

Social Policy After Modernism:

A Citizen's Guide to Welfare Reform in the United States

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Lecture Two: American Experiments in Poverty Policy<sup>i</sup>

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### 1. Introduction

The big question of the 1980s was this: Is planned socialism viable in the long run? By decade's end, the jury had come in. The economic, political, and social institutions of planned socialism, at least in the West, were generally renounced, and for most people capitalism seemed the viable alternative.

So the 1990s faced a new kind of question: What kind of capitalism should we have?

What kind of capitalism should we want? This discussion has taken two tacks:

- 1) What should the connections among nations look like? This is the debate about "globalization."
- 2) What should a capitalist nation look like internally?

I'll focus on the second of these questions, by considering what have we learned in the 1990s about how a capitalist nation can be organized.

Economies are like salads--even capitalist nations are rarely composed of a single sort of entity. There are elements dominated by private property and individual initiative. A prototypical example would be hog markets. Other elements resemble centrally planned common ownership with no market allocation mechanism, such as the internal organization of corporations. There are other elements that are mercantilist, dominated by a ruling elite that controls and regulates most behavior through patronage--say, higher education administration. (Just kidding!) Other elements look more like communal, owner-managed socialism—some professional partnerships (like architectural firms), for example. Some are motivated by profit, but many are non-profits just covering their expenses--about 1/3 of production in the US. About 1/3 of spending in the US is to be accounted for communally, in a manner of speaking, through the budgets of the various branches of democratic governance. So it may actually be a minority of production that is directed by profit in the U.S., and this proportion would be even smaller in some other capitalist nations.

Therefore, though planned socialism was not a living option after 1989, there is no bright line between capitalism and market socialism. We would have capitalism, but what kind of capitalism? That has been the question of the 1990s.

By 1990, there were three rough models for how to organize capitalism:

1) The European Model: The so-called Social Market Economy, typified by Germany but also characteristic of much of the rest of Europe. This approach emphasizes market-directed production, with the state providing social insurance, welfare, and heavy regulation of work life (such as job security and worker representation in firm decisions). This kind of capitalism was associated with moderate economic growth combined with a sense of security and livability for workers. There were concerns about the long-run affordability of the generous social benefits, especially as populations age, and worries about persistent high unemployment rates (often 10% or more and stubbornly resistant to treatment) and general inefficiencies and lethargy.

2) The Asian Model, typified by Japan: Much less social welfare is provided by the state; large corporations instead provide the "iron rice bowl" of generous social insurance, benefits, and job security, while the State has a freer hand to change the allocation of resources through non-market industrial planning. In 1990 this approach was attractive to many (including Governor Bill Clinton), as it seemed to combine worker security with efficiency, rapid economic growth, and technological advance. Candidate Clinton ran on a platform of industrial planning, increased public investment and public works, broad-based energy taxes, and "ending welfare as we know it"--a movement toward a Japanese-style system. The system unfortunately also generated a very sizeable underclass of jobs not subject to the social insurance and job security offered by the preferred sectors of the

economy; and in the last decade this system has proved susceptible to inflexibility, malaise, cronyism, and extended economic depression.

The (Northern--non-Mexican) North American Model: Like Europe, North America has emphasized market-directed production. Like Japan, North America has relatively little Government-sponsored social insurance and workplace regulation. And to an extent not matched by either Europe or Japan, Americans enjoy a thriving “third sector,” a thick web of non-governmental, not-for-profit, “civil society” organizations that provide many social services through voluntary funding, and in other ways mediate between the individual and the state. This approach has generally produced a low-unemployment situation with strong economic growth, but it is also linked to persistent concerns that the most vulnerable in society bear the burden of the system's flexibility. North America was wealthy; it was flexible and efficient and technologically advanced; but was North America fair? Were the vulnerable being treated justly?

At just about this time, North America was setting out on an experiment of its own to explore these questions, an experiment that no one would have predicted in 1989, with results no one would have foreseen. If you were looking for a major policy shift, domestic or foreign, that characterized the ‘90s, you would conclude that it was the decade of Welfare Reform. The 1990s saw dramatic changes in the organization of means-tested support for families in the United States. This lecture is a brief account of those welfare-reform experiments.

These experiments should interest us for a number of reasons. First, careful study of this experience should help us to learn some practical things about how best to care for each other. Though many of us feel a natural responsibility to do so, the best way to serve this desire is far from obvious. So some thoughtful, dispassionate reflection on the things we believe we have learned should be useful. Second, this is an area of governance in which basic values and views of human nature figure large, both in framing or justifying policies, and in deciding what standards to invoke when evaluating them. So, though often fairly technical, the discussion is always just a hair's width from ultimate values of the nature of humans, the nature of a good society, and the proper place of beliefs in social science research. And finally, in the U.S. case, welfare reform is an area in which religious traditions have had a strong influence in policy formation-especially in the “Charitable Choice” portion of welfare reform that we will consider in more detail during the next lecture.

Europeans (and in some circles Canadians) frequently used to think that U.S. experience in welfare programs was largely irrelevant to their situation. (Blank, 2002) U.S. programs were viewed as too limited (resulting in high poverty rates) and too punitive (overly concerned about work disincentives, long-term dependence, federalism, and non-marital child-bearing). But Europeans have shown stronger interest in the American experiments of the 90s, even emulating some of the reforms in their own societies. In 1999 the U.K. created a Working Families Tax Credit, modeled on the American Earned Income Tax Credit. The Netherlands has privatized sections of disability, public employment and social insurance administrations. Some German cities have placed time

limits on income support. The interest in the US as a lab experiment is driven by a combination of factors: concerns about abuse (roughly one-sixth of the Dutch labor force had claimed disability status), inefficiency in public administration (also figuring large in the Dutch case), and concerns about long-term solvency of the programs (in nearly all of the emulating countries). It is nearly always expedient in the short run to offer generous programs, and some Europeans concluded that a brake must be put on this natural tendency to expand programs.

Canada and the United States have much in common with respect to poverty and public policy. US income assistance programs were actually more redistributive than the Canadian system from the mid-70s to the mid-80s (though income taxes were a bit more progressive in Canada). In this period, income inequality and polarization increased in both countries, though a bit more in Canada than in the US. Canada reversed these trends after 1985; in the US, polarization also declined, but the rapid growth of high incomes made measured inequality increase. During this period, both countries reversed the "loss of middle-class jobs" phenomenon. Both nation's income assistance was expanded in the late 80s, with Canada's becoming slightly more redistributive than the US, 1985-97. In the early 90s, as the US was experimenting with state-level policy "waivers," Canada also enacted a demonstration program in two provinces (including BC), The Self Sufficiency Project, intending to move women on welfare (or "income assistance" in Canada) into work. In 1996, the same year as the major US welfare reform legislation, Canada devolved some discretion over social assistance to the provinces.

In this talk I'd like to consider three things about the North American experience-- primarily in the US, but also with references to Canada:

- Summarize our experience, especially in the last 40 years, in public policy to support of low-income people,
- Discuss why and how we've been changing these policies during the last decade, and
- Consider the apparent effects of these recent changes.

It would be worthwhile to add a fourth topic, the political process through which welfare reform passed and by which it was shaped, but in the interest of time I will only be able to strike glancing blows in that direction. It would also be good to consider a fifth topic: where we should go from here. But that would be at least a talk in itself.

