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Two Cheers for American Welfare Reform – Lessons Learned, Questions Raised, Next Steps

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American welfare reform is best known for reducing the benefit rolls by 65 per cent and for sending millions of mothers out to work. But did the poor benefit? And what about those still on the rolls? What are the next steps in fighting welfare dependency and long-term poverty? Do the new earnings subsidies discourage work and marriage? And, has an entirely new expansion of government transfer payments been triggered?

Almost twelve years ago, U.S. President Bill Clinton signed a landmark 1996 welfare reform law. Most American politicians (on

the left as well as the right) say that the changes have been a great success – and that’s what the public believes. After all, welfare caseloads have fallen by an astounding 65 per cent since the reform efforts began.¹

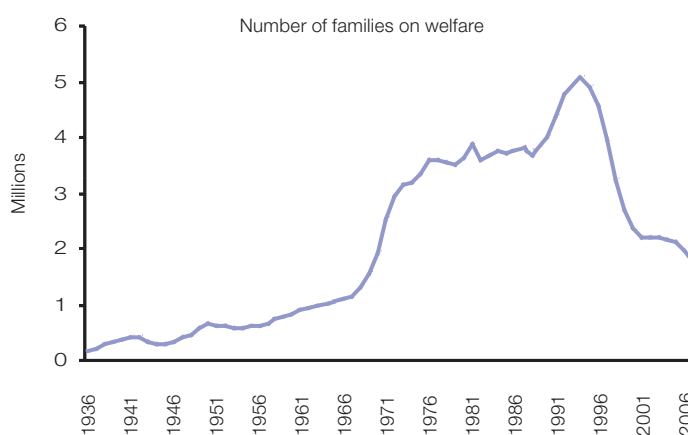
But even as a strong supporter of tougher welfare policies, I find it difficult to muster unqualified enthusiasm for either the law’s implementation or its impact. For now, welfare reform deserves only two cheers.² Not bad for a historic change in policy, but not good enough for us to be even close to satisfied. Let me explain.

1 U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “AFDC Total Caseload: Average Monthly Number for Fiscal and Calendar Years: 1994,” 1994, see <http://www.acf.hhs.gov/programs/ofa/caseload/afdc/1994/fycytot al94.htm>; and U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, “TANF Total Number of Families: Fiscal and Calendar Year 2006,” 2006, see http://www.acf.hhs.gov/programs/ofa/caseload/2006/2006_family_tan.htm (accessed January 23, 2008)

2 I borrow this phrase from Irving Kristol: ‘A capitalist society does not want more than two cheers for itself. Indeed, it regards the impulse to give three cheers for any social, economic, or political system as expressing a dangerous because it is misplaced enthusiasm’ (Kristol I, *Two Cheers for Capitalism*, Basic Books, 1978, pp ix). Kristol, in turn, derived the idea from E. M. Forster: “Two cheers for democracy; one because it admits variety, and two because it permits criticism. Two cheers are quite enough” (Forster EM, *Two Cheers for Democracy*, Edward Arnold, 1951, pp 79)

3 Source for data from 1936 to 1961: U.S. Department of Health and Human Services, Administration for Children and Families, *ACF News, Statistics, U.S. Welfare Caseloads Information: Temporary Assistance for Needy Families (TANF), 1936-1999*, Department of Health and Human Sciences, 2002. Sources for data from 1962 to 2005: U.S. Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress 2007*, U.S. Department of Health and Human Services, A-9, 2007. Source for 2006 and 2007 data: U.S. Department of Health and Human Services, “TANF Data, Data Analyses, and Reports,” U.S. Department of Health and Human Services, 2008

Figure 1: Welfare’s Growth and Decline



Source: U.S. Department of Health and Human Sciences.³

The End of the Welfare Entitlement

In the years immediately before the law's passage, welfare dependency seemed out of control in the U.S. Between 1989 and 1994, for example, caseloads rose by a worrying 34 per cent (see Figure 1). Analysts argued over how much to blame the weak economy, worsening social problems (primarily non-marital births and drug addiction), and lax agency administration. But few claimed that another 1.3 million people on welfare was a good thing, and no one had a proven plan to reverse the increase.

Responding to the growing concern about welfare dependency, Bill Clinton campaigned for president on a promise to 'end welfare as we know it.' But he had in mind something far different from what the Republicans handed him in 1996. Nevertheless, and to the chagrin of his liberal allies, he signed the legislation that ended the welfare entitlement and gave states wide discretion in running the programme (as long as they put 50 per cent of recipients in work-related activities and imposed a five year limit on financial aid).

