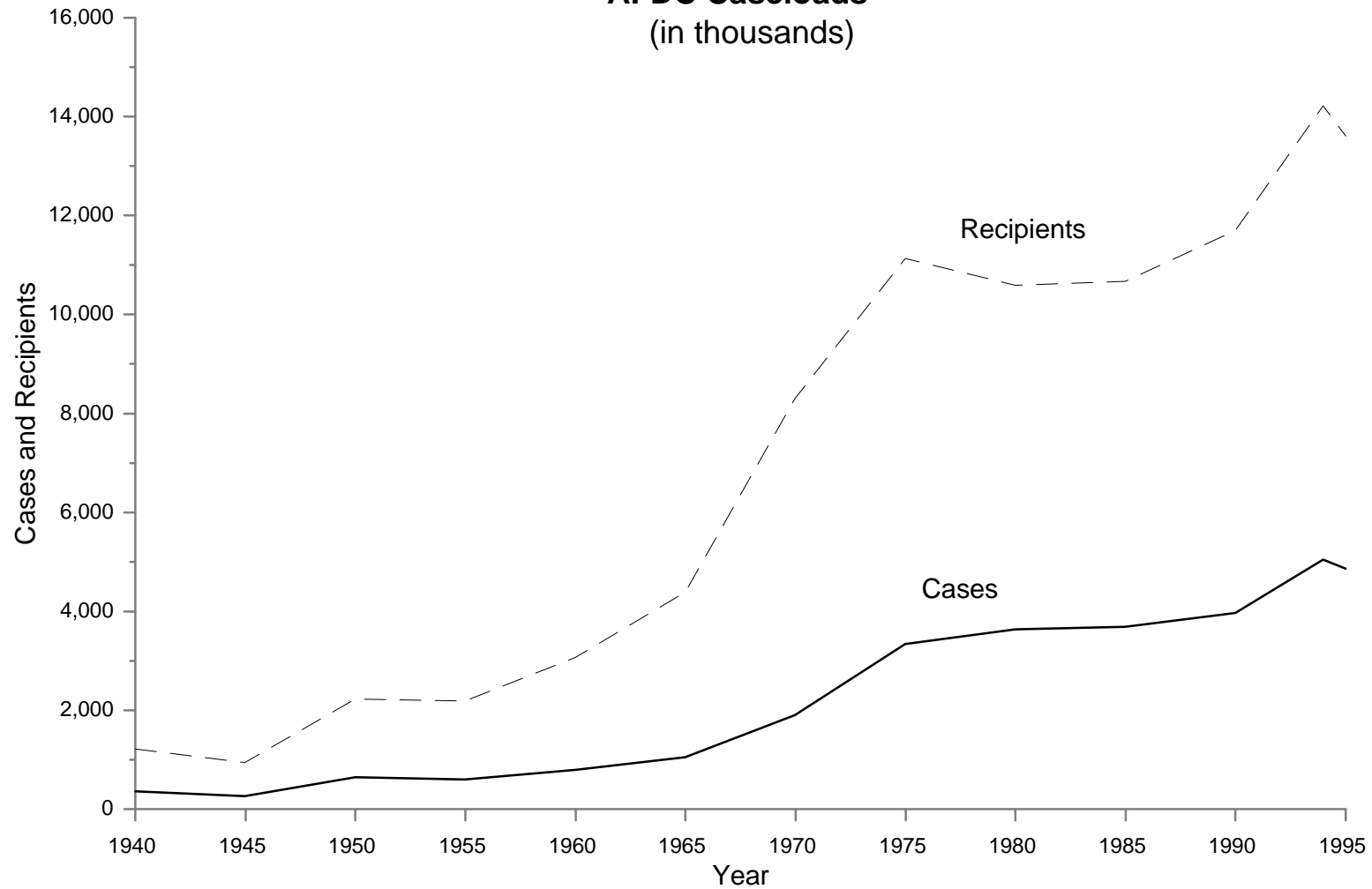
**TABLE 1**  
**TRENDS IN AFDC ENROLLMENTS AND PAYMENTS**

Year	Average Monthly Number (in 1000s)			Children on AFDC as a Percentage of All U.S. Children	Average Monthly Benefit			
	Cases	Recipients	Children		Per Recipient		Per Family	
					Nominal \$	1995 \$	Nominal \$	1995 \$
1970	1,909	7,429	5,494	8.8	46	182	178	704
1975	3,342	11,067	7,928	11.8	63	180	210	601
1980	3,642	10,597	7,320	11.5	94	178	274	518
1985	3,692	10,813	7,165	11.3	113	160	331	470
1987	3,784	11,065	7,381	11.5	123	166	359	484
1990	3,974	11,460	7,755	12.3	135	159	389	458
1991	4,375	12,595	8,515	13.2	135	154	388	434
1992	4,769	13,625	9,225	13.9	136	148	389	423
1993	4,981	14,144	9,602	14.3	131	138	373	394
1994	5,046	14,226	9,590	14.1	134	135	376	386
1995	4,869	13,619	9,275	13.5	135	135	377	377
<i>Percentage Changes</i>								
1970–1990	108.2	54.3	41.2	NA	193.5	-12.6	118.5	-34.9
1990–1995	22.5	18.8	19.6	NA	0.0	-15.1	-3.1	-17.7
1970–1995	155.1	83.3	68.8	NA	193.5	-25.8	111.8	-46.4

**Sources:** 1994 Green Book, pp. 376, 395, 399; 1996 Green Book, pp. 386, 449; Statistical Abstract of the United States 1996, Table 14; “Summary of Caseloads and Costs, Fiscal Year 1994,” Administration for Children and Families, U.S. Department of Health and Human Services.

**Notes:** (1) Caseload figures include unemployed parent (UP) families and, for 1971–1981, foster care children eligible for AFDC. (2) AFDC benefit levels have not been reduced by child support collections. (3) Benefit levels in 1995 were calculated using the CPI-U. (4) Benefits for a family are maximum benefits in the median state.

**Figure 1**  
**AFDC Caseloads**  
(in thousands)



**Sources:** 1940 through 1965 data are from personal communication from the Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services, 1970-1990 data are from 1994 Green Book, page 395; 1994 data are from "Summary of Caseloads and Costs, Fiscal Year 1994," Administration for Children and Families, U.S. Department of Health and Human Services; 1995 data are from 1996 Green Book, page 386.

growth. The remainder of this paper describes a variety of demographic, economic, and policy factors that help explain this growth, although readers should note that all the “explanations” discussed here are informal. The paper does not attempt a formal weighing of the impact of each possible cause of caseload growth through, for example, time series or regression analyses. The primary reason for this restriction is that many of the explanations are temporally and probably causally intertwined with one another in ways that greatly complicate formal analysis (the problem of “multicollinearity”).

### Demographic Context

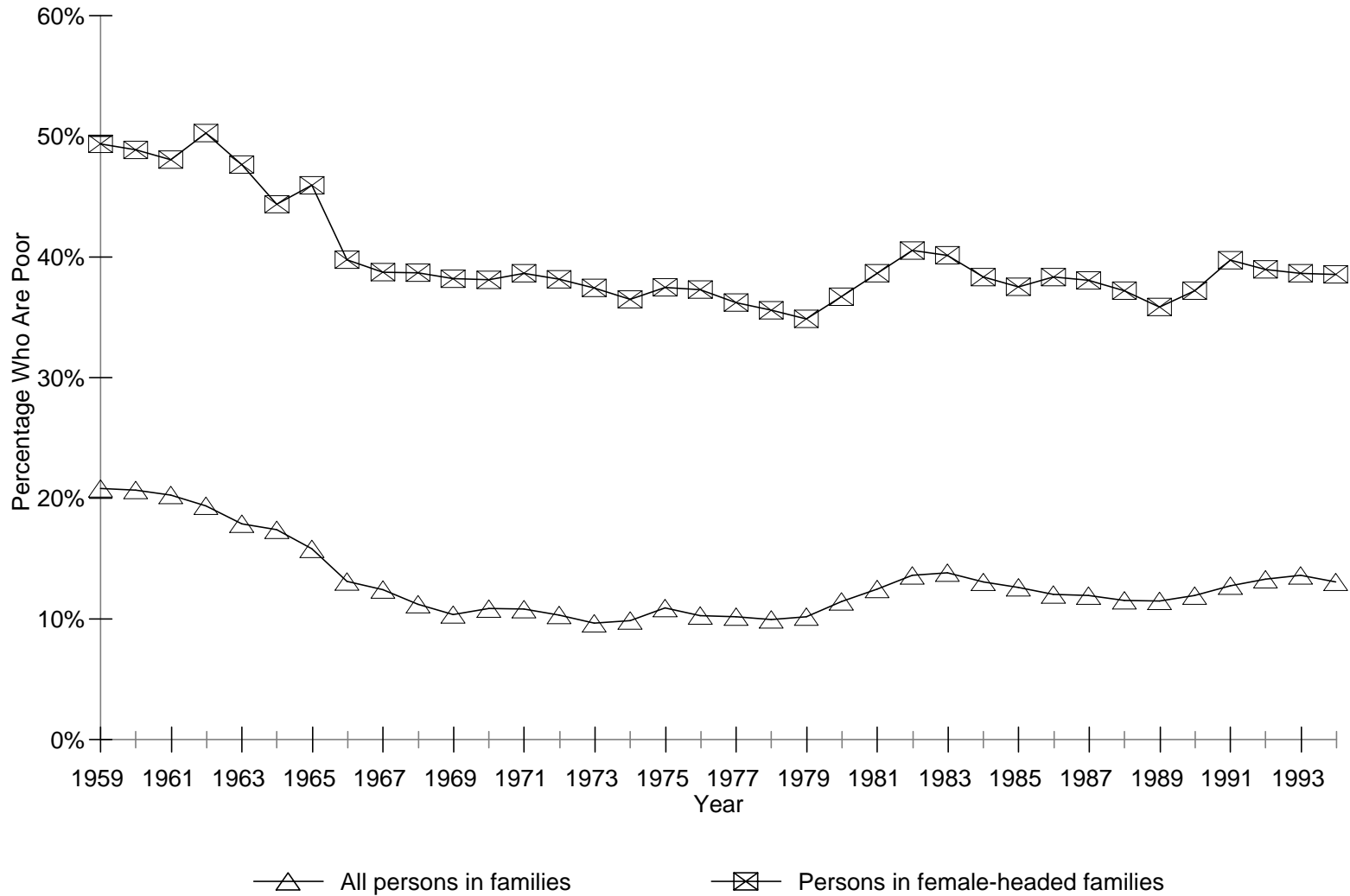
As is generally known, both divorce and nonmarital births have increased sharply in the United States over the last thirty years. In 1960, only 5.3% of births occurred outside marriage. In 1993, the comparable number was 31%. In 1960, the divorce rate was 9.2 per thousand married women; that had grown to 20.9 in 1990. In 1970, 11% of all families with children were headed by a single parent; that had risen to 27% by 1995.<sup>25</sup>

These changing family patterns have almost certainly had a powerful effect on poverty rates and welfare utilization. Since 1959, the first year for which official calculations of U.S. poverty rates were tabulated, the level of poverty among families headed by women with no husband present has been approximately 35% higher than the overall poverty rate of families with children. As the lines on Figure 2 indicate, overall poverty of families with children and single-parent family poverty have risen and fallen approximately together over time, and the gap between the two rates has been approximately constant.

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<sup>25</sup>U.S. Bureau of the Census, Statistical Abstract of the United States: 1985 (105<sup>th</sup> edition), Washington, D.C., 1984, pp. 46, 64, and 80. U.S. Bureau of the Census, Statistical Abstract of the United States: 1996 (116<sup>th</sup> edition), Washington, D.C., 1996, pp. 65, 79, and 104.

**Figure 2**  
**Poverty Status of Persons in Families with Children under Age 18**



Source: U.S. Bureau of the Census, Current Population Reports, P-60-189, Table B-5.

With this permanently higher poverty rate among female-headed households, poverty rates would likely rise if the number of female-headed households rises. Table 2 indicates that, in fact, a greatly increasing proportion of households are female-headed.

The correlation between poverty and female headship does not, of course, necessarily suggest a correlation between female headship and welfare participation. States generally set the incomes at which families become eligible for AFDC well below the official poverty line, and the gap between welfare eligibility and the national poverty line has widened over the last twenty years. Still, especially because single parenthood is an important requirement for AFDC eligibility, it is likely that the rise in the percentage of families headed by single parents has been one factor behind AFDC caseload growth.

Female headship can occur because of divorce, desertion or separation, or because the mother and the father were never married. Figure 3 indicates divorce rates in the United States since 1860. The rates have generally risen over the last 130 years, although the increases were especially sharp around World War I and between 1960 and 1980. Nonmarital births became especially prevalent after World War II. Table 3 indicates the percentage of all births that were to unmarried women between 1960 and 1990. The percentage has risen steadily over the thirty-year period.

The reasons for the increase in divorce and nonmarital parenthood are disputed. One factor behind the rise in births to unmarried mothers has been, at least in one of its dimensions, biological. Figures 4 and 5 show that the average age of onset of female menstruation has gradually grown earlier, while the average age of first marriage has, since 1960, grown later. The number of years in which women are at risk of having a baby outside of wedlock has thus expanded. Another factor behind the rise in nonmarital parenthood has been a rapid rise in births to single teenagers, which now account for about 30 percent of all nonmarital births. Table 4 indicates that, although the rate of births to teen parents declined from 1950 through the late 1980s, the likelihood that a teen would marry if she became pregnant

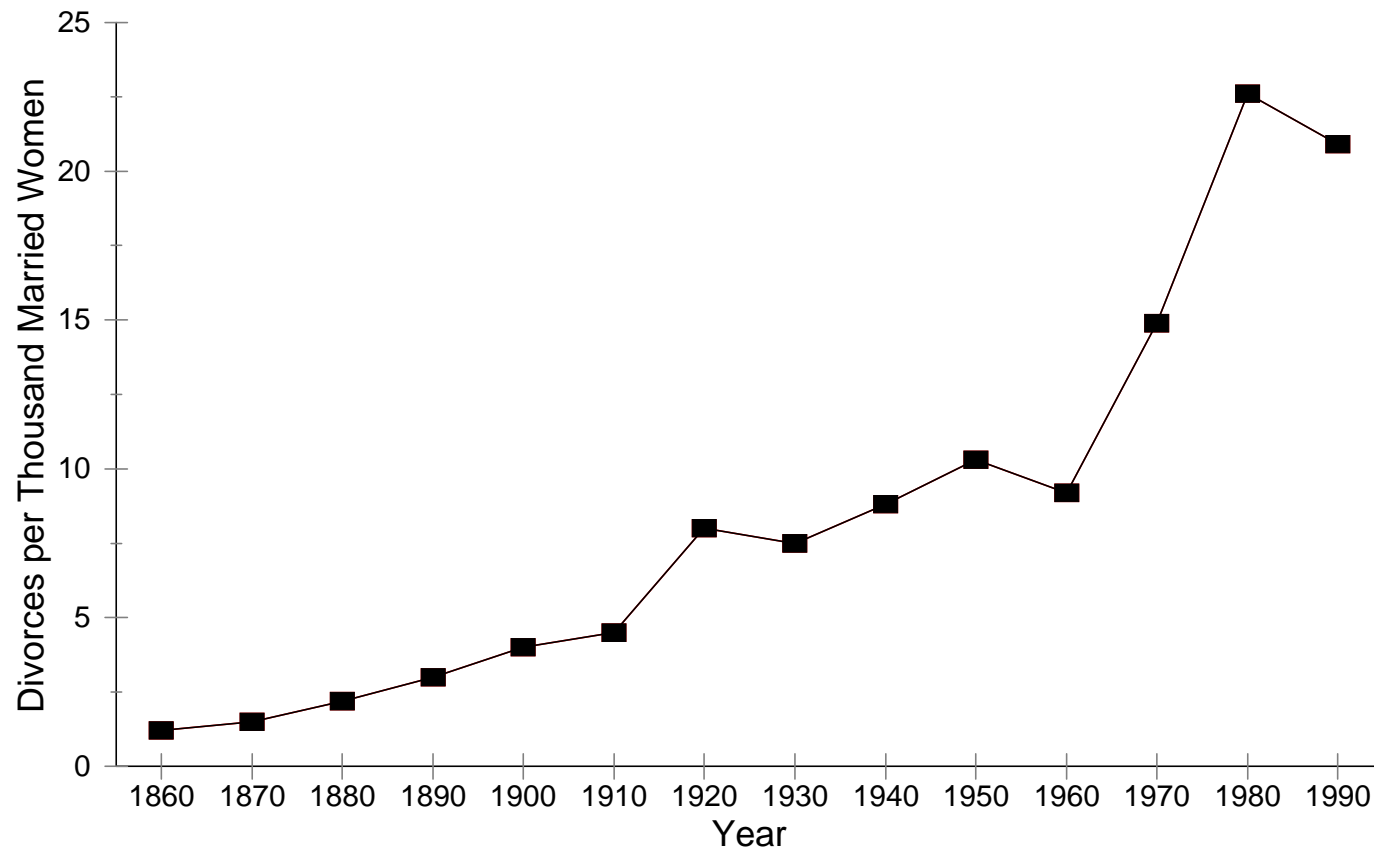
**TABLE 2****Families with Children under Age 18 Headed by Women**

Year	Number	Percentage of All Families with Children under Age 18
1970	3,415,000	11.5
1980	6,230,000	19.4
1985	7,737,000	23.2
1988	8,146,000	23.7
1990	8,398,000	24.2
1992	9,028,000	25.5
1994	9,854,000	26.6

**Sources:** 1994 Green Book, p. 1111, for 1970–1988 and 1992; Statistical Abstract of the United States 1995, Table 71, for 1990 and 1994.



**FIGURE 3**  
**Divorce Rate: 1860–1990**



**Source:** Historical Statistics of the United States, U.S. Department of Commerce, Bureau of the Census, 1975, p. 64; Statistical Abstract of the United States: 1995, Table 142.

**TABLE 3****Births to Unmarried Mothers as a Percentage of All Births in the United States, 1960–1990**

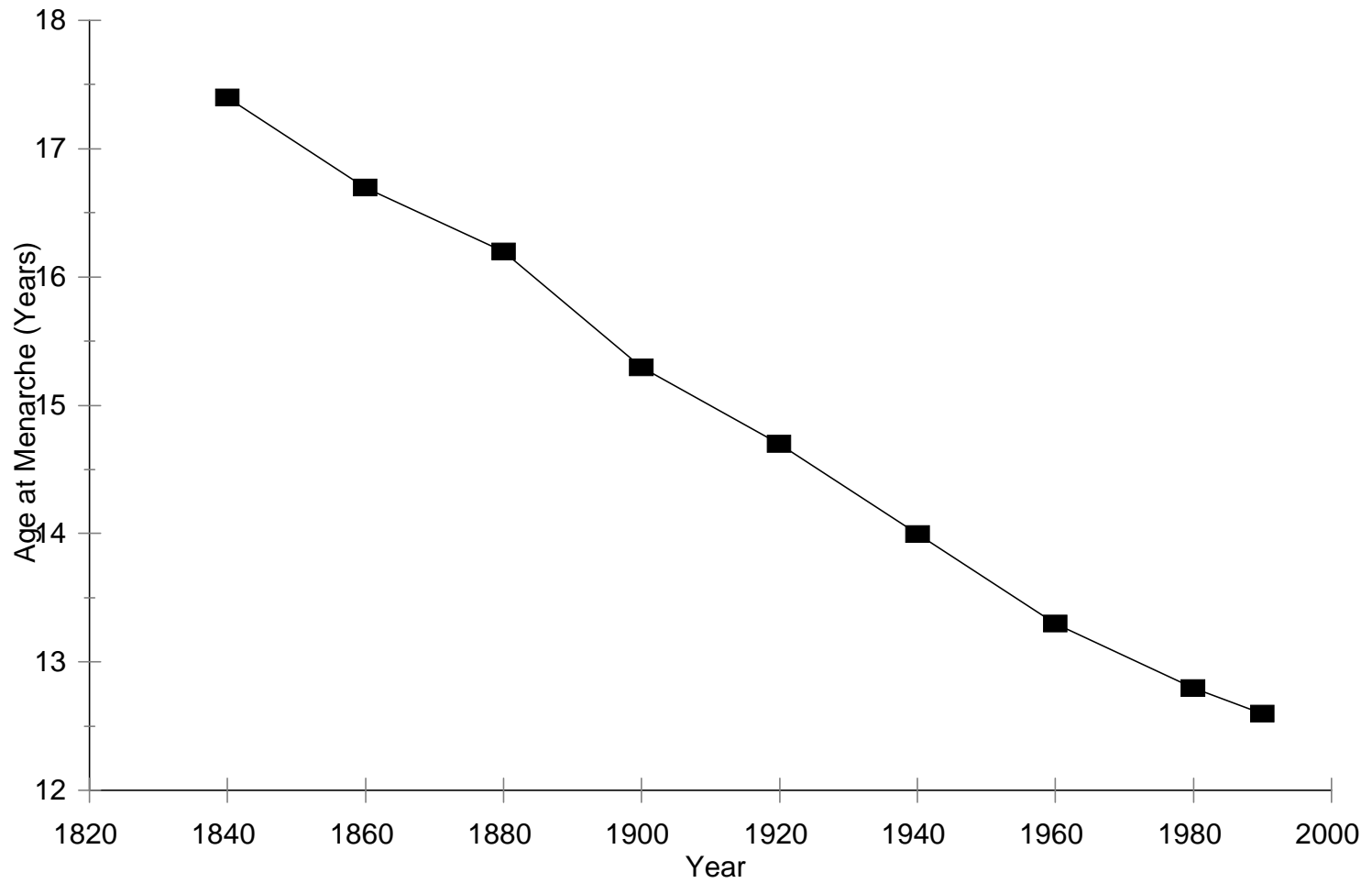
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1960	5.3
1970	17.7
1980	18.4
1990	28.0
1993	31.0

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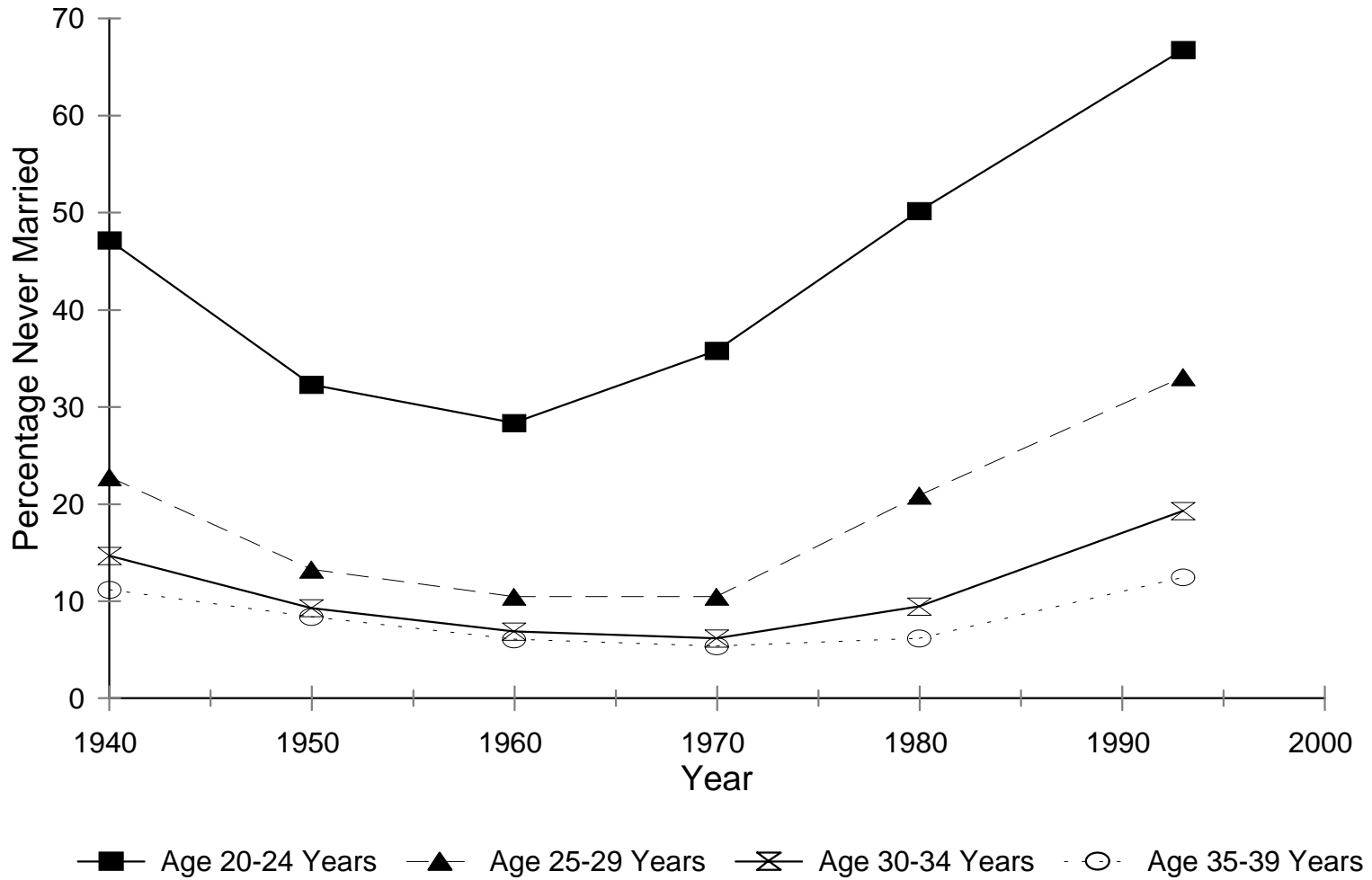
**Source:** 1993 Green Book, p. 1113, and Report to Congress on Out-of-Wedlock Childbearing, U.S. Department of Health and Human Services, 1995, Table II-5.

