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LaDonna A. Pavetti
Mathematica Policy Research, Inc.

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What Will the States Do When Jobs Are Not Plentiful?

Policy and Implementation Challenges

LaDonna A. Pavetti

Mathematica Policy Research, Inc.

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 ended the individual entitlement to welfare benefits under the 61-year-old Aid to Families with Dependent Children (AFDC) program and eliminated the companion welfare-to-work program, the Job Opportunities and Basic Skills (JOBS) training program created by the Family Support Act of 1988. PRWORA provides each state with a block grant to establish a Temporary Assistance for Needy Families (TANF) program.

In contrast to the AFDC program (which provided cash assistance for as long as needed) and to the JOBS program (which encouraged recipients to participate in long-term education and training programs), TANF provides short-term, work-oriented assistance to poor families with children. TANF recipients are required to work once they are job-ready or after receiving assistance for not more than 24 months (and less at state option), and persons are eligible to receive TANF assistance for only 60 months out of their lifetime. To ensure that state TANF programs emphasize work, PRWORA requires states to meet steadily increasing work participation rates to receive their full block grant.

WELFARE REFORM IN A ROBUST ECONOMY

Given that PRWORA mandates a work-oriented assistance system, the economic conditions under which states began their programs

could not have been better. In most areas of the country, welfare offices shifted to a work-based system during a time when jobs were plentiful. When PRWORA was signed into law in August 1996, the unemployment rate was just 5.2 percent, down from almost 7 percent four years earlier. By October 1998, the unemployment rate had declined even further, to 4.6 percent; for women over the age of 20, the unemployment rate was just 4.0 percent. Although unemployment rates remain higher for population groups who traditionally have had a harder time finding employment, unemployment rates have declined for these groups as well. For example, persons over the age of 25 years of age without a high school diploma currently face an unemployment rate of 6.8 percent, down from 8.5 percent in August 1996, and African Americans face an unemployment rate of 8.6 percent, down from 10.7 percent (Bureau of Labor Statistics 1998). There are, however, areas of the country that have not shared in the good fortunes of the current economic boom; for example, former coal mining regions in Kentucky and Virginia are currently experiencing unemployment rates of nearly 20 percent.

A strong, robust economy with low inflation rates and unprecedented policy and programmatic changes in the welfare system have resulted in significant declines in the number of families receiving cash assistance; between January 1993 and June 1998, that number declined by 39 percent, from 4.96 million to 3.03 million families. Sixteen states experienced at least a 50 percent reduction in the number of families receiving assistance. However, with caseload declines of 18 and 24 percent, respectively, California and New York (the states with the two largest caseloads) experienced significantly smaller caseload declines than most other states and the nation as a whole. Hawaii, the only state with an increased caseload, provided cash assistance to 38 percent more families in June 1998 than in January 1993 (Administration for Children and Families 1998).

As a result of the steep decline in AFDC/TANF caseloads, most states have been able to implement major work-based reforms in a resource-rich environment. A recent General Accounting Office study (U.S. General Accounting Office 1998) found that the amount of TANF funds available to states for 1997 was \$4.7 billion more than states would have had under the old AFDC formula. The median increase for states was 22 percent, with 46 states having more money

than they would have had under AFDC formula. Since the enactment of PRWORA, states also have achieved budgetary savings by reducing state expenditures on welfare programs to the 75 or 80 percent “maintenance of effort” (MOE) required by federal law. Even with the state budgetary savings, 21 states are spending more per recipient than they were prior to the implementation of TANF (U.S. General Accounting Office 1998).

On top of their TANF funding, over the next several years states and localities will have access to close to \$3 billion in additional funds from the Welfare-to-Work grants program (legislated in 1997) to implement work-based strategies for hard-to-employ welfare recipients. Some communities are using these funds to expand existing programs; others are using them to develop more intensive short-term training and/or supported work programs, or to provide existing and/or new services to underserved groups such as noncustodial fathers. Through the Child Care Development block grant, states also received additional funding to expand their child care programs for welfare recipients and/or for the working poor. Several states have used these additional funds to fully fund their child care program for welfare recipients and to eliminate or significantly reduce the waiting list for child care for working poor families.

