

American Experiments in Poverty Policy: A Citizen's Guide to Welfare Reform in the United Statesⁱ

Kurt C. Schaefer

1. Introduction

By 1990, the century's big economic question had changed. "Is capitalism preferable to planned socialism?" had been replaced by "what sort of capitalism do we want to have?" By 1990 the United States was wealthy; it was flexible and efficient and technologically advanced; but was it fair? Were the vulnerable being treated justly?

By mid-decade America was setting out on an experiment to explore these questions. The 1990s was the decade of Welfare Reform, with dramatic changes in support for poor families. This chapter is an account of those experiments and their effects.

This should engage us for a number of reasons. First, we can learn practical things about how best to care for each other, which is often far from obvious. Second, this is an area in which basic values and views of human nature loom large, both in framing policies and in evaluating them. Though sometimes technical, the discussion is always a hair's width from ultimate questions about the nature of persons and a good society.

For me, both of these motives are related to the Scriptures and their rich picture of life as whole persons in a rightly ordered world. The Scriptures take a high view of the dignity

of the person.ⁱⁱ Each person is given responsibility to pursue virtue and sacrificial love, to make responsible choices, and to anticipate bad personal consequences after bad choices. All of creation is normed by God, and human persons are the primary stewards of that creation, responsible to disclose creation according to the norms it was meant to follow.

Yet the Scriptures teach that persons are not *merely* individuals.ⁱⁱⁱ God is a Trinity of persons, living in perfect community and love. The eternal life of the Godhead, to which humans are called, is a communal life of love, deference, communication, and joy in creating the space in which others can prosper and find their full meaning. A share of this eternal, communal life is what God mediates out to humans in the creative work of God's Son. To be created in God's image is to be irreducibly a part of a larger community of human persons. A single person is not meant to fully bear God's image: "Let *us* make *them* in *our* image... It is not good for the man to be alone." To be fully human is to be part of a community, with obligations running in both directions—from individual to group, and from group to individual.

Thus the Scriptures' vision of true humanity is one of *virtuous persons living in right community*. The fall—the rebellion against the God-given norms that establish meaning and joy—has affected humans in the fullest sense, both individual persons and the communities and institutions by which we seek to disclose God's creation. But by God's grace, the Trinity is at work redeeming and restoring this entire full humanity—

individual persons, the communities and institutions that they inhabit, and the creation that they together are disclosing.

The Hebrew prophets drive this emphasis home. Their vision for God's intentions in the world include worship and piety, but also encompass the practical ways that communities work, especially their care for the poor. And lest anyone think that this message is limited to communities of the faithful, to be spiritualized in the New Testament to non-material reality, the Prophets teach that God holds all nations accountable for the ways in which they disclose the creation, especially for the treatment of the most marginalized.

2. Poverty Programs in Historical Context

In my experience many discussions of "welfare" get off on the wrong foot because of basic misunderstandings about the programs and our historical experiences with them. Figure Two lists the main American anti-poverty programs and the relative benefits available from them--the current monthly per-participant value of participating.^{iv}

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. 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 choice of a reasonable 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 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, essentially no assets, and (almost always) single parenthood. The total annual budget was around \$22B; just over half of this was federal money.

5. Unemployment Compensation: In 2000, a relatively prosperous year, this unemployment insurance program had a budget of \$21B, flowing to 7.2M recipients. 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 limited 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: Stamps or debit cards for food purchases 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. 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, including significant growth in 1990 and 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.

It's a good idea to keep the changes in these programs during the 1990s 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. 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.

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.
- In the Johnson/Nixon era, 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 political 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 and to prosperity in the nation at large. 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 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 (the number of people "on welfare"), and if poverty had effectively been reduced that should 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, despite changes in poverty programs. 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 change. It appeared that a large group of Americans had been removed 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-of-enterprise policy. 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. Thus 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 H. W. Bush and early Clinton administrations--might be thought of as the first round of modern welfare reform. Given prior experience, there was hope that a different mix of policies might have fewer negative effects 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 dysfunctional 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.^v 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

A majority of *welfare recipients* reported that the system was doing 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

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. And, though welfare reform was sometimes billed as a way to cut social-service spending, polls indicated that most Americans were not motivated by appeals to their wallets. The main concern was not for fraud or expense, but the tendency of welfare to encourage irresponsible lifestyles and values. For example, 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?