**FIGURE 4**  
**Age of Menarche, 1840 to 1990**



**Source:** Williams Obstetrics (Norwalk, Conn.: Appleton and Lange, 1993), p. 95.

**FIGURE 5**  
**Percentage of Women Never Married, by Age**



**Source:** U.S. Bureau of the Census, Marital Status and Living Arrangements, Current Population Reports, Series P-20.

**TABLE 4****Births to Teenagers, 1960–1993**

Age	1960	1970	1980	1985	1986	1988	1987	1989	1990	1991	1992	1993
<i>Births per thousand teen females</i>												
15–19	89.1	68.3	53.0	51.0	50.2	50.6	53.0	57.3	59.9	62.1	60.7	59.6
15–17	—	38.8	32.5	31.0	30.5	31.7	33.6	36.4	37.5	38.7	37.8	37.8
18–19	—	114.7	82.1	79.6	79.6	78.5	79.9	84.2	88.6	94.4	94.5	92.1
<i>Percentage of births to teens ages 15–19 occurring outside of marriage</i>												
15–19	15	30	48	59	61	64	66	67	68	69	71	72

**Source:** Child Trends, Inc., “Facts at a Glance,” Washington, D.C., January 1996.

declined at a much faster rate. The effect of the decreasing propensity to marry was magnified by an increase in the teen birth rate during the period from 1987 through 1992.

Determining more precise causes of the increasing rates of female-headed families is difficult. The sociologist William Julius Wilson argued a decade ago that an increase in joblessness and incarceration among young black males made them less desirable husbands to black women, thereby increasing the likelihood that African American women will choose to have children without first getting married.<sup>26</sup> More recent research, however, suggests that increased joblessness among African American males accounts for no more than 20 percent of the decline in African American female marriage rates nationally,<sup>27</sup> although Wilson suggests that the effect of male joblessness may be more pronounced in inner-city ghettos and in decisions by the mother and father concerning whether to marry after the birth.<sup>28</sup> Many researchers also agree that the increasing labor force participation of both black and white women has been an important factor in the rise in single parenthood, in part because women with a job do not have as much economic need for a husband to support their children.

Changes in social norms and sexual mores were also at work. National opinion surveys showed a dramatic drop in the 1960s and early 1970s in the proportion of adults who believed in total sexual abstinence before marriage. Surveys also suggested a sharp decline in the percentage of adults who believe that society condemns single parenthood.<sup>29</sup> These attitudinal changes interact with the

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<sup>26</sup>William Julius Wilson, The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy (Chicago: University of Chicago Press, 1987).

<sup>27</sup>Robert D. Mare and Christopher Winship, "Socioeconomic Change and the Decline of Marriage for Blacks and Whites," in Christopher Jencks and Paul E. Peterson, eds., The Urban Underclass (Washington, D.C.: Brookings Institution, 1991), pp. 175–202.

<sup>28</sup>William Julius Wilson, When Work Disappears: The World of the New Urban Poor (New York: Alfred A. Knopf, 1996), pp. 94–96.

<sup>29</sup>Irwin Garfinkel and Sara S. McLanahan, Single Mothers and Their Children: A New American Dilemma (Washington, D.C.: Urban Institute Press, 1986), pp. 82–84.

demographic changes. As single parenthood becomes more common within a group, social condemnation of it becomes more difficult, which may in turn contribute to an increase in single parenthood and occasion a further reduction in social condemnation. Also, much research suggests that the children of single parents are themselves more likely to be single parents, which can lead to some mushrooming of the phenomenon.

The independent role of AFDC as a cause of rising single parenthood is a much discussed issue. Based on a literature review, Garfinkel and McLanahan estimated in 1986 that the increase in AFDC benefits which occurred in the 1960s and early 1970s caused between 9% and 14% of the increase in female-headed families over the same period.<sup>30</sup> Some consensus around this range has since developed among researchers, but Garfinkel and McLanahan were assessing only the effect of variations in welfare benefits over time and among states. The impact of the existence of welfare programs is much harder to calculate. Because we do not know what the United States would be like without any AFDC program (or similar benefit), it is impossible to disprove the arguments of researchers like Charles Murray that the presence of welfare programs has had a much higher impact on female-headed families than studies based on variations in benefit levels suggest.

Also, as Garfinkel and McLanahan note, even the 9%–14% range generated by the variation studies is not trivial. Because any welfare influences presumably do not affect people in the upper half of the income distribution, the growth in welfare benefits in the 1960s and early 1970s may have accounted for as much as 28% of the increase in single parenthood among those in the bottom half of the economy. In addition, because children of single parents are more likely to become single parents themselves, even a small initial effect from welfare can grow over time.

Even if benefit increases accounted for as much as 28% of the growth in single parenthood among lower-income people in the 1960s and early 1970s, however, it is likely that factors other than the

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<sup>30</sup>Ibid., pp. 62–63.

benefit increases played a larger role. The growing ability of women to support themselves outside of marriage through a job, the general decline in men's earning power compared to women's since 1970, and the generally reduced stigma of divorce and nonmarital birth at all income levels have probably been more significant factors in the rise of single parenthood in the United States.<sup>31</sup>

### Economic Changes Affecting Caseload Growth

A common belief at the start of the War on Poverty was that solid economic growth would reduce welfare caseloads. Yet in the prosperous economy of the late 1960s, even as poverty rates were falling, welfare utilization rose. Moreover, beginning in the early 1970s, economic growth not only failed to reduce welfare utilization, but also failed to lower the nation's poverty rate. These failures were probably understandable in the period from 1973 through 1982. At least three sharp business cycles occurred during the period, and in about one-third of these years the U.S. gross national product declined; this was the era of "stagflation" and the most severe recession since the 1930s. Since 1982, however, especially compared to its industrial competitors, the U.S. economy has been a "job creation machine."<sup>32</sup> Why has the longest peacetime expansion in the nation's history not generated a greater reduction in poverty rates and welfare utilization?

Most analysts now agree that, beginning in about 1973, the overall performance of the U.S. economy, as traditionally measured by unemployment rates and the per capita gross national product, began to provide a less useful measure of how the poor were faring. Since that time, declines in the rate of productivity growth, a stagnation of the average wage rate, a deterioration of the low-wage labor market, a rise in earnings inequality, and a reduction in labor market participation among young and low-

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<sup>31</sup>Sara McLanahan and Gary Sandefur, Growing Up with a Single Parent: What Hurts, What Helps (Cambridge, Mass.: Harvard University Press, 1994), pp. 139–144.

<sup>32</sup>Peter Auer, "The American Employment Miracle," inforMISEP, 49 (Spring, 1995): 18–27.



skilled workers have affected low-income people in ways not adequately captured by overall economic measures.

For example, although the income of the average U.S. family with children has increased since 1973 (in part because of increased earnings from second workers), lower-income families have not shared in this increase. Table 5 shows the ratio of pre-tax family incomes for families with children to the official federal poverty line for several years since 1967. Because the poverty line rises each year with the consumer price index, family income as a ratio of the poverty line provides a measure in constant dollars of how family incomes are faring. As Table 5 indicates, the average pre-tax income of families with children was 2.4 times the poverty line in 1967 and grew to 3.19 times the poverty line in 1991.

Table 5 also suggests that the pre-tax trends for wealthier and poorer families with children diverged sharply during that period. Families with children with incomes in the lower 40% of the income distribution experienced an average decline in pre-tax income during the 1980s, while families with children in the upper 60% experienced increases. (Readers should note that all figures in Table 5 indicate only the effect of market incomes; income taxes and the Earned Income Tax Credit probably reduce disparities between the highest and lowest quintiles. In addition, the income figures do not include fringe benefits, including rapidly rising employer expenditures for health insurance needed to maintain existing benefits. Finally, some families in the lower quintiles in the earlier years may have moved to higher quintiles in the later years of the table, and vice versa.)

The relative income growth of individual men and women with and without a college education provides another test of whether the economy has systematically provided unequal rewards to different classes of workers. Both male and female workers with a college education have maintained their economic status of 1973 better than have workers with only a high school education. In 1973, male high school dropouts and male high school graduates earned average hourly wages of \$11.48 and \$13.30 respectively, expressed in 1991 dollars. By 1991, these average real hourly wages had fallen to \$8.45 and

TABLE 5

**Mean Adjusted Family Income of Families with Children  
Expressed As a Ratio to the Federal Poverty Line**

Quintile	1967	1973	1979	1989	1991
Lowest	0.74	0.88	0.84	0.74	0.66
Second	1.54	1.88	1.95	1.87	1.73
Middle	2.13	2.65	2.84	2.80	2.77
Fourth	2.84	3.54	3.85	4.14	3.98
Highest	4.77	5.73	6.15	7.20	6.81
All	2.40	2.94	3.13	3.38	3.19
Income of highest quintile as multiple of income of lowest quintile	6.4	6.5	7.3	9.7	10.3

**Source:** Sources of the Increases in Poverty, Work Effort, and Income Distribution Data, Subcommittee on Human Resources of the Committee on Ways and Means, U.S. House of Representatives, (Washington, D.C.: Government Printing Office, 1992).

**Notes:** (1) All income is before taxes. (2) Thresholds are based on the 1989 distribution of family sizes.

\$10.72, a decline of 26.3% for male high school dropouts and 19.4% for male high school graduates. In contrast, men with a college degree experienced a decline (again expressed in 1991 dollars) in average hourly wages of 10.5%, and men with a college degree plus an additional two years of education experienced a small increase in real earnings. The declines in wages experienced by women were similarly affected by educational levels. The average hourly wages (expressed in constant dollars) of women without a high school degree dropped 26.3% between 1973 and 1991. The comparable declines were 20.6% for women with a high school degree and 1.0% for women with a college degree.<sup>33</sup>

Average entry-level wages have shown similar trends, with reductions for both men and women since the early 1970s, but much sharper reductions among those with less than a college education. As Figure 6 indicates, both men and women entering the labor market in 1991 with a college education could expect to earn about 90% (in real dollars) of what labor market entrants with a college education could earn in 1973. In contrast, men with only a high school education entering the labor market in 1991 could expect to earn just 70%, and women just 80%, of what high school graduates entering the labor market could earn in 1973.<sup>34</sup>

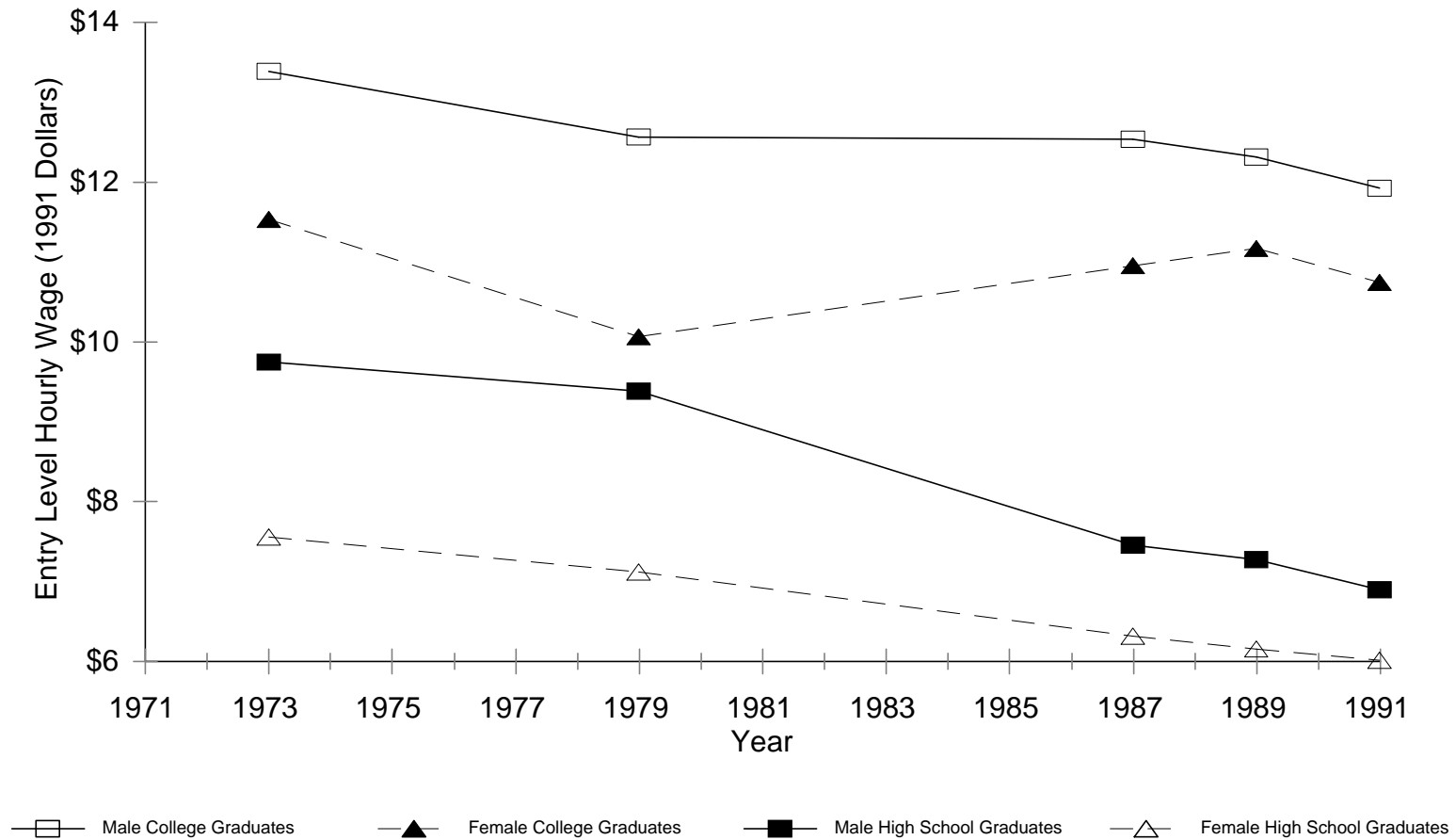
The use of 1973 as a base year for these calculations is, in some respects, distorting, since 1973 marked a high point in the economy. For a longer perspective, and to account for the fact that many workers have dependents, it is useful to consider the concept of a “low-earnings worker,” which the U.S. Census Bureau has defined as a worker whose “annual earnings are less than the poverty level for a four-person family.” Any choice of a low-earnings threshold is arbitrary, but the Census Bureau defended this choice with the following statement: “it might be argued that it would be desirable to reach a point at

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<sup>33</sup>Lawrence Mishel and Jared Bernstein, The State of Working America, 1992–93, Economic Policy Institute Series (Armonk, N.Y.: M.E. Sharpe, 1993).

<sup>34</sup>Ibid.

**FIGURE 6**  
**Entry-Level Wages by Sex and Level of Education, in 1991 Dollars**



**Source:** Lawrence Mishel and Jared Bernstein, The State of Working America, 1992-93, Economic Policy Institute Series (Armonk, N.Y.: M. E. Sharpe, 1993).

which every full-time worker (with the possible exception of those just starting out their work careers) has an earnings level sufficient to maintain a family above the poverty level.”

Table 6 indicates the percentage of workers who were working 2,000 hours per year (40 hours per week for 50 weeks in the year) and fell under the Census Bureau definition of low-earnings workers. The percentage declined sharply in the ten years from 1964 through 1974, but then grew. As one would expect, younger full-time workers are especially likely to fall below the low-earnings threshold. Among white workers in 1989, 39.0% of full-time workers between the ages of 18–24, and 15.1% of full-time workers between the ages of 25–34, had low earnings under this definition. Among African American workers in 1989, 41.8% of full-time workers between the ages of 18–24, and 22.0% of full-time workers between the ages of 25–34, had low earnings under the definition.

In summary, general income stagnation and greater income inequality may well have contributed to rising AFDC caseloads, although drawing unambiguous conclusions from these kinds of data is difficult. It is possible, for example, that some reverse causality could operate, such that the availability of AFDC might reduce the incentive of some young workers to work more hours or obtain more education.

#### Policy Changes Affecting Caseload Growth

A series of changes in federal AFDC policy—adopted primarily in the 1960s and early 1970s—contributed to caseload growth. Some of the policy changes intentionally increased AFDC caseloads, and some had that effect without intending to do so.

The most important expansionary policy was the benefit increases enacted in many states in the late 1960s and early 1970s. Real AFDC and Food Stamp benefits for a family of four with no other income rose by 35% between 1964 and 1972.<sup>35</sup> In general, the higher the benefit level in AFDC, the more

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<sup>35</sup>U.S. House of Representatives, Committee on Ways and Means, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Washington, D.C.: Government Printing Office, 1985), p. 532.

**TABLE 6****Year-round, Full-time Workers with Low Annual Earnings**

Year	Threshold for Low Annual Earnings	Percentage of Year-Round, Full-Time Workers Below the Threshold
1964	\$3,144	23.1
1969	3,676	13.5
1974	4,843	11.4
1979	6,905	11.6
1984	9,694	14.2
1989	11,570	16.0

**Source:** U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 178, Workers with Low Earnings: 1964–1990 (Washington, D.C.: Government Printing Office, 1992).

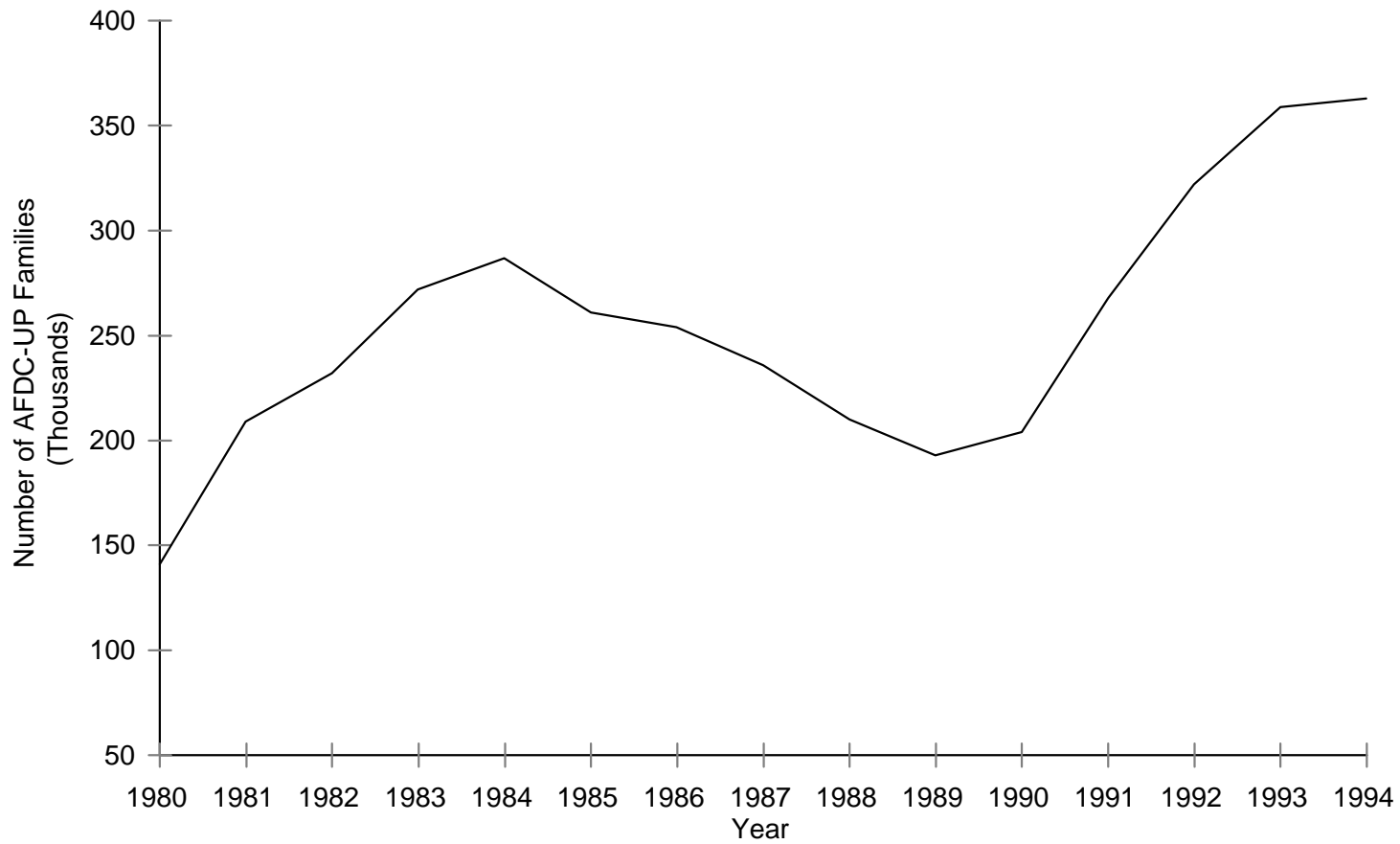
**Note:** A full-time, year-round worker is someone who worked at least 40 hours a week for at least 50 weeks in the year. The threshold is the poverty level for a four-person family.

people qualified for the program, because eligibility was conditioned on having a net income, after the application of certain “disregards,” below the benefit level.

Other policy changes have also increased AFDC caseloads. In 1961, the AFDC program was amended to permit states to operate AFDC-Unemployed Parent (AFDC-UP) programs, covering two-parent families in which the primary wage earner was unemployed. The intention was to reduce an incentive for needy two-parent families to split in order to obtain AFDC eligibility. Any consequent reduction in AFDC-Regular (single-parent) caseloads was hard to detect, but the growth in AFDC-UP caseloads was clear. From 1961 until 1990, AFDC-UP was optional among the states, and 25 states ultimately adopted the program. Since October 1, 1990, all states have been required to operate an AFDC-UP program. The increase in caseloads as a result of this new mandate has been less than originally forecast, although initial expectations of nearly instantaneous caseload responses may have been unrealistic. Figure 7 shows AFDC-UP caseloads since 1980.

Two other AFDC policy changes should be noted. The first was the “thirty and one-third” rule, enacted by Congress in 1967 and requiring states to “disregard” a percentage of the earnings of AFDC recipients in determining benefit levels and eligibility to continue on the program. The purpose was to encourage AFDC recipients to work by reducing their AFDC benefits by less than one dollar for every dollar of increased earnings. The initiative also made it possible, however, for people with earnings that would previously have made them ineligible for AFDC to stay on the program. The second policy change, enacted in 1984, encouraged AFDC recipients to cooperate with child support authorities by requiring states to disregard the first \$50 per month in child support collections for each recipient. One effect was to raise by \$50 per month the amount of child support an AFDC recipient could receive and still be eligible for AFDC. (However, other child support initiatives in the Deficit Reduction Act of 1984 and the Family Support Act of 1988 increased child support enforcement efforts, which presumably had the effect of reducing dependency on AFDC.)