Many feared a social calamity. Senator Daniel Patrick Moynihan, widely respected for his decades-long study of welfare, warned that the law would 'push 1.1 million children into poverty' and that we would 'have children sleeping on grates.'⁴ But in the years since, despite major efforts, researchers have found only small pockets of additional hardship. The earnings of most single mothers have actually risen, although not by enough to make a substantial difference in their material well-being. Not as good a result as had been hoped for, but far from the new 'Grate Society,' as Moynihan's prediction was characterized.

These twin realities – decreased caseloads and little sign of serious additional hardship – are the basis of claims from

Republicans as well as Democrats that welfare reform has been a success.

But the real story is more ambiguous. Caseloads fell sharply in all states, yet they did so seemingly without regard to whether states developed ambitious programmes or not. They fell in states with strong work-first requirements and those without them; in states with mandatory work experience (workfare) programmes and those without them; in states with job training programmes and those without them; and in states with generous child care subsidies and those without them. They just fell.

The consensus among academics is that the decline came from a change in expectations, that is, the 'culture of welfare.' Welfare offices were transformed—from being places where poor families were simply given cheques to places where applicants and recipients were encouraged to find jobs or other sources of support. In most places, this new orientation is called 'work first,' and usually includes a mandatory 'job search' for applicants as well as recipients, often combined with job clubs, job-seeking classes, access to phone banks, and peer support (these requirements are often backed up by benefit cuts against those not 'playing by the rules,' but relatively few families are actually thrown off welfare). Also available are one-time cash payments to help individuals get or keep a job (for instance, money to repair a car). A sign stenciled on a New York City Job Center summed up the pro-work atmosphere created in most offices: 'Be prepared to work, or be prepared to leave.'

Many welfare agencies also offer work-preparation programmes that provide short term education, training, or work experience. However, actual participation in such programs is limited, and not that much different than in the past. In an average month in 2000, only about 5 per cent of families on the Temporary

⁴ *Congressional Record*, 104th congress, 2nd session, no 142, July 18 1996

5 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp III-96

6 Please note, there is some overlap between the categories.

7 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, no III-96, April 2002

8 The most successful projects were typically described as having 'modest' results, with declines of around 5 percentage points or 9 per cent relative to the control group mean. See, for example, Grogger J, Karoly LA, and Klerman JA, *Consequences of Welfare Reform: A Research Synthesis*, RAND, pp 52 July 2002. Such experiments, though, cannot measure 'entry effects,' that is, the number of mothers deterred from applying for benefits because of such rules and procedures. But there is no reason to believe that such 'entry effects, would have accounted for the remainder of the decline

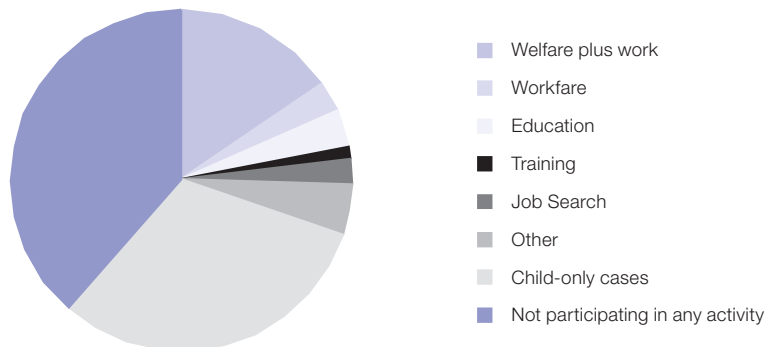
9 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp III-96

10 Unless indicated otherwise, all currency amounts are in 2005 dollars or sterling

11 U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, April 2002, pp XIII-360-361

12 U.S. Department of Health and Human Services,

Figure 2: Activities of recipients (2000)⁶



Source: U.S. Department of Health and Human Sciences.⁷

Assistance for Needy Families (TANF) programme received education or training (see Figure 2).⁵

These two programmatic elements of welfare reform—a 'work first' policy and limited education and training efforts—are unlikely to have caused the large caseload declines. Before TANF, even the most richly funded welfare-to-work experiments rarely achieved reductions of even 10 per cent.⁸

Mandatory work, often called 'workfare,' also cannot explain the decline. Despite popular impression, few states operate large-scale mandatory work programmes (in which recipients perform public service activities in return for their welfare payments). In an average month in 2000, only about 3 per cent of TANF families included an adult in a mandatory work programme (more on that below).⁹ And most of these were in New York City, Wisconsin, Ohio, or New Jersey.

The decline also cannot be explained by the increase in welfare recipients who are combining work and welfare. Under the Aid to Families with Dependent Children (AFDC) programme, the federal government established what is called the 'earnings

disregard,' that is, a set amount of earnings that is not taken into account in determining the welfare grant. For all practical purposes, it was limited to the first \$90¹⁰ (£47) in earnings, after which benefits were reduced dollar-for-dollar as earnings increased – a 100 per cent marginal tax rate.