Implementing work-oriented reforms in a resource-rich and job-rich environment has meant that states have been able to require the majority of TANF applicants or recipients to participate in work or work-related activities without developing long waiting lists, as was often the case under the JOBS program. Given the low unemployment rate, they have tended to rely on low-cost job search strategies while providing support services, especially child care and transportation assistance, to families who cannot afford to pay for these services on their own.

Now that caseloads have declined, many states have started to expand their welfare-to-work programs to help recipients retain jobs and advance to better jobs, instead of just focusing on getting recipients into jobs as they have in the past. For example, Rhode Island has implemented a statewide job retention unit to provide assistance to recipients who have been placed in employment and to employers who have hired recipients. Utah is providing training and paying for additional supervision for some welfare recipients who are placed in

unsubsidized employment. Because many families remaining on the TANF rolls are harder-to-employ, some states have started to experiment with ways to help families facing a broad array of personal and family challenges make the transition from welfare to work. Oregon, North Carolina, Maryland, and New Jersey have implemented programs to identify and refer recipients to substance abuse treatment programs. Washington, Kansas, and Minnesota are implementing programs to identify and provide services to recipients with learning disabilities. Because they have multiple barriers to employment, many of the families left on the welfare rolls are likely to require more resources to make the transition to employment than those who have already left the rolls. For now, the extra resources that states and localities have at their disposal have created an environment that is welcoming of new ideas and supports investment in promising (but not yet proven) strategies to help welfare recipients with limited attachment to the labor force become self-sufficient.

IMPLEMENTING WORK-BASED REFORMS WHEN JOBS ARE MORE SCARCE

When the economy changes and firms are laying off more workers than they are hiring, federal, state, and local decision makers and program operators will face a different set of policy and programmatic choices than they face in the current environment. Given PRWORA mandates and that widespread support exists for a work-based assistance system, it is unlikely that a downturn in the economy will result in a shift away from the current emphasis on employment. Thus, the major challenge decision makers will face is identifying options for maintaining a focus on work in an environment where unsubsidized employment is more difficult to find, where welfare entrances will increase and exits will decrease, and where financial resources no longer expand to meet the increased demand for assistance.

PRWORA gave states unprecedented authority to decide how they would use their fixed TANF funds to meet the income, employment, and support service needs of poor families with children. PRWORA does, however, provide broad programmatic guidelines that have

shaped the design of many state TANF programs and will affect states' ability to respond to an economic downturn. For example, PRWORA defines the activities that can count towards a state's work participation rate and specifies the number of hours a recipient must participate in allowable activities. PRWORA also set a lifetime limit on assistance and the fraction of a state's caseload that can be exempt from the time limit. As a result of the requirements PRWORA places on states, Congress and the federal government will have a major role to play in developing an appropriate response to an economic downturn, or states will face programmatic and financial difficulties.

Within PRWORA's framework, states and localities have implemented a variety of strategies to transform their cash assistance systems into systems that mandate and support work. Table 1 provides examples of the types of policies states have implemented. At the core of nearly all of these reform efforts are job search assistance and job placement programs, generally referred to as "Work First" programs. These programs range from independent job search programs (such as those implemented in Virginia, where recipients mostly are required to look for employment on their own and report regularly on their progress) to more structured group job search programs such as those implemented in Oregon and Nebraska (where recipients participate in structured job search activities such as how to complete an application, write a resume, and conduct themselves in a job interview). Even if different in their day-to-day operation, these programs share a common philosophy regarding work: any job is viewed as a good job, and program efforts are geared towards helping recipients enter the labor market as quickly as possible (Brown 1997; Holcomb et al. 1998).