**FIGURE 7**  
**Average Monthly Number of AFDC-Unemployed Parent Cases**



**Source:** 1980-1993 data are from 1994 Green Book, p. 395. 1994 data are from "Summary of Caseloads and Costs, Fiscal Year 1994," Administration for Children and Families, U.S. Department of Health and Human Services.

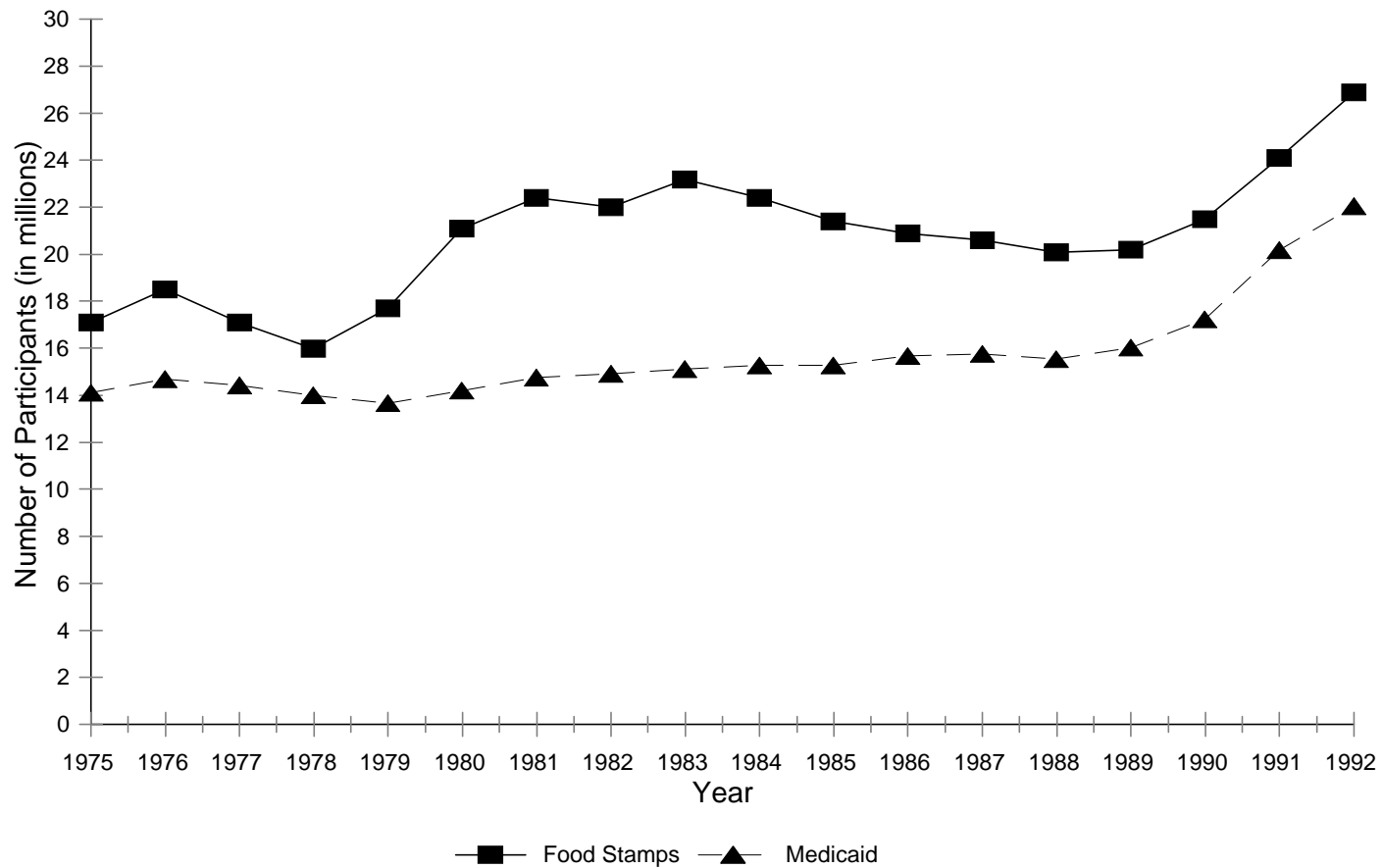


Finally, the development of related welfare programs, primarily Food Stamps and Medicaid, has also led to some increase in AFDC caseloads. Eligibility for AFDC conferred automatic eligibility for health care benefits under the Medicaid program, and it is likely that some people sought AFDC benefits (or remained as AFDC recipients) primarily to obtain Medicaid coverage. Expansions in the Medicaid program since 1988 may have had a particularly significant effect on AFDC caseload growth. Before 1988, federal law required states to provide Medicaid coverage to families eligible for AFDC. Since that year, states have had to provide Medicaid coverage to pregnant women and to children below age 6 with incomes up to 133 percent of the federal poverty line and to older children born after October 1, 1983, with incomes up to the poverty line. The federal law changes of 1988 also allowed states to provide Medicaid to children and pregnant women at higher income levels, and several states do so. Because many states automatically determine eligibility for AFDC when they determine eligibility for Medicaid, it may be that some families initially seeking only the Medicaid benefits also found themselves qualifying for an AFDC grant.

Although AFDC eligibility does not confer eligibility for Food Stamps, people seeking eligibility for Food Stamps also, in many states, automatically have their eligibility for AFDC determined, which may lead to some increase in AFDC enrollments. (Because Food Stamp benefits do not count as income for AFDC eligibility and benefit determinations, increasing Food Stamp benefits has exerted no downward pressure on AFDC enrollments.) Figure 8 shows enrollments in the Food Stamp and Medicaid programs since 1975.

More general policy changes in the 1960s also encouraged AFDC utilization. The Civil Rights movement increased sympathy for those at the bottom of the income distribution. After President Johnson's declaration of a War on Poverty in 1965, lawyers and other employees of the newly created Office of Economic Opportunity, as well as advocates funded by the OEO, argued that welfare was a right, encouraged individuals to obtain their rights, and advocated on their behalf when rights seemed

**FIGURE 8**  
**Participants in the Food Stamp and AFDC-Related Medicaid Program, 1975-1992**



Source: 1994 Green Book, pp. 782 and 798.

thwarted. These efforts were quite successful. The best evidence is that the proportion of eligible AFDC families actually receiving AFDC benefits rose from about 60% in 1967 to almost 90% in 1971.<sup>36</sup>

Finally, two Supreme Court rulings contributed to expansion of AFDC caseloads. In 1966, the Supreme Court ruled that states had no authority to conduct checks in the homes of AFDC recipients to determine the presence of a “man in the house,” and in 1969, the court ruled that states could not require a period of residency in the state before granting eligibility for AFDC.

## CONCLUSION

Trends in AFDC program participation are more easily described than interpreted. We know that the number of people receiving AFDC grew from 1.1 million in 1940 to 13.6 million today, but is that growth—given relevant demographic, economic, and policy changes—modest or shocking? We know that 14 percent of all U.S. children now receive AFDC, but is that share too high, too low, or about right? Is AFDC a large program because total benefit expenditures grew 48% (6% in real dollars) between 1985 and 1995, or a small program because the \$13.8 billion in current federal AFDC expenditures for benefits and administration equals less than 1% of the total federal budget? Assigning meaning to the trends and numbers is inherently a contentious task, one that has been carried out, since the time of the British Poor Laws, within a political context characterized by both a distrust of dependency and a rough acceptance of need for government provision for the poor.

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<sup>36</sup>Barbara Bolland, “Participation in the Aid to Families with Dependent Children Program,” in U.S. Congress, Joint Economic Committee, Subcommittee on Fiscal Policy, Studies in Public Welfare—The Family Poverty and Welfare Programs (Washington, D.C.: Government Printing Office, 1973).

## **Welfare Reform in the United States: A Background Paper**

Michael Wiseman  
Professor of Urban and Regional Planning  
University of Wisconsin–Madison  
Visiting Scholar, Russell Sage Foundation

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## **Abstract**

A remarkable convergence of political developments produced a major change in the U.S. welfare system in 1996: the Personal Responsibility and Work Opportunity Reconciliation Act. This article reviews recent welfare policy history in the United States, surveys the major issues in welfare reform, outlines Democratic and Republican proposals, and summarizes the new legislation.

It is argued that the new initiative will increase the hardship experienced by the poor over at least the next few years. The act's changes in federal funding for public assistance plus state responses to new fiscal incentives the legislation creates are likely over time to increase, rather than reduce, the federal role in welfare finance, if not administration. The new welfare system presents an administrative and political challenge to governors and an indirect challenge to political leadership in the nation's cities. Despite reduced federal regulation of public assistance, the federal government still has an important role in program evaluation.

## INTRODUCTION

One of the commonly accepted rules of national leadership in the United States is that focus is essential: Any president who attempts too many things at once sacrifices his ability to mobilize public opinion or to concentrate media attention. The better strategy, according to conventional wisdom, is to line up the targets and fire at them one by one. Problems arise, however, when targets change while waiting in the queue and other people are also taking shots. For President Bill Clinton, welfare reform was such a case.

Like most presidential candidates since the 1960s, Bill Clinton campaigned for office promising welfare reform. Once he was elected, however, a variety of factors combined to move welfare changes well back in the queue of supplicants for presidential attention. Deficit reduction, the North American Free Trade Agreement, crime, and health care took precedence, in part because tax and health policy and welfare reform strategy were linked. Prodded by members of Congress impatient with the strategy of delay, the administration finally released its welfare reform program, the Work and Responsibility Act (WRA), in June 1994. But by this time the game had changed, and the proposal faced substantial competition. The act joined twenty-one other reform bills already introduced in the House of Representatives or the Senate.

WRA was largely forgotten as the country prepared for midterm congressional elections. But welfare reform was not dead; Republicans campaigned for Congress on a platform, the Contract with America, that called for reductions in welfare benefits, time limits for assistance receipt, and a work requirement. Within three weeks of their resounding victory, House Republicans resumed circulating draft legislation that would dramatically change the national welfare system. By mid-1995 both the House of Representatives and the Senate Finance Committee had approved welfare reform legislation incorporating many provisions of the contract. As the 1996 presidential election approached, incentives developed for both the White House and Congress to reach agreement on change, and the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is the result.

This article surveys the major issues in welfare reform in the United States, outlines the competing proposals for reform, reviews PRWORA, and then comments on the outlook. The conclusions are common and uncommon. In common with the opinion of others, I argue that the likely outcome of the coming struggle over welfare reform is, at least over the next few years, increased hardship for the poor. Contrary to popular wisdom, I argue that the new legislation is likely to produce a larger federal role in welfare and more difficulty for governors than would have been the case given continuation of the programs ended by the recent reforms. Because so many poor families using public assistance are located in central cities, many of the consequences, both positive and negative, of the reform effort will be concentrated there.

#### THE WELFARE SYSTEM: THE BIG FOUR

By convention, the term “welfare” is applied to programs of public assistance that give aid to individuals or families on the basis of need and means. There are many such programs in the United States, including locally funded and state-funded general relief; various housing assistance programs; the Low-Income Home Energy Assistance Program; school lunch and breakfast programs; and the Special Supplemental Food Program for Women, Infants, and Children (WIC). The four means-tested programs most important to the national welfare reform debate are Aid to Families with Dependent Children (AFDC), food stamps, Supplemental Security Income (SSI), and Medicaid. AFDC gives cash to needy families with children; food stamps are special coupons that indigent families and individuals can use to purchase food; SSI provides income to needy aged, blind, and disabled persons; and Medicaid provides health care for the poor and for needy children. PRWORA replaced AFDC with block grants to states for Temporary Assistance for Needy Families (TANF) and altered eligibility standards for food stamps and SSI. The TANF block grant allows states to sustain the AFDC program for at least the coming fiscal year, and as a result the changes have yet to affect either programs or caseloads significantly. Thus I

begin with discussion of welfare before PRWORA; later in the paper I turn to predictions of how states will change the system under block grants.

Both the Food Stamp and Medicaid programs have included some individuals and families not receiving AFDC, and it has been illegal to draw both SSI and AFDC benefits at the same time. Only about half of food stamp recipients and one-third of Medicaid recipients are in AFDC households (U.S. House of Representatives, Committee on Ways and Means 1996). Nevertheless, prior to PRWORA, AFDC was viewed as the core of welfare, and for both politicians and citizens “welfare reform” was often taken to mean changing AFDC. This focus reflects to some degree the fact that of all means-tested programs for families, only AFDC delivered benefits in cash and not commodities such as food, housing, or health care. As a result, AFDC lacked the strategic advantage of a “producer” as well as a “recipient” constituency. SSI also lacks a producer constituency, but the program has the political advantage of addressing the needs of the “worthy” poor. SSI and AFDC were linked because some households combine groups receiving AFDC with individuals receiving SSI. For reasons detailed below, the number of recipient households in this situation is increasing.

Extreme reform in the United States means “ending welfare as we know it.” The problem is knowing welfare as we end it: What can we say with confidence about public assistance as practiced before 1996? How will these characteristics be changed by PRWORA? These issues are controversial. What was known about AFDC and the rest of the welfare package on the eve of reform can be roughly divided between numbers and judgments.



An Overview of the Numbers<sup>37</sup>

I choose 1993, the year between the election of President Clinton and the landmark congressional election of 1994, as point of reference.

*Caseload trends.* Political concern about welfare has been driven in part by exceptionally rapid recent caseload growth. Between 1980 and 1989, the AFDC caseload grew by about 5.5 percent (Figure 1). Between 1989 and 1993, the caseload grew by 33 percent. Part of this acceleration is attributable to the recession of 1990 to 1992. However, the economic downturn that darkened the beginning of this decade was on most dimensions no more severe than that of 1980 to 1982, when the caseload response was much less.

These trends produced a substantial increase in the proportion of American children living in families at least partly dependent on welfare. In a typical month in 1980, about 1 child in 10 lived in a family receiving AFDC; by 1993 the odds had increased to 1 child in 8. Almost 14 percent of American families with children received AFDC during an average month in 1993; a higher proportion received such benefits at some time during the year.

*Welfare costs.* Between 1980 and 1993, the welfare caseload grew by 39 percent. Over the same interval, real outlays for the “big four” transfer programs grew by 116 percent, and the composition of welfare outlays changed in ways that affect both the state and federal share of outlays and the effect of the system on poverty. These changes have had important consequences for welfare politics in the 1990s.

A number of observations can be made by examining constant-dollar expenditures on AFDC, food stamps, SSI, and Medicaid for 1980 through 1993 (Table 1):

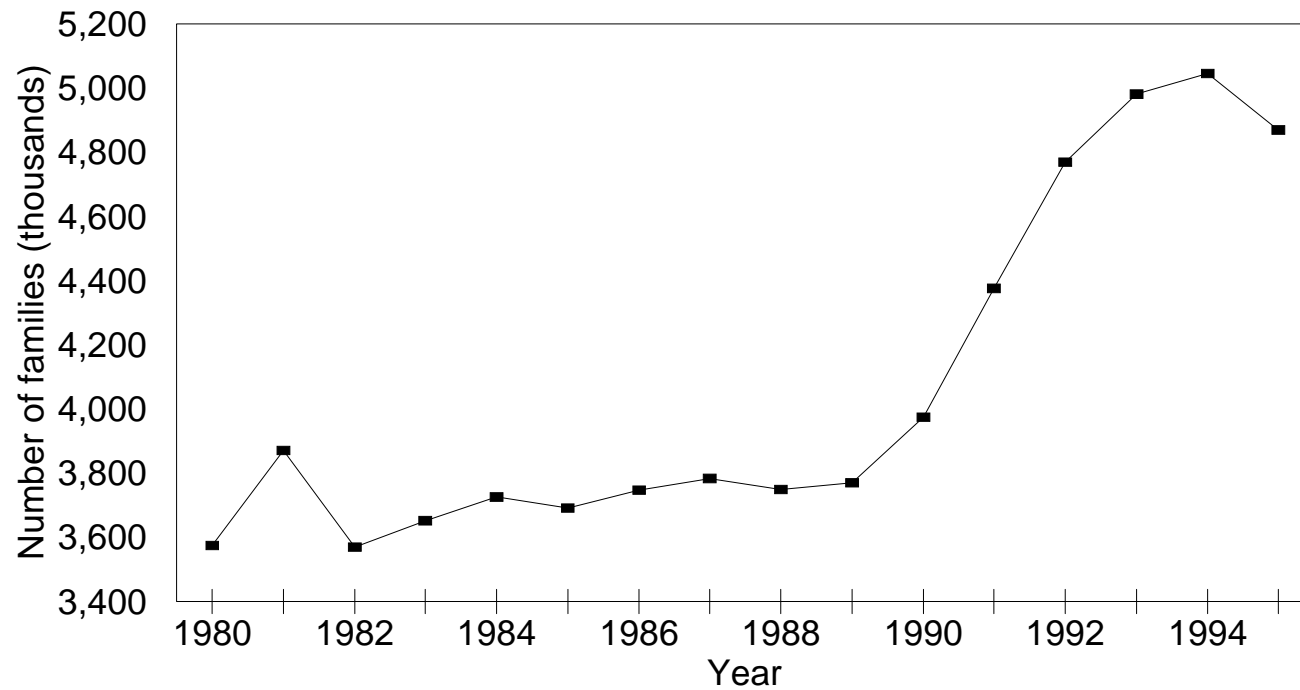
1. *Effort has increased.* It is difficult to argue that the national antipoverty effort has diminished since President Carter’s last year of office. In addition to outstripping the rate of growth in the

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<sup>37</sup>Wherever possible, this article relies on data from a single source, the *Green Book* (U.S. House of Representatives, Committee on Ways and Means 1994, 1996). Specific citations are given only where computations were involved or the *Green Book* location might be difficult to identify. A detailed list of citations is available on request from the author.

## AFDC Caseload

Monthly Average, 1980-1995



Source: U.S. House of Representatives, Committee on Ways and Means (1996). Data for 1995 are preliminary

**TABLE 1**  
**Outlays on Public Assistance, 1980–1995**

Program	Total Expenditures (1993\$, billions)			Annual Rate of Increase (%)			Cumulative Increase (%)
	1980	1993	1995	1980– 1985	1985– 1993	1993– 1995	1980– 1993
AFDC	22.1	25.2	24.4	-0.6%	2.1%	-1.7%	14.1%
Food Stamps	16.2	26.3	26.2	1.6%	5.1%	-0.3%	62.0%
Medicaid	43.8	132.0	149.0	4.1%	11.9%	6.3%	201.4%
SSI	14.6	25.6	28.7	1.5%	6.3%	5.8%	75.3%
Total	96.8	209.2	228.3	2.3%	8.6%	4.5%	116.2%

Program	Program Share of Public Assistance Outlays			Federal Share of Program Costs		
	1980	1993	1995	1980	1993	1995
AFDC	0.23	0.12	0.11	0.55	0.55	0.54
Food Stamps	0.17	0.13	0.11	0.96	0.94	0.94
Medicaid	0.45	0.63	0.65	0.56	0.57	0.57
SSI	0.15	0.12	0.13	0.76	0.85	0.88
Total	1.00	1.00	1.00	0.66	0.65	0.65

**Source:** U.S. House of Representatives, Committee on Ways and Means (1996). Dollar figures are deflated using implicit price deflator for gross domestic product.

AFDC caseload over this interval, the 116 percent growth in overall real outlays for public assistance substantially exceeded growth in population (13 percent), in real gross domestic product (36 percent), and in the number of poor children (29 percent). The rate of growth accelerated after 1985.

2. *Medicaid is the villain.* While national effort at public assistance may not have decreased, it has been redirected. Most (80 percent) of the increase in assistance outlays is attributable to the rising costs of Medicaid. In 1980, Medicaid accounted for 45 percent of outlays in the four categories identified here; by 1993 this share had grown to 63 percent and was continuing to rise. While approximately 36 percent of Medicaid recipients are in AFDC households, this group accounts for only about 30 percent of Medicaid outlays. Costs for members of other served groups (the elderly, the disabled) are typically much greater. From 1980 to 1988, the share of payments on behalf of AFDC recipients in Medicaid costs fell. Between 1988 and 1993, the share grew by 25 percent. Thus, while AFDC-related Medicaid costs are slightly less than a third of Medicaid outlays, the growth of this segment during the period leading up to the Contract with America was exceptionally rapid.
3. *AFDC is the loser.* Outlays for AFDC benefits grew more slowly than the number of AFDC recipients from 1980 to 1993 (a 14 percent increase compared with a 33 percent increase). As a result, real cash benefits received by individual families declined. States set the level of AFDC benefits. Between January 1985 and January 1994, the maximum AFDC grant for a family of three in the median state (based on benefits) fell from \$461 to \$367 (a 20 percent decrease) in constant (January 1994) dollars.<sup>38</sup>

The decline in AFDC benefits was in part offset by food stamps. The food stamp benefit is based on income from all sources, including AFDC. As a result, when AFDC benefits go down, part of the decline (about 30 cents per dollar) is offset by increasing food stamps. Food stamp benefits are indexed for price changes, and benefits change to adjust for prices at the beginning of each federal fiscal year (October 1). If food stamps are added in, the decline in median benefit between 1985 and 1994 is reduced to about 5.5 percent, from \$696 to \$658 in constant dollars.

The bottom line is that over the past 13 years “spendable” welfare (i.e., food stamps and AFDC) has become more federalized as states have lowered AFDC benefits while Food Stamp benefits have been sustained.

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<sup>38</sup>The maximum grant was calculated from *Green Book* data (U.S. House of Representatives, Committee on Ways and Means 1994: 366–67 and 375–77) and comparable data from the same volume for earlier years. Population data were taken from the U.S. Bureau of the Census (various years). The median value used here is not that reported by the Ways and Means Committee. The *Green Book* ranks states and the District of Columbia by benefit and then locates the benefit value halfway down the list (in 1994 this was Maryland). From a national perspective, a more appropriate approach is to rank states and the District by population, move down the list until half of national population is accounted for, and then use the benefit value associated with that state (Illinois in 1994). This method has the advantage of not treating Wyoming and California as equivalent observations in assessing AFDC. While the approach taken here may be theoretically preferable, in practice the two approaches lead to similar conclusions concerning benefit trends.

4. *SSI lost, too.* The basic SSI benefit is wholly federally funded. The law permits (and, in some instances, requires) states to supplement the federal payment. Currently, all but eight states provide some type of supplement to the federal benefit. However, over time state SSI supplements have not kept up with inflation, while the federal benefit has. The result is that the direct federal share in total SSI costs has increased (see Table 1) and food stamp benefits paid to SSI recipients have also gone up. This too has increased the federal share of the costs of aiding the SSI target population.
5. *The state share remains unchanged.* The federalization of spendable welfare cited above would be expected to increase the federal share in overall assistance payments. In fact, the federal share of the cost of AFDC, food stamps, SSI, and Medicaid combined did not change at all over the 1980–95 interval. The reason is clear from Table 1, and the culprit has already been identified. Medicaid outlays grew much faster than food stamp and SSI benefits combined. The federal government still pays only slightly more than half the costs of Medicaid. The rapid growth in total Medicaid outlays kept the overall federal share at slightly less than two-thirds.

The reasons for state cutbacks in AFDC and SSI are controversial. Practically speaking, state discretion in Medicaid operation and benefit setting is constrained, and for the most part states have been forced simply to pay for the spiraling costs of the health care system. These cost pressures have undoubtedly spilled over to produce reduction in outlays on other fronts, including AFDC and SSI benefits. But incentives are also at work, and some portion of this behavior is definitely strategic.<sup>39</sup> State governors and legislators are aware that benefit cuts are in part offset by food stamps. Moreover, any AFDC recipient—child or adult—who can be shown to meet federal disability criteria produces a substantial savings because the assistance payments for that person may be shifted to SSI and federal funds. Most state welfare agencies now specifically detail some caseworkers to promote SSI eligibility for AFDC applicants and recipients.

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<sup>39</sup>Much of the empirical literature on welfare focuses on the effect of transfer system incentives on the behavior of individuals. The issues raised in this paragraph involve the effect of incentives on the behavior of state governments. The nature of these responses and the relative importance of general budget effects versus specific incentive effects in producing the outcomes evident in Table 1 remain unresolved. Moffitt's (1992) review of welfare incentive effects skirts the issue of the system's effects on government decision making but asserts that states reduced both AFDC benefits and the level of real Medicaid benefits after 1975. The measure Moffitt uses to assess the value of Medicaid benefits is, however, crude, and the calculated downward trend in the benefit may have more to do with Medicaid reimbursement procedures than any change in benefit as perceived by recipients.