Under TANF, though, individual states set the amount of their earnings disregards, and most greatly liberalized them. The typical level is around 50 per cent of earnings, and a few states even waive all earnings up to the poverty line for a specified period of time.¹¹ As a result, the proportion of recipient families in which an adult is combining work and welfare ('combiners') has more than doubled, up from about 7 per cent in 1992 to about 16 per cent in 2000 (see Figure 2).¹²

Some people assume that this increase in 'combiners' was an important factor in reducing caseloads – that recipients became more employable after being introduced to the world of work and an environment in which they could build their confidence and job skills. However, careful studies of the impact of 'income supplement programmes' – that is, programmes that allow recipients to earn

money while staying on welfare – usually show an increase in caseloads. Even when they have been combined with time limits or work requirements, they have rarely resulted in a caseload reduction of more than 5 percentage points, if that.¹³

Furthermore, experts are not sure about the size of the actual increase in work since the reported increase could be just that: recipients may be more likely to tell welfare agencies about working because they no longer face as large a penalty for doing so – and because, if they are combining work and welfare, they are essentially exempt from various mandated welfare reform activities.

In the face of these realities, most experts conclude that the reforms reduced caseloads because they changed the expectations and thus the ‘atmospherics’ of the programme – and that current and potential recipients responded to the new, pro-work message. That is actually the strongest explanation available, but, even so, it is unlikely to have reduced national caseloads by 60 per cent – especially since some of the jurisdictions with very large declines made relatively few changes to their policies.

The economy at work

Two other factors – a strong economy and sharply increased aid to low-income, working families – almost certainly contributed at least as much, and probably more, to the caseload decline than did welfare reform. Various academic and government researchers have used national data sets to estimate the relative impacts of these factors. Looking across all the studies, and discounting the weakest ones, the most reasonable conclusion is that, although welfare reform was an important factor in reducing caseloads, the economy was probably more important, and expanded aid to low-income, working families (primarily through the Earned Income Tax Credit, or EITC) was somewhat less important than welfare reform.

Strong supporters of welfare reform argue that such studies are highly variable and depend on various subjective assumptions (which is true), and that ‘historically, strong economies have not influenced the welfare rolls.’¹⁴ That, however, is not quite true.

First, during earlier economic expansions, divorces and nonmarital births (precursors of welfare receipt) were both rising sharply, just as barriers to putting single mothers (especially African American mothers) on welfare were falling. For example, many states had ‘suitable home’ or ‘unfit mother’ rules that essentially excluded unwed mothers (and sometimes divorced mothers) from welfare. Since these mothers were disproportionately African American, the three-decades-long liberalization of this and other rules allowed hundreds of thousands of black families to finally receive the benefits to which they were legally entitled.

Second, on various measures, welfare reciprocity did actually decline during the economic expansion of the 1980s, but just not by a lot. For example, between 1982 and 1990 (the beginning and end years of that decade’s economic expansion), the percentage of single mothers on welfare fell from 56 per cent to 52 per cent (population increases tended to raise the caseload thus obscuring this decline in the rate of reciprocity.) The strong economy in the 1980s did not draw more single mothers off welfare and onto work because employers first hired married mothers (who had more job skills). Over two million additional married mothers started working full time during that decade’s expansion, raising the per cent doing so from about 34 per cent to about 44 per cent.

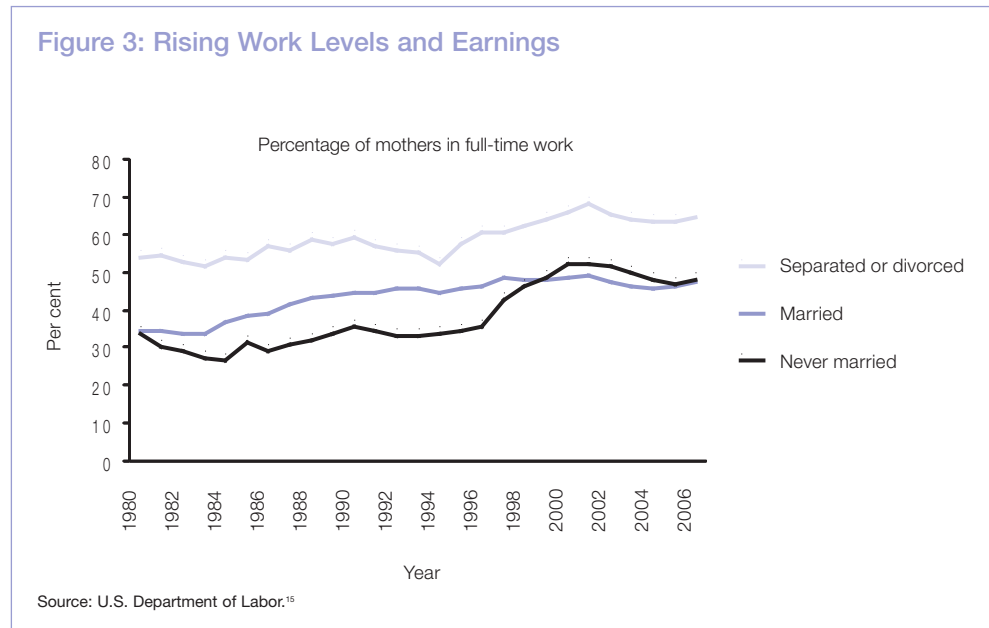
Third, and most important, the economy in the 1990s was simply much more favorable to low-skilled, single mothers than the 1980s’ one. In the 1990s, employers essen-