In many states, the work expectations set forth through these programs have been reinforced with more stringent financial penalties for noncompliance (sanctions), more generous earned-income disregards that allow more recipients to continue to receive cash assistance while they are working, and time limits to create a new social contract that presents assistance recipients with a very different set of expectations and choices than they have faced in the past. While some states like California and Washington have relied primarily on incentives to encourage parents to enter the paid labor market, other states such as Wisconsin have relied more on penalties for not complying with work mandates. A number of states, like Massachusetts and Florida, have

Table 1 Examples of Key State Policy Choices under PRWORA¹

State	Work requirement	Penalty for noncompliance (sanction)	Most stringent time limit	Earnings disregard policy
Alabama	Immediate job search	Initial benefit reduction, followed by loss of all cash assistance	60 months, followed by termination of benefits	100% of earnings in first 3 months, then 20%
California	Immediate job search; unsubsidized employment required at 18 months	Benefit reduction	60 months, followed by reduction in benefits	\$225 and 50 percent of remainder
Colorado	Determined by individual counties	Initial benefit reduction followed by loss of all cash assistance	60 months, followed by termination of benefits	Varies by county
Florida	Immediate job search	Immediate loss of all cash assistance	48 months, followed by termination of benefits ²	\$200 and 50 percent of remainder
Massachusetts	Work or community service required within 60 days for families with a child over the age of 6; no job search or work requirement for other families	Initial benefit reduction followed by loss of all cash assistance	24 months out of 60, followed by termination of benefits	\$120 and 50% of remainder
Michigan	Immediate job search	Initial benefit reduction, followed by loss of all cash assistance	None	\$200 and 20% of remainder

Minnesota	Job search for 8 weeks, followed by assessment and a range of potential program activities, including short-term education or training	Initial benefit reduction, followed by loss of all cash assistance	60 months, followed by termination of benefits	36%
Mississippi	Immediate job search	Immediate loss of all cash assistance	60 months, followed by termination of benefits	100% for first 6 months if full-time employment is obtained within 30 days after job search is required; otherwise \$90
New Jersey	Immediate job search, followed by various work readiness activities	Initial benefit reduction, followed by loss of all cash assistance	60 months, followed by termination of benefits	100% for first month, then 50 percent
New York	Determined by counties; immediate job search and community work experience are common	Benefit reduction	60 months, followed by reduction in benefits ³	\$90 and 42% of remainder
Texas	Job search immediately	Benefit reduction	60 months, followed by termination of benefits	\$120 and 1/3 of remainder for four months; \$120 for eight months; then \$90
Washington	Job search or other work activities after assessment and development of an Individual Responsibility Plan	Benefit reduction	60 months followed by termination of benefits	50%

(continued)

Table 1 (continued)

State	Work requirement	Penalty for noncompliance (sanction)	Most stringent time limit	Earnings disregard policy
Wisconsin	Work or community service required immediately	Benefit reduction or loss of all cash assistance ⁴	60 months followed by termination of benefits.	No disregards

Source: Gallagher et al. 1998.

¹ Information is presented for the 13 states that are a part of the Urban Institute's "Assessing the New Federalism" project, a multi-year project designed to examine state choices and outcomes associated with the implementation of PRWORA.

² In addition to the 48-month lifetime limit, Florida also has a 24-out-of-48-month time limit for job-ready recipients and a time limit of 36 out of 72 months for long-term recipients with poor job skills and little work experience.

³ In addition to benefits being reduced, payments are provided in the form of vendor payments to cover the family's major expenses such as rent or utilities.

⁴ Wisconsin uses a "pay for performance" system of determining benefits. If a recipient works some, but not all of the required hours, their grant is reduced by the minimum wage for every hour not worked. If a recipient does not work any of the required hours, they do not receive any of their cash assistance.

combined incentives and penalties. With a few exceptions, most states have imposed lifetime limits on the number of months families can receive TANF assistance. These limits have created a sense of urgency not found in previous welfare-to-work programs.

When the economy weakens, decision makers and program operators are likely to face five key challenges: 1) reallocating program expenditures to account for larger assistance caseloads; 2) reassessing what constitutes work participation and for whom participation is required; 3) identifying strategies for continuing to provide work incentives and work supports when resources are limited; 4) reassessing time limits to take into account the more limited availability of jobs; and 5) maintaining a focus on strategies to help the hardest-to-employ find jobs and to help recipients keep their jobs longer and move into better jobs. Politics, fiscal realities, programmatic goals, and administrative capacity all are likely to influence the way in which states and localities resolve these challenges.