Before jumping in, a few comments about civility, since this can be a politically divisive topic:

Europeans have sometimes faulted American welfare because of its conflicted goals, and there is no doubt something to this criticism. We want to encourage adults to work and be responsible, but also don't want their children to suffer. We want to promote two-parent families, but also want to protect children and women from destructive homes. We want to help people who are poor, but do not want to create any encouragement toward becoming poor. We want to change the underlying causes of poverty, but also want to provide relief that inadvertently makes change less necessary. We want to

provide a second chance for people who have made unwise choices, but also want to not subsidize the natural consequences of these choices.

Some have argued that these goals are mutually inconsistent; Americans should just pick a subset of goals that do not conflict, and pursue them. I frequently read commentary to the effect that any morally serious person would naturally get government out of the charity business altogether, and others who are sure no *real* Christian could be miserly enough to have supported welfare reform. But I would argue that the tensions among our welfare goals are the natural result of an honest view of what it is to be human. To be human is to experience paradox. Each person is capable of selfless kindness and grotesque self-absorption, of sacrificial work for others and of insolent abuse of others. Each of us, to some extent, does each of these things routinely. The line between good and bad does not run between us and someone else, but through each of us. And this means that the line between good and bad will also run through all of our *social policies and institutions*, including welfare policy. For this reason we find we are torn between things like promoting personal independence and believing in group risk-sharing. Good social policy tries to acknowledge the goodness and the fallen-ness of each person and each policy. So the goals of good social policy will normally involve some paradoxes. It is not likely that we will strike on a policy that simultaneously meets all the demands of justice. This makes it very difficult for honest people to be terribly partisan about economic policy. People of good will are always exploring, asking where we may have over-emphasized the normative or the fallen aspect of human nature, fine-tuning our

institutions and conventions in order to allow the most possible good. In such a situation, it's very difficult to be dogmatic with a clear conscience.

And now one last introductory comment. Please allow one bit of shorthand: I will often refer to citizens of the United States as “Americans,” and I may even occasionally abbreviate “The United States of America” by simply using the last word in this phrase. I do understand that we in the US are not the only inhabitants of the continent; I intend only to make our discussion less cumbersome.

## 2. The Historical Context

Let us begin where political analysts always begin: with some abbreviations. When most people think of Welfare Reform, they are thinking of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). This act of Congress was the culmination of President Clinton's promise to "end welfare as we know it," though it did not take the exact form that the President had originally proposed. The act passed with relatively generous bi-partisan support, after several false starts (1992-1995). It replaced the AFDC income-support program (Aid to Families with Dependent Children) with TANF (Temporary Assistance for Needy Families).

Though this 1996 reform legislation involved substantial changes, it's a good idea to keep these changes in their historical context: Americans are always tinkering with the specifics of social policy, and we might draw the wrong conclusions if we think of welfare reform as a single piece of legislation. So I'd like to talk through some history of changes in U.S. poverty policy.

Let's start by getting a basic view of North America's income distribution, so we have in mind the nature of the problem we're facing. Then I will introduce the main U.S. anti-poverty programs that have been in play during the last forty years.

First, consider the distribution of income in the U.S. For the purposes of this talk, let's place ourselves in 1995, on the eve of welfare reform legislation, and let's consider the distribution of *per household* (per-capita figures would be about 1/3 lower) *money income* (not including the value of in-kind transfers like food or housing subsidies) *before taxes* (from which you would need to subtract about 25% to get after-tax, disposable income). Take a short quiz: What level of income do you think is *typical* in the U.S., leaving half of the households with higher incomes and half with lower incomes? What level seems *high*, leaving one in the top 20% of households? What level is *very high*, placing one in the top 5%? And what level seems *low*, placing a family below the "poverty line?"

Most people expect the figures to be higher than they actually are. In 1995, median household before-tax money income was about \$34,000. Incomes above \$60,000 are in the top 20%, and an income above \$110,000 places a household in the top 5% of the wealthiest country on earth. The "poverty line" depends on family size, and was about \$16,000 for a family of four—a bit less than half the median income level. This left about 12% of American families officially in poverty. (The official poverty line and percentage of households below it are very similar in Canada.) We should note that this

official percentage in poverty is the proportion who were ever in poverty (for at least one month) during the year; the proportion in poverty for the entire year is smaller. For example, during the recession years of 1991-92, the official poverty rate was about 14.6%, but the proportion of households in poverty for the entire 24 months was around 4.8%. The median family that experienced poverty did so for a bit less than five months.

Figure One gives us a different way of looking at the distribution of income in the US and Canada. I have prepared this bar chart to show us the median *per-person GNP* in each quintile of the population of each country. Because it can be deceiving to translate a nation's figures at the official exchange rate (no one needs to tell Canadians about that!), I have used "purchasing power parity" calculations to translate Canadian incomes into the U.S.-dollar income that would purchase an equivalent standard of living across the border. The figure shows that poorer persons (the lowest two quintiles) in both countries have nearly identical standards of living. (Figures for Canada's bottom quintile are either above or below those in the US, depending on how you refine the P.P.P. calculations.) The big difference between the two countries comes in the incomes of the middle- and upper-income families. This could be interpreted as either less equality in the U.S. or less upward mobility in Canada.

In the U.S., several programs have emerged as the primary anti-poverty efforts. It will be useful to briefly introduce them before we talk through the modern history of welfare policy. Figure Two gives us an idea of the relative benefits available from these

programs, by displaying the approximate current monthly per-participant benefit of each program.

1. Social Security and Medicare: Social Security was established in 1935 as a social insurance program. It provides old-age benefits (28 million people), along with survivor (6.8 million) and disability benefits (5 million). Since 1965 the program has provided medical insurance to the elderly and disabled through Medicare. About 90% of Americans participate in one of these programs. Workers contribute 15.3% of their wages up to \$76,200; they become eligible if they contribute for at least 10 years. It is a pay-as-you-go system, with maximum and minimum benefits that contain a significant implicit redistribution of income. The current old-age/survivors budget is \$400B; disability insurance adds another \$70B. The average benefit to each retired worker or disabled worker is around \$800/month. Medicare is run by the Social Security Administration. Most retirees are covered regardless of income, covering part of their medical expenses while offering an optional supplementary medical expense program. 38M people participate in Medicare, with a \$210 B budget that is growing rapidly.

2. Medicaid: This program offers medical-care coverage similar to Medicare, but is directed to low-income persons. 40m participate in Medicaid, with a \$200B annual budget. Almost as many are neither eligible for Medicare nor Medicaid, yet do not receive health insurance as part of their employment—America’s “uninsured.”

Depending on one’s definition of “affordable,” between one-fourth and three-fourths of these would not be eligible for affordable private health insurance.

3. Supplemental Security Income: Created in 1974 to support the incomes of very low-income elderly and disabled persons who otherwise would have little Social Security coverage. There is no trust fund; the program is funded from current general revenues. There are about 6.6 million recipients, about half of whom also receive some Social Security benefits. Annual budget: \$35B. Average monthly per-recipient payment: about \$400.

4. Aid to Families with Dependent Children: The main traditional income-assistance program, ended in 1996. AFDC was funded by the states, with matching funding from the Federal government. State benefit levels averaged around \$380/month for a one-parent family of three, but varied widely across the states (with highs over \$1000 and lows under \$300). There were about 10M recipients (about 3.7M families), though this varied widely over time. Eligibility required very low income and essentially no assets. The total annual budget was around \$22B; just over half of this was federal money.