Administration for Children and Families, *Characteristics and Financial Circumstances of AFDC Families: FY 1992*, U.S. Department of Health and Human Services, Administration for Children and Families, 1993, pp 58; U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Fourth Annual Report to Congress*, U.S. Department of Health and Human Services, Office of Planning, Research, and Evaluation, pp X-241, April 2002

¹³ See Grogger J, Karoly LA, and Klerman JA, *Consequences of Welfare Reform: A Research Synthesis*, RAND, pp 48-50, July 2002

¹⁴ Haskins R, “The Welfare Reform Law of 1996: What Has Been Accomplished? What Remains to be Done?,” *Policy Form*, no 2, pp 8, October 2001

Figure 3: Rising Work Levels and Earnings



tially ran out of married mothers to hire (although another 1.3 million married mothers started working full time), and so employers then turned to single mothers. Between 1994 and 2001, the increases in their full-time work were striking: 31 per cent for divorced and separated mothers, and 55 per cent for never-married mothers (see Figure 3).

Based on wage data for entry-level or low-skilled workers, it appears that the economy was drawing these mothers into work rather than welfare reform pushing them into it. For example, even as over a million more single mothers were going to work, the hourly wages for those in the bottom quartile of wages (of single mothers) were rising, suggesting unmet demand in the low-skills job market. For example, between the fourth quarter of 1996 and the second quarter of 2001, their hourly wages climbed 17 per cent, from \$7.25 (£3.77) to \$8.50 (£4.4) in 2005 dollars.¹⁶ These wage gains came on top of a 213 per cent increase in the EITC between 1990 and 1996, from \$1,407 (£731) to \$4,408 (£2, 292) in 2005 dollars.

The picture was much less positive, however, for black male employment during the 1990s. According to Harry J Holzer and Paul Offner of the Georgetown

Public Policy Institute, between 1992 and 2000 there was only a 3 per cent gain in the employment rate of young, non-college-educated black males.¹⁷ This worrisome pattern has continued.

If one looks at the many studies that have attempted to explain this sharp decline, the most reasonable conclusion is that, although welfare reform was an important factor in caseload reduction (accounting for 25 to 35 per cent of the decline), the strong economy was probably more important (35 to 45 per cent). Expanded aid to low-income, working families (primarily through the Earned Income Tax Credit) was almost as important (20 to 30 per cent).

Leaving welfare for work

The increase in work among divorced and separated mothers, but especially among never-married mothers, had a tremendous impact on welfare caseloads. In 1994, these two groups of single mothers made up 82 per cent of the national AFDC caseload.¹⁸ Moreover, never-married mothers are the mothers most likely to be long-term welfare recipients (because they are the youngest and least educated of the three groups).

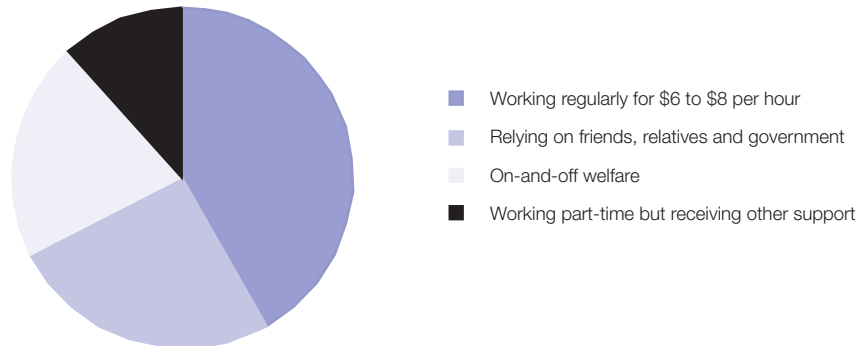
¹⁵ Source for 1980 – 1999 data: Karen Kosanovich (U.S. Department of Labor, Bureau of Labor Statistics), fax to Peter Germanis, July 20 2000. Source for 2000 – 2006 data: Mary Bowler (U.S. Department of Labor, Bureau of Labor Statistics), e-mail message to Anne Shi, April 15 2008

¹⁶ Lerman R, "Jobs and Wages Up Sharply for Single Moms, Gains Especially High After Welfare Reform," *Single Parents' Earnings Monitor*, July 25 2001

¹⁷ Holzer HJ and Offner P, "Trends in Employment Outcome of Young Black Men, 1979-2000," Institute for Research on Poverty, Discussion Paper no 1247-02, February 2002

¹⁸ U.S. Department of Health and Human Services, Administration for Children and Families, *Characteristics and Financial Circumstances of AFDC Families*, U.S. Department of Health and Human Services, Administration for Children and Families, 1995, table 15

Figure 4: what are welfare leavers doing (roughly)?