Reallocating Program Expenditures to Account for Larger Assistance Caseloads

States have had additional resources to spend on welfare-to-work activities and supportive services for welfare recipients because they are spending less money providing cash assistance to families. When jobs are not as readily available as they are now, caseloads are likely to begin to increase. It is possible that cash assistance caseloads will not increase to their previously high levels. Nonetheless, because welfare-to-work program activities and support services are now essential components of state TANF programs, for the first time states will be forced to weigh the tradeoffs between allocating resources to cash grants and other services that help parents to find and maintain work.

Although states and localities now have the authority to deny cash assistance to families seeking assistance if expenditures for cash benefits begin to exceed budget allocations, there are no indications that states will pursue this course of action. Even though PRWORA ended the entitlement to cash assistance, states have continued to treat the receipt of TANF benefits as an entitlement; that is, all families who apply for assistance and meet the eligibility criteria (including any work requirements) receive cash assistance.

Some states, however, have tightened the eligibility requirements, resulting in a smaller pool of eligible families. For example, Idaho's caseload declined by 77 percent between January 1997 and June 1998, primarily because the state began to count income from the Supplemental Security Income (SSI) program when determining eligibility for TANF cash assistance. Most states that have tightened eligibility requirements have done so by imposing work-related requirements on families when they apply for assistance. For example, 16 states require parents to look for work before their application for assistance is approved (Maloy et al. 1998). If caseloads begin to increase rapidly during a recession, other states may begin to include additional sources of income when determining eligibility. However, states may be less inclined to impose work requirements as a condition of eligibility since fewer applicants are likely to find jobs and more families are likely to turn to the welfare system because they have just lost a job.

Because TANF funding is fixed, if states continue to maintain the entitlement to cash assistance and caseloads begin to increase, states are likely to begin to look for "non-essential" services that can be reduced or eliminated in order to meet the cost of providing cash assistance to a larger number of families. In addition, states that have shifted primary responsibility for the design and implementation of TANF programs to county governments or other local entities are likely to face difficult decisions about how to allocate limited resources to local entities with very different needs and priorities. To further complicate the situation, states are likely to be making these decisions at the same time they are required to place large numbers of their TANF caseloads in acceptable work activities. This complex set of circumstances is likely to result in a search for new and cheaper alternatives for maintaining a focus on work.

Reassessing What Constitutes Work Participation and for Whom It is Required

Several key features that have distinguished current welfare-to-work programs from their predecessors are likely to form the basis of discussions about how to maintain an emphasis on work when fewer jobs are available and resources are more limited than they are now. Chief among those features are the emphasis on job search and other

work activities, the expansion of work participation requirements to the majority of welfare recipients, and the emphasis on personal responsibility. All of these issues are likely to be revisited if the economy weakens. However, given that states have approached welfare reform differently, the extent to which each of these issues is revisited is likely to vary from state to state.

PRWORA is explicit in its definition of what constitutes participation in work activities. In contrast to the former JOBS program that emphasized placement in long-term education and training activities, the allowable activities under TANF are much more directly oriented toward work. Activities that can count toward a state's work participation rate include: 1) unsubsidized or subsidized private or public sector employment; 2) on-the-job training; 3) work experience; 4) job search and job readiness assistance for up to six weeks; 5) community service programs; 6) provision of child care services to an individual participating in a community services program; and 7) vocational educational training (limited to 12 months for any individual and to 30 percent of those required to participate).

Under the JOBS program, only a small fraction of the AFDC caseload (less than 10 percent) was mandated to participate in program activities, primarily because all families with children aged three and younger were exempt from participation. In addition, due to limited resources, many parents who were required to participate spent long periods of time on waiting lists and never actually participated in program activities.