5. Unemployment Compensation: In 2000, this unemployment insurance program had a budget of \$21B, flowing to 7.2M recipients. It is funded by employer taxes. Level of payments and length of support vary by state--on average, about 20 months of support at about 1/3 of one's normal wages. Support is available to those seeking work who are unemployed involuntarily. Recipients are paid regardless of their income or assets.

6. Housing support: There are many programs, including public housing (in which rent is generally limited to <30% of income) and “Section 8” subsidies to cover landlord rents for low-income inhabitants (3.5M units). 5M people receive assistance, from budgets totaling around \$30B.

7. Food Stamps: A food-subsidy program funded by general tax revenues. Stamps or debit cards, which may be used to buy food, are sold at a discount; the amount of discount depends on income and family size. 22M people participate, with an annual budget of \$23B.

8. The Earned Income Tax Credit: The EITC is a refundable federal tax credit that subsidizes low-wage incomes in working families. Traditional welfare programs operate by guaranteeing a basic level of support, even if participants do not work, and then gradually withdrawing this support as participants' earnings rise. This creates a big potential disincentive against working. The EITC tries to support the poor while rewarding work: No benefit is given if a family works zero hours; as participants work more hours, the size of their tax credit grows. The EITC is basically a wage subsidy. For each dollar earned, one's tax liability falls by about \$.35--\$.40. This happens up to a basic level of income (influenced by the size of the family); from then on the total size of the credit remains unchanged as income increases, until another income threshold is crossed. Then the credit is gradually withdrawn as income grows, falling by about \$.16--\$.20 per dollar earned. 18 million households participate in the EITC, which has a total budget of \$30 billion. The program was inaugurated by President Ford in 1975, and has

gained bipartisan approval and gradual expansions since then. It was expanded and indexed to inflation in the 1980s, then expanded significantly in 1990 and again in 1993. 14 states and D.C. have EITC programs that provide larger benefits, and many more states have disregards or low benefit-reduction-rates that emulate/compliment the wage-subsidy part of the EITC.

To give some idea of how large these programs are in the bigger scheme of all government spending, Figure Three gives us a pie chart for all U.S. Federal, State and Local government spending. Direct income-support accounts for about 9% of the total, with a large additional implicit amount of support flowing through the Social Security and Medicare budgets that comprise 27% of total spending.

Having defined the major US welfare programs, we can move on to briefly discuss their history. I'd like to do this by looking at levels of total spending on welfare programs during the last forty years. Figure Four (Moffitt) displays per-person expenditures in the eighty largest means-tested transfer programs since 1968. All figures have been adjusted for inflation (stated in 1998-equivalent dollars). In his excellent review article, Moffitt identifies four eras in these data:

- A period of expansion from the mid-60s through mid-70s (Johnson and Nixon administrations),
- A level period from the mid-70s to mid-80s (Carter and Reagan administrations),
- An era of expansion in the late 80s and early 90s (George Bush and first two years of the Clinton administrations), and

- Level spending since then.

Let's briefly consider each of these phases:

President Johnson's administration launched its Great Society program in the mid-1960s, emphasizing economic and social rights. The 1964 Civil Rights act began to address racism and sexism, and in 1965 many welfare and health programs were created or significantly expanded. These included an expansion of the AFDC program, public housing, urban renewal, public education, public health insurance (with creation of Medicaid and Supplemental Security Income programs) and food assistance (by creating the Food Stamp program). In principle, recipients of AFDC were required to register for work or job training, but in practice welfare payments were guaranteed for female-headed households. President Nixon embraced and expanded these programs, adding worker health and safety regulation, consumer product safety, environmental regulation and regulation of the rights of those accused of crimes. Taken together, these changes constituted a revolution in the role of government, in the interest of promoting rights and freedom of opportunity. The figure shows the large per-capita increase in spending on means-tested transfers that accompanied these policy changes between the mid-1960s and the mid-1970s.

In the second period, though funding in some programs expanded, there was a steady decline in after-inflation AFDC benefits, as many states' funding levels did not keep up with the rapid inflation of the 1970s. The major AFDC legislation of the period--the 1981 Omnibus Budget Reconciliation Act--eliminated some "earnings disregards" that had become law in 1967, removing many working families from eligibility for AFDC. But

these restrictions in eligibility were roughly offset by steady growth in the number of single-parent low-income families, leaving total after-inflation AFDC spending about constant.

Before considering the third phase in this history, let's take a moment to reflect on results in this era.

I should first mention that several stereotypes do *not* hold during this period:

- There is little evidence that the expansion of programs caused a general loss of stigma associated with public assistance, at least after the mid-sixties. Said differently, it is hard to make the case that there was a general decline in the “work ethic” of low-income Americans due to the expansion of AFDC and similar programs. At any time roughly 40% of those eligible for assistance *did not participate*, and recent immigrants generally had lower participation rates than long-term residents.
- Average AFDC family size *shrank*, from 4.0 in 1969 to 2.9 in 1993.
- The most common reason for starting participation in AFDC remained divorce or separation (about 45%), and the primary reason for leaving AFDC was marriage (about 35%). Only about 30% enrolled because an unmarried woman gave birth. However, women entering due to divorce tended to have shorter spells of participation, so that the welfare rolls did come to be dominated by families who had never experienced a marriage. Poverty *rates* in fatherless families have not changed much, but the *number* of such families has increased dramatically in the last thirty years. The majority of women receiving AFDC in the 50s were

widows; by the 70s the majority were divorced; in the 80s the majority became never-married single mothers.

- The educational attainment of welfare participants *increased* over time. In the 60s most had high school or less; by 1991, 12% had completed some college.
- Though welfare recipients are disproportionately black, they were at least as likely to be white as black, and the percentage of recipients who are black steadily declined from the 60s to the 90s (from 45% to 36%) (Bryner 12)
- The growth in never-married welfare mothers was *not* primarily due to an increase in enrollment by *teenage* mothers; women 20 or older accounted for most of the increase. Never-married women on welfare over 25 grew from 48% of the total (1976) to 62% (1992).

These several stereotypes aside, by the late 80s there was still reason for concern about the effect of welfare policy on the poor, and public support for traditional income support programs had significantly eroded. All told, from 1965 to 1985 there was a 270% increase in the AFDC caseload, despite general increases in standards of living in the nation at large; the Food Stamp program went from a small commodity distribution program to a transfer with two times as many recipients as AFDC; Medicaid (introduced in 1965) had a caseload larger than the Food Stamp program. Total real spending on means-tested programs had increased by about 230%, to about 3.5% of GDP.

Participants in AFDC seemed increasingly unattached to the labor market. The percentage of recipients working fell from 14.5% in 1969 to 6.4% by 1993, and average earned income of recipients fell by about one-third from 1976 to 1992, even as AFDC benefits declined by a larger proportion. (Bryner 11). And concerns about effects on family structure were growing: More than half of female-headed households received either AFDC, Food stamps or Medicaid, and 25% received all three. By contrast, fewer than 20% of two-parent families received any assistance, and over half of those were receiving unemployment assistance only. The proportion of single women on welfare who had never been married quadrupled in 16 years, to over 1.5 million by 1992 (Bryner 13)-- more than half of all female-headed AFDC families.