Strategic response to federal welfare law is also evident in Medicaid. Part of the increase in federal Medicaid outlays has been generated by state artifice. Some states collect funds from agencies involved in Medicaid provision either as “donations” or as taxes earmarked for the program. These self-imposed expenses are then fully reimbursed, and the costs are used to claim federal matching funds, which also go in part to providers. The Urban Institute (1995) reports that state revenues from this source grew from \$400 million in 1990 to \$7.8 *billion* in 1992. Even under the generous assumption that all funds accumulated by states in this way were used for actual Medicaid costs, the implication is that the outlays reported for 1993 and 1995 in Table 1 are inflated by at least \$8 billion to \$10 billion and that the real federal share is larger than the table suggests. Even with this adjustment, Medicaid remains the largest component of the growth of state public assistance costs.

In sum, despite cutbacks, states have not found substantial fiscal relief in public assistance policy. Although the states were clearly attempting to reduce their fiscal contribution to social welfare costs, the rapid increase in Medicaid offset the attempt so that as late as 1995 the states’ apparent share was virtually the same as it had been 13 years earlier. Given the failure of national health insurance reform, it was likely that states would seek fiscal relief in other ways. The fact that states do respond strategically to the incentives created by federal assistance policy is important, because PRWORA changes state incentives substantially.

*Welfare and poverty.* At the same time that outlays for public assistance were increasing, so were poverty rates. In 1980, 18 percent of all children lived in families with reported incomes below the federal poverty standard (approximately \$12,000 in current dollars for a family of three); by 1993, the proportion was 23 percent. The 1995 poverty rate among all persons, children and adults, was 13.8 percent; in 1980, it was 13 percent, and it has not fallen below that level since.

The official poverty assessment is based solely on cash income. As a result, the apparent failure of antipoverty policy is attributable in part to the omission of the benefits of major systems (Medicaid

and food stamps) in assessing family circumstances. In addition, the poverty rate is evaluated without adjustment for taxes paid (it is based on “pretax, post-cash-transfer” income), so variations in purchasing power that result from changes in state and federal taxes, including subsidies such as the earned income tax credit (EITC), are also not acknowledged. One set of adjustments that takes account of in-kind benefits, taxes, and possible overadjustment of the poverty standard for cost-of-living increases reduces the official poverty rate for 1993 from 15.1 to 10.7 percent. However, growth in poverty since 1980 under this adjusted measure is greater than is recorded using the official index.

To conclude this numbers review, since 1980 American welfare costs have increased while cash benefits have declined, the poverty rate is substantially higher, and the cost of welfare to states continues to rise faster than personal income or other taxable resources.

### Judgments

The persistence of poverty in the face of substantial fiscal effort for public assistance is a great puzzle for American citizens and a great frustration for American politicians. In part, poverty may endure because structural changes in the national economy have reduced opportunities for persons with few skills to increase their productivity and income. However, it is common to argue that the welfare system itself shares fault for poverty trends by exacerbating both the incidence and the persistence of need among some families. Most critics emphasize one or more of the following seven allegations.

*Welfare is inadequate.* Cash benefits are clearly low, and as the data presented earlier indicate, benefits are declining. In many states, welfare does not provide a stipend adequate to support a recipient involved in training for better-paying (and aboveground) jobs. Consequently, to meet minimum household expenses, some recipients seek surreptitious sources of cash. Given firsthand appreciation of the dilemma of trying to live on too little, caseworkers who are aware of modest fraud are tempted to look the other way. Even if system operatives were inclined to do more to suppress such transgressions, the costs of policing are substantial and the benefit savings are likely to be small. In this context AFDC

appeared to subsidize the underground economy while at the same time allowing recipients without access to supplemental income to suffer.

*Welfare discourages work.* All welfare programs involve compromise in the face of three incompatible goals: (1) ensuring an adequate benefit to those without other means, (2) encouraging efforts at self-support by maximizing the effect of work on income, and (3) minimizing overall program costs. An adequate guarantee can be sustained financially only if payments can be limited to people with incomes at poverty levels or below. But such limitation requires that as earnings increase, payments must decrease. This welfare benefit reduction acts like a tax on earnings. When combined across AFDC, food stamps, and other means-tested programs, the benefit-reduction rate applied to additional wages at some earnings levels can exceed 100 percent; that is, \$100 in additional earnings per month may reduce benefits by more than \$100 and lead to a net loss of income. This surely discourages efforts at self-support. However, it is disingenuous for critics to dramatize the consequences of the disincentives generated by benefit reduction without acknowledging the tradeoff dilemma.

*Welfare destabilizes families.* Two-parent families in which the principal earner is unemployed were eligible for AFDC payments if needy by AFDC standards.<sup>40</sup> Needy or not, two-parent families in which the principal earner was working more than 100 hours a month were denied access to AFDC, even if wages earned were low enough to qualify, in the absence of the 100-hour restriction, for AFDC supplementation. Given this restriction, in some instances it may have been strategic for a principal-earner parent who found a full-time job to leave the household, especially if the job did not provide health benefits. The working parent's absence would qualify the caretaker parent and the children for

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<sup>40</sup>Families qualified on this basis are in what was termed AFDC-UP. Inclusion of AFDC-UP was a state option until passage of the Family Support Act of 1988, which required all states to adopt the program by 1991. Some were allowed to restrict payments under AFDC-UP to six months or less per calendar year. Even after the program was made universal, the number of cases qualified under the AFDC-UP provisions was far smaller than the number receiving benefits as the result of absence or disability of a parent. Of the 5 million AFDC cases open on average every month in 1993, only about 7 percent were AFDC-UP.



ongoing AFDC and Medicaid, even if the absent parent paid child support, as long as payments fell below the income level used to determine AFDC eligibility. Like the work incentives problem, the potential for encouraging abandonment is inherent in most welfare schemes. As long as public assistance is available to single parents with children, and absent parents can find ways of providing financial support that do not lead to reduction in assistance payments, an incentive exists for such separations to occur. Such incentives may have been exceptionally strong in AFDC because the 100-hour requirement could create situations in which full-time employment of an adult led to dramatic reduction in family income and access to medical care.

*Welfare encourages illegitimacy.* Welfare benefits increase with family size, and until recently in most states, teenage mothers could receive AFDC on their own. Nonmarital births in the United States increased by 82 percent between 1980 and 1991; in 1993, about 31 percent of infants were born to unmarried mothers. The problem is particularly severe among some minority households. Currently more than two-thirds of births to African Americans occur out of wedlock. Critics argue that welfare has facilitated the growth in nonmarital births.

The attention given to the issue of births outside of marriage in the political debate over welfare reform is growing, but its relevance is controversial. Shortly after the passage of WRA in June 1994, a group of 79 prominent scholars in fields related to poverty and welfare reform issued a statement denying that welfare programs are among the “primary reasons” for trends in out-of-wedlock births. They argued that the link between welfare and such births is belied by two facts: (1) nonmarital birth rates have been rising as welfare benefits have been falling, and (2) state-to-state variation in AFDC payments is not closely linked to state-to-state variation in out-of-wedlock childbearing. Nevertheless, it is possible that the social dynamic leading to increasing numbers of nonmarital births, once initiated, does not reverse with modest benefit declines, and what counts in state-to-state comparison is not the absolute level of benefits but the value of welfare compared with earnings opportunities in local labor markets.

*Welfare is static and myopic.* Historically, the AFDC, Food Stamps, SSI, and Medicaid programs have been present oriented. The central administrative issue in determining both eligibility and payments has been assessment of the family's status (or individual's status, in the case of SSI) at the beginning of the month; this status determines eligibility and payments. Critics argue that at least the cash portion of the core system should be refocused on change and reducing dependence on welfare through a planned sequence of service interventions that lead to employment.

*Welfare costs are distributed inequitably.* Before PRWORA, the federal government paid for virtually all food stamps and most SSI costs but in aggregate only slightly more than half the cost of AFDC and Medicaid (see Table 1). The federal share of AFDC and Medicaid costs varied from state to state on the basis of per capita income; it was 79 percent in Mississippi and 50 percent in California. Large, high-income states historically have provided higher levels of benefits; critics claim that such benefits led to in-migration of welfare recipients from less benevolent states and reduced out-migration of poor persons who might have better job prospects elsewhere.

Interstate variation in benefits has diminished in recent years as benefit levels in high-benefit states have eroded. Food stamps further reduce the effect on spendable income of interstate variation in AFDC. Between 1985 and 1993 the variance across states of combined AFDC and food stamps benefits fell by almost 30 percent.<sup>41</sup> By 1993 interstate variation in Medicaid benefits was also far less substantial than interstate variation in AFDC.

At the same time that effects of benefit differentials on interstate migration may have been diminishing, international migration has served to increase welfare caseloads in some states, notably California and Florida. While undocumented aliens are not eligible for AFDC and food stamp benefits, children born in the United States to such families are. Since immigration and border patrol fall within

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<sup>41</sup>This calculation is based on benefits weighted by population. See footnote 2.

the domain of federal policy, it is argued that the financial consequences of such policies should not fall disproportionately on the states in which immigrants, documented and otherwise, congregate.

*Welfare is done badly.* No one thinks that public assistance in the United States is managed well. Beyond the distortions created by the various alleged incentive effects, administration of the program is complicated by program overlap and inconsistency. Despite the fact that eligibility and payments procedures for AFDC and food stamps were generally handled within the states by the same agency, eligibility criteria, income reporting, and payments procedures differ substantially and in ways unconnected to the objectives of either program. Conflicts multiply when Medicaid, SSI, and various housing assistance programs are added. A Welfare Simplification and Coordination Advisory Committee established by Congress in 1990 to examine the problem of program overlap concluded its 1993 report with a “primary recommendation” to “replace the numerous programs that currently serve the needy with one, family-focused, client-oriented, comprehensive program” (Welfare Simplification and Coordination Advisory Committee: 1993, vii).

## THE PROBLEM OF REFORM

The litany of indictments suggests that the U.S. welfare system is a ripe target for government reinventing. The lesson of recent American history is that welfare reform is hard to accomplish, and as bad as some problems are, the system can be made worse by ill-considered fixes. There are several reasons for this.

### Poverty Is Complex

The welfare system in part mirrors the complexity of poverty. Simple solutions for many, if not most, poverty problems are elusive, and the enthusiasm of even the most zealous reformer often dims as special case after special case is identified. In general, the less experienced the author is with poverty and

welfare operation and the farther the author is from the nearest welfare office, the simpler the solution proffered.

### Goals Conflict

Many of the objectives of welfare reformers conflict. The most important conflict is the triad of work incentives, adequate guarantees, and total costs already discussed. A similar conflict arises with respect to assets. Welfare is for people in need, and traditionally persons with substantial assets have not been thought needy. As a result, eligibility tests for AFDC, food stamps, and Medicaid all include asset standards. AFDC required that the family possess no more than \$1,000 in assets other than home or automobile equity. In celebrated cases, the ongoing eligibility of families has been challenged because children accumulated excess savings (allegedly for college) from part-time work. On the one hand, the ability of the family to save seems to suggest that welfare benefits exceed current consumption need. On the other hand, such savings may provide the means by which independence from welfare is secured.

The conflicts of objectives have an important political consequence: The system is always vulnerable to attacks on specific features. For example, critics can construct a strong case that work, or at least near-full-time employment, for many welfare recipients simply would not pay and therefore the system is irrational. Responding to this charge requires an artful explanation of the tradeoff between incentives and benefit adequacy that quickly exceeds the grasp of junior reporters, let alone the attention span of the distracted citizen voter. Moreover, any such defense quickly brands the speaker as a champion of the system as a whole, a role few desire to play. The result is that most challenges go unanswered, and over time, this silence has enhanced the credibility of those claiming that welfare as we know it must be ended. Nevertheless, the sad experience of generations of reforms has been that tradeoffs survive programs, and ending welfare as we know it will not leave the architects of any new system unencumbered by the facts of life.

### Congressional Responsibility for Welfare Is Fragmented

Like many other welfare reform proposals, the 1993 recommendation of the Welfare Simplification and Coordination Advisory Committee calling for a single, comprehensive welfare program was greeted with resounding silence. The constituencies for the various programs differ, as do the committees of Congress responsible for oversight. AFDC (and its PRWORA replacement), food stamps, and Medicaid fall within the jurisdictions of 13 congressional committees and 15 subcommittees. If assisted housing is added, the jurisdiction expands to 17 committees and 19 subcommittees. As a result, it is difficult to find a champion for the “one comprehensive program” of public assistance that reformers often seek.

### Knowledge Is Scarce

Even if Congress could be mobilized, appropriate strategies for dealing with some, perhaps most, poverty issues are uncertain. It is one thing to assess income and assets, to calculate payments, and to deliver checks on time. It is quite another to bring about change—the objective of interventionist, dynamic welfare proposals. Considerable controversy exists concerning the best approaches to reducing pregnancy rates among teenagers, increasing child support, moving people into jobs, and the like. Such uncertainty makes it inappropriate to legislate specific strategies, even when agreement can be reached on objectives.

### Change Is Costly

Finally, most welfare reform proposals, especially those that call for increased intervention in recipients’ lives, at least initially increase welfare costs. Uncertainty about the consequences of interventions renders estimates of such costs also uncertain. The political failure of both the Nixon administration’s Family Assistance Plan and the Program for Better Jobs and Income proposed by President Carter is attributable in part to congressional and public concern over the short- and long-run

costs of substantial changes in the welfare systems, especially when such changes require major increases in the federal government's responsibility for program funding and operation. One surprising development during the summer of 1994 occurred when the Congressional Budget Office initially estimated that the Clinton welfare reform plan would actually cost less than what was at the time the leading Republican proposal. The difference was attributable largely to differences between the two proposals in the number of welfare recipients required to participate in mandatory work programs. Such programs are costly to run, and the Republican proposal called for participation by a much larger number of recipients than the administration's plan.

#### THE WELFARE REFORM CONSENSUS

Despite the substantial problems faced, change has taken place in welfare policy over the past ten years. Prior to PRWORA, the most important single piece of reform legislation was the Family Support Act of 1988 (FSA). FSA grew out of a "new consensus" on welfare reform strategies that began to appear in the mid-1980s. The key ideas underlying this consensus are that (1) work is an obligation, (2) parents should be responsible, (3) tagging is appropriate, (4) management matters, (5) reform must come from both without and within, and (6) reform must be incremental. It is item 6, the necessity of an incremental strategy, that emerged by the beginning of the 1990s as the greatest stumbling block to bipartisan consensus.

#### Work Is an Obligation

One of the most important changes in the American social landscape is the change in labor force participation among women with children, including those with preschoolers. This change has generated political support for efforts to move welfare recipients into the labor force. Beginning with welfare reforms initiated by President Reagan in 1981, emphasis has increasingly been placed on bringing labor

force participation about by requiring it rather than eliciting it through the use of financial incentives. The shift from incentives to requirements reflects the difficulty, already cited, of including financial incentives for work in a welfare system that provides adequately for those with no income but keeps costs down by limiting support for those with earned income. FSA established a national program called JOBS (Job Opportunities and Basic Skills) to support training and job search by public assistance recipients.

#### Parents Should Be Responsible

Given the recent increase in the number of births to unmarried mothers, a substantial consensus exists that efforts must be strengthened to identify fathers, obtain child support awards, and require that awards be paid. In 1991 (the latest year for which such data are available), there were 9.9 million women in the United States who were caring for children in the absence of their fathers. Of these, 44 percent had never been awarded child support rights. For poor mothers, the proportion without such awards was 61 percent. Even when awards had been made, only 70 percent of poor women reported actually receiving payments. Whether or not welfare encourages parental irresponsibility, lack of child support is a major factor in both child poverty and welfare dependence.

#### Tagging Is Appropriate

In a welfare system focused on income maintenance, little distinction among families is appropriate save on the basis of factors, such as family size, reasonably believed to affect need. Welfare policies calling for attention to more than check writing must be sensitive to a wider range of family and individual circumstances. For example, full-time training programs are less appropriate for mothers with very young children than for mothers whose youngest children are in high school. Since local economies differ, the appropriate training programs for one community will likely differ from those appropriate for another. FSA offered states considerable flexibility in setting up the JOBS program and required

targeting available resources to recipients thought most at risk of long-term dependence. Tagging opens the door to variation across recipients in welfare agency strategy. For those likely to leave on their own, no intervention may be needed. For others, appropriate work-oriented services and procedures are likely to vary according to the skills and experience the recipient already has. If welfare is to be change oriented and money is to be spent on helping change take place, “one size fits all” makes no sense.

### Management Matters

Tagging and service variation require an agency capable of interpreting policy and managing the budget at the level of the local welfare office. It is one thing to apply rigid eligibility and payment standards and to achieve accuracy in check writing. It is quite another to construct and sustain a case-management process intended to improve recipients’ lives as much as possible given a limited services budget. Work-oriented welfare reform involves finding ways to create capacity and incentives at the local level that are appropriate to ensure that local operators see national (or even state) objectives as their own. This is a difficult task, both because orientation toward change usually has not been part of the “culture” of welfare management and because so much of what goes on in street-level welfare operation is difficult for higher levels of management to observe. Nevertheless, there is general agreement that welfare reform will happen only if incentives for operating agencies are changed.

### Reform Must Come from Both Without and Within

A common objective of welfare reformers is to assist those capable in leaving assistance altogether. It makes sense to do this by both improving the operation of the welfare system and increasing the security and income enjoyed by persons who are not dependent. Most adult AFDC recipients are single mothers with children; an effective system for securing reliable payments for child support from noncustodial parents might increase the willingness of such mothers to venture into jobs at modest pay. The child-support system operates outside of welfare. FSA substantially increased the federal role in



promoting development of effective child-support systems in the states. Other means of enhancing the security of low-income families not receiving assistance include improving access to health insurance and reducing taxes applied to low wages.

### Reform Must Be Incremental

Unlike both the Family Assistance Plan and the Program for Better Jobs and Income, FSA was not presented as “comprehensive welfare reform.” Rather, the strategy was explicitly incremental—expanding federal oversight of child support, remolding existing welfare employment programs to make JOBS, and modestly increasing the coverage of the system by mandating a limited form of AFDC for two-parent families for those twenty-three states that lacked it. The essence of an incremental reform strategy is to seek modest system changes that address problems while recognizing both technical tradeoffs and political realities. Incrementalism has a bad name because each step generated by such strategies typically satisfies no one, and there are certainly some problems that cannot be solved piecemeal. But, unlike changes planned by other reform strategies, incremental changes get done, and over time change may accumulate to the point that what was once viewed—and avoided—as an unacceptable risk no longer appears to be so. Moreover, an incremental strategy tends to bring immediate focus on the difficult administrative tasks of implementation and to prevent separation of the relatively easy job of ending something from the much harder job of devising a replacement. The linkage is a useful discipline for the political process surrounding welfare reform.

### REFORM, RESEARCH, AND THE STATE INITIATIVES

The FSA welfare reform episode was exceptional in another respect. While congressional debates over the Nixon and Carter reform proposals paid some attention to social science research, the outcomes were little affected, one way or another, by the results of experimental program evaluation. In

contrast, most participants in the passage of FSA attach great importance to the role of research in securing bipartisan consensus on the bill. As is explained later, this legacy plays a double role in subsequent reform development.

#### Omnibus Budget Reconciliation Act Demonstrations and Welfare Waivers

The research that made the difference involved studies of state welfare-to-work programs initiated during President Reagan's first term. Reagan came to office with considerable experience in welfare reform in California. The new administration's initial policy was to increase substantially the latitude granted states in designing and operating the AFDC program, and this latitude extended to allowing states to introduce "workfare" programs in which recipients could be obligated to do public service jobs in exchange for benefits. Congress was unwilling to accept the entire program, but in the Omnibus Budget Reconciliation Act (OBRA) of 1981, the discretion granted states in operation of welfare employment and training programs was increased. Congress also accepted a key Reagan policy and substantially curtailed the financial incentives for work that were included in AFDC benefits calculation. Taken together, these actions represented a retreat from a "carrot" approach of encouraging employment among welfare recipients, in favor of an approach asserting that movement toward self-support is an obligation. This was consistent with the "work is an obligation" feature of the emerging political consensus.

Following passage of the 1981 act, several states moved quickly to implement more ambitious job search, public service employment, and training programs for AFDC recipients and, in some cases, AFDC applicants. In a number of cases, such programs were initiated only in parts of the state or required relaxation of certain federal regulatory requirements. The enabling legislation for the AFDC, Food Stamp, and Medicaid programs includes provision for waiver of some requirements for state experiments or demonstrations that have objectives consistent with program goals, in the judgment of the

U.S. Department of Health and Human Services (HHS). Eventually twenty-four state demonstrations were initiated.<sup>42</sup>

### Role of the Manpower Demonstration Research Corporation

Waiver approval is typically contingent on inclusion of an evaluation as part of a state's welfare reform demonstration. In the aftermath of the 1981 OBRA, a remarkable act of entrepreneurship occurred, attributable in part to the generosity of the Ford Foundation.<sup>43</sup> A nonprofit organization supported by Ford, the Manpower Demonstration Research Corporation (MDRC) of New York, approached many of the states and offered to conduct the evaluation of whatever welfare-to-work demonstration was undertaken. There was one proviso: The evaluation had to be conducted using a so-called classical experimental design. This meant that the demonstration's net effects had to be evaluated by comparing outcomes—employment, earnings, welfare receipt—among demonstration participants to the same outcomes among recipients from a control group, selected at random not to participate in program activities. The states acquiesced in this approach for a variety of reasons, including that it was supported by HHS, that MDRC representatives were persuasive, and that random assignment provided an impartial procedure for rationing scarce program resources.

By 1986–87, MDRC began to publish the results of the demonstrations. The firm followed a consistent announcement format that simplified presentation to the media and facilitated synthesizing results. By 1986 MDRC's president, Judith Gueron, was willing to aggressively promote a portfolio of findings.<sup>44</sup> The state demonstrations, she asserted, showed that (1) OBRA-initiated welfare-to-work

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<sup>42</sup>For a discussion of these initiatives, see Greenberg and Wiseman (1992). Some counts are larger because definitions of what constitutes a welfare reform demonstration vary.

<sup>43</sup>This episode was discussed in detail several years ago in a symposium published by the *Journal of Policy Analysis and Management*. See Wiseman (1991) and the other papers in the same volume.

<sup>44</sup>These were published in 1987 by the Ford Foundation (Gueron 1987).

programs had statistically significant but modest effects on the likelihood that welfare recipients found jobs over fixed intervals following accession to welfare; (2) such effects were evident in a variety of approaches and in a variety of settings; and (3) at least some of the interventions were cost-effective—that is, program costs could be offset by reductions in welfare benefits and increases in earnings and taxes paid by recipients. Moreover, the obligations imposed by some demonstrations (others were voluntary) did not appear onerous and were, judged from survey findings, viewed positively by recipients.

However modest, the near universality of the MDRC assessments gave many governors—including Governor Clinton of Arkansas—material to tout.<sup>45</sup> Up to that time, welfare policy was rarely seen as an opportunity for gaining political advantage. Also, by repeatedly emphasizing that observed impacts were significant but not large, Gueron managed to communicate the novel (to politics) notion that modesty, rather than hyperbole, in the description of program impacts was a virtue. Indeed, the very smallness of the effects seemed to lend credence to MDRC's claims. This effect was enhanced by MDRC's emphasis on the importance of random assignment evaluation as the foundation of meaningful assessment.

It was common for Gueron to end any presentation regarding what was known with emphasis on what was not. She was determined to prevent others from exaggerating or overextending the results of the OBRA demonstrations. This restraint seemed to have three effects. Her caution and scientific responsibility inspired confidence in the conclusions she was willing to venture. At the same time, numerous unanswered questions left by the state incentives, plus the governors' discovery that there might be political gold in the hills of welfare reform, stimulated further state experimentation. But above all, Gueron's was a conservative message: There was no magic solution to the welfare problems, but if

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<sup>45</sup>Arkansas experimented with a combination of job search assistance and assignment of some recipients to unpaid "work experience" jobs in local government. The program was called WORK—a name that reappears in later policy history. The MDRC evaluation is by Friedlander et al. (1985).

care was taken, progress might be made, one demonstration at a time. This was an incrementalist message, consistent with the last of the six elements of the reform consensus cited above.