<i>Favor</i>	68%
<i>Oppose</i>	27%
<i>No opinion</i>	5%

In response to these opinions, at about the same time that President G. H. W. 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 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, such as child care problems. (There is an exception: those at a high risk of depression experienced significant difficulties in maintaining employment.) 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 emphasized 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.

These experiments yielded a strong conclusion: Work requirements *combined with earnings disregards* had 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 continued to be eligible for benefits as their incomes rose. But these programs *did* shift benefits from non-workers to workers, and they did decrease poverty.

Many of us worry that reforms requiring work will worsen the lives of poor children who may now receive much less attention from their working parent. When child outcomes were measured along with earnings, employment and poverty, the earnings-supplement programs were 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.

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.

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 confirmed and refined some of the basic intuitions represented in poll results.

2. PRWORA and Welfare Reform

This brings us to the fourth era, program changes in the 1990s in five areas:

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

In addition, several important things happened “in the background” during this period, complementing welfare reform. The minimum wage rose by 10.8% from 1989 to 1997, even after adjusting for inflation. The general economy was exceptionally strong in the late 90s, shrinking welfare caseloads. Unemployment rates remained under 5%, 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 1991-92 recession, increasing by 5% during the 1992.) 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.^{vi}

The first welfare-reform volley was a major expansion of the EITC by Congress in 1993.

^{vii} Together with increased minimum wages, this raised the after-inflation minimum-wage full-time earnings of a woman with one child by 19.7% during the 90s (from \$10,568 in 1998 to \$12,653 in 2000). Women with two or more children experienced a 34.3% increase. And the strong economy meant that more women experienced these improvements. Though increases in the minimum wage have the potential to cause layoffs, it appears that this happened mainly for low-skilled teen-aged workers. Thus these changes substantially increased work incentives for low-income women with children, and their labor-force participation rates rose markedly in the 90s.^{viii}

These “indirect welfare reform” measures were followed by PRWORA legislation in 1996, bringing these changes:

1. Federal rules and Devolution: The waiver phenomenon was institutionalized; design of poverty programs was devolved to the states. After PRWORA there would be fifty-one different welfare programs in the US. The federal entitlement to support ended; states could choose (within some federal guidelines) which families would be supported (such as including two-parent families), set benefit levels, tax rates, income limits, asset limits, and the form of assistance (cash or in-kind). Many states “diverted” some eligible citizens from cash assistance. Ten states imposed work-search requirements for eligibility, twelve set up temporary short-term cash payments that do not count toward time limits (below). Nine states adopted both approaches. States shifted support toward non-cash services like child care, though in most places benefit levels for the non-working changed very little.

Between '93 and 2000, for example, child-care subsidies nearly doubled, from \$9.5B to \$18B. Transportation and job-search expenses were also often expanded.

2. Funding: 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 AFDC funding. To avoid a “race to the bottom,” states were required to spend at least 75% of their AFDC budget on TANF programs to receive full funding. States could use some TANF funds for childcare rather than income subsidies. The Child Care Tax Credit was expanded for lower-middle income families.

Though the size of the block grants was slightly smaller than AFDC funding, these grants were fixed over time. It was anticipated (correctly) that, as the number of participants shrank under the new policies, the funding per participant would rise. By the early 2000s the per-capita TANF caseload was below than in 1970, and the decline in real benefits per recipient that began in the 1970s leveled. Thus fears that block grants would reduce state spending beyond the block amount, or would cause states to cut benefits to avoid attracting participants, did not materialize. Block grant amounts are now greater than states' spending, due to the steep decline in enrollments.

3. Work requirements: For full funding, by 2002 at least 50% of a state's 1997 caseload had to be working, in work-preparation programs, or no longer receiving support.

General education or training does not count toward this requirement,^{ix} so the emphasis is on work-first rather than long-term training. States have broad discretion to 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. 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 as not yet work-ready.