Of course, we should not evaluate welfare programs simply on the basis of numbers of participants, work effort and family structure. The aim of the policies is the reduction of poverty, not reduction of caseloads, and if poverty had effectively been reduced this must be weighed against the other, negative outcomes associated with welfare programs.

Unfortunately, the balance of evidence indicates that traditional welfare programs did little to reduce poverty. Though there was a significant reduction in poverty rates during the 1960s, much of that reduction--about half--came in the economic boom before the 1965 introduction of the Great Society programs. This boom continued past the end of the decade, and may well be responsible for most of the further reductions in poverty during the 1960s. Poverty rates since then have shown a very weak and inconsistent relationship with the generosity of anti-poverty programs. Poverty rates fell from 22.2% to 12.6% between 1960 and 1970, but thereafter wandered between 12.3 and 15% until

the late 1990s. African-American poverty rates fell to 33.5% by 1970, but stayed in the low--mid 30s until the mid-1990s. And, perhaps more troubling, after 1970 the relationship between poverty and the general health of the American economy seemed to have been severed. In the past, prosperity had generally raised all ships, and economic decline had been shared to some extent by a broad spectrum of Americans. But after around 1970, prosperity and recession came and went, but poverty measures showed a stubborn resistance to much change. It appeared that a large group of Americans had been severed from participation in the fortunes of the general economy. If the goal of welfare programs was to reduce poverty among female-headed families, then the great growth in the number of these families, and the enduring poverty among American children, indicates that the policies had not met their goal.

It's very important to remember that this should be taken as evaluation of the specific approach to poverty that the United States had pursued in the past, not as a general indictment of all governmental attempts to fight poverty. As we have just seen, poverty is not randomly distributed; it is disproportionately female and non-white. So poverty cannot be thought of as the natural and fair outcome of free interactions in a well-functioning dynamic market. In a fair market, race and gender are irrelevant characteristics. They are not irrelevant in America. As we endorse group action to end other forms of unfair practice to improve our markets--prosecuting organized crime, regulating bankers, arresting counterfeiters--so taking group action to end the unfair impedance of human potential is best thought of as a pro-market, pro-freedom enterprise. And just as we do not expect prosecution of criminals or control of the currency to be a

spontaneous, voluntary activity, there is no reason to insist that care of the poor should be a matter of private charity only. Conservatives should like the idea of generous welfare programs, if they can be made effective. And, as of the mid-1980s, it appeared that we still had much to learn about making welfare programs effective.

The third phase of our brief account—the George Bush and early Clinton administrations—might be thought of as the first round of modern welfare reform. Given prior experience, there was concern that a different mix of policies might have fewer negative incentives while having a greater effect on poverty. Many of us believed that part of our problem was the stinginess of welfare benefits, combined with rules for participation that discouraged industry among recipients. Four major policy changes in the late 1980s together resulted in *an increase in spending nearly as large as in the 60s and early 70s*, but this increase occurred much more rapidly, in about five years. All of the changes were aimed at combining more generosity with improved incentives:

- Because traditional AFDC tended to exclude the working poor and thus create a disincentive to work, the EITC was dramatically expanded. Expenditures nearly tripled.
- There were major expansions of eligibility in Medicaid, mainly to single mothers and their children leaving AFDC, in order to reduce the incentive to remain on AFDC just to gain health insurance. Spending on Medicaid grew by 88%. There were also similar changes in the Food Stamp program, whose budget grew by 42%.

- Significant expansions took place in the caseload of the SSI program (targeted at the elderly and disabled), mainly due to increased numbers of disabled adults and children. Spending increased by 59%, mainly (as in Medicaid) reflecting expenditures on the disabled.
- The Family Support Act of 1988 mandated work, education and training for AFDC recipients and funded new spending on work-related programs.

These changes were expected to reduce participation in AFDC by expanding spending while removing some of the incentives to participate, replacing some AFDC spending with other forms of support that encouraged work. AFDC had been the largest means-tested program in the 60s, but by the mid-90s was a distant fifth behind Medicaid, SSI, EITC and Food Stamps.

Yet, to the great surprise of many of us, the number of recipients of AFDC *increased* suddenly, *by about 40% between 1989 and 1993*. Some tendency to increase might be expected because of the 1991-2 recession, but the increase was far out of proportion to the increases in prior, deeper recessions. (Compare increases of under 10% in the mid-70s, around 10% in the early 80s) (Bryner, 6).

In the midst of this restructuring, income-support programs remained a favorite target of politicians and the press, and were generally unpopular among the electorate. A 1994 Gallup poll found continued support for the idea of welfare-to-work efforts, even if they cost more money:

*Would you favor or oppose replacing the current welfare system with a completely new system to help poor people get off welfare, if that new system cost the government more money in the next few years than the current system?*

*Favor*            68%  
*Oppose*          27%  
*No opinion*      5%

Though welfare reform has sometimes been billed as a way to save money and cut social-service spending, this poll indicates that most Americans are not very well motivated by appeals to their wallets. People are willing to spend more, if an effective use of their funds can be devised. This provides some context for other poll questions, such as a 1996 New York Times poll that asked:

*Do you favor or oppose limiting how long mothers with young children can receive welfare benefits?*

*Favor*            78%  
*Oppose*          14%  
*Don't know*    7%

And, perhaps most interesting, the disaffection for welfare was widely shared throughout the American class structure. A May 1995 *Wall Street Journal/NBC News* poll asked:

*Do you think the welfare system does more good than harm, because it provides assistance and training for those who are without jobs and live in poverty, or does more harm than good because it encourages the breakup of the family and discourages the work ethic?*

	Blacks	Welfare recipients	Whites
<i>Does more good than harm</i>	36%	33%	21%
<i>Does more harm than good</i>	52	57	72

Here we see a majority of *welfare recipients* reporting that the system does more harm than good. There was also a surprising broad-based agreement about some of the general directions that reform should take:

*Which proposals do you think would be effective in improving the welfare system?*

	All adults	Welfare recipients
<i>Requiring work for benefits</i>	84%	75%
<i>Provide job training</i>	84	90
<i>Provide child-care subsidy for mothers leaving welfare to work</i>	77	84
<i>Maintain health benefits for those leaving welfare to work</i>	43	50
<i>Make unmarried mothers under 18 ineligible</i>	42	38

In general, the primary concern of Americans regarding welfare was not for fraud or cost, but the tendency of welfare to encourage irresponsible lifestyles and values. The large majority, including the majority of recipients, favored a major reform that included work requirements and public subsidies to help recipients' transitions into work.

At about the same time that President Bush began expanding spending on means-tested programs, the Federal government also expanded the program of "state waivers." States were allowed to apply for permission to experiment with the structure and administration of their welfare programs. Pressure for this freedom to experiment often came from state governors (including then-governor Bill Clinton), as expanding AFDC populations put pressure on state budgets. Over half of the states received waivers from the traditional federal AFDC formulas.

These waiver experiments were crucial to the future direction of welfare reform, because the states that received waivers were required to fund a serious evaluation of their new programs. These were usually random-assignment evaluations, which are as close to true controlled experiments as we usually get in social science. These waivers and evaluations yielded detailed information about the apparent effect of specific policy changes.