As laudable as the overall MDRC accomplishment was, three aspects of the effort have arguably had negative effects on subsequent welfare policy development. First, MDRC analyses emphasized outcomes—the net difference in earnings, labor force participation, and welfare receipt between experimental and control groups. The evaluations paid little attention to process—what exactly it was that states did—beyond providing general program descriptions. Since virtually everything that states did had a positive effect, the implication was that as long as minimal levels of expenditure were accomplished, something good was likely to happen. If this were the case, the outcomes MDRC had found in a few experiments could, by extension, apply to many others, even if not rigorously evaluated. Second, by focusing on outcomes rather than process, MDRC put off the day of reckoning for many demonstrations. In welfare, it is common and reasonable to expect policy effects on welfare caseloads to take a long time to materialize. In the interim, all sorts of accomplishments may be claimed if no one is actively monitoring and reporting on implementation. For those whose motivations for welfare reform included political considerations, the lesson was to announce demonstrations, to claim the benefits ascribed to such things by MDRC, and then to postpone evaluation and, indeed, even implementation as long as possible. Finally, MDRC may have focused too much on communication with Congress and too little on making vital contacts in the states. Although people are always talking about welfare reform in Washington, by the late 1980s the center of gravity of welfare reform was beginning to shift away from the Potomac.

One of Gueron's unanswered questions concerned scale. Most of the OBRA demonstrations were quite small, involving a modest number of welfare offices and covering only a small fraction of the recipients who might be eligible for services were the innovation to be implemented generally. The outcomes assessed by MDRC covered only the consequences for this small "treatment" group. It is a

substantial leap of inference to claim that what states managed with a few hundred (or, in some cases, a few thousand) recipients could be expanded and sustained statewide. Yet for many the message of the demonstrations was that states were capable of reforming welfare, promoting employment, and saving substantial amounts of money if the straitjacket of federal regulation could be removed.

## THE TWO TRACKS AND STATE WELFARE REFORM INITIATIVES

### President Reagan and the Family Support Act

Growing consensus on goals of welfare reform did not imply consensus on means. Beginning in 1986, welfare reform in the United States began to develop on two separate tracks, both of which had roots in the OBRA demonstrations.

One track was national. The results of the OBRA demonstrations supported the political consensus that produced FSA. The JOBS program was fashioned with reference to the state OBRA demonstrations, and the legislation explicitly called for an evaluation of the program's effects by random assignment. The evaluation, by MDRC, is ongoing (Hamilton and Brock 1994; HHS 1995). Liberals were willing to accept training, job search, and some work requirements in return for a national mandate for welfare for two-parent families because OBRA had shown, according to MDRC, positive benefits and little recipient resentment. Conservatives appreciated the increased emphasis on obligation and the broader state discretion in program design that FSA offered. President Reagan said that FSA would help families achieve "lasting emancipation from welfare dependency" (Rich 1988).

The second track was routed through the states. In his 1986 State of the Union Address, President Reagan revived interest in welfare reform by renewing his call for it. This cue was taken up in Congress by the architects of FSA, but the president himself followed up by appointing a special subcommittee of the White House Domestic Policy Council (the Low-Income Opportunity Working Group) to work on welfare reform. The report of the working group called for increasing the latitude

granted states for demonstrations and encouraging greater breadth in approach. An Interagency Low-Income Opportunity Advisory Board was established to coordinate waiver policies for demonstrations that involved, in addition to the employment and training interventions characteristic of the OBRA experiments, such novelties as the substitution of cash for food stamps (“cashing out” the stamps), altering work incentives in benefit calculation, and creating incentives for teenage welfare dependents to stay in school.

### Welfare Reform in the States

*The Bush initiative.* By 1991, a variety of state demonstrations were under way. However, with the exception of major initiatives in Washington State and Alabama, most of the demonstrations were modest in both objective and size. In 1991, the Bush administration made a strategic decision to encourage state welfare demonstrations as a means of establishing an initiative in this area at minimal federal cost.

In his 1992 State of the Union Address, President Bush encouraged states to continue efforts to “replace the assumptions of the welfare state and help reform the welfare system” and promised to make the waiver process “easier and quicker.” The response was swift and substantial. Between the State of the Union message and the end of the Bush administration the following January, twenty-two state applications for waiver-based welfare reform demonstrations were received. Of these, fourteen were approved and the remaining eight proposals were carried over to the Clinton administration. None were denied (Wiseman 1993).

Following precedents established by the Reagan administration’s Interagency Low-Income Opportunity Advisory Board, the Bush administration applied two standards in dealing with these initiatives. To be approved, waiver-based demonstrations had to be cost neutral and rigorously evaluated. A demonstration was cost neutral if it would not add to federal welfare outlays. Rigorous evaluation meant, for the most part, evaluation by random assignment. The two criteria were linked: A

demonstration's effects on costs were assessed by comparing costs between control and experimental groups. States were obligated to cover the difference between federal per-case costs for the controls and federal per-case costs for recipients in the experimental group. Content did not play a major role in waiver strategy.

*Clinton policy.* Since the ambitious waiver program was largely a Republican initiative, one might have expected the new Democratic administration to curtail waiver-based welfare demonstrations. Instead, two weeks after his inauguration, President Clinton promised the National Governors' Association that his own administration would continue to support state demonstrations, as long as the results were "honestly evaluated." The result was rapid growth in the number of waiver applications and waiver-based demonstrations approved. In the interval between Clinton's inauguration and the 1994 congressional elections, the administration approved twenty-one more waiver demonstrations in twenty states. By mid-1996, on the eve of PRWORA's passage, it had approved waivers for forty-three states and the District of Columbia.

These state initiatives featured an extraordinary collection and combination of interventions, ranging from benefit reductions to cash incentive schemes for encouraging inoculation of children against disease. Objective evaluation of this avalanche of novelties is difficult. A defensible summary is that few will ever produce any results usable in the process of policy development. In general the interventions were too poorly planned, the number of program changes too large, and the evaluation schemes too limited in scope to encompass the range of possible program effects. In some ways this outcome was politically desirable. In state welfare reform initiatives, the political payoff from demonstration activism may be more important than the modest gain in knowledge that might be attained. Moreover, in most cases the political payoff seems to come early, while assessment is postponed virtually indefinitely.



*The waiver leader: Wisconsin.* A prime example of the difference in timing between political attention and demonstration outcomes is provided by Wisconsin's Work Not Welfare initiative. Proposed in early 1993 following President Clinton's address to the National Governors' Association, Work Not Welfare is an experiment designed to test the impact of a time limit for welfare receipt. The program was approved by HHS in November; it began in two small Wisconsin counties in January 1995 with a target number of experimental cases under 1,000. The final report is scheduled for the year 2006.

Work Not Welfare is one of nine Wisconsin welfare reform demonstrations initiated since Governor Tommy Thompson took office in January 1987 (Wiseman 1996). Overall, Thompson's record on welfare has been extraordinary: Between his inauguration and January 1994, the AFDC caseload in Wisconsin fell by 21 percent. The Thompson administration is understandably willing to attribute this decline to the welfare reform initiatives. However, most of the reduction was accumulated before the state's waiver-based initiatives were under way, and like Work Not Welfare, some of the more celebrated of the Thompson initiatives have involved only a small proportion of the caseload. Contrary to the image of the Thompson administration beyond the state's borders, a significant proportion of the Wisconsin waiver-based demonstrations have actually increased the generosity of the welfare system by improving services and extending eligibility to two-parent families without application of the 100-hour rule. It is the Thompson administration's benefit strategy and income tests that have been restrictive.

While definitive assessments are complicated, it appears that at least through 1994 the overall Wisconsin achievement is attributable to the combination of a robust economy (the September 1994 unemployment rate in Wisconsin was 4.5 percent, compared with 5.9 percent for the nation), a gradual tightening through inflation of the welfare eligibility standard in the state, a freeze on welfare benefits, and aggressive use of the funds for recipient job assistance provided by FSA (Wiseman 1996). In 1994 *Rising Tide*, the Republican National Committee's news magazine, reported that Thompson considered

the JOBS program his “favorite” in the welfare arena (Shively 1994: 25). *Rising Tide* failed to note that JOBS is a product of FSA, not the waiver process.

Since 1994 both Wisconsin’s unemployment rate and its welfare caseload have continued to decline. The state has launched two additional initiatives—Self-Sufficiency First and Pay for Performance—intended to increase efforts by local operating agencies to move persons applying for assistance into employment and to facilitate penalizing recipients who fail to participate in JOBS programs. Between December 1994 and mid-1996 the AFDC caseload fell an additional 29 percent. The state is conducting an evaluation of these initiatives based on comparison of outcomes for cases subject to the Self Sufficiency First-Pay for Performance initiative with a set of cases selected at random to be exempt, but results are not yet available. The evaluation may be terminated as the state moves to its latest initiative, Wisconsin Works, to be discussed later.

*Conclusion: Image and reality.* Perhaps the most important conclusion to be drawn from the plethora of state initiatives is that no one, not even Thompson, has really found the key to welfare savings by means other than cutting benefits and active and broad-based efforts at job placement and training. As politically significant as the state initiatives may be, both the content and the scale of implementation of most have been modest, and states like Wisconsin that have undertaken more ambitious efforts have done so in an exceptionally favorable economic context. Governors know that political hyperbole is one thing, budget consequences another. An index of real state commitment to welfare-to-work efforts is provided by the JOBS program. While most states appeared eager to pursue welfare demonstrations, as of March 1996 only twelve states (including Wisconsin) had claimed all federal funds available for the JOBS operation, even though such funds required very little in state matching expenditure.

The record of the Thompson administration and the panoply of state initiatives spawned by Bush and Clinton waiver policy were important elements of the politics of welfare in the aftermath of the 1994

election. Wisconsin's achievement was generally cited as representative of what states could do when not hampered by federal regulation. In 1995, Thompson became chairman of the National Governors' Association, and he used this position to promote award of even greater latitude to states to structure their welfare programs. This gubernatorial effort might have been cast as the leading alternative to the strategy set forth in the Clinton administration's WRA, were it not for the emergence on the stage of welfare reform of a third set of players, the House Republicans, led by Speaker Newt Gingrich. Since the congressional Republican initiative was originally aimed at the Clinton reform, it is the Clinton plan that is discussed first.

## THE CLINTON PLAN

Welfare politics caused the Clinton administration's WRA to be pitched as "ending welfare as we know it." This characterization was disingenuous, since much of the proposal was a continuation of the reform trajectory established by FSA. What was new, of course, was the time limit. But the significance of even this centerpiece, as proposed by Clinton, should not be exaggerated. Its billing had more to do with the political strategy of the 1992 presidential election campaign than with the substance of the program.

### The Time Limit

Prior to assuming national office, President Clinton was actively involved in welfare reform, both in Arkansas and as part of a task force of the National Governors' Association. During the presidential campaign, Bruce Reed (then a volunteer speechwriter) brought the work of Harvard scholar David Ellwood to Clinton's attention. With the support of the Ford Foundation, Ellwood had recently published a book, *Poor Support* (Ellwood 1988), that offered a plan for welfare reform.

*Poor Support* called for a divide-and-conquer antipoverty strategy that combined a substantial increase in services and payments to the poor with different approaches to be fashioned for different subgroups (recall the “tagging is appropriate” welfare reform principle). Ellwood argued that with such a strategy in place, the nation might limit welfare payments to a period ranging from 18 to 36 months; adults still without jobs by the end of that period could be required to accept some form of public employment. Ellwood’s time-limit proposal was based in part on his earlier research with a Harvard colleague, Mary Jo Bane, on the duration of spells of welfare receipt. That research indicated that a substantial share (in the original version almost half) of welfare cases close within two years of opening. If this result was correct, the implication was that more costly interventions could be avoided for many recipients by waiting for nature to take its course.

Reed and Clinton seized on the notion of a time limit but translated the range offered by Ellwood to a fixed target of 24 months and downplayed the service side of the strategy.<sup>46</sup> Repeated reference to the 24-month limit during the campaign meant that when the president took office it would be impossible to modify the restriction without appearing to break faith with preelection commitments. The time limit became a focal point of the effort to construct a welfare-reform proposal. David Ellwood became assistant secretary for planning and evaluation in HHS, Mary Jo Bane became director of the Administration for Children and Families (the HHS agency responsible for AFDC), and Bruce Reed became the president’s White House domestic policy aid. All three were placed at the helm of the administration’s Working Group on Welfare Reform, Family Support, and Independence, and the program announced in June 1994 was the result of their efforts.

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<sup>46</sup>The best journalist’s review of what went on is provided by Whitman and Cooper (1994).

Work and Responsibility Act

As released, WRA built on the strategy established by FSA by increasing federal and state efforts to obtain child support from noncustodial parents, changing JOBS, continuing the process of eliminating the distinction between the regular (single-parent) and the unemployed-parent (two-parent) subprograms in AFDC, and developing national performance standards for agencies involved in delivering welfare services. The legislation went beyond FSA in developing a National Teen Pregnancy Prevention Initiative to “encourage responsible behavior.” The act responded to the recommendations of the Welfare Simplification and Coordination Advisory Committee by proposing streamlining of eligibility procedures and standards across the AFDC and Food Stamp programs. State flexibility in welfare program design was to be increased to allow states greater latitude in setting program parameters without waivers. In particular, states were to be allowed to vary work incentives incorporated in payment computation and to eliminate welfare benefit increases for children conceived after their mothers began receiving assistance. Finally, new state demonstrations were proposed in such areas as payment procedures for the EITC, methods of job search assistance, and effects of state assumption of responsibility for ensuring that child-support awards are paid on schedule. Thus while WRA increased state latitude in welfare program operation, it also took steps toward establishing an agenda for reform-oriented experimentation.

WRA had many facets. However, given the focus of the presidential campaign, most attention was directed to the time limit. It immediately became apparent that at the hands of the welfare reform working group, the nature of the time limit had changed substantially. Instead of being a strict deadline for assistance, the time limit amounted to another restriction on the JOBS welfare-to-work case management process. If, after 24 months in job search and training, certain recipients had not found employment, WRA called for assigning of them to the WORK program. The WORK activity was to be a subsidized job in a private firm, public agency, or nonprofit organization. Participants would earn wages, and such earnings would in turn be counted in assessing welfare benefits. Such subsidized employment

was not expected to last indefinitely, and some recipients were likely to be rerouted back to JOBS. But when the local welfare agency succeeded in creating such a slot, a recipient beyond the time limit could be required to take it, and failure to comply would mean reduction of the welfare benefit.

The welfare reform group recognized that the WORK innovation could be costly and could be difficult to implement on an adequate scale. Indeed, the lesson of experience, including that of Governor Reagan in California in the early 1970s, is that subsidized employment is difficult to do, and no state experiment with welfare work requirements has yet to attain the scale contemplated by WRA. But while certainly difficult to implement, a work assignment incorporated as a scheduled feature of JOBS case management had many attractive features. There is some evidence that work experience increases the chances that recipients will obtain unsubsidized employment. A work requirement is a way out of the problems posed by the design of financial incentives for work. A common work requirement provides more leeway for unifying the treatment of single- and two-parent families in AFDC; WRA offered states the option of eliminating the 100-hour employment restriction for two-parent families. Above all, a timed work requirement might assist in making the entire welfare-to-work process “time conscious.”

### Assessment

WRA addressed a variety of transfer system problems with a variety of initiatives, but the fundamental structure of the AFDC and Food Stamp programs was to remain intact. Like FSA, WRA emphasized child-support enforcement and expanded emphasis on welfare-to-work programs. States were encouraged to increase attention paid to systematic guidance and support (called case management) for persons involved in training and job-search activities. Even the 24-month time limit turned out to be primarily a case-management tool. As incorporated into WRA, the time limit simply established a job assignment as an automatic experience for adults who failed to make a transition to employment by the deadline. It did not eliminate public assistance for their families, even in cases in which the obligated adult refused to take a job.

While WRA was an incremental reform proposal, the direction of increment reflected the changing political environment of welfare policy. This was the first major welfare reform effort initiated by Democrats that included no reference to the level of benefits or methods to reduce interstate disparities. WRA proposed to allow states to eliminate benefit increases for children conceived while a parent was receiving welfare. As late as 1990 it would have been inconceivable that a welfare-reform proposal initiated by Democrats would contain such a provision.

Viewed from the perspective of political strategy, WRA was at the same time too much and too little. It was too much in that, by addressing a wide range of system problems at once, it appeared to be just another manifestation of the “tireless tinkering” that some feel has characterized welfare reform in the past. The bill contained 431 pages of text, not including 187 pages of explanation. In the political forum, it was difficult to explain why “ending welfare as we know it” took so many words.

The words themselves seemed to involve a sort of political sleight of hand. The administration emphasized that the proposal “ends welfare as we know it,” with the time limit and system reorientation. But the reorientation toward self-support was already evident in FSA, and on close inspection the time limit incorporated in the Clinton proposal looked like just another mandate for the way case management was to be handled. This was not necessarily a bad idea, and some sort of progression toward obligation made sense as a next step in the direction of welfare reform, especially as an experiment. But casting the change as a watershed was hyperbole, and all parties to the debate knew it.

On the other hand, the bill was too little in that many serious problems were treated glibly. No state had yet been successful in generating the quantity of public employment that the WRA timetable would likely require, even if phased in by first focusing on mothers younger than 25, as the administration proposed. And no large state had a case management information system adequate to perform the tracking task that a time limit required. Development of the organization and data management infrastructure necessary for substantive implementation was certain to be costly. The

proposal called for an elaborate system of performance indicators, but experience with efforts to motivate states to measure and report performance in welfare-to-work efforts is not reassuring. Few believe that JOBS performance data reported by states are reliable (indeed, they are reported in congressional publications with a prominent warning to readers; see U.S. House of Representatives, Committee on Ways and Means 1994: 358–59). WRA called for much more.

### The Rest of the Strategy

WRA was only part of the Clinton reform strategy. Consistent with the “work from without” welfare reform consensus, the administration has pursued efforts to improve in two ways the well-being of working poor families who are outside the welfare system. The first was by expanding the size of the EITC, a task accomplished with the 1993 OBRA. The credit, which is paid to low-income working taxpayers, amounts in 1996 to 34 percent of gross earnings up to \$6,330 for families with one child and 40 percent of gross earnings up to \$8,890 for families with two or more children. This provision produces a maximum credit of \$2,152 in the one-child case and \$3,556 for families with two or more children. The credit is phased out at rates of 15.98 percent (single child) and 21.06 percent (two children) beginning with earnings above \$11,610. The credit works basically as a wage subsidy, and the amounts involved are significant: In 1995, 17 million families received total EITC benefits of about \$21 billion (1993) dollars. As Table 1 indicates, this is an amount equivalent to about 86 percent of all outlays on AFDC.

The EITC expansion assists in making work pay. A second component of the Clinton strategy was to decouple health insurance from welfare by folding Medicaid into a national health care plan. Given the importance of medical assistance in the movement to self-support and the fiscal consequences for states of increases in Medicaid costs, it made strategic sense to line up the ducks of welfare reform with the EITC first (as part of the deficit-reduction package), followed by health care and, once health care was taken care of, by a direct attempt to tackle welfare.



The administration got the EITC expansion, but the rest of the strategy failed. The health care system was not reformed, and Medicaid remains essentially untouched. The delay in resolving the health care issue meant that welfare reform itself was delayed, and critics (notably Senator Daniel Patrick Moynihan of New York) were quick to claim that the president was renegeing on his welfare-reform commitments. The strategy eventually selected was to announce the welfare reform before the health care issue was resolved, but then to encourage deferral of consideration until the next Congress convened. This strategy did not take into account the possibility that the 104th Congress would be controlled by Republicans. Any remaining political viability for WRA ended in early December when the CBO revised upward its estimates of the overall costs of the plan from \$9.3 billion to \$11.8 billion and stated that the plan would cost states \$2.6 billion rather than the \$1 billion originally predicted by the administration.

### Summary

WRA was a creditable effort at welfare reform. The problem is that there was little in it that would not have been there had the same task force produced draft legislation a year earlier. By delaying, the administration fueled expectation that something entirely different was in the wings, an expectation that WRA did not fulfill. By appearing to deliver its own initiative stillborn, the administration devalued it, thus opening the field for less thoughtfully constructed congressional and state alternatives. At least when viewed in terms of media attention, states have been responsible for far more action on the welfare reform front since 1992 than the federal government, and the administration's delay encouraged Congress, governors, and, apparently, voters to fill the gap.

## REPUBLICAN ALTERNATIVES

The major Republican congressional response to the Clinton administration's failure to deliver welfare reform was the Personal Responsibility Act (PRA). Wisconsin produced the boldest of the plans advanced by Republican governors.

### The Personal Responsibility Act

Originally championed by the new Speaker of the House, Representative Newt Gingrich of Georgia, PRA was a follow up on the promise of welfare reform included in the Republican Contract with America introduced in August 1994 and was built on a reform scheme proposed in November 1993 by 160 House Republicans. As originally formulated, the plan tackled WRA and the underlying administration strategy for welfare reform virtually point by point. Everything was made tougher; the most important provisions involved the JOBS/WORK program, time limits, teen pregnancy, illegitimacy, program consolidation, federal and state financing, and aid to immigrants.

*JOBS/WORK.* Nowhere was the contrast between the Clinton and Gingrich plans more dramatic than in the statements made about the relationship between welfare reform and work. Here is Clinton:

Our approach is based on a simple compact designed to reinforce and reward work. Each recipient will be required to develop a personal employability plan designed to move that individual into the work force as quickly as possible. Support, job training, and child care will be provided to help people move from dependence to independence. Time limits will ensure that anyone who can work, must work—in the private sector if possible, in a temporary subsidized job if necessary. (Clinton 1994: 1)

Here are Gingrich and colleagues:

The intent of the Congress is to . . . provide States with the resources and authority necessary to help, cajole, lure, or force adults off welfare and into paid employment as quickly as possible, and to require adult welfare recipients, when necessary, to accept jobs that will help end welfare dependency. (PRA 1994: 1)

WRA proposed increasing the amount of structure imposed on the JOBS program by federal regulations. The original PRA removed virtually all restrictions on how the JOBS program was to be

structured, except to require that a rising fraction of participants be involved each month in work. The target set for 2001 was 29 percent. Superficially, this target appears only slightly higher than the 20 percent participation rate mandated for JOBS in 1995 by FSA. In fact, the PRA requirement would have been much more substantial because of differences in what counts as participation and in the way the indicator is constructed.<sup>47</sup> No state AFDC work program had ever attained the level of participation contemplated in the Republican proposal.

The approach to work in PRA was fundamentally different from that in WRA. PRA jobs were “workfare”; that is, welfare recipients were to be expected to work 35 hours a week in return for welfare benefits. The Clinton plan explicitly rejected the workfare model and emphasized substitution of employment in subsidized wage-paying jobs for benefits as a source of income for recipients. It is difficult to predict exactly how many jobs implementation of either WRA or PRA would have required, since the outcome depends on program effects on the number of households seeking assistance. However, it is likely that by the end of the century the Republican plan would have required at least three times as many work slots as WRA. Presumably workfare jobs would be easier to create than WRA-type jobs, but they would be expensive nonetheless.

*Time limits.* In the Clinton plan, the time limit marked a point of transition from one type of employment service to a work requirement. In PRA, the time limit meant the end of welfare eligibility. States would be required to terminate assistance for any family after five years. States could terminate assistance payments to any family that had received AFDC for two years, as long as the parent (or one parent, in the case of two-parent families) had spent at least one year in workfare. There would be no exemptions.

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<sup>47</sup>The JOBS participation “rate” was not a rate at all in the dictionary sense of the term. States were allowed to put people in the numerator who were not in the denominator. In addition, the definition of activities that qualify for inclusion was much more generous in JOBS than that contemplated by PRA. For a critical description of the JOBS participation measure, see Wiseman (1993).

*Teen pregnancy and illegitimacy.* In contrast to the educational emphasis of WRA's National Teen Pregnancy Prevention Initiative, the Republican proposal denied assistance to unmarried women who gave birth before their 18th (or, at state option, 21st) birthday. Apparently the children in such families would remain ineligible for assistance for as long as the mother remained unmarried or, if she married, for as long as her husband refused to adopt them. Like the Clinton plan, the Republican proposal allowed states to eliminate aid increases associated with children born after a woman began receiving assistance.