Under TANF, mandatory program participation has been extended to a substantially larger share of the TANF caseload. PRWORA gives states the option to exempt parents from participating in work activities if their youngest child is under the age of one. Only five states have chosen to exempt families caring for a child over the age of one year from their work participation requirements;¹ 22 states require parents with children under a year to participate in program activities. In 1997, among the 39 states for which data is currently available, 61.5 percent of TANF adults were subject to the TANF participation rates (Administration for Children and Families 1998).

Over time, as Table 2 shows, the share of the caseload required to participate in program activities and the intensity of participation increases. In FY 1997, states were required to have 25 percent of all

Table 2 Annual Work Participation Requirements

Fiscal year	All families		Two-parent families	
	Participation rate (%)	Hours of work required per week to count toward rate	Participation rate (%)	Hours of work required per week to count toward rate
1997	25	20	75	35
1998	30	20	75	35
1999	35	25	90	35
2000	40	30	90	35
2001	45	30	90	35
2002	50	30	90	35

families participating in work activities for a minimum of 20 hours per week; by FY 2002 the participation requirements increase to 50 percent of the caseload participating in work activities for a minimum of 30 hours per week. States also are required to meet significantly higher two-parent participation rates.

Underlying the shift to a mandatory work-based assistance is the belief that it is reasonable to require families to meet a set of expectations in exchange for government assistance. Given the time and energy local offices have invested in changing recipient and worker expectations, states and localities are likely to be quite reluctant to shift away from an emphasis on work and personal responsibility, even in an economic downturn when fewer jobs are available. Instead, states and localities will be faced with a difficult set of choices around how and whether to redefine what constitutes program participation, how to expand community work experience and subsidized work opportunities, and whether to reduce the pool of recipients required to participate in program activities. The experiences of states to date provide some indication of the magnitude of this challenge.

The strength of the economy has made it possible for many states to meet their work participation requirements for all families primarily through a “pro rata reduction” in the participation rate to account for the decline in a state’s caseload, unsubsidized employment, and participation in job search. Participation in other work activities such as sub-

sidized employment or community work experience has been less common.

The data presented in Table 3 illustrate the importance of the pro rata reduction and the extent to which states have been able to rely on the strength of the economy to meet the TANF work participation rates. Because of its significant caseload decline, Wisconsin was only required to have 8 percent of its TANF caseload that is subject to the TANF work participation requirement participating in work activities; with 53 percent of families participating in work activities, Wisconsin far exceeded the participation rate for FY 1997. The majority of families in Wisconsin worked in unsubsidized jobs or participated in job search, although a sizable number also participated in work experience. Although California met its work participation requirement, it did so only by a small margin. Unlike Wisconsin, California primarily met its work participation targets through unsubsidized unemployment; only a small fraction of parents met the participation requirement by participating in job search, and an even smaller fraction met the requirement by participating in subsidized employment, on-the-job training, work experience, or community service.

Even during an economic downturn, job search programs are likely to remain at the core of state efforts to help welfare recipients find jobs. Although it is likely to take many recipients longer than the six weeks currently allowed under PRWORA to find employment, a substantially higher unemployment rate will not mean that such programs will need to come to a halt. Although few new jobs may be created during an economic downturn, normal job turnover, especially in low-wage jobs, will continue to produce job openings for welfare recipients to fill. In fact, it is easy to imagine a scenario in which welfare recipients, with better access to job search assistance and job developers who have cultivated relationships with employers, may have an easier time finding employment than other low-skilled, unemployed persons who are left completely on their own to find employment in a slack labor market.