Two policy options received particular attention:

- Mandatory employment programs (welfare-to-work, “work first,” and “workfare” programs). Rather than emphasizing long-term education and training, these programs require participants to take part in placement services, brief job training, or actual work, in order to qualify for benefits.
- Earnings disregards and other financial incentive programs. These programs imitate some features of the EITC, by disregarding some income earned by participants when determining their eligibility, or by otherwise providing a wage subsidy to increase the returns to work.

Most waivers from the mid-80s onward included the first option--mandatory work for all people deemed “work eligible.” Nearly all of these experiments produced significant increases in employment and reductions in AFDC participation and payments. This was not surprising. But many of us were surprised by other outcomes in these experiments. We had expected that this approach would be hardest on the most marginalized citizens, but the most disadvantaged participants experienced about the same employment and earnings gains as less-disadvantaged participants. Employment outcomes (such as wages and hours hired) were neither significantly worse among the less-skilled participants, nor among those with clear barriers to work (like child care problems). (There is an exception: those at a high risk of depression.) Another surprise was that “work-first” programs (pushing recipients into jobs as quickly as possible, with little training or education) increased earnings and decreased welfare dependence *more quickly* than the

more expensive programs that emphasize training and education. It appears that, for many women who participate in welfare programs, there are bigger gains to experience than to formal education or training. (There has been evidence that some sub-groups of women do benefit more from immediate training than work-first, and that many benefit from training after several years of work-first, but no programs of this kind have been evaluated with randomized experiments.)

However, these mandatory work programs—programs that rely on only the first of the two policies associated with most waivers--showed *little evidence of increased income and reduced poverty*. Earnings in simple work-first programs were generally offset, dollar-for-dollar, by reductions in public support. There was no effect on poverty. This led to interest in state-level programs that combined mandatory work with earnings disregards and other earnings subsidies. “Financial incentive programs” were instituted and evaluated in Minnesota, New York, Milwaukee, Vermont, Connecticut, Florida, Iowa, and in Canada’s Self-Sufficiency Project (SSP) in New Brunswick and British Columbia. The Minnesota (1994) and Canadian (1992) programs created enough control groups to explicitly compare the combined and separate effects of work requirements and earnings disregards.

In Minnesota, the Minnesota Family Investment Program (MFIP) created randomly-assigned groups receiving disregards that extended cash assistance until earnings were around 140% of the poverty line, both with and without mandatory job searches. Others were randomly assigned to continue with the traditional AFDC program. Canada’s SSP

offered randomly-chosen women an alternative to traditional income assistance: If they left income assistance, they received an earnings supplement (roughly doubling their earnings) each month in which they worked at least 30 hours. The supplement closed half of the gap between their earnings and a benchmark (\$30000CAN in NB, \$37000 in BC). Thus participants receive a wage subsidy that is withdrawn as earnings rise, with an implied tax rate of 50%. Some women were randomly offered (non-mandatory) SSP-Plus, receiving job-search and self-esteem services along with their SSP payments.

These experiments together yielded a strong conclusion: Work requirements *combined with earnings disregards* have the net effect of increasing work while also reducing poverty. These programs generally *did not* reduce the cost to the state budget. They also did not cut the incidence of welfare usage, since more people continue to be eligible for benefits as their incomes rise. But these programs *do* shift benefits from non-workers to workers, and they do decrease poverty. SSP was associated with a greater than 9% reduction in poverty rates, and earnings gains of 2.4% to 3% per year.

Though these programs do not reduce the state's welfare budget, they do make state spending much more effective. The ratio of reduction-in-poverty per dollar-spent is vastly superior to the "less expensive" work-requirement programs. (Table 8, Blank), SSP and MFIP generated \$2-\$2.50 in income for long-term recipients per \$1 spent in the program on earnings disregards; by contrast, simple work-requirement programs have a ratio in the range of \$0.50 to -\$0.50.

Many of us worry that reforms requiring work will tend to worsen the lives of the poor, especially poor children who may now receive much less attention from their working parent. In waiver cases for which child outcomes were measured along with earnings, employment and poverty, the earnings-supplement programs are associated with significant improvements in school achievement and child behaviors for elementary-school children, especially among long-term welfare recipient families. (Older children show smaller and less positive results.) The mandatory-work-only programs do not show these positive results.

These programs that combined work requirements with earnings disregards are not panaceas. For example, many Canadians did not take up SSP when offered, often reporting that they would like to but could not find the requisite 30 hours per week of work. And we have been discussing *average* outcomes; there was a fairly wide variance of results, indicating that (as with other programs) it is best to target programs at sub-populations for which they work best. Yet the waiver experiments tended to confirm and refine some of the basic intuitions represented in the poll results we have discussed.

There was both broad political support and experimental evidence favoring basic reforms of the income-support system of the United States.

## 2. PRWORA and Welfare Reform

This brings us to the fourth era, the program changes in the 1990s that we've come to think of as "welfare reform." The big changes came in five areas:

- AFDC, which was dramatically restructured and renamed TANF. The program received less funding, though per-recipient spending was expected to increase because of the program's other fundamental changes.
- Medicaid, which was restructured and became more generous.
- EITC, which was restructured and became more generous (expenditures here now exceed AFDC/TANF).
- SSI, which became more generous without being significantly restructured.
- Charitable Choice legislation, which affects the way in which social services are delivered.

In the interest of time, we'll have to limit our attention to TANF and its relationship to the EITC. I will make some comments about Charitable Choice in the next lecture.

As we talk through these changes and their effects, it will be well to remember that there were several important things happening "in the background" during this period, which served to make it a very good time to attempt welfare reform. There was a significant increase in the minimum wage, from \$3.35 in 1989 to \$5.15 in 1997—a 10.8% increase, after adjusting for inflation. There was also exceptionally strong performance of the general economy in the late 90s, which contributed to shrinking welfare caseloads.

Unemployment rates remained under 5% in the late 90s, and wages among less-skilled workers began rising in 1995 for the first time since the late 70s. (Wages among less-skilled women continued to rise, amazingly, through the recent recession, increasing by 5% during the last year.) And from the mid-80s onward, access to public health insurance was increasingly decoupled from income assistance, so that by the end of the 90s all children in families with incomes below the poverty line were eligible for Medicaid.

(About half the states set higher income levels for cutoff from the program; pregnant women and children under 5 have access federally through 133% of the poverty line.)

The first welfare-reform shoe to drop was a major expansion of the EITC by Congress in 1993.<sup>ii</sup> This continued the shift of federal support toward working families. The expanded EITC, together with increased minimum wages, raised the after-inflation earnings of a woman with one child working full time at the minimum wage by 19.7% during the 90s (from \$10,568 in 1998 to \$12,653 in 2000). Similar women with two or more children experienced a 34.3% increase. And the strong economy meant that more women would have the opportunity to experience these improvements. Though increases in the minimum wage bring the potential for reductions in employment, it appears that this happens mainly for low-skilled teen-aged workers who are not primary earners in families. Thus these changes should have substantially increased the incentive toward work for low-income women with children, and their labor-force participation rates have risen markedly in the 90s.<sup>iii</sup>

These “indirect welfare reform” measures were followed by PRWORA in 1996, which changed the welfare system of the US in several important ways:

1. Federal rules and Devolution: The waiver phenomenon was institutionalized; income assistance was devolved to the states. After PRWORA there would be fifty-one different welfare programs in the US. States have discretion (within some federal guidelines) in designing their own programs, their own eligibility and payment rules. The federal entitlement to support ended; states could choose which families would be supported--

such as including two-parent families if they wished. States set benefit levels, tax rates, income limits, asset limits, and the form of assistance (cash or in-kind). Many states re-wrote processes so that some eligibles would be “diverted” from cash assistance—ten states impose work-search requirements before eligibility can be attained, twelve set up temporary short-term cash payments as separate programs that do not count toward the 60-month time limit we are about to discuss; nine other states use both approaches. States shifted support to more non-cash services like child care and social services, though in most places benefit levels for the non-working changed very little--the change came in other areas. Between '93 and 2000, for example, child-care subsidies nearly doubled, from \$9.5B to \$18B. Transportation and job-search expenses are also often targeted for expansion.