*Program consolidation.* The Clinton proposal approached the problem of program overlap and interaction by proposing steps toward harmonizing standards for eligibility and payment determination. The Republican proposal approached the problem by combining food stamps and other nutrition-related programs in a single block grant to states and allowing states to decide, subject to certain categorical constraints, how the funds were to be allocated. Thus if the states wanted conformity between AFDC and food stamp eligibility standards, presumably they could get it, subject only to the requirement that funds designated for nutrition be spent on nutrition (see below).

*Federal and state financing.* The most far-reaching aspect of the original House Republican proposal was the contemplated change in procedures for welfare system finance. Rather than continuing to finance public assistance through the open-ended, matching-grant procedures, the Republicans proposed substantial consolidation of programs and imposition of caps on year-to-year changes in total federal assistance outlays. The result amounted to a shift to block grants to states for public-assistance programs.

The PRA approach differed slightly between nutrition-related programs and programs related to other forms of welfare assistance. The Republican legislation called for consolidating all nutrition-related programs—including food stamps, WIC, and various school nutrition programs—into a single grant to states for food assistance for “economically disadvantaged” persons. The aggregate federal commitment

to the nutrition package was fixed at the amount budgeted for fiscal year 1996 and increased thereafter to accommodate the rate of increase in food costs and the rate of change in population. For the first years of the program, states were required to spend specified proportions of funds on school nutrition programs and for WIC-type activities. The remainder was then to be allocated to general food assistance, which could be delivered via food stamps purchased by states from the Department of Agriculture. State shares in the food assistance block grant allocation are determined by relative shares of the economically disadvantaged population.

PRA did not attempt to consolidate nonnutrition programs such as AFDC, SSI, and low-income housing assistance. However, total spending on these programs was also capped at fiscal 1996 levels and allowed to increase thereafter only by an amount adequate to accommodate changes in prices and changes in the number of poor persons. State latitude in determining eligibility and payments was greatly increased, and “entitlement” to assistance under AFDC or SSI was eliminated. The implication was that whatever nominal eligibility standards for public assistance a state might apply under PRA rules, families meeting the standard had no legal recourse if the state failed to deliver.

Most of the programs covered by PRA block grants were partly funded by states. Where funding was by matching grant, as in AFDC, an additional dollar of benefits paid cost state taxpayers less than a dollar—much less in the case of AFDC and food stamps. Under both the nutrition and general assistance systems created by PRA, the last dollar of public assistance would always come out of state budgets, and a dollar spent on aid would mean a dollar less for all other categories of state expenditure. Critics argued that the incentives so created would lead to contraction of general state outlays and a “rush to the bottom” in state expenditures (Peterson 1995); at minimum they would increase the vulnerability of public assistance expenditure to fiscal pressures created by economic downturn. PRA did not include requirements for sustaining state contributions, or what is usually termed “maintenance of effort.”

*Aid to immigrants.* WRA addressed transfer issues related to resident aliens only in the context of establishing conformity between AFDC and food stamps in the definition of which types of resident aliens are eligible for benefits and in ensuring that sponsors of some immigrants be held responsible for their support. PRA was much more aggressive, denying benefits to virtually all aliens resident in the country, regardless of legal status. Exceptions are granted for the very elderly (75 or more years old) legally resident in the country for at least five years and for emergency medical assistance.

The Republican plan was appropriately called radical reform. The designation is justified not as much by the time limit as by elimination of the federal commitment to share in every dollar of a state's transfer expenditures to people meeting basic standards of need and the concomitant decision to expand discretion granted to states in deciding just who is, and who is not, worthy of assistance.

### Legislative Changes

Many of the changes incorporated in the original PRA were modified during the first six months of the new Congress. The House of Representatives version of the law (H.R. 4) was passed in March 1995 and retained the "*Personal Responsibility Act*" title. The Senate Finance Committee passed a substitute bill, the Family Self-Sufficiency Act, later in the year.<sup>48</sup>

Both the Senate and the House bills repealed the AFDC program and replaced it with block grants to states for TANF. States lost entitlement to unlimited federal sharing (matching) in the costs of assistance, but they were to gain full authority for setting benefit levels, determining income standards for assistance eligibility, and administering programs. Eligible families lost their entitlement to cash assistance; access to public assistance is no longer a "right" of families meeting income and composition standards. Time limits were imposed on the duration of cash benefits, and work requirements were substantially increased.

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<sup>48</sup>The summary that follows is based on Burke (1995).

Despite substantial conformity, important differences arose. The House legislation followed the original PRA in banning cash payments for children born to families already receiving assistance, to unwed mothers under 18 years of age, and to most noncitizens. The Senate legislation banned no children from assistance and let states determine whether aid was to be given to noncitizens. The House bill ended the JOBS program; the Senate bill kept JOBS, but in modified form. The House bill gave states the option of operating a simplified Food Stamp program using the same eligibility rules that are applied under TANF. In contrast, the Senate bill did not address the Food Stamp program. Both the House and Senate bills left Medicaid eligibility untouched. Indeed, eligibility for Medicaid would continue to be evaluated on the basis of the rules applied in the old AFDC program.

Most significant, both the House and Senate versions of the TANF program would have substantially reduced costs. The CBO has estimated that, in the absence of reform, the existing AFDC program and related JOBS and child support enforcement efforts would cost the federal government approximately \$98 billion over the last five years of the decade. The House proposal would have reduced this amount by 9 percent, the Senate version by slightly less.

These differences were hardly insurmountable. But before they could be addressed, welfare reform was sidetracked by conflict between the White House and Congress over the federal budget. When Congress reconvened early in 1996, the outlook for welfare reform was clouded by the presidential campaign. In the meantime, the number of states involved in waiver-based welfare reform demonstrations continued to grow.

### *Wisconsin Works*

The most ambitious of the state initiatives was produced in Wisconsin as a follow-up to the two-year time limit experiment described earlier.<sup>49</sup> To conduct his Work Not Welfare experiment, Governor

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<sup>49</sup>The description that follows is taken in part from Wiseman (1996), which contains extensive references for the material cited.

Tommy Thompson needed to obtain approval from the Wisconsin state legislature as well as from the federal government. The legislature approved the initiative but attached a provision calling for the state's social service agency to submit by 1995 "a proposal for welfare reform in this state" that would replace most public welfare programs by 1999. The proposal was to guarantee income support to needy persons who could not work, guarantee employment to those who could work but could not find jobs, and assure low-income persons "affordable child care" and "affordable health care."

The legislature's "end welfare" requirement was a boon to Governor Thompson. In the context of the national debate over welfare reform, the requirement allowed him to use state resources to develop and advertise a comprehensive reform scheme. The Hudson Institute, a conservative policy analysis organization, set up an office in Madison and organized foundation funding for technical support for a task force appointed to draft a plan. The proposal, called Wisconsin Works and nicknamed W-2, was completed in early spring of 1995. It was formally announced by Governor Thompson on August 3 of that year, following a Vermont meeting of the National Governors' Association. Enabling legislation was passed by the state legislature in March 1996.

Viewed from both state and national perspectives, W-2 is an extremely important development. It is the first fully articulated plan for what a state welfare system might look like in an era of block grants. For citizens concerned about the direction of public assistance policy under something like PRA, Wisconsin Works provides a picture of one direction that states might go should they be freed of the program restrictions previously contained in the Social Security Act.

W-2 is a strategy realized in a program. The strategy has six major features:

1. Virtually all cash assistance is linked to some form of employment.
2. The variety of situations and capabilities of persons seeking public assistance is addressed by tagging and case management.
3. The connection between benefits and dependence is reduced by decoupling cash assistance from access to health insurance and child care assistance.



4. State administrative control and incentives for efficiency are enhanced by allowing public and private agencies to compete for designation as local program operators.
5. The change in the orientation of public assistance as well as agency culture is dramatized by a shift in responsibility for public assistance from the state's social service agency to the employment service agency, the Department of Workforce Development (DWD).
6. The "end of welfare" is taken seriously: The state is committed to rapid and complete implementation, with all components in place by September 1997.

The W-2 program has four tiers of support for adults with children. Persons seeking assistance will first meet with a financial and employment planner, whose job is to help needy applicants "think through their best options to provide for the economic security of their families." Those meeting eligibility standards will be directed to one of the tiers, rungs in the self-sufficiency ladder. Some applicants will move into unsubsidized employment, the highest tier. Applicants initially unable to find unsubsidized employment will be either accommodated in "trial" subsidized jobs in private or public organizations or placed in community service jobs. The bottom rung, W-2 Transitions, is "for those legitimately unable to perform independent self-sustaining work even in a community service job." The program is structured so that movement up the ladder raises income, and duration of tenure in each category save W-2 Transitions is strictly limited. The overall lifetime limit on cumulative participation in any W-2 activity is five years, but the plan includes some options for extension.

Grants provided in the W-2 Transitions and trial jobs tiers are "flat"; that is, they do not increase with family size. This, the state argues, best simulates common work arrangements in which wages paid do not vary by family size. When participants fail to cooperate with activity requirements, their grants are reduced proportionately, just as hours not worked would reduce earnings in regular employment. The planned shift to a flat grant increases benefits for small families and lowers them for large ones.

Persons in each tier are eligible for subsidized health and child care, with copayments dependent on income. More generally, W-2 commits the state to provision of child care and health care subsidies to working parents with children without time limits and on the basis of income and assets only. Eligibility

for some subsidy is to be extended to families with incomes as great as 165 percent of the federal poverty line. Child care costs are to be constrained by some relaxation of standards for caretaker eligibility; health care costs are to be constrained by use of managed care, benefit reductions, monthly premiums, and restrictions on the ability of persons previously participating in employer-paid health insurance plans to transfer to the W-2 health program. The state's intention is that public assistance be earned as cash through work or delivered as services needed to support work; for some families assistance may involve only subsidization of health insurance and child care.

In sum, W-2 is dramatic in ambition, scope, and detail. Once again, Governor Thompson challenged the Clinton administration, this time by demonstrating that a state could develop a comprehensive welfare reform package in far less time than had been required for WRA. If implemented, W-2 would genuinely end welfare, as Wisconsin's legislature had required. Moreover, like most of the state's initiatives, W-2 involved considerable financial commitment, especially given the state's promise of universal means-tested access to child care and insurance for families with children. The program appears to be a dramatic refutation of the arguments of some that states would respond to the fiscal incentives produced by a change to block grant funding with a "rush to the bottom." W-2 seems to be better characterized as a rise to the challenge.

Drama in scope and ambition notwithstanding, the W-2 announcement attracted little public attention outside the state, perhaps partly because the media had become inured to years of Wisconsin welfare reform hyperbole. Few appreciated the difference between W-2 and earlier programs. More important, however, was the shift of national attention to the struggle between Congress and the president over the budget. It began to appear that action on welfare reform would await another election. For Thompson, this outcome was galling. W-2 was not intended as just another waiver-based demonstration. Given the breadth of the proposal, something akin to the authorization contained in PRA was believed

essential. By spring 1996 it began to appear that resolution would await the outcome of the coming presidential election.

*President Clinton's Announcement and the End of the Impasse*

However, the politics of welfare reform took a new turn in May 1996, when President Clinton used his weekly radio address to claim credit for state welfare reform initiatives and to challenge Congress to act on welfare reform (White House 1996). "There are bipartisan welfare reform plans sitting in the House and Senate right now," he said, "that do what the American People agree welfare reform must do: They require welfare recipients to work; they limit the time people can stay on welfare; they toughen child support enforcement and they protect our children. So I say to Congress: Send me a bill that honors these fundamental principles; I'll sign it right away. Let's get the job done."

The president congratulated Wisconsin for adding momentum to the "quiet revolution" in welfare reform with the W-2 proposal, which "has the makings of a solid, bold welfare reform plan." He then appeared to endorse the plan by pledging that his administration "would work with Wisconsin to make an effective transition to a new vision of welfare based on work." This endorsement was extraordinary given that the state had not even applied for waivers for W-2. Members of Governor Thompson's staff scrambled to complete a waiver proposal, which the governor in person delivered to the HHS.

This episode was a clear short-term victory for the president on the welfare reform issue. If Congress did not act, the president would respond to any Republican campaign challenge on welfare policy by claiming that it was Congress, and not he, that had prevented the accomplishment of welfare reform in 1996. Congress did indeed respond, and after reconciliation of House and Senate versions of reform legislation, the result was the PRWORA (Public Law 104-193). Despite last-minute protests from various members of his administration and others, the president signed the bill in August 1996.

PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT <sup>50</sup>

PRWORA is the most substantial welfare reform legislation since establishment of the SSI program and revision and expansion of the Food Stamp program in the 1970s. The most significant change is the termination of entitlement by families to cash assistance provided under Title IV-A of the Social Security Act (the authorizing legislation for AFDC). In place of the matching grant program, PRWORA creates block grants to cover TANF and related services. The new law restricts or eliminates provision of public assistance to most noncitizens and to families that have received aid for more than five years, and children previously made eligible on certain criteria for SSI. The law contains major new policies aimed at reducing the rate of nonmarital births as well as substantial revisions in the Federal-State Child Support Enforcement Program, in the Food Stamp program, and in child nutrition programs.

The heart of PRWORA is replacement of AFDC, JOBS, and Emergency Assistance with a block grant for TANF. (The Emergency Assistance program provides matching funds for use by states to support families with children at immediate risk of destitution or homelessness.) Each state receives a fixed amount based on federal payments received for the three supplanted programs in fiscal year 1994, payments for fiscal year 1995, or the average for fiscal years 1992 to 1994, whichever is larger. Given that for most states caseloads have declined (see Figure 1), the TANF block grant results in a net increase in federal funds over what would have been received under pre-PRWORA regulations. The TANF block grant is supplemented with a substantial increase in federal funding for child care. A contingency fund is established for support of states with exceptional unemployment rates, and states with either exceptional population growth rates or very low benefits are eligible for supplemental grants.

TANF funds are to be used to help needy families with children, assist parents in moving to self-support through work and marriage, prevent and reduce out-of-wedlock births, and “encourage the

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<sup>50</sup>The description that follows is based on U.S. House of Representatives, Committee on Ways and Means (1996, Appendix L).

formation and maintenance of two-parent families.” In general, how states are to do this is left open, but the law includes certain restrictions and performance requirements. States are required to sustain spending of state funds on the replaced programs plus child care at 75 percent of the spending done in fiscal year 1994. Eligibility for federally funded TANF is denied families with members who have received assistance for five years or more (states are allowed to exempt 20 percent of their caseloads from this requirement).

As in the original Clinton plan, adults receiving TANF assistance must “engage in work” after two years (or less at state option). The criteria for satisfying the work engagement requirement are left to states to define. However, in addition to the two-year work engagement requirement for individuals, the law follows PRA by requiring states to have a specific and increasing fraction of their entire caseload involved in certain work activities identified by the legislation. The required level of participation for single parents is 25 percent in 1997 and rises 5 percentage points a year to 50 percent in 2002. For adults in two-parent families, the required participation rate begins at 75 percent in 1997 and jumps to 90 percent in 1999. “Participation” initially means 20 hours per week for single parents; for parents with no children under six the requirement rises to 30 hours by 2000. One adult in two-parent families must work 35 hours per week. States are allowed some variation in these standards, but the end result will still be a much higher level of activity required from recipients and more monitoring to enforce these requirements than under AFDC.

Like PRA, PRWORA eliminates the entitlement of needy families to assistance under the funded state programs and replaces it with a state entitlement to federal block grants. State plans for TANF are required to include “objective criteria for delivery of benefits and determining eligibility” and to provide “explanation of how the state will provide opportunities for recipients who have been adversely affected to be heard in an appeal process.”

PRWORA makes many changes in the Food Stamp and SSI programs. The principal cost savings are accomplished by restricting access to food stamps and SSI by immigrants and tightening the standard of child disability used in determining eligibility for SSI. Most legal immigrants (both current and future) will be ineligible for SSI and food stamps until citizenship is obtained. CBO projections show PRWORA reducing federal welfare program outlays by \$54 billion (from \$1,563 billion) between 1997 and 2002. Eighty-five percent of this cut is attributable to almost equal expected reductions in food stamp and SSI expenditures.<sup>51</sup>

While the new law does not prescribe procedures for states to follow in attaining PRWORA objectives, it does create penalties and incentives. Penalties are imposed on states for failure to meet the work participation requirement, failure to submit required reports, misuse of funds, failure to participate in child-support collection systems, poor child-support collection performance, failure to comply with the time limit, and failure to comply with other program conditions. On the other hand, states are to be rewarded for performance relative to block grant goals and reducing out-of-wedlock births.

PRWORA contains detailed requirements for information collection, requirements that cannot be met at the present time by the management information systems available in any state. To make sure that states are meeting the work requirements, PRWORA also requires quarterly reports covering the information needed to assess the participation rates as well as other data. One set of information must be drawn from the experience of closed cases. The reports must be delivered quickly, with penalties for laggards. The information may be derived from “the use of scientifically acceptable sampling methods approved by the Secretary.” As something of a mid-text afterthought, Congress instructed the HHS to report on the status of state data-processing systems and to find out “what would be required to establish

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<sup>51</sup>Calculated from Congressional Budget Office projections reported in U.S. House of Representatives, Committee on Ways and Means (1996: 1332). This *Green Book* table reports an erroneous figure for Medicaid, which has been corrected here.

a system capable . . . of tracking participants in public programs over time” (Public Law 104-193, Title I, Section 106(a)).

The new law seems to dramatically contradict an important dictum cited earlier in this article: Reform must be incremental. Elimination of entitlement hardly seems incremental, yet it seems to have occurred. An alternative view is that PRWORA constitutes a promise rather than a realization. It is difficult to object to the goals of the legislation, and the new law increases the operating funds available to most states: so, as always, reform is costly. However, in this case the immediate costs are imposed on constituencies—immigrants, single persons receiving food stamps, poor families with functionally impaired children—that have little political clout. The legislation recommends no specific strategies, so the threat to constituencies that might be posed by detailed change is avoided. Indeed, the program leaves Medicaid untouched, and the structure of the Food Stamp program remains largely unchanged. At bottom, Congress gave the governors more money and asked for a comprehensive shift toward work-oriented, time-conscious public assistance policy. After years of touting the accomplishments of state reform demonstrations, it was impossible for the governors to demur.

## REFLECTIONS

Put another way, PRWORA has initiated change, but we are uncertain of the direction. I close with nine observations.

### Seeing Consequences Will Be Difficult

The new law makes extensive provision for expanding the collection of data from states and through expansion of household surveys. However, as indicated earlier, while in principle much of the information required by Congress would be desirable to have, states simply lack the capacity to collect it.

Provision is made for acquisition of new data systems, but there is no guarantee or even reasonable expectation that information generated by such systems will be reliable or comparable across states.

One possible consequence of the elimination of entitlement by TANF is that states will attempt to cut costs by making it more difficult to apply for aid. Wisconsin is already experimenting with a system, Self-Sufficiency First, that requires persons seeking assistance to complete 60 hours of employment search before the state even begins processing their aid applications. Other states may practice more subtle means of dissuasion, and it is likely that some people in need will lose access to assistance altogether. This “entry effect” will never be captured by agency information systems because such systems cover only the status of persons approved for assistance.<sup>52</sup> Under AFDC, persons meeting standards of need but denied access to assistance could and did seek legal aid. Careful attention needs to be paid to the way state systems come to accommodate, or dissuade, applicants.

### Equity Is a Problem

Under AFDC, federal assistance was distributed to states on the basis of state expenditure effort, per capita income, and need—that is, the number of eligible families applying for assistance. While the details of the formula actually used may be difficult to justify, the principle seems sound. The lion’s share of PRWORA funds will be distributed for the next five years on the basis of circumstances at the beginning of the decade. These circumstances were established in part by a recession that varied substantially across states in impact. In contrast, PRA proposed allocation of funds across states based on trends in population and numbers of poor households. It is likely that before long losers under the new system will demand redress.

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<sup>52</sup>To its credit, Wisconsin has contracted with the Urban Institute to conduct a survey of low-income households not receiving public assistance that is intended in part to identify effects of its dissuasion policy.



Large-Scale Workfare Will Be Costly

As politically attractive as they may be in the abstract, welfare employment programs are costly to operate and difficult to manage. The reasons are clear: Even bad jobs require capital and some management (at minimum, rakes and straw bosses), and unlike “real” employment, welfare employment programs must encourage turnover. The skills required for management of effective workfare operation are quite different from those sought elsewhere in government, and they do not come cheaply. PRWORA requires an unprecedented level of participation in work and work-related activities, and the funds for meeting these standards come out of the same aggregate appropriation as basic benefits. The consequence may be expanded state costs, reduced benefits, or both.

CBO estimates of costs likely to be imposed on *states* by the plan provided the last nail in the coffin of the Clinton administration’s Work and Responsibility Act. Such estimates followed automatically from CBO calculation of federal costs because WRA was funded with matching grants. Because federal costs for TANF are fixed by the block grant, it has not been necessary for CBO to devote the same level of attention to state outlays required under the program. This has forestalled confrontation.

The Bottom Still Looms

Regardless of motivation or dedication of governors, PRWORA creates substantial incentives for reduction in benefits. While the law includes some safeguards for maintenance of effort, the standard is set low (75 percent of 1994 expenditures if the state meets the work participation requirement) and the range of expenditure states are allowed to count as part of “effort” is broad. Moreover, states are permitted to set aside any amount of their TANF grants they like in a contingency fund to meet demand in the event of a recession or other development that increases need. For every state, the shift from AFDC to TANF at least doubles the cost to the state’s general fund of financial assistance to the poor.

In the near term, the expansion of funds provided by caseload decline and the new block grant is likely to prevent any retreat on benefits. By the next budget cycle, however, the extent of reduction

permitted under maintenance-of-effort requirements and the range of outlays that can be tallied to establish effort will be well understood. At this point, legislators will begin to appreciate the new terms of trade between public assistance and other state activities that PRWORA establishes. Likewise, the cost of meeting activity requirements will be better understood. Pressure will be felt to reduce welfare expenditures and shift the expenditure level that is sustained in the direction of supporting work programs. Spendable income for welfare recipients will, under this scenario, decline.

Earlier I argued that interstate variation in welfare benefits has in the past been reduced by incentives created by the matching grant formula. Those incentives are eliminated, or at least reduced, by PRWORA. Disparity in benefit levels is therefore likely to grow as some states drop benefits faster than others. This in turn may create incentives for high-benefit states to reduce outlays to discourage immigration. It should be emphasized that these effects are hypothetical, but such predictions are not unwarranted. As evidence already cited indicates, states do respond to the incentives created by grant allocation procedures.

Again, the outcome of the process of state adjustment to block grants remains to be seen. If CBO projections are accepted, PRWORA will result in only a 3½ percent decline in federal outlays on public assistance between 1997 and 2003. Any decline in state outlays in excess of this amount will increase the federal share in social assistance, and such effects will be magnified if benefit reduction leads to greater costs for food stamps. The nearly inevitable outcome will be a greater federal fiscal role in public assistance at the same time that federal administrative control is curtailed.

### Cities Are Where Much Will Happen

For reasons rooted in the constitution, negotiations over welfare reform have been almost exclusively a matter between states and Washington, D.C. This emphasis on states obscures the likely concentration of effects of welfare reform in urban areas. A rough sense of this concentration can be gained from a recent study of public assistance receipt by the U.S. Bureau of the Census (1995). In 1991,

29 percent of the U.S. population lived in central cities of metropolitan areas. In contrast, 44 percent of recipients of AFDC, General Assistance (public assistance without federal contribution), and SSI did. The concentration of AFDC and General Assistance recipients was even greater—46 percent lived in central cities. PRWORA restrictions will have their greatest effect on long-time recipients. The same study reported the geographic distribution of persons who reported receipt of public assistance for every month over the 1991–92 interval. *Half* of all persons reporting continuous receipt of AFDC lived in central cities. This allocation of population does not match the allocation of employment, so agencies charged with assisting people to find the employment required by TANF will have to reach beyond city and across county borders. This will be both politically and administratively difficult.

#### Many of the Poor Are Indeed Needy

It is easy to generate political support for abstractions like “eliminating fraud and abuse” or “illegal immigrants.” But most polls indicate continuing public support for government assistance to people who really look needy—those who appear to make valiant efforts at self-support but, because of bad fortune or other circumstances, fail. Inevitably, the restrictions imposed by states because of PRWORA will produce and publicize tragic cases of deprivation because of government fiat. People who lose welfare after running up against the time limit, children abandoned, aliens claiming risk of death or worse at home—all will attract media attention, and all will be state responsibilities. PRWORA does not preclude aiding such folk; in some instances it just precludes using federal dollars to do so. To the extent that such cases, when given faces, reveal true need, local and state governments will feel pressure to respond.