Source: author's calculations.²⁰

Contrary to popular impression, however, only about 40 to 50 per cent of all welfare leavers are working regularly, that is, are in steady, full-time employment (see figure 4). Another 15 per cent or so work part-time. According to various state surveys for 2002 and before, these mothers are earning about \$8.70 an hour (£4.5).¹⁹ That is about \$17,400 (£9,048) a year for full-time employment. It is their story that the supporters of welfare reform celebrate.

Although \$17,000 (£8,840) or \$18,000 (£9,360) per year (even supplemented by the EITC of more than \$1,800 (£936) on average in 2005²¹ and child care subsidies) is not a lot of money, especially for a mother with two children (about the average number of children for those leaving welfare), it is much better than being on welfare.

Moreover, various government programmes help make it pay for her to work. In 2005, a single mother with two children earning that much would be entitled to \$3,757 (£1,953) per year from the EITC, up to \$4,400 (£2,288) per year in food stamps, and about \$1,350 (£702) in subsidized school meals for both children. After taxes, that comes to a total of more than \$22,500 (£11,700). If the family also

receives subsidized housing, add another \$6,400 (£3,328) or more. In addition, her children would remain eligible for Medicaid (an average of more than \$1,600 (£832)). Moreover, although she would have added costs by working, her biggest cost, child care, would generally be covered, and most states provide transportation assistance. At this income level, however, she would receive little or no food stamps.

This combination of earnings and government benefits is not enough for a life of middle-class comfort, but it is much better than being on welfare, which is probably why majorities of surveyed welfare leavers invariably say that they are better off after having left welfare. Moreover, most studies show that the earnings of leavers rise the longer they stay off welfare, presumably because they are gaining job skills and developing a positive work history – and because many are also working more hours.²² In Texas, the motto is ‘Get a job, get a better job, get a career.’²³

Hidden dependency

What about the other 50 to 60 per cent of leavers who are not working regularly? About 10 to 15 per cent of them seem to

19 Loprest P, “Fewer Welfare Leavers Employed in Weak Economy,” *Snapshots of America’s Families* 3, no 5, 2003

20 Author’s estimate based on the following sources: Moffitt RA, *From Welfare to Work: What the Evidence Shows*, Brookings, January 2002; Acs G and Loprest P, *Final Synthesis Report of Findings from ASPE “Leavers” Grants*, Urban Institute, November 2001; Devere C, *Welfare Reform Research: What Do We Know About Those Who Leave Welfare?* Congressional, March 2001; Isaacs JB and Lyon MR, “A Cross-State Examination of Families Leaving Welfare: Findings from the ASPE-Funded Leaver Studies,” paper presented at the National Association for Welfare Research and Statistics, 2000; and U.S. Government Accountability Office, *Welfare Reform: Information on Former Recipient Status*, Government Printing Office, April 1999

21 U.S. Department of Treasury, Internal Revenue Service, “Returns with Earned Income Credit, by Size of Adjusted Gross Income, Tax Year 2005.” For families with two children, the average was over \$2,700 (£1,404)

22 One study found that the median earnings of working mothers rose from \$6,100 (£3,172) in the first year off welfare to \$9,900 (£5,148) in the fifth year after leaving welfare. For a summary of this research, see Strawn J and Martinson K, *Steady Work and Better Jobs: How to Help Low-Income Parents Sustain Employment and Advance in the Workforce*, Manpower Demonstration Research Corporation, June 2000, pp 12; also see Navarro D, van Dok M, and Hendra R, *Results From the Post-Assistance Self-Sufficiency (PASS) Program in Riverside, California*, Manpower Research Demonstration Corporation, May 2007. Two other studies, however, find that increased earnings were almost completely driven by increased hours worked and not increased hourly wages, for these results see Acs G, Loprest P, and Roberts T, *Final Synthesis Report of Findings from ASPE “Leavers” Studies*, Urban Institute, November 2001

23 Texas Department of Human Services, “Temporary Assistance for Needy Families,” *DHS Reference Guide: 2000*, 2000. Los Angeles and Washington have similar mottos

be working part time while 20 to 35 per cent are not working at all. Very few families in either group have become 'homeless.' Instead, both groups are being helped by other government programmes (described below) or by friends and relatives. Often they live with those supporting them (this is one of the least acknowledged or understood aspects of low-income life). Although the data are incomplete, it appears possible that, on average, these single mothers lived in households that saw a modest rise in income.