Even if job search remains the core of state and local welfare-to-work efforts, when fewer jobs are available, there is likely to be a greater need for alternative work-related activities such as community work experience or subsidized employment programs. A comparison of two localities in Virginia with dramatically different labor markets illustrates this point. In Virginia, TANF recipients with a child 18 months or older

Table 3 TANF Work Participation for All Families, Fiscal Year 1997

	Adjusted work participation standard ^a (%)	State participation rate 1997 (%)	Adults participating in selected program activities ^b (%)		
			Unsubsidized employment	Job search	Subsidized employment, work experience, on-the-job training, or community service
Alabama	17.1	42.3	67.7	22.9	9.3
California	19.5	20.6	94.7	1.9	0.9
Colorado			Data not available		
Florida	16.4	28.4	75.7	12.7	7.3
Massachusetts	12.6	31.5	38.6	8.8	25.5
Michigan	13.3	41.1	86.2	13.0	3.0
Minnesota			Data not available		
Mississippi	16.3	17.2	62.6	13.1	25.8
New Jersey	16.9	20.7	34.3	11.7	54.3
New York	19.6	27.9	39.2	13.6	43.3
Texas	14.6	19.4	42.7	36.1	20.6
Washington	22.0	24.0	63.3	22.4	14.3
Wisconsin	8.0	52.8	59.4	52.3	30.1

SOURCE: Administration for Children and Families 1998.

^a The adjusted work participation rate takes into account the “pro rata reduction” that the state received due to the decline in its TANF caseload.

^b Recipients may be participating in more than one activity; thus, the data presented here reflects a duplicated count of participants.

are required to look for work for 90 days and then work for pay or participate in a Community Work Experience Program (CWEP) where they “work off” their grant. Recipients who work for pay can continue to receive their full cash assistance grant as long as their income remains below the poverty line, creating an unambiguous incentive for anyone who can work for pay to do so. A year after Lynchburg—a community of 66,000 people with an unemployment rate of 3.3 percent in 1995—implemented welfare reform, 54 percent of the parents enrolled in the locality’s welfare-to-work program had found full-time work and 14 percent part-time work; only 7 percent had participated in CWEP. In stark contrast, a year after Wise County—a rural community of 40,000 people with an unemployment rate of 17 percent in 1995—implemented welfare reform, 27 percent of parents had found full-time work, 24 percent had found part-time work, and 26 percent had participated in CWEP.

Because states have been successful at placing recipients in unsubsidized jobs, only a few states have developed alternative work activities for recipients who have not found employment. Oregon, Massachusetts, Mississippi, Vermont, and Washington have developed subsidized employment programs where TANF grants are used to reimburse employers for recipients’ wages; however, all of these programs are quite small. New York City is the only locality that operates a large CWEP program. Most recipients who participate in the program work alongside city workers, cleaning parks or helping with clerical tasks such as filing; some also work for nonprofit organizations. Because these programs have been used so little, few states or localities will have an infrastructure in place that will facilitate the placement of large numbers of recipients in alternative work activities when it becomes more difficult to place recipients in unsubsidized jobs.

The experience of states with subsidized employment and community work experience programs is one of implementation difficulties, even on a small scale (Holcomb et al. 1998). It is often difficult to recruit employers to participate in subsidized employment programs, especially if substantial paperwork is required. Community work experience programs are somewhat easier to implement because recipients continue to receive their TANF grant. However, CWEP placements often pose a significant management challenge, especially if

placements are limited in duration and the recipients placed in the program face substantial barriers.

The data in Table 4 suggest that if caseloads stayed at their current level, many states would have to substantially increase the number of parents participating in work activities to meet the 50 percent work participation standard that will be expected in FY 2002. California, for example, would need to more than double its current participation rate. There are, however, states such as Alabama, Michigan, and Wisconsin that could meet the FY 2002 work participation standard with their current level of participation in work activities. Because the high participation rates in these states reflect large numbers of parents who are working in unsubsidized employment, when fewer jobs are available these states may find themselves facing very similar issues as states that currently have lower participation rates.