2. Funding: AFDC matching grants were replaced with TANF block grants. Under AFDC, federal funding moved up and down with state funding. Under TANF, states receive a fixed grant each year, based on the previous level of federal funding under AFDC. To avoid a “race to the bottom,” states were required to continue spending at least 75% of their AFDC spending levels on TANF programs, if they were to receive full funding. Subsidies for childcare were united in a single block grant, and states were allowed to use a share of their TANF funds for childcare rather than direct income subsidies. The Child Care Tax Credit was also expanded for lower-middle income families.

Though the total size of the block grants was slightly smaller than federal funding under AFDC, these grants were fixed in size over time. It was anticipated (correctly) that, as

the number of participants shrank under the new policies, the amount of funding available per participant would rise. The per-capita TANF caseload is now below what it was in 1970, and the decline in real benefits per recipient that began in the 1970s has leveled off since the mid-90s. Thus fears that the move to block grants would lead to reductions in state spending beyond the block amount, or would result in a “race to the bottom” as states cut benefits to avoid attracting migration, did not materialize. Block grant amounts are generally greater than the amounts states are spending, due to the steep decline in caseload. (Despite this, the current proposal for re-authorization of PRWORA does not reduce the size of the federal block grants.)

3. Work requirements: In order for a state to continue to receive its full block grant, by 2002 at least 50% of its 1997 caseload must be working, in work-preparation programs, or be no longer participating in TANF. (The percentage is 90% for participating two-parent families.) Involvement in general education or general training does not count toward this requirement (except for mothers under 18 without a high school degree), so the emphasis is on work-first rather than long-term training. States have broad discretion in executing these programs, and may impose sanctions (benefit reductions, sometimes temporary and partial (13 states), sometimes much stricter) on participants who are “work eligible” but do not meet work requirements. (The state must make the difficult decision of categorizing participants into “work ready” and “not ready” categories.) These sanctions have been actively enforced, usually coupled with reduced tax rates on income to encourage work effort.

4. Time limits: The first word in the new program's name is "Temporary," which signals a major shift in philosophy. Though AFDC was often temporary in practice, TANF is temporary by design. Federal income assistance comes with a lifetime limit of five years. States are free to set shorter time limits (half did), or to continue funding any family for longer than 60 months out of their own state revenues (eight did, several for children only). Many also set limits on the length of each individual spell of participation. States may also exempt up to 20% of their 1997 caseload from these federal time limits, judging a portion of their participant population to need more than five years to become work-ready.

Time limits have not yet been widely effective; we are barely five years out from the reform, 20% are exempted, and many others have been "sanctioned" out of benefits for part of the last five years. State-waiver time limits did not show large effects on employment (though these may not be easily generalized results). Our best guess, which is quite soft, is that perhaps roughly 10% of the caseload decline post-1996 is due to time limits (Blank, 48)

5. Family structure: Much of the legislation's *language* was directed to this issue (i.e., to reducing out-of-wedlock births and encouraging marriage). Actual *program changes* were more limited. PRWORA allows for "family caps" on benefits (which disallow benefits for children born while a family is receiving support), and requirements that teen mothers stay in school and live in a supervised setting. States that experience falling illegitimacy rates without rising abortion rates received special funding bonuses. Several changes also encouraged establishment of paternity at birth, and improved collection of child support from absent parents.

6. Place of birth: Legal immigrants arriving after August 1996 were generally denied access to TANF, Food Stamps and SSI, usually for a period of about ten years.

7. Charitable Choice: Though I have never heard an economist discussing Charitable Choice legislation in a review of welfare reform, and though it does not figure at all in the review articles written by economists about welfare reform, it was a significant part of the 1996 welfare reform legislation. Charitable Choice legislation aims to affect the institutions by which poverty services are provided to the public.

State and local governments frequently contract with other groups to actually provide services (like employment searches, job training, marriage or budget counseling, community services, drug treatment programs, and even direct income support payments). Because poverty is to some extent a result of fractured social relationships, and because community and faith-based organizations may be better at building social networks and also recruiting committed workers, they might be expected to be an improvement over governmental or corporate provision of these services.

Charitable Choice legislation aimed to clarify the uncertain legal position of faith-based organizations (FBOs) when they provide services funded by government contracts. It applies only to a few federal programs—beginning with welfare-to-work programs in 1996, and later expanded to community service block grants and substance-abuse programs. No funds are set aside for faith-based providers, but when government sub-

contracts in these federal programs, faith-based organizations are allowed to compete on the same basis as other providers, with the same evaluation standards. FBOs may maintain a religious atmosphere, choose their own governing board, and hire only employees committed to their faith-based way of providing the services. Recipients of services must be served without religious or other discrimination, may not be forced to participate in inherently religious activities, and must be offered a secular alternative if they object to a faith-based provider. All government funds must be used to fulfill the public social-service goals; no funding may be used for inherently religious activities (worship, sectarian instruction, proselytization, scriptural instruction). Public funds are subject to Federal audits.

The legislation was promoted by both presidential candidates in 2000 as an innovation that gives the poor greater access to social services run by faith-based organizations. I will have more to say about it in the next lecture.

### 3. Evaluating Welfare Reform

To evaluate anything, we must invoke some standards by which to divide good from bad. So evaluating welfare reform can never be a simple technical task. This complicates the situation, because our goals for care of the poor are so complicated and dilemma-ridden. As I've suggested, it is not likely that we will strike on a policy that simultaneously meets all the demands of justice. But we can review our experience based on some commonly agreed upon standards, and also consider what might be missing from these standards.

A great deal of research has investigated the effects of TANF on behavior in four areas: caseloads (the number of people “on welfare”), work (the relationship between poverty and employment), poverty (the actual incidence of low income) and family structure (the relationships among poverty, welfare support, marriage, divorce and cohabitation). So far it has been difficult to associate *particular parts* of the reform with their unique effects, because so many things happened simultaneously and because the data we have mainly come from before the recent recession—when the economy is exceptionally healthy, it’s hard to separate welfare reform’s effect from that of the economy-at-large. Yet the overall effect of welfare reform is becoming clearer as time passes, and we are beginning to separate it from the general economy’s influence.

The emerging consensus on this last issue is that the reforms had a significant, large effect beyond that of the strong economy. For example, after 1996 the decline in the nation-wide unemployment rate slowed, but the decline in participation in TANF accelerated. Compare this to the era of strong economic growth between 1983 and 1989, in which AFDC caseloads changed little. Best estimates seem to be that somewhere between 10% and 30% of the reductions in TANF caseloads after 1996 might be attributable to the economy rather than the welfare-policy changes, though it is likely that the two reinforced each other in a way that makes it difficult to isolate independent effects.