An early example of the problem of faces occurs with food stamps for single persons. PRWORA eliminates food stamps to such persons immediately if they have received food stamps for three months and are not working or participating in a work program. Such people are at risk of losing benefits at the beginning of 1997. The law allows the U.S. Department of Agriculture to exempt states from applying

the restriction in areas of high unemployment or where it can be shown that insufficient jobs exist for beneficiaries to meet the requirement. States have moved quickly to seek such relief.

### Medicaid Is Still a Problem

Despite the importance of Medicaid to state budgets, welfare reform left the program largely untouched. Indeed, eligibility for Medicaid continues to be determined on the same basis as before. Congress thereby avoided a bruising battle with the health care industry, but it also left untouched one of the principal problems in the social assistance system.

### Wisconsin Waits

The new law gives states the option of continuing operation of welfare demonstrations operated under federal waiver. Initial reports indicate that many will not do so, in part because of disinterest in sustaining evaluation programs based on random assignment and because some program features previously permitted only under waivers are allowable under new federal law. Ironically, the W-2 program still cannot be fully implemented without waivers, for the proposal involves changes in Medicaid and food stamps, as well as changes in treatment of child support payments in benefit computation, that are not permitted under the new law. Despite the president's commitment to "work with Wisconsin to make an effective transition to a new vision of welfare based on work," the state's proposal has been rejected, and its offer to work with the federal government to develop a satisfactory evaluation scheme has been largely ignored.<sup>53</sup> State budgeting for W-2 was in part based on claims established in prior years on federal savings generated by earlier innovations. It is now the federal position that such claims have been superseded by the TANF block grant.

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<sup>53</sup>The application for federal waivers to permit W-2 implementation acknowledges "the key role to be played by the U.S. Department of Health and Human Services . . . in facilitating this undertaking and the dissemination of information to be gained from it." The plan calls for a "new partnership" evaluation strategy to serve both state and federal ends "to an extent without precedent in state welfare reform initiatives" (Wisconsin Department of Health and Social Services 1996, section 10).

Failure to address W-2 is a manifestation of a larger issue: What will be the federal role over the next few years as states struggle to implement TANF? In principle the waiver-based system of state experimentation not only created opportunities for demonstration of reform alternatives but also ensured the rigorous evaluation of program outcomes. Commitment to evaluation and federal capacity for ensuring that it occurred has diminished over the past five years. The need for such data has—if anything—grown.

In PRWORA, Congress provided for collection of data on participants and child well-being, as well as continuation of state evaluation efforts. In November the Administration for Children and Families announced availability of federal funding for support of ongoing waiver-based welfare reform demonstrations and development of strategy for assessing program alternatives under TANF. Matching rates for evaluation costs for projects approved under this initiative are very low; states are asked to pay 5 percent of costs. Up to \$7.5 million a year has been budgeted for the effort. According to the announcement, “ACF aims to develop a national strategy for welfare reform evaluation which includes funding a group of projects . . . that provide early information on program implementation, determine impacts of promising program models, and address a range of policy questions of the greatest importance to states, the federal government and the general public” (U.S. Department of Health and Human Services, 1996: 2). While the request for proposals fails to identify the important questions, it does envision close ACF participation conducted under “cooperative agreements” with the states. This active federal role in coordinating and encouraging research efforts is potentially a new development, but the capacity of the Department of Health and Human Services to oversee development under TANF has been substantially curtailed, both by statute and by budget. Like other PRWORA outcomes, what will materialize from the initiative remains to be seen.

The Effect on Housing Is Uncertain<sup>54</sup>

Because state responses to PRWORA are difficult to predict, so too are the consequences for housing markets and the housing stock. Since welfare reform will have its greatest effect on the poor, its immediate impact on the housing stock will be concentrated in neighborhoods where recipients of public assistance are located. If reduction of public assistance is not offset by increased earnings, the ability of families to pay for housing will decline. The effect may be compounded and extended through the neighborhood multiplier effects generated by withdrawal of purchasing power from many households.

The effects on ability to pay will be registered in subsidies required for public housing. Of the 4 million households receiving assistance from both tenant-based and project-based Section 8 housing in 1995, about 1.5 million reported income from AFDC and/or SSI. The impact will be concentrated in housing subsidized by Section 8 programs, rather than in public housing, because Section 8 programs serve more families with children. Ability to pay falls with income, and if TANF and other PRWORA changes reduce incomes, subsidies needed by private and public housing providers will increase.

The CBO's cost projections for PRWORA do not include the consequence for the federal budget of these costs. The best guess by staff at the U.S. Department of Housing and Urban Development (HUD) is that, when fully implemented, the new law will raise HUD subsidy requirements by \$437 million per year. This estimate incorporates data on likely reductions in SSI payments made to children and loss of SSI by approximately 100,000 adult noncitizens currently receiving housing assistance. These effects are geographically concentrated: Three states—California, Florida, and New York—account for 60 percent of all noncitizen SSI recipients receiving HUD housing assistance in 1994.

The effect of the decline in benefits will possibly be offset by increased recipient earnings and the multiplier effects of income generated by increased expenditure on welfare-to-work assistance,

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<sup>54</sup>Housing data reported in this section are from the U.S. Department of Housing and Urban Development (1995).

including child care. HUD currently operates several employment training programs, job development programs, and moving-to-work demonstrations that will be involved in implementation of state welfare reform initiatives. President Clinton will likely promote his Welfare to Work Jobs Challenge or something similar in the 105th Congress; this program would provide more funds for inner-city employment stimulation and would presumably generate income to offset PRWORA effects. These programs and others funded through the Community Development Block Grant program will be the principal instruments for local policy response to welfare reform. As is true for other effects of PRWORA, evaluating the effect on housing is complicated by uncertainty concerning how states will respond. For housing, the consequences also depend on how the uncertainty about state policy affects the behavior of housing providers and financial institutions involved in investment in low-income neighborhoods.

One final effect should be noted. In 1995 public assistance was the primary source of income for 47 percent of the families with children that received housing assistance. Household-based subsidies have long been advocated by housing experts on the grounds that their portability would encourage and enable families to seek housing away from unsuitable neighborhoods and closer to employment. The high incidence of public assistance receipt within this group suggests that the employment goals of such subsidies have not been realized. However, it is certain that in most states post-PRWORA reforms will substantially increase the incentive to seek employment. If the employment that recipients take to meet welfare requirements is located away from the neighborhoods in which they are housed (as is likely), an incentive will exist to move, and families qualified for Section 8 certificates or vouchers will be relatively advantaged in responding to this incentive. Such moves will most likely further diminish the demand for inner-city housing.

## CONCLUSION

Here, then, is where we are. The nation has achieved interim relief for states for public assistance expenditures. This relief has been accomplished in substantial part by restricting access to public assistance. The federal share of public assistance expenditures has been increased, while the federal role in managing the core of the program, now called TANF, has been reduced. The problem of developing and implementing a research agenda for studying program management and effects has yet to be addressed. The consequences of PRWORA are difficult to predict because they involve response to the program by both states and actual and potential assistance recipients. What is certain is that while the new legislation may have ended Aid to Families with Dependent Children, it has most certainly not ended the struggle for welfare reform.





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**Time-Limited Public Assistance Benefits:  
State Options under Federal Welfare Reform**

Rebecca Swartz  
Assistant Researcher  
Institute for Research on Poverty  
University of Wisconsin–Madison

Thomas Kaplan  
Associate Scientist  
Institute for Research on Poverty  
University of Wisconsin–Madison

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## **Abstract**

This paper concerns one provision of the new Temporary Assistance for Needy Families (TANF) block grant to states—its limitation of federal funds to no more than five years of assistance for most families. Although the time limit imposes a restriction on states, especially in combination with other TANF requirements concerning the percentage of state caseloads that must be working, the time limit also gives states several choices. States have flexibility in preparing clients for the time limit, establishing its length and structure, and using state funds. This paper describes these choices, using for guidance state waiver requests similar to time-limit policies under the TANF legislation.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced the Aid to Families with Dependent Children (AFDC) entitlement program with Temporary Assistance for Needy Families (TANF), a block grant to states. This paper concerns one provision of the new block grant—the limitation of federal TANF funds to no more than five years of assistance for most families. Although this change in policy imposes a restriction on states, it also permits flexibility by

- allowing states to exempt some families from the limit without specifying exemption criteria;
- authorizing states to restrict TANF benefits to any period the state chooses that is less than five years;
- allowing states to express time limits as an interval within a longer period (for example, no more than two years of assistance within a four-year period);
- allowing states, using their own funds, to offer standard benefits beyond five years; and
- imposing no requirements concerning how or if states prepare recipients for the time limit.

In application, time limits will interact with other elements of state and federal welfare reform in ways that make the effect of time limits themselves hard to predict or measure. Because public assistance under TANF is no longer an entitlement, states may treat similarly situated participants in varying ways. Time limits are likely to move some people off public assistance faster than would otherwise have been the case, although the post-assistance status of these people remains to be known. Time limits may also keep many people from ever entering public assistance because prospective clients may choose to save their limited time on assistance for an especially severe emergency. Yet time limits could also increase caseloads by reducing the stigma of public assistance, perhaps converting it into a desirable new feature of a broader social contract—a period of up to 60 months available for training and regrouping over the lifetime of a low-income parent.

This paper concentrates primarily on the choices available to states in a world of time-limited federal benefits, using for guidance state requests for time limits through waivers under AFDC. It is not yet possible to assess the full effects of time limits originating from AFDC waivers. Seventeen states requested a waiver allowing termination of public assistance when a time limit is reached, but only one of the 17 states, Florida, contains appreciable numbers of clients who have actually reached their limit.

The Florida time limit so far applies in only two counties, one of which started the program just for volunteers, and Florida's policy has been to assure work slots for adults who complied with program requirements but did not find jobs. As the box below indicates, the first statewide, uniform time limit will take full effect in July 1997 in Virginia.

### States with Approaching Time Limits

State	Date When Time Limits Were First Imposed	Date When Time Limits "Hit"*	Number of Sites
<b>Florida</b>	Feb. 1994	Feb. 1996 & Feb. 1997	Originally 2 counties; expanded to 8
<b>Wisconsin</b>	Jan. 1995	Jan. 1997	2 counties
<b>Virginia</b>	July 1995	July 1997	Statewide
<b>Delaware</b>	Oct. 1995	Oct. 1997	Statewide
<b>Nebraska</b>	Oct. 1995	Oct. 1997	5 counties until 1997, then statewide
<b>Connecticut</b>	Jan. 1996	Sept. 1998	Statewide
<b>Iowa</b>	Oct. 1993	Dependent on individual case plans	Statewide

\*The first date on which benefits could be lost because of time limits. For example, for a two-year time limit that first went into effect on February 1, 1995, the first possible date of benefit losses owing to time limits would be February 1, 1997.

#### I. THE ORIGINS OF TIME LIMITS

Presidential candidate Bill Clinton introduced the concept of time limits to the national welfare debate in his 1992 campaign. As a candidate, Clinton did not specify whether he favored a uniform time limit on all recipients or only on those recipients who refused to work or participate in a work program. In 1994, the president's proposed Family Responsibility Act suggested a "work-program time limit,"

giving recipients two years of unconditional cash assistance before they were required to participate in a work activity. After two years, families not participating in an approved activity would lose their benefits. Families complying with the work activity requirements could receive public assistance without a time limit. This form of time limit, applying only to nonparticipants in work programs, contrasts with the approach contained in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which imposes time-limited benefits regardless of whether a recipient is complying with other program demands.

The new approach marks a change in the history of public welfare, which extends back at least to the development in the sixteenth century of “safety nets” for the emerging market economies of the period. Since the inception of these safety nets, officials have worried that if public support is provided to the needy, some people—especially those least likely to command a market wage significantly greater than the benefit they could receive from public support—may accept the benefit and not earnestly search for work. Traditional responses to this concern have included imposing work requirements as a condition of assistance, adjusting welfare benefits to “make work pay,” placing the poor or children of the poor in foster homes or institutions, and denying benefits to immigrants. Although time limits have been imposed on some earlier forms of assistance—in 1939, for example, the U.S. Congress restricted eligibility for Works Progress Administration (WPA) job slots to 18 months—this policy has been unusual in basic public assistance programs.

## II. STATE TIME-LIMIT POLICIES UNDER FEDERAL WAIVERS

In the last four years, 31 states have requested waivers to implement 31 different time-limit programs, falling into three categories:

- **Work Program after a Prescribed Time:** After a specified period, adult recipients are required to participate in a work program to qualify for continued cash assistance. Fifteen states requested



a work-program time limit. Twelve of the work-program time-limit requests were approved, and three applicant states later retracted their request in favor of an aid-termination time limit.<sup>55</sup>

- **Aid Reduction after a Prescribed Time:** After a specified period, the cash benefit is reduced, often by the size of the parent's portion of the family grant. Five states requested an aid-reduction time limit, although one state later withdrew its request. Three of the four remaining requests have been approved.<sup>56</sup>
- **Aid Termination after a Prescribed Time:** After a specified period, the entire cash benefit is terminated, in some states for life, in others for a specified number of months. Seventeen states have requested an aid-termination time limit, of which fourteen have received approval.<sup>57</sup> Work-program requirements are in some ways a continuation of the Job Opportunity and Basic Skills Training (JOBS) program created by the Family Support Act of 1988. This strategy strengthens the JOBS requirement that all nonexempt adults work or participate in an activity that prepares them for work by placing a strict limit on the amount of time an adult can receive assistance without working. Unlike the two other time-limit categories, states with work-program provisions not only require work but guarantee a work slot for every adult.

Time limits in which aid is reduced after a specified period also evolved from the JOBS structure of the Family Support Act. States following this approach give clients a set number of months to obtain the job skills they need to find employment and move off assistance. Families that have not accomplished this goal lose a portion of their cash benefits when the time limit takes effect, similar to an extended JOBS sanction. In Arizona and Texas, the caretaker is removed from the grant; Washington imposes an escalating percentage reduction on assistance; and California requested a waiver to provide a combination of both.

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<sup>55</sup>The following states requested work-program time limits: California, Colorado, Georgia, Illinois, Maryland, Missouri, Montana, New Hampshire, North Dakota, Oklahoma, South Dakota, and Vermont. Connecticut, Indiana, and South Carolina changed their requests from a work-program to an aid-termination time limit.

<sup>56</sup>The following states requested aid-reduction time limits: Arizona, California, Texas, and Washington. All but California's request have been approved. Kansas later modified its request, dropping the aid-reduction program.

<sup>57</sup>The following states requested aid-termination time limits: Connecticut, Delaware, Florida, Illinois, Indiana, Iowa, Louisiana, Massachusetts, Nebraska, North Carolina, Ohio, Oregon, South Carolina, Tennessee, Virginia, Tennessee, Wisconsin (Work Not Welfare and Wisconsin Works), and Wyoming. The applications of Indiana, Massachusetts, Wisconsin (Wisconsin Works), and Wyoming were pending when the Personal Responsibility and Work Opportunity Reconciliation Act passed.

Time limits in which aid is terminated after a specified period are a sharper departure from past AFDC policy. Unless families qualify for special extensions, they become—at least for a while—entirely ineligible for cash benefits after they reach the time limit. Six of the 17 states requesting an aid-termination policy would implement a lifetime limit on cash assistance, the shortest of which is 21 months. (See the Appendix for a description of the state aid-termination programs.)

Some states have chosen to combine time-limit approaches. Florida has an aid-termination time limit, but provides a work slot at the end of the time limit for those who participated fully and whose failure to find unsubsidized employment was judged to be beyond their control. The Illinois time-limit program contains a work-program requirement for families deemed to require long-term assistance and an aid-termination requirement for families thought to be headed by more employment-ready caretakers.

When the concept of time limits was first introduced in 1992, twelve states requested time limits that imposed work-program requirements and only four requested time limits in which aid was terminated. The pattern reversed after the November 1994 elections, when another thirteen states requested aid-termination time limits (three of them withdrawing earlier requests for a work-program time limit), and only three states requested work-program time limits (Greenberg, Savner, and Swartz, 1996, p. 4). Since 1992, only five states have requested an aid-reduction time limit.

### III. WORK REQUIREMENTS UNDER TANF

The new TANF block grant contains both work requirements and time limits. Under the work requirements, adult recipients must participate in a community service assignment if they have not found a job after two months of assistance, unless a state's governor requests an exemption from this provision. In addition, the head of every family on welfare must work (as defined by the state) within two years of first receiving assistance. Finally, states must meet strict work requirements for their overall caseloads, as described in Table 1, and states that fail to do so face a penalty of up to 5 percent of federal block grant

**TABLE 1**  
**Participation Requirements under the TANF Block Grant for All Families**  
**and Two-Parent Families<sup>a</sup>**

Fiscal Year	All-Families Participation Rate	Hours of Work Required to Count Participant Toward All-Families Rate	Two-Parent Families Participation Rate	Hours of Work Required to Count Participant Toward Two-Parent Families Rate
1997	25%	20	75%	35
1998	30%	20	75%	35
1999	35%	25	90%	35
2000	40%	30	90%	35
2001	45%	30	90%	35
2002 and after	50%	30	90%	35

**Note:** TANF allows the U.S. Department of Health and Human Services to reduce the mandatory participation rates for states which experienced declining AFDC caseloads in the year immediately preceding TANF implementation. Most states are likely to qualify for this reduction.

<sup>a</sup>A single parent with a child under age 6 needs to work only 20 hours per week to count positively towards the state's participation rate.

funds in the first year of failure. The penalty rises by 2 percent each additional year the state fails to meet its requirement, subject to a maximum penalty of 21 percent.<sup>58</sup> Education, training, and job search programs do not generally qualify as work for the purpose of meeting this overall caseload requirement, although states are not restricted from spending TANF funds on, or requiring client participation in, such activities.<sup>59</sup>

<sup>58</sup>A state that had a waiver approved prior to the effective date of the TANF legislation can continue its waiver (subject to TANF funding limitations) and is not required to comply with the provisions of the Act that are inconsistent with the waiver. If a state has a waiver approved after the effective date and on or before July 1, 1997, the state can continue the waiver and will not be required to comply with provisions of the Act that are inconsistent with the waiver, except for the Act's work participation rate requirements.

<sup>59</sup>To count toward the all-families rate, at least 20 hours per week (and to count toward the two-parent rate, at least 30 hours per week) must be attributable to: unsubsidized employment; subsidized

#### IV. STATE TIME-LIMIT OPTIONS UNDER TANF

The clock for federal time limits on receipt of assistance begins on the day on which TANF takes effect in a state, which can be no later than July 1, 1997. No TANF recipient in a state that begins the program in July 1997 and that imposes a five-year time limit would reach the federal limit until July 2002. At that point, federal time-limit requirements will apply to federal block grant funds but not to required or optional state funds, which could be allocated to recipients not in compliance with federal time-limit requirements. (To receive the full federal block grant, a state must continue at least 80 percent of its past spending on AFDC, JOBS, and Emergency Assistance, the three programs replaced by TANF.) In effect, then, states retain flexibility concerning even the basic decision of whether to impose a time limit, as long as the state is willing to allocate state funds and the required percentage of the state's overall caseload meets the federal employment standard. Other options available to states include the following.

##### 1. Length of the Time Limit

States may set the time limit for assistance paid with federal TANF funds at any point between zero and five years. The maximum five-year limit under TANF applies to "any assistance," a phrase not clearly defined in the law but which may be interpreted to include child care, vouchers, emergency assistance, counseling, and other services. Because of the federal work requirement, many states may find it advantageous to set a time limit close to the five-year maximum, especially if generous earnings

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private sector employment; subsidized public sector employment; work experience (including work associated with the refurbishing of publicly assisted housing) if sufficient private sector employment is not available; on-the-job training; community service programs; provision of child care services to an individual who is participating in a community service program; vocational educational training, not to exceed 12 months for any individual, and provided that not more than a total of 20 percent of persons counting toward the participation rate for a month are in this status or are teen-parent household heads attending school; job search and job readiness assistance, but only for 6 weeks and not for a week after four consecutive weeks (except that job search will be countable for 12 weeks if the state's unemployment rate is at least 50 percent greater than the national unemployment rate).

disregards (described in more detail in Section 5) for working recipients are also part of their public assistance package. The longer deadline in combination with high disregards could maintain more working recipients on the TANF rolls, thereby increasing the likelihood that a high enough percentage of the caseload would be working to avoid federal penalties. Some families with earnings and eligible for only a small monthly grant may, however, decide not to receive the grant because they would view it as too small to justify using a month of their time clock. TANF does not allow recipients paid with state funds in the sixth or subsequent year of assistance to count toward the work requirements.

Although states could fund time limits of more than five years with their own money, it is unlikely that many states could afford to offer unlimited aid in the absence of federal financial participation, and some states will probably select a time limit of less than five years because of concerns about client dependency. A key concern among states that do choose a longer time limit may be families that cycle in and out of low-wage jobs, sometimes needing public assistance and sometimes not over a period of many years.

## 2. Structure of the Time Limit

States also have discretion over the structure of time limits. For example, a state could restrict assistance to two out of every four years, with a lifetime limit of five years. States requesting waivers for time limits have generally chosen one of five broad structures.

- **Limit on aid within a specified period.** The family can remain on assistance for only a certain number of months in a specified period. For example, Nebraska's Employment First program limits families to 24 months of assistance out of 48 months. Regardless of whether a family uses its full 24 months of assistance, 48 months after they entered the program the process begins again, and the family is eligible for another 24 months of assistance in the next 48 months.
- **Period of eligibility followed by a flat period of ineligibility.** The family has a prescribed number of "eligible" months, which can be used consecutively or not. After reaching this threshold, the family becomes ineligible for assistance for a set number of months. For example, North Carolina has a 24-month time limit, after which the family is ineligible for cash assistance for 36 months. When the 36 months is over, the family is eligible for another 24 months of assistance.

- **Lifetime limit.** The family has a limited number of months, over the lifetime of the caretaker, to be eligible for cash assistance. For example, Connecticut requested a waiver for a 21-month lifetime limit on cash assistance.<sup>60</sup>
- **Individualized time limit.** Each family's time limit is based on individual circumstances. In Iowa, caseworkers establish an individual employment plan for each participant and an estimated time for each activity identified in the plan. The allowable time on assistance is the total time for all these activities.
- **Combination approaches.** States have mixed these approaches, usually in an effort to achieve both flexibility for caseworkers and families and an easily communicated time-limit message. South Carolina, for example, requested a time limit of 24 months over a 120-month period, along with a 60-month lifetime limit. In Florida, some families are limited to 24 out of 60 months and others to 36 out of 72 months, depending on their perceived employability.

### 3. Who Is Subject to the Time Limit?

While a large section of the caseload may respond to the time limit by finding employment, it is likely that some adults receiving assistance will not find and retain full-time employment. The fraction of the caseload that is "employable" is vigorously debated, although competent estimates range from two-thirds to four-fifths (Maynard, 1994, pp. 114–115; Mead, 1995, p. 21). Those unable to retain unsubsidized employment without high levels of support have generally been exempt under federal waivers from both the JOBS program and most state time limits.