Earlier state-waiver time limits did demonstrate large employment effects, and the best guess (still quite soft) is that perhaps 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* to this end were more limited. PRWORA allows for “family caps” on benefits (no benefits for children born while to families receiving support), and requirements that teen mothers stay in school and live in a supervised setting. States that experienced 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: This legislation aims to affect the provision of services by allowing faith-based and community organizations to compete on an equal footing with other providers for some government-issued social service contracts (such as employment searches, job training, marriage or budget counseling, community services, drug treatment programs). Because poverty is associated with 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 compete well with governmental or corporate provision of these services. Under Charitable Choice, no funds are set aside for faith-based providers, but faith-based organizations are allowed to compete on the same basis as other providers, with the same evaluation standards.

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). Public funds are subject to Federal audits.

The legislation was promoted by both presidential candidates in 2000.

3. Evaluating Welfare Reform

A great deal of research has investigated the effects of TANF in four areas: caseloads, employment, poverty and family structure. It is difficult to identify the effect of any particular change because so many things changed simultaneously. But some effects have become clearer as time passed, and we can also roughly separate welfare reform effects 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 are attributable to the economy rather than the welfare-policy changes, though it is likely that the two reinforced each other.

Given that welfare reform had a large independent effect on the poor, we can try to evaluate 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 fell to 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. The point of having poverty programs is not to make them inaccessible, but rather to reduce poverty. We should care less about caseloads than 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 is a sea change in the nature of federal poverty support: 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 altered 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.^x Wages among those leaving welfare vary, but averaged around \$7.15-7.50 before recent changes in the minimum wage. Even with over one million less-skilled women entering the labor force via 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. This trend in wages continued even through the recession of 2001-2.

Of course, increases in work might not reduce poverty, and might actually increase poverty if earnings do not replace lost welfare benefits. It is crucial to consider changes in total incomes and poverty since welfare reform.^{xi} First, consider official poverty rates: The national poverty rate improved, falling below the historic low of 8.8% in 1974. The decline was more rapid among single-mother families than in the population at large; it 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 there remain serious problems. Poverty rates in the low-20% range among ethnic minorities are still bad 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.

So we might ask how the general improvements in incomes are spread throughout the poverty population. Overall poverty rates could fall, for example, 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.^{xii} 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—rose after 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.^{xiii}

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 relative to 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 some 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 changes in family structure seem to be driven by other things (such as increases in female job opportunities and the relative decline in unskilled male wages). Thus we might expect small effects of welfare reform here, especially since few changes were directly aimed at family structure.^{xiv}

Indeed, there is only muted evidence that welfare reform *per se* has had any 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 slowed somewhat in the late 90s.

The share of children living with single mothers (especially in African American families) did decline significantly in the late 1990s. But family caps, the main reform 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.^{xv}

On the other hand, the Minnesota MFIP program 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. Careful studies of these family-structure changes are few and far between, and they are complicated by the fact that there is probably some time lag between policy changes and birth rate responses. In sum, we have limited evidence on welfare reform's effect on family structure, and no clear evidence about which policies most influence marriage and fertility.

Regarding Charitable Choice, for the most part the jury is still out. Many state and local governments have been slow to implement the law, and President Clinton further slowed implementation by issuing executive orders that contracts could not go to “pervasively sectarian” service providers. President Bush has reversed this executive interpretation of the law, but Charitable Choice still governs only a few federal programs. Limited evaluations have focused on the relative effectiveness of faith-based providers (finding that they are generally at least as effective as their secular peers), and the providers' experiences in navigating government contracts (finding relatively few problems, despite complaints about dealing with bureaucracy, timing of payments, and excessive paperwork requirements).

4. Where shall we go from here?

In general, the reforms so far have tried to expand the possibilities for and incentives toward responsible choices. One might conclude that the next step should be to further improve incentives and expand possibilities for choice. I think we must be precise about just what is required in order to expand families' range of choices.

In spite of prosperity for some, the early years of the century were marked by enduring poverty and rising substance abuse, with attendant increases in the abuse of women, illiteracy, overcrowded housing, lack of access to health care, and declining moral values.