Table 4 Hypothetical TANF Work Participation in Fiscal Year 2002

	Adjusted work participation standard FY 2002 ^a (%)	Participation rate achieved FY 1997 (%)	Additional participation needed to meet 2002 standard ^b (percentage points)
Alabama	42.1	42.3	0
California	44.5	20.6	23.9
Colorado	Data not available		
Florida	41.4	28.4	13.0
Massachusetts	37.6	31.5	6.1
Michigan	38.3	41.1	0
Minnesota	Data not available		
Mississippi	41.3	17.2	24.1
New Jersey	41.9	20.7	16.9
New York	44.6	27.9	16.7
Texas	39.6	19.4	20.2
Washington	47.0	24.0	23.0
Wisconsin	33.0	52.8	0

^a The FY 2002 adjusted work participation standard assumes the TANF caseload remains at its current level. To reflect the increase in the work participation rate, this adjusted rate is 25 percentage points higher than the FY 1997 adjusted standard.

^b The increase in participation is obtained by subtracting the FY 2002 adjusted work participation standard from the 1997 state participation rate.

Implementing large-scale employment programs when financial resources are tight and work participation rates are increasing is likely to pose significant challenges—and may, in fact, be impossible. Job search programs are low cost because services can be provided in a large group setting with limited individualized assistance. Because subsidized employment or community work experience programs require more attention to individual circumstances and needs, they will cost substantially more than the job search programs most localities are currently operating. A lower-cost alternative would be to require recipients to participate in less-structured community activities that they arrange on their own. Michigan operated such a program as the first stage of reforming its welfare system. Recipients were required to sign a “social contract” in which they agreed to participate in activities that made a positive contribution to the communities in which they lived. Participating on a resident council of a public housing development, volunteering at Head Start or a child’s school, or volunteering at one’s church are examples of the kinds of activities that could count toward a recipient’s social contract obligation. Recipients were required to submit a form indicating they had completed their social contract activities, but only minimal enforcement and monitoring occurred (Pavetti, Holcomb, and Duke 1995).

Without some type of backup program requirement such as Michigan’s social contract in place, states may have a difficult time emphasizing work, at least to the degree that it is currently emphasized. Localities that are currently operating alternative work programs, even if on a small scale, are likely to face far fewer challenges when jobs are much less available than those states and localities that have no knowledge of what it takes to operate such programs. Nonetheless, they too will face significant issues operating programs that are substantially larger than those currently in place.

Currently, states can place 30 percent of those required to participate in work activities (i.e., 30 percent of 25 percent in FY 1997, or 7.5 percent) in education or vocational education programs. Relaxing this constraint to allow more parents to participate in these activities would provide states with additional program alternatives for recipients who are unsuccessful at finding employment. Expanding the definition of activities to include more traditional education programs (such as adult basic education or GED preparation programs) would increase these

options even further. The advantage of allowing education and training programs to count as allowable program activities is that these programs exist in most local communities and can often expand in a relatively short time to meet excess demand.

At the federal level, and in many states, the current emphasis on work was hard-won, and there is likely to be substantial resistance to broadening the definition of work activities to include additional educational activities or increasing the fraction of recipients who can participate in vocational training programs. States already approach education and training quite differently. Those that currently view education or training as an acceptable program activity are more likely to support making education and training available to more of the caseload during a recession. Illinois has recently proposed extending the time limit for recipients who want to further their education. In Nebraska, education or training is an acceptable program activity as long as it can be completed within the state's 24-month time limit. However, in Virginia, participation in an education or training program is only permitted if it is combined with work. In the end, the decision on whether such expansions are appropriate even when jobs are not available is likely to be influenced by fiscal realities. To the extent that welfare offices can rely on educational programs that already exist in local communities, these programs may be substantially cheaper than developing new alternatives.

Instead of redefining what constitutes work participation or expanding expensive subsidized employment or community service programs, it is possible that Congress and the states would opt to reduce the pool of recipients required to participate in work activities. The 22 states that require parents with children under the age of one to participate in program activities could decrease the pool of recipients required to participate in work activities without changes in federal law. However, changes in federal law would be required to exempt families with children over the age of one. Especially in states where the emphasis on work over education and training is especially strong, reducing the pool of persons required to work may be more feasible politically than changing the definition of what constitutes work.

Continuing to Provide Work Incentives and Work Supports

Work incentives in the form of earned income disregards and work supports such as child care and transportation have been an important component of state efforts to reform the welfare system. They have provided recipients with an incentive to go to