“ Conservatives were proven right that the welfare system itself encouraged dependence and that many welfare mothers could hold down jobs ”

When they are off welfare, many of these families survive only because they still receive government assistance through, for example, food stamps (an average of more than \$2,550 (£1,326) per year); the Women, Infants, and Children program (WIC) (about \$1,800 (£936) for infants and new mothers per year); Supplemental Security Income (an average of over \$7,100 (£3,692) per year), or housing aid (an average of \$6,400 (£3,328) per year). Their children also qualify for Medicaid. In reality, these families are still on welfare because they are still receiving benefits and not working call it 'welfare light.'

The remaining welfare leavers, ranging between 15 to 30 per cent, cycle on and off welfare as they alternately find a job or someone to support them and then lose the job or that alternate source of support. Mothers who do this rightly raise the most concern among analysts because, when they suffer various setbacks, they often have no one to turn to for help.

What was the motivation for these groups to leave welfare? Very roughly, it appears that most of the mothers who left

welfare for work under work first policies probably did so because the strong economy, combined with increased non-welfare aid, facilitated their doing so. Those who left without working (or at least not working full time) probably found the added hassle of work first not worth the trouble because they had other sources of support.

So, yes, welfare reform reduced welfare dependency in the US, but not as much as suggested by the political rhetoric – and a great deal of dependency is now diffused and hidden within larger social welfare programs. This has obscured the precarious financial situation of these unfortunate families and blunted the political impetus to address the underlying causes of poverty, from inadequate schools and structural shifts in the economy to family breakdown and other forms of social dysfunction (more on this in a moment).

Taking stock

The passage of TANF was accompanied by an often acrimonious debate about the nature of welfare dependency and the likely impact of ending the welfare entitlement and substituting a pro-work orientation. Taking a broad view of what happened, one would have to say that both conservatives and liberals were proven right – and wrong.

Conservatives were proven right that the welfare system itself encouraged dependence and that many welfare mothers could hold down jobs – or rely on others for assistance. Some of these families did not 'need' welfare, perhaps because they were living with parents or a boyfriend, and they simply left when job training or work requirements were imposed. Other families, however, left welfare only because of intense pressure from caseworkers ('hassle' is often a more accurate description.) About a quarter of those who leave welfare return, with many cycling in and out as they face temporary ups-and-downs.

A welfare system focused on limited, short-term assistance and on work successfully pushed many mothers off welfare. Even the presumed high levels of debilitating drug addiction among welfare mothers proved to be exaggerated.

Most importantly, no social catastrophe ensued, even in the inner cities. Despite intensive searching by liberal researchers and journalists, no substantial increase in hardship has been documented.²⁴ But some opponents of welfare reform point to small declines in the income of the very poorest families, but various methodological issues undermine such findings which, in any event, seem to involve losses in income that are too small to have substantial policy implications (but those losses are more than matched by substantial earnings increases for single mothers generally).²⁵ The one worrisome exception is the group of mothers who seem to be cycling on and off welfare. They seem to be having a difficult time under welfare reform, and their numbers could easily grow if the economy continues to weaken.

The liberals were proven right, though, about the importance of a strong economy. All objective observers credit the strong demand for entry-level workers as a central cause of the decline. They only disagree about whether its impact is greater than that of welfare reform.

The liberals were also right about the difficulty that most welfare leavers would have in becoming financially self-sufficient. As we saw, with average wages of \$8.70 (£4.52) an hour, even those leavers working full time have relatively modest incomes. Only the expanded aid now available to low-income, working families (especially child care and the EITC) makes it 'worthwhile' for leavers to work for so little money (rather than continue to collect welfare). And, of course, there are many leavers, especially those cycling on and off welfare, who are doing much worse.

More fundamentally, the huge drop in welfare dependency and the rise in work does not seem to have changed the lives of these families. Almost all the social indicators that started heading in the right direction in the early and mid-1990s (before welfare reform) seem to have stopped improving and some have begun a small retreat. Since they started improving before welfare reform, it is difficult to suggest that welfare reform had much to do with their improvement. For example, although some commentators have pointed to a declining rate of non-marital births as one of the most striking results of welfare reform, the picture is actually quite mixed. Non-marital births started declining in 1994, about the time that the first welfare reform waivers took effect and at least two years before TANF's implementation—and they declined only through 1997, after which they started climbing again.

Similarly, there has been no detectable increase in marriage rates, although, since 1994, cohabitation seems to be up by at least a third, or another 400,000 couples with children under fifteen.²⁶ Opinion, of course, is mixed about whether that is progress.