Given that welfare reform therefore had a large independent effect on the poor, we can move on to try to measure that effect. It is fair to say that no one of any political

persuasion would have predicted—or even believed possible--the magnitude of change that occurred in behavior of low-income single-parent families during the 90s.

Regarding participation in TANF (caseloads), the decline that began in the early 90s accelerated after welfare reform. (See Fig 3, Blank) The number of participants is now at late-1960s levels. Between 1994 and 2000, caseloads fell by 56.5%, and the declines occurred in every state.

By itself, this tells us little. Caseloads could be shrunk simply by making people ineligible. The point of having poverty programs is not to make them inaccessible, but rather to reduce poverty. Thus we should care less about caseloads than we do about work experiences, behavior changes, and levels of income and poverty.

Regarding work, employment rates of single mothers have soared. Single mothers showed little change in labor-force participation rates from 1980 through the early-'90s, despite significant variations in the health of the general economy. But the combined effect of recent changes in policy amounts to a sea change in the type of poverty support the federal government endorses: Between 1988 and 1999, the federal money that supports working poor families (EITC, child-care assistance, Medicaid, CHIP, but *not* including job training/placement or cash benefits) increased from \$11B to \$66.7B (in inflation-adjusted, 2002 dollars). Compare this to cash support to non-elderly, non-disabled, largely non-working adults: \$24B in 1988, \$27B in 1992, \$13B in 1999.

These changes resulted in much different work incentives. Work effort by single mothers rose significantly, including work among women who remain on welfare. The share with earnings rose from 6.7% in 1990 to 28.1% in 1999.<sup>iv</sup> Wages among those leaving welfare vary, but typically range between \$5.50 and \$8.50 per hour, with an average of around \$7.15-7.50. Even with an increase of over one million less-skilled women entering the labor force as a result of welfare reform, wages among less-skilled women rose throughout the 1990s to their highest point in several decades, while female unemployment rates fell to their lowest levels in several decades. As I've suggested earlier, this trend in wages continued even through the recession of 2001-2.

Of course, reductions in welfare participation, even if accompanied by increases in work, might not reduce poverty, and might actually increase poverty if earnings do not replace lost welfare benefits. So it is crucial to consider changes in total incomes and poverty since welfare reform.<sup>v</sup> First, consider official poverty rates: The national poverty rate have improved, falling below the historic low of 8.8% in 1974. The decline has been more rapid among single-mother families than in the population at large; it has dropped to new record lows for all ethnic groupings. After decades of little change, the poverty rate among single-female-headed households fell by 30% between 1992 and 2000. The rate among African-American single-female-headed households fell by 31%, with exactly the same decline among Hispanic single-female-headed households.

Though fewer people are below the poverty threshold, their increase in income has often been moderate, and of course all is not entirely well. Poverty rates in the low-20% range among ethnic minorities are still rather sad news. Poverty rates also fell less quickly than

participation fell; combined with the increase in work effort, this yields the ironic result that the share of working poor in the US population rose. Some families left TANF but remained poor.

We might also ask how the general improvements in incomes are spread throughout the population. Overall poverty rates could fall even as the poorest become poorer. One way of approaching this topic is to consider the “poverty gaps,” the distance between the poverty line and the average income of families that are still poor. The change in welfare policies in the ‘90s apparently led to a slight rise in the poverty gap (based on after-tax incomes), from \$1447 to \$1524,<sup>vi</sup> (though there are measurement problems throughout this paragraph that I will need to discuss in just a moment). Fewer people were in poverty, but for those who were, poverty on average seems to have slightly worsened. Said differently, the incomes of the vast majority of single mothers—certainly over 80% of them-- have risen since 1996, but “deep poverty”—those with incomes at under half the poverty level—appears to have also risen somewhat in the late 90s.

Average annual income in this deep-poverty group has declined by perhaps \$600. At least half of those leaving TANF have incomes below the poverty line when they leave, and roughly 40% still have incomes below the poverty level five years after leaving. And among legal immigrants, who were made ineligible for virtually all federal public assistance in 1996, there was likely a substantial loss of well-being, though this area is remarkably understudied.<sup>vii</sup>

On the other hand, the data on poverty gaps and deep poverty consider only reported income, not actual consumption (ability to spend) among the poor. We do have evidence

of multiple sources of (at least temporary) income for poor families, and by triangulating from consumption surveys and employer pay records we know that some income is not fully reported. Toward the bottom of the income distribution, the discrepancy appears to be on the order of 50-100% underreporting. Data on consumer expenditures in fact show increasing consumption spending through the 1990s, even among very low-income families with children. Total consumption among single mothers increased in the mid-90s, both absolutely *and relative to women without children and married mothers*. Food-related problems declined between 1995 and 1999 for single mothers, and declined as rapidly as it did among other poor groups. To summarize, our best estimate is that single mothers as a group apparently gained in the 1990s, with the poorest among them gaining only slightly and some at the very bottom perhaps losing ground.

Regarding family structure, even under the old AFDC program research found a surprisingly small effect of the program on out-of-wedlock births. The long-term secular changes in family structure seem to find their cause in economic and social changes (such as increases in female job opportunities and the relative decline in unskilled male wages). Thus we might expect the TANF reforms to not affect family structure much, especially since reform few provisions were directly aimed at family structure.<sup>viii</sup>

Indeed, there is only muted evidence that welfare reform per se has had an effect on family structure. Marriage and divorce rates seem to be drifting along their long-term trends. Birth rates to unmarried women did start to change around 1990, beginning a slow decline. This has been true among both African-Americans and whites, and among

both older and younger women. These trends seem to have begun well before welfare reform, unless one interprets the effect of state waivers generously. And though birth rates to unmarried women have been falling, the *share of families* headed by never-married mothers has *increased* steadily, from 3% in 1976 to over 10% now, although among those with lower incomes or less education, the rate of increase did slow somewhat in the mid-to-late 90s.

The share of children living with single mothers (especially in African American families) did decline significantly in the late 1990s, one trend whose timing might make us suspect welfare reform as a cause. But family caps, the main welfare-reform item that might affect family structure, appear to have had very little if any effect on out-of-wedlock birth rates. This might have been expected, since the forgone benefits lost under family caps are relatively small—on the order of \$60 per month.<sup>ix</sup>

On the other hand, the Minnesota MFIP program (discussed earlier, under waiver programs) found that single mothers in the program married at a significantly higher rate than in the control study, and that two-parent families in the program stayed married at a higher rate. The careful studies of these family-structure happenings are actually few and far between, and they are complicated by the fact that there is probably some lag between the time a policy changes and the time that birth rates respond. In sum, we have limited evidence on the question of welfare reform's effect on family structure, and no clear evidence about which particular policies most influence marriage and fertility. Such

evidence as we have about the effect of welfare reform on family structure in general is muted, but there are a few hopeful signs.