I'm speaking, of course, of *the 19th century*—I have been quoting from my son's high-school American History textbook. For example, during each decade between 1800 and 1830, on average Americans drank about four shots of liquor every day for every man, woman and child in the country. Since the majority of these people were children (presumed to be generally sober), and since adult drinking was concentrated among men, one deduces an epidemic of male alcoholism, which resulted in family abuse and poverty. But personal vice was by no means the only source of poverty. Slavery entrapped millions. Public education was rare and support for it had declined in areas where it was nominally required. Prisons, which began as alternatives to punishment, had become nightmares, housing hardened criminals, first-time offenders, and the mentally insane together under inhuman conditions. Women could not vote, and in most states married women could not own property, keep the money they earned, or make a will.

The early nineteenth century saw the emergence of several reform movements, to a great extent grounded in the principles of the Second Great Awakening. Most reformers based

their arguments on Christian principles, and presented a program for change that balanced the role of the individual and the role of social structures. The temperance movement, the first and most widespread of the reform movements, emphasized self-discipline and self-control. Beyond personal pledges of self-discipline, the movement worked to see social alternatives increased: alcohol-free hotels and transportation, limits on the promotion and availability of alcohol, sobriety pledges at workplaces. By 1840 alcohol consumption fell to less than half the 1830 level.

But reform did not end with calls to personal virtue. Movements to reform education and prisons, to abolish slavery, and to establish women's rights sprang from the same seeds. Change in these areas came more slowly than in the temperance movement, but over time, American society began to fundamentally change.

I'd suggest that we take the opportunity in the next wave of welfare reform to consider how to construct modern parallels of these five reform movements. We are probably farthest along in the movement to reform public *education*. In this area we are surrounded by active experiments and reforms, and we have some cause to be hopeful.

A modern *temperance* movement would not only build support against the abuse of drugs and alcohol, but would also address the stunning changes in sexual ethics, pornography, and standards for greediness during the last generation.

A modern *prison reform* movement would reconsider the fairness of the American justice system. When year after year one-sixth of marriage-aged black men are incarcerated, we

should not be that surprised at the pressures that are created against stable family life. It is increasingly hard to believe that this disproportionate African-American imprisonment rate is the result of a fair application of the law. Consider the disproportionate number of black men on death rows, and the considerable proportion of them who are being cleared by DNA evidence.

The modern equivalents of the *abolitionist and women's rights* movements would focus on basic restructuring of society in areas where some are systematically put at a disadvantage.^{xvi} There have been real gains in the last generation, but again there is much yet to do. In many cases overt discrimination still limits possibilities. And zoning laws, lending practices, and school funding formulas still tend to concentrate poverty and affluence into separated, self-perpetuating spheres.

That short list of improvements would only be a start, but would easily fill the rest of this decade as we try to redeem the promise of welfare reform.

ⁱ I am in debt to two excellent reviews of the research literature by the two leading economists on the topic of welfare reform: Robert Moffitt and Rebecca Blank. For survey results and an understanding of the political process leading to welfare reform, I am indebted to Bryner's book on the subject.

ⁱⁱ For a detailed introduction to the themes of this paragraph, see Wolters (1985).

ⁱⁱⁱ Plantinga (2002) presents an introduction to the themes of this and the next paragraph.

^{iv} Direct income-support accounts for about 9% of total Federal spending; the implicit income redistribution through Social Security and Medicare comprises another 27% of total spending.

^v Compare increases of under 10% in the mid-70s, around 10% in the early 80s. (Bryner, 6)

^{vi} 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.

^{vii} 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 over \$30,000, which is well up the income distribution. It is also believed 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.

^{viii} 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. 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).

^{ix} This does not apply to mothers under 18 without a high school degree.

^x 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).

^{xi} 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.

^{xii} Table 4 (Blank) gives poverty gaps between 1993 and 1999.

^{xiii} 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.

^{xiv} 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.

^{xv} 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)

^{xvi} One reasonable area for action would be a concerted effort at finding creative ways to make work pay. Raising the wages of the lowest-paid workers, assuring them of basic health insurance as they seek employment, and creating job security so they do not bear the brunt of economic downturns would all be natural and important extensions of the lessons learned from welfare reform. Yet it seems obvious that something more creative than “living wage” laws will be necessary. Simply legislating that wages must double or triple is very likely counter-productive for those most in need.