It is too early to see the impact of less welfare dependency on conditions that, after all, took root over many decades. Working at a regular job may change a mother's outlook on life, but earning enough to make ends meet would surely help and that may take time as she accrues work experience. And a successfully employed mother may be an important role model for her children, but it may take a decade or more before a change in their behavior is evident.

Support for 'Working Families'

As a result of the caseload decline, public and political concern about welfare dependency has largely disappeared in the United States. In its stead has come more sympathy for the 'working poor' and greater political support for subsidies to low-wage workers (a point often celebrated by welfare advocates).

²⁴ Bruce Meyer and James Sullivan, economists from Northwestern University, used data from 1984 to 1998 from the Consumer Expenditure Survey and the Panel Study of Income Dynamics to examine the material well-being of single mothers before and shortly after the passage of the 1996 welfare reform law. They focused on consumption to capture the effects of noncash benefits and because income tends to be under-reported. They found that the consumption of these single mother families increased in both absolute terms and relative to single women without children and married mothers. They concluded that 'the material well-being of single mothers has not appreciably declined as a result of recent reforms.' See Meyer BD and Sullivan JX, "The Effects of Welfare and Tax Reform: The Material Well-Being of Single Mothers in the 1980s and 1990s," *National Bureau of Economic Research Working Paper*, no 8298, May 2001, pp 31

²⁵ See Bavier R, "Income and Expenditures," in Besharov DJ (ed), *Family Well-Being After Welfare Reform*, Welfare Reform Academy, 2002

²⁶ Between 1994 and 2000 the number of unmarried couples with children under fifteen increased from 1.2 million to 1.6 million. See U.S. Bureau of the Census, "Unmarried Couple Households, by Presence of Children: 1960 to Present," June 29 2001

Bill Clinton popularized the phrase ‘make work pay.’ His goal was to ‘ensure that no one with a family who works full time has to raise their children in poverty.’²⁷ Work-related assistance to welfare families and those leaving welfare can mean the difference between a successful and an unsuccessful exit from welfare. But the expansions have already gone far beyond what would be needed to help families to leave welfare (or avoid it in the first place).

Financial aid to working families not receiving cash welfare is at its highest level since the Great Depression. Between 1984 and 1999, total means-tested spending on families with children under 18 that are not on AFDC/TANF rose fivefold, from about \$22 billion (£11 billion) to about \$110 billion (£57 billion); compare that to the \$66 billion (£34 billion) or so in non-TANF spending on welfare families.²⁸ Include spending on AFDC/TANF recipients, and the figures rise to \$92 billion (£48 billion) and \$175 billion (£91 billion) respectively, almost doubling. By 2001, total means-tested spending on families with children reached about \$193 billion (£100 billion). The main programmes are the EITC, food stamps, Medicaid, housing assistance, SSI, and subsidized school meals.

This increase was not primarily caused by a rise in population or a rise in poverty; rather, it was policy-driven. New programmes were created and eligibility and benefits were expanded in many existing programmes – and more are being proposed.

Over 40 million people in families with children now receive these non-TANF benefits, compared to only around 16.5 million in 1984.²⁹ That is nearly three times the number of people on welfare at its highest point in 1994 (14.2 million). Indeed, although there are ambiguities in the data, between early 1996 and late 1999, it appears that the total number of Americans in families with children not on TANF that

received some other means-tested benefit rose by about 5.9 million (or 25 per cent)³⁰ – about as many as left welfare.

Just as Bill Clinton had something else in mind when he said that the ‘era of big government is over,’ these figures show that his promise to ‘end welfare as we know it’ deserved more careful parsing than it received. Old welfare is largely gone, but new welfare is bigger and, for its supporters, better than ever. It is billions of dollars and millions of recipients larger – and it enjoys much broader public support because it is tied to ‘working families.’

Such expansions in social welfare spending attract many supporters. Low-income, working families are more sympathetic beneficiaries of aid than are nonworking welfare recipients. Most of us would like them to live more comfortable lives and to have their children succeed. Unfortunately, as with welfare, the expansion of this non-AFDC/TANF aid often comes with unavoidable increases in work and marriage disincentives. These programmes are all means-tested, which means that they terminate at a particular income level. They are either phased out over a range of incomes or end suddenly. In either case, they in effect reduce recipient incomes as they reach the eligibility cut off. This is social welfare’s version of the tax code’s marginal tax rate – but it can be much steeper.

The cumulative marginal tax rates of means-tested programmes often range from 55 per cent to over 100 per cent and can affect families with incomes from \$10,000 (£5,200) to as high as \$40,000 (£20,800) or more (for a family of three), particularly for families that receive benefits from subsidized housing, child care, or the State Children’s Health Insurance Program (SCHIP). Such marginal tax rates are much larger than those in the tax code, and can have a greater impact on behaviour – whether work or marriage – because the loss in benefits represents a much larger percentage of family income.