In evaluating the effects of welfare reform, I have not said anything directly about the Charitable Choice provisions of welfare reform, which aimed not so much to restructure welfare services as to affect the ways in which they are provided. We probably must conclude that, for the most part, the jury is still out on Charitable Choice. Because of the Federal nature of the United States, federal Charitable Choice legislation makes its greatest effect when a particular state or local government changes its rules for purchasing social services. Many of these state and local governments have been slow to make these changes, especially changes that assure the right of contractors to hire staffs in accordance with their faith-based principles. President Clinton further slowed the implementation process by issuing executive orders that essentially overturned the Charitable Choice legal provisions by judging that contracts could not be made with “pervasively sectarian” service providers. Charitable Choice legislation was adopted four separate times during the Clinton administration, but spending had not become much more open to faith-based programs by the start of the Bush administration. President Bush has reversed this executive interpretation of the law, but that leaves us with only about two years of implementation to study. And Charitable Choice governs at best only a few federal programs, so that much federal and state spending on social programs is not directly affected. Such evaluation as has been done has focused on the relative effectiveness of faith-based providers (which finds that they are generally at least as effective as their secular peers), and the providers’ experiences in navigating their new relationships with government contracts (which finds relatively few problems, despite

some complaints related to dealing with bureaucracy and excessive paperwork requirements).

#### 4. More than a Machine

In sum, we seem to be striking on a new style of income assistance, one that combines work expectations, more generous financial incentives for work, support for work-related expenses like child care and medical insurance, and flexibility for locally-designed approaches to poverty. The results and costs of such programs are a strong contrast to earlier attempts using traditional AFDC, work requirements without accompanying financial support, or negative income taxes.

Though much of this experience is related to changing rules and financial incentives, we err if we think of social policy issues as if they were merely questions about how to best construct a machine-like social order—turn a nut here, a screw there, and you get a better result. Though society is in some ways like a mechanism, it still consists of the many interlocking decisions of human beings, and humans are not ultimately very machine-like. Humans are in large part driven by their vision of what is right and good. Changes that affect the ways in which this vision is formed can, in the long run, have a larger effect on the direction of culture than the mechanistic adjustments we make in the details of social policy.

In the realm of human vision, we are beginning to experiment with Charitable Choice options for providing social services. Though in their infancy, these approaches offer promise for improving social services for the poor. They also continue the general, long-

term trend in American society toward creating a place for faith in public life that is, in my view, wiser than the strict-separationist view that briefly dominated thinking two generations ago. Because Charitable Choice combines these two topics—attention to the needs of the poor, and faith in the public square—I would like to consider it in some detail in the next lecture.

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<sup>i</sup> Much of this chapter consists of an attempt to mediate to a general audience the great deal of research by economists on the effects of welfare reform. Though I have contributed a little bit to this research, for most of this chapter I am mainly doing journalism, reporting on the work of others. I am heavily in debt to two excellent reviews of the research literature, from which I have drawn many of the generalizations of this lecture, by the two leading economists on the topic of welfare reform: Robert Moffitt and Rebecca Blank. I also learned much about European perspectives on the American reform process from a second article by Blank on the subject. For survey results and an understanding of the political process leading to welfare reform, I am indebted to Bryner's book on the subject. The Statistics Canada website and the Statistical Abstract of the United States provided the basis for my comparisons of U.S. and Canadian income distributions. The three-fold designation of economic options in 1990 was suggested by Kohler's text on comparative economic systems.

<sup>ii</sup> The EITC is very popular in both parties, because it raises wages while encouraging people to participate in work, yet without forcing employers to pay higher wages--which might reduce the number of jobs available. It is not a panacea. The EITC involves a marriage penalty at some earnings levels, though the research suggests little effect on actual marriage patterns. It creates a fairly high marginal tax rate for those who work enough to receive the maximum subsidy (77% of the total eligible pool), which likely encourages some people to remain in low-wage or part-time jobs rather than move up the wage ladder. (research suggests at least a slight negative effect on work of married women for this reason, and of both women and men in two-earner households.) In order to maintain reasonable marginal tax rates, the subsidy continues to two-child-family incomes of nearly \$31,000, which is well up the income distribution. We also believe that there are frequent overpayments (of around 25% of tax expenditures) in the program, mostly due to inaccurate claims for qualifying children. (Compare 17% of taxes not paid overall to IRS, and over 25% nonpayment for some capital-income and informal-sector income.) The subsidy also reaches only those who properly file for it; among eligible single mothers, this is around 42-54% of the total eligible pool. But many of the same effects exist, and are larger, with the other more traditional approaches to income assistance. EITC is a different way to balance the competing norms behind income assistance, and it appears to be a superior approach, with a significant positive effect on work rates of single mother households.

<sup>iii</sup> In principle, it seemed clear that a woman off welfare, receiving full-time earnings, the EITC, Food Stamps (FS), child care assistance and child support would be substantially better off than under the old AFDC program. In fact, the aim of policy was that any family with one adult working 40-hour weeks at minimum wage would, by combining earnings, EITC and Food Stamps and Medicaid, be lifted above the poverty level. In practice, this has not quite happened universally, partly because steady full-time work was not always possible to maintain, and partly because of difficulties in accessing programs, especially Food Stamps. AFDC participation was traditionally the gateway to other forms of in-kind support like Food Stamps. As support has shifted from AFDC to work-related support, access to FS has not successfully shifted with it. Offices are often only open during daytime work hours; FS benefits change monthly as earnings change, and this creates complexity for caseworkers that they would often prefer to avoid by getting workers off the FS rolls; asset rules for eligibility (like car resale value) reduce eligibility.

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Participation by eligible families with a working adult head was only 43% in 1999 (from 71% in 1998), while 70% of eligible non-earners participated. Even among the very poor who leave TANF (income below 50% of poverty line), only about half continue to receive FS, though all are still eligible. There is some hopeful sign in that rates of decline in FS use were similar to those in TANF for 1994-98, but FS use fell much less steeply after 1998. Programs are in place to reduce this nonparticipation in FS (and in Medicaid as well).

<sup>iv</sup> Between half and two-thirds of those leaving income support appear to be working within three months. Mothers with multiple barriers—such as substance abuse, health problems, depression, low work skills or domestic violence—work less frequently than others; about 20% of leavers appear to not have worked in the four year period after participation. So most leavers find jobs, though jobholding is sometimes not continuous; most have no more than two unemployment spells within four years of leaving, and employers are found to rate welfare recipients as performing as well or better than other employees (Blank, 52).

<sup>v</sup> Our measures are unfortunately less precise than we might wish. We would like a comprehensive measure total well being, including levels of health insurance access, housing, food, crime, mental health, education for children, and children's schooling and behavior outcomes. But reliable consistent data on such things are difficult to find and aggregate. So economists usually consider several alternatives.

<sup>vi</sup> Table 4 (Blank) gives poverty gaps between 1993 and 1999.

<sup>vii</sup> We do know that use of public assistance has fallen suddenly among immigrants (the share receiving fell almost in half, 1994-98), and that FS receipt among eligible citizen children living with immigrant parents fell from 80% in 1994 to 46% in 1999.

<sup>viii</sup> On the other hand, the AFDC-related studies compared changes in benefit levels *across states* to changes in birth rates. PRWORA did not take its effect primarily through changes in benefit levels; it changed a great number of behavioral incentives, so that the indirect effect on birth rates might have conceivably been larger than the effect of changing AFDC benefit levels. In the end, it appears not.

<sup>ix</sup> These benefit-cap studies are reinforced by research on the Teen Parent Demonstration Project in Ohio, which required teen welfare mothers to participate in a set of education and work support programs. The project appears to have had no effect on second pregnancies. (Blank, 81)