TANF allows for exemptions to the five-year limit, not to exceed 20 percent of the cases in which a parent is part of the grant (the federal time limit does not apply to child-only cases, such as those in which a child resides with a grandparent or other non-legally-responsible relative). Federal law only loosely describes how states are to choose cases for exemption, stating simply that states may exempt families "by reason of hardship or if the family includes an individual who has been battered or subjected to extreme cruelty." States could presumably choose to allow no exemptions or, since the federal cap applies only to federal and not state funds, many more than 20 percent. Some exempted clients may be in

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<sup>60</sup>The federal government approved no waivers with a lifetime limit, restricting waiver approvals to the life of the demonstration (usually from five to eleven years).

exempt status only temporarily (for example, to care for an ill child). Other cases (for example, a caretaker who has a disability that does not qualify for the Supplemental Security Income program) may be in an exempt status for more extended periods.<sup>61</sup>

All state time-limit programs operating under federal waivers have allowed exemptions, as has the federal JOBS program. Estimates of how many clients qualified for an exemption under JOBS ranged from 34 percent to 56 percent of AFDC parents, depending on assumptions of whether states would exempt parents with children under age 3 or age 1 (the most and least generous exemption policies allowed under the federal JOBS law).<sup>62</sup> A recent survey of the 17 states that have requested aid-termination time limits identified ten major exemption categories (*comparable exemption criteria under the federal JOBS program are noted in italics*) (Greenberg et al., 1996):<sup>63</sup>

1. **Disabled or Incapacitated.** Fifteen of 17 states provide an exemption for single-parent families in which the parent is disabled. (*The JOBS program exempts adults who are ill or incapacitated.*)
2. **Child-Only Cases.** Fifteen of 17 states exempt child-only cases, defined as those in which only the child(ren) receives cash assistance from the AFDC program (for example, when the parent receives SSI or the children reside with a non-legally-responsible relative). (*Child-only cases are exempt from the JOBS program.*)
3. **Caretakers of Disabled Dependents.** Thirteen of 17 states exempt single-parent families in which the parent is needed in the home to care for a disabled (or in some states, incapacitated)

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<sup>61</sup>SSI provides monthly cash payments to needy blind, aged, and disabled people. It does not, however, necessarily cover all persons who cannot succeed in the unsubsidized workforce without extensive support.

<sup>62</sup>The 56 percent exemption estimate (U.S. General Accounting Office, 1995, p. 5) is for fiscal year 1992 and is based on exemption for parents with children under age 3. A 1995 Manpower Demonstration Research Corporation Report, which combined two data sources on exemptions, found that approximately 34 percent of all single-parent cases could be exempted from JOBS participation, including these categories: incapacitated = 6 percent; child-only cases = 6 percent; cares for ill family member = 2 percent; minor parent = 6 percent; cares for child under age one = 10 percent; pregnancy = 2 percent; or in other situations (such as being over age 60 or living in a remote area) = 2 percent (Hamilton, 1995, p. ES-13).

<sup>63</sup>Wisconsin has received two aid-termination time limit waivers: Work Not Welfare and Wisconsin Works (W-2). This analysis used the W-2 waiver in its calculations, since the state plans to implement the program statewide under TANF.

dependent or household member. *(To qualify under the JOBS criteria, the disabled dependent need not be a member of the AFDC unit.)*

4. **Minor Parents.** Thirteen of 17 states exempt either all minor parents or minor parents who are actively participating in school. (Two of the 13 states do not have specific exemptions for minor parents but effectively exempt this group because they fall within the terms of other exemptions.) *(Children under age 16 or attending, full time, an elementary, secondary, or vocational school are exempted from the JOBS program.)*
5. **Advanced Age.** Six of 17 states exempt families in which the caretaker is of an “advanced age,” usually defined as ages 60, 62, or 65. *(The JOBS program exempts caretakers of an advanced age, defined as over age 60.)*
6. **Young Child.** Ten of 17 states exempt families with young children, although sometimes only through the twelfth week. *(JOBS exemption criteria define young children as under age 3 or, at state option, under any age between 1 and 3. In addition, states may not require a parent of a child under age 6 who is personally providing care for the child to participate more than 20 hours per week.)* The young-child exemption typically accounts for the largest percentage of the caseload that is exempt. In the JOBS program, applying the exemption to caretakers with children under age 1 exempted 11 percent of all AFDC families in 1994, and applying the exemption to caretakers with children under age 3 yielded an exemption rate of 39 percent (Greenberg et al., 1996, p. 24). Decisions to exempt or not exempt families with young children affect child and family well-being as well as state costs; although mothers of young children often do not object to (and even appreciate) working outside the home or complying with work program requirements (Maynard, 1995, p. 23), child care for a child under age 2 can cost over twice as much as child care for those aged 2–5.
7. **Pregnancy.** Five of 17 states exempt women for some period of their pregnancy. *(Women who are in at least the second trimester of pregnancy are exempted from the JOBS program.)*
8. **Working.** Five of 17 states either provide an exemption or adjust the family’s time limit to give “credit” to families in which the adult is employed for a set number of hours. *(JOBS exempts all adults working over 30 hours per week.)*
9. **Lack of Services.** Five of 17 states exempt families that are not receiving state-obligated services, such as training, child care, or transportation. *(The JOBS program exempts adults who reside in areas where the program is not available, adults who have not been offered JOBS services, and adults who have not received child care assistance.)*
10. **Unable to Achieve Self-Sufficiency.** Four of 17 states, in addition to exempting disabled or incapacitated clients, exempt clients who will not be able to achieve self-sufficiency, as defined by the state. *(Unable to achieve self-sufficiency is not a specified JOBS exemption criteria.)*

Table 2 summarizes these exemptions among the states surveyed by Greenberg et al. (1996), plus

Wisconsin.



States with requests for aid-termination time limits estimated that from 19 percent (Delaware) to 91 percent (Illinois) of all AFDC families in their state would be exempt from their time limit. (The unusually high rate in Illinois reflects a choice in that state to exempt all families with children under age 13.) The majority of states have projected that 25 percent or more of their AFDC caseload, including families both with and without a parent in the grant, would be exempt, probably about the same as a 20 percent exemption limit applied only to families with a parent in the grant. However, a state which originally meets the 20 percent exemption cap may find that, over time, its exemptible population grows in relation to the total caseload. As the state moves clients off assistance, families with the most education and recent work experience may be the first to get jobs, leaving families with more severe barriers still in the caseload. In Wisconsin's two-county Work Not Welfare program, for example, the overall caseload has declined since the program's implementation, but the percentage that is exempt within that caseload has increased as families with employable parents leave AFDC.

#### 4. Will the State Grant Extensions to the Time Limit?

The 20 percent exemption limit for the use of federal TANF funds applies to both exemptions (participants not on a time-limit clock) and extensions (participants who have reached their time limit but are allowed to continue on public assistance). Although the two categories are related, it is sometimes useful to think of exemptions and extensions separately.

All 17 states that requested a waiver for an aid-termination provision included some extension possibilities. The most prevalent is for families in which the adult has fully complied with program rules, but has not secured a job with earnings equaling the family's AFDC grant plus an allowance for work-related expenses. Until the passage of TANF, the federal government required this "best effort" extension as a condition of waiver approval. Because many of the 17 states did not initially include a best effort provision in their waiver applications, it may well be that many states will not choose such an extension

**TABLE 2**  
**Exemptions in Aid-Termination Time Limits**

STATE	Disabled	Child-Only Cases	Caring for Disabled Family Member	Minor Parent	Care for Young Child (ages vary)	Advanced Age	Pregnant	Longer Working Hours	Lack of Services	Unable to Achieve Self-Sufficiency	Other
Connecticut	√	√	√	√	√	√	√			√	
Delaware	√	√	√	√						√	
Florida	√	√	√	√	√	√					
Illinois	√	√	√	√	√			√			
Indiana								√			
Iowa	√	√			√			√			
Louisiana	√	√									
Massachusetts	√	√	√	√	√		√				
Nebraska	√	√	√	√	√		√			√	
North Carolina	√	√	√	√	√	√			√		
Ohio	√	√	√	√	√	√	√	√	√		√
Oregon	√	√	√	√				√	√		
South Carolina	√	√	√	√					√		√
Tennessee	√	√	√	√		√			√	√	√
Virginia	√	√	√	√	√	√	√				
Wisconsin-W-2							√				
Wisconsin-WNW	√	√	√	√	√	√					
Wyoming	√	√	√	√							

Source: Greenberg, Savner, and Swartz (1996).

under TANF (Greenberg et al., 1996, p. 10). In addition to “best effort,” the most common extension provisions are as follows.<sup>64</sup>

- Special circumstances or extreme hardship: 10 of 17 states grant extensions to families either for special circumstances or “extreme hardship.” These extensions are given at the discretion of the administering agency. In some instances, the state describes general circumstances or conditions that must be satisfied to meet this standard; in others, a provision simply reserves broad discretion for the agency.
- Completion of education or training: 7 of 17 states allow for extension so that individuals can complete education or training programs.
- Failure of government to provide services: 5 of 17 states allow for extensions when agreed-upon services or services judged to be needed have not been provided.
- High unemployment: 4 of 17 states have provisions allowing families to qualify for extensions if they reside in an area of particularly high unemployment.

States may require participants to meet extension criteria at the point when they would otherwise lose eligibility for assistance. Clients who have exceeded their time limit but later meet an exemption or extension criterion (for example, if the caretaker becomes seriously ill) could then not retroactively receive an extension, even though they might be judged to merit a resumption of public assistance as much as a client with the same problem earlier in the cycle merits an exemption or extension.

##### 5. What Assistance Will the State Provide Families to Prepare Them for the Time Limit?

While implementing a time limit may, in and of itself, induce some families to move into jobs, many states with time limits have also changed other aspects of their welfare programs in the hope that more financial incentives, behavioral mandates, or support services will strengthen the effects of the time limit. One recent study of adults heading an AFDC case for at least five years (Pavetti, 1995) found that

- half entered AFDC with no labor market experience;
- 63 percent entered with less than a high school education; and

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<sup>64</sup>Unlike the exemption criteria, which are fairly straightforward, extension provisions vary significantly across states, even within extension categories. These variations are not discussed in this paper, but interested readers may consult Greenberg et al. (1996), pp. 7–10.

- 42 percent first received AFDC when they were under age 25, the period when most workers make investments in education and gain experience in the labor market that prepares them for future stable employment.

Among the difficult challenges in a time-limited system is the task of helping recipients with these characteristics translate their increased motivation into concrete steps to prepare for and obtain jobs before they reach their time limit. No broad agreement exists concerning how to do this. AFDC JOBS programs, according to a U.S. General Accounting Office report (1994), have often focused more on preparing participants for employment than placing them into jobs. The programs also served a relatively small share of the caseload, estimated at about 20–30 percent of the nonexempt caseload, or about 11 percent of the total adult caseload in an average month.<sup>65</sup>

Most strategies for moving AFDC recipients into jobs are of two types, and consensus has not emerged on which is superior. The two strategies emphasize either (1) human capital investment or (2) quick employment. Advocates of human capital investment argue that if a client is to become financially self-sufficient, she needs education and training sufficient to find a stable, well-paying job. In contrast, advocates of the quick employment strategy argue that the best training is a job, and that even low-wage jobs are desirable because they reduce dependency and may lead to better jobs.

Many states have been attracted to the quick employment strategy because of its relatively high financial return to taxpayers. Rigorous quick employment programs emphasizing job search and enforcing work requirements have been shown to increase employment among AFDC recipients by about 5 to 8 percent and to increase average participant earnings by \$500 to \$1,000 a year (Lerman, 1995).

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<sup>65</sup> Percentages based on an average of 1991, 1992, and 1993 caseloads.

Because under AFDC the recipient's earnings are offset by a loss in benefits, almost all the financial benefit goes to the taxpayer. The quick employment strategies have not generally increased recipients' chances for advancement or higher wages; after five years, participants in these programs generally have been found to have the same employment rates and average earnings as similar families who did not participate in the program. Some states have made these low-wage jobs more attractive for recipients by increasing "earned income disregards," which allow families to

combine their earned income with their cash benefit (see box). But when the time limit takes full effect, the family will no longer receive this wage supplement.

Of the human capital investment approaches, those in Alameda County, California, and Baltimore have been among the most carefully studied. The strong vocational skills training programs available in those two settings helped some people find better jobs or obtain longer-lasting increases in earnings (Gueron, 1995), but the programs cost an average of \$5,000 per person, compared to costs of \$1,500 per person in some quick employment programs. As a result, public assistance savings from human capital investment programs are less likely to offset the investment in services. In addition, education and training programs of the type provided in the two sites generally require participants to have a high school diploma or GED at program entry, qualifications lacked by many longer-term recipients likely to be most affected by a five-year time limit. Training programs that emphasize basic

**Earned Income Disregards in AFDC**

Under the AFDC system, when a recipient's wages increase, the family's total income stays roughly the same owing to an offsetting loss of cash benefits. Many states, including over half of those with aid-termination time limit requests, have proposed lowering the benefit reduction rate (equivalent to a tax on earnings) so that families can earn higher wages without losing their cash benefits.

While allowing recipients to keep more of their earned income does encourage work, it also raises the income cutoff of eligibility, allowing families to stay on assistance longer. As a result, earned income disregards may pose conflicting pressures on the recipient: the time limit restricts the amount of time a family can be on assistance, but the increased earned income disregard increases the amount of time a family can be on assistance.

Although families may still be eligible for assistance owing to the changes in earnings rules, it may not be prudent for them to continue to receive aid while they have a job. Instead, families may choose to save their limited months on assistance for a period when they have no earned income.

education for low-skilled recipients have shown no conclusive evidence of a link between basic education and increased earnings, at least in the short run (Martinson and Friedlander, 1994).<sup>66</sup>

Some programs have combined the quick employment and human capital development strategies in ways potentially compatible with time limits and the new TANF work participation requirements. The Center for Employment Training (CET), a nonprofit organization in San Jose, California, has achieved strong results for school dropouts and welfare recipients by operating relatively short-term (three to six months) but highly intensive hands-on training in high-growth industries. CET works with the local business community to create simulated on-the-job training programs which incorporate basic education and general employment skills with technical training (Maynard, 1995).

6. Assistance to Families Losing Eligibility Because of Time Limits

Although the time-limit concept contained in TANF clearly implies a loss of direct financial aid when the time limit is reached, states may elect to offer other forms of support, using state funds. Child care, transitional employment services, and Medicaid are among the potentially useful services to families that have surpassed the limit.

**Child Care and Transitional Employment Services.** According to one estimate, a full child care subsidy for poor mothers would increase the labor force participation of these women by some 15 percent (Clark and Long, 1995). Transitional employment services for adults heading AFDC cases—whether or not they have found jobs—could be equally useful. Many women with little education and work experience find employment, but with wages that often do not increase significantly as they gain more work experience (Burtless, 1994). Continuing employment services aimed at helping recipients keep the jobs they have or find jobs with higher wages and greater security might usefully be offered

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<sup>66</sup>An upcoming report on the California GAIN program should shed more light on the potential effects of education and training programs. The most recent report suggested the possibility of a growth in earnings for participants in basic education beginning just after the second year of follow-up and increasing into the third year, but more years of data are needed to confirm the finding.

both to recipients who leave assistance for a job—to help them stay off assistance for as long as possible—and recipients who reach their time limit without a job—to help them find a position that will support their family. The offer of such continuing services is likely, however, to increase the attractiveness of “passing through” public assistance in order to achieve eligibility for ongoing employment or child care services.

Some states with time-limit waivers have provided child care subsidies and employment services to families who reach their time limit without finding employment. Federal TANF funds could not be used for these purposes if families have passed the five-year deadline, although states with shorter deadlines could use TANF funds for child care and employment services to families exceeding the state deadline but not the five-year limit. States could also use their own funds or other federal sources (such as the Social Services Block Grant) for these purposes.

**Medicaid.** Many families who have surpassed their state or federal time limit will remain eligible for Medicaid. TANF creates a new category of Medicaid eligibility: generally, individuals can qualify for Medicaid under this new category if they meet the income and asset tests for AFDC that were in place in their state on July 16, 1996. Some state officials have found that generous Medicaid eligibility features may be an especially useful tool in moving public assistance recipients into the labor force. The Minnesota Department of Human Services recently estimated that its MinnesotaCare program, which extends medical assistance to families with incomes below 275 percent of the federal poverty guideline, reduced the state’s AFDC caseload by 7 percent and has produced net savings to the state and federal government of \$2 million per month.

## V. CONCLUSION

By July 1997, all states must submit a TANF plan, including plans for time limits, to the federal government. Because time limits are a relatively untested policy, states will have little research to draw

upon. As mentioned earlier, AFDC recipients have reached a time limit only in two counties in Florida, and both counties provide work slots for adults who complied with the program requirements but could not find jobs. The experience of former General Assistance recipients in Michigan who lost their benefits in 1991, when that program was terminated, may provide clues on how well AFDC recipients will be absorbed into the low-wage labor market.<sup>67</sup> Although most General Assistance recipients are men with no dependent minor children, their post-assistance experience could be similar to that of AFDC clients in at least one respect: attainment of a high school education was an important predictor of how well General Assistance recipients fared after the termination of the program. Two-thirds of this group held a regular job at some point within two years after the Michigan General Assistance program ended, but the likelihood of regular work depended significantly on education. Two years after the termination of the program, 46 percent of high school graduates were employed, as compared with 28 percent of the high school dropouts. The mean hourly wage among those employed was \$4.78 for adults with less than a high school degree and \$6.07 for those with at least a high school diploma or GED (Danziger and Danziger, 1995). States may wish to determine whether post-assistance patterns are similar among AFDC clients, or whether other patterns emerge.

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<sup>67</sup>The General Assistance program in Michigan provided cash assistance to nonelderly poor adults without dependents.





**APPENDIX**  
**Aid-Termination Time Limits: State-by-State Descriptions**

<b>State, Program Name, and Sites</b>	<b>Time-Limit Provisions</b>
<b>CONNECTICUT</b> Reach for JOBS First Statewide	All assistance units with a mandatory JOBS participant are subject to a 21-month time limit (over the duration of the 7-year waiver) unless the household head is a minor parent.
<b>DELAWARE</b> A Better Chance Statewide	Families are initially limited to a total of 24 months of cash assistance. Benefits can continue for an additional 24 months if the adult participates in Community Work Experience Program position, coupled with 10 hours a week of job search; or is working but family income remains below the need standard (75% of the federal poverty level). After 48 months, no further cash aid over life of waiver (7 years).
<b>FLORIDA</b> Family Transition Program Various Sites	Limits nonexempt families to either 24 out of 60 months or 36 out of 72 months. Time limit of 36 out of 72 months for nonexempt families with (1) caretaker relative or other adult member who is under age 24, does not have a high school diploma or equivalent or is not currently in high school or a high school equivalency program, and has little or no work history in the past year; or (2) has received AFDC for 36 of the 60 months prior to becoming an FTP participant. All other nonexempt families limited to 24 out of 60 months.
<b>ILLINOIS</b> Work & Responsibility Demonstration Statewide	AFDC receipt limited to 24 months for families in which the youngest child is at least 13. Those not employed after 12 months (and completion of an appropriate JOBS activity) will be assigned to Work First, a pay-after-performance work program. After expiration of 24-month time limit, family will be eligible for assistance for 24 months.
<b>INDIANA</b> Supplemental Waivers of Indiana Manpower Placement and Comprehensive Training Program Statewide	AFDC and Medicaid benefits based upon eligibility for AFDC restricted to a 24-month lifetime limit for all eligible adults and dependent children. Children can qualify for up to 24 months as a child, and an additional 24 months (if otherwise eligible) as an adult. Each month that an applicant received assistance from another state in the three years before application for assistance counts as a month against the applicant's 24-month lifetime limit in Indiana.
<b>IOWA</b> Family Investment Program Statewide	Families choose a self-selected end date based on the individual circumstances. The end date is a joint decision made after assessment by the individual and the JOBS worker and is included in the Family Investment Agreement (FIA), along with the goals to achieve self-sufficiency. If at any point during the FIA time frame, a good faith effort is not demonstrated, the family is considered to have chosen a Limited Benefit Plan (LBP). The LBP is a 9-month period in which the family receives FIP benefits for the children only for 3 months, then no benefits for 6 months. If there is a subsequent child, the family received no benefits for 6 months.
<b>LOUISIANA</b> Individual Responsibility Project Statewide	Family ineligible for AFDC if parent has received AFDC cash benefits for at least 24 months in the prior 60-month period.

State, Program Name, and Sites	Time-Limit Provisions
<b>MASSACHUSETTS<sup>a</sup></b> Transitional AFDC Program Statewide	Families are limited to a cumulative total of 24 months of cash assistance in a continuous 60-month period. (Months in which the entire assistance unit is sanctioned do not count towards the time limit.)
<b>NEBRASKA</b> Employment First 6 counties as of 10/95; statewide, 7/97	Families are limited to a cumulative total of 24 months of cash assistance in a 48-month period. Families subject to time limits may choose between a High Disregard structure and an Alternative Benefits program. Families electing the High Disregard structure receive a lower monthly benefit payment but are entitled to disregard \$100 + 60% of their earned income for the full 24 months. Families electing the Alternative Benefits structure receive a higher monthly benefits but lose the right to the more generous earned income disregard.
<b>NORTH CAROLINA</b> Work First Statewide	Families in active status in Work First employment and training are subject to a 24-month limit on AFDC receipt; after reaching 24-month limit, ineligible for AFDC for 36 months
<b>OHIO</b> Ohio FIRST Statewide	Receipt of AFDC benefits limited to 36 months out of any 60-month period.
<b>OREGON</b> Oregon Option Statewide	Families are limited to a cumulative total of 24 months of cash assistance in an 84-month period.
<b>SOUTH CAROLINA</b> Family Independence Program Statewide	Families are limited to a cumulative total of 24 months of cash assistance over duration of waiver. (Waiver application had requested time limit of 24 months over a 120-month period, and no more than 60 months during the parent's lifetime. However, HHS will only grant time limits for the life of the demonstration, which is seven years.)
<b>TENNESSEE</b> Families First Statewide	<p>An assistance unit that includes an eligible adult will be ineligible to receive assistance for more than 60 months. In addition, assistance groups will be limited for each period of eligibility to 18 months of assistance. Families that lose eligibility prior to reaching the 18-month limit will be allowed to resume receipt of benefits as soon as they are once again eligible. In such cases, the count of months for which assistance has been received will resume and will continue until the 18-month limit is reached.</p> <p>Families that lose eligibility as a result of the 18-month limit will be subject to a 3-month period of ineligibility, and, if otherwise eligible, can reenter the program after that 3-month period. However, if the caretaker is employed when the assistance unit is terminated after receiving benefits for 18 months, and the caretaker subsequently loses her job through no fault of her own, the assistance unit will not be subject to the 3-month period of ineligibility as a result of a JOBS or child support cooperation sanction and is eligible for reinstatement after completing any applicable sanction, shall not be barred by the 3 month period of ineligibility for the first occurrence.</p>

State, Program Name, and Sites	Time-Limit Provisions
<b>VIRGINIA</b> Virginia Independence Program Statewide	Families are limited to a cumulative total of 24 months of cash assistance and 12 months of transitional benefits (Medicaid, child care, and transportation). After the 24 months of assistance and 12 months of transitional benefits, the family must wait 24 months to be eligible for assistance. Note: The above description is based on Virginia state legislation and confirmation by the state agency. The waiver terms and conditions are drafted to read that a family is ineligible for cash aid for the remainder of the waiver period after reaching the 24-month point.
<b>WISCONSIN</b> Work Not Welfare Two counties	After a family has received cash assistance for a cumulative total of 24 months during a 48-month period, cash assistance is not available for the next 36 months. During the ineligibility period, supporting services (including helping the family find charitable food and clothing, WIC, child care for employed parents, and Medical Assistance) will continue to be provided through a Children's Services Network. A housing grant, not to exceed the amount of a child(ren)-only AFDC grant, will be provided in the form of a vendor payment for housing to prevent the homelessness of children.
<b>WISCONSIN</b> Wisconsin Works Statewide	Wisconsin Works (W-2) replaces AFDC. If a qualifying family is unable to attain unsubsidized employment, the W-2 agency may provide the parent with a trial job (subsidized private employment); community service job (work experience); or transitional placement (work activities such as a community rehabilitation program, a job similar to a community service job, or a volunteer activity). Participation in each component (trial job, community service job or transitional placement) is limited to 24 months, subject to case-by-case exemption. Overall participation in W-2 employment positions is limited to 60 months, subject to case-by-case exemption. The 60-month clock will begin to count months or participation in the JOBS program on or after July 1, 1996, for individuals age 18 and over. Under the waiver application, there will be no guarantee that a W-2 employment position will be available to each qualifying family, nor that a position will be available for the entire 24-month period authorized for eligible families.
<b>WYOMING</b> New Opportunities and New Responsibilities Phase II Statewide	Effective July 1, 1998, families will be subject to a five-year lifetime time limit. Up to three years of receipt after July 1, 1997, but prior to effective date will be counted toward the five-year limit. Partial months of receipt will count toward the time limit, as will period when the adult is disqualified.

<sup>a</sup>The federal government initially approved the Massachusetts waiver application in August 1995, but the state did not accept the federal terms and conditions relating to time limits. As a result, new terms and conditions were drawn up without a time limit, which the state accepted in November 1995. This description of exemptions and extensions is based on the original application, which is treated as still pending.



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