27 Governor Bill Clinton, “Putting People First: A National Economic Strategy for America,” June 21 1992

28 Adapted from U.S. Congressional Budget, “Policy Changes Affecting Mandatory Spending for Low-Income Families Not Receiving Cash Welfare,” September 1998. The U.S. Congressional Budget Office studied the growth in federal spending due to policy changes in five programmes, Medicaid, SCHIP (the health insurance programme for low-income children), the EITC, the portion of the child credit for low-income families, and child care. I adapted their estimate by adding state spending and converting the estimate to 2001 dollars, resulting in an estimated \$64 billion (£33.3 billion) increase in spending. We then estimated increases in spending for families with children not receiving AFDC/TANF in the following programmes: food stamps, housing assistance, Head Start, WIC, SSI, and subsidized school meals. These spending increases were generally not policy-driven. Nevertheless, it appears that about three-quarters of the total \$88 billion (£45.7 billion) increase was policy-driven

29 These estimates were provided by Richard Bavier of the U.S. Office of Management and Budget. The total number of people in families with children under 18 increased by just 6.2 per cent between 1984 and 1999, from 131.5 million to 139.6 million

30 Unpublished data provided by Richard Bavier, September 23, 2002

Moreover, each increase in benefits and eligibility is likely to trigger a subsequent expansion. The economists and others who propose these ‘fixes’ seem to think that, once these initial corrective expansions are made, eligibility and benefit levels will remain unchanged. This process could easily take on a life of its own, just as it did in Europe. As benefits go to more middle-class families, they will become the chief advocate for further expansions - encouraged by the industries that benefit from the government subsidies. Already, advertisements on TV and in magazines and newspapers urge voters to contact their elected representatives to support expansions of Medicaid for long-term care for the elderly (read nursing home operators) and Medicare reimbursement (hospitals and other health care providers).

Lessons Learned and a Real Anti-Poverty Agenda

Supporters of welfare reform claim that it was a great success because the rolls fell to levels not seen since the late 1960s. Critics of welfare reform often point out that it did not cure poverty. That is a somewhat unfair criticism, because the primary purpose of the changes was to reduce dependency on government. Thus, an important rhetorical element leading up to the passage of the welfare law was building ‘self-sufficiency.’

Both sides are agreed, however, that persistently high levels of dependency – as well as poverty – mean that there is much more to do. One side wants to expand the ‘tough love’ aspects of welfare reform (including mandatory work experience programmes). The other side wants to expand voluntary job training, child care, and other financial aid to welfare recipients – and to low- and moderate-income families not on welfare.

This divergence has defined the main poles of the welfare reform debate for

decades and promises to be the continuing source of contention now that TANF has been reauthorized. There is, of course, room for both approaches, but the relative mix is important.

In that spirit, let us ask what lessons have been learned from the past eleven years under welfare reform and how they fit into a broader agenda to reduce dependency and poverty.

- *Caseloads have declined, but not as much as often thought.* Many former welfare recipients are on other forms of government assistance (such as SSI) and churning on and off the rolls has increased substantially.
- *Work requirements work.* Or, more precisely, requiring recipients to be somewhere on a regular basis causes some to leave welfare (either for work or because they already have a job or other sources of support).

“ One side wants to expand the ‘tough love’ aspects of welfare reform... the other side wants to expand voluntary job training, child care, and other financial aid to welfare recipients ”

- *Job training has little impact on employability or earnings.* At least as presently constituted, its main impact seems to stem from being embedded in a participation requirement.
- *Identifying those who can become self-sufficient is not possible.* No one can reliably predict which recipients will find jobs or otherwise become self-sufficient. That requires a system of incentives and penalties rather than administrative screening.
- *Cycling on and off welfare is therefore unavoidable.* Some people will fail, perhaps many times, to become self-sufficient under difficult circumstances.

- *Many recipients will remain dependent.* They will require continued government assistance for the foreseeable future, and policies must reflect this possibility without encouraging it.
- *Welfare workers' attitudes must support the goal of self-sufficiency.* Without a committed staff, administrative monitoring cannot enforce work and participation requirements.
- *Earnings subsidies can encourage work, but 'making work pay' has proven much more expensive than the old welfare system.*
- *Earnings subsidies need to be properly structured, otherwise they almost inevitably create work and marriage disincentives.*
- *New family structures, especially non-marital births and cohabitation, need to be reflected in welfare policies.* Single mothers with low skills are unlikely to be financially self-sufficient, and their household arrangements often present social and economic opportunities as well as obstacles.
- *Immigrants often have different needs and abilities from traditional recipients.* They seem to be more responsive to language and skills training.
- *Effective education is probably the best anti-poverty strategy.* This truth is much easier to state than it is to accomplish, but that should not prevent us from understanding a major source of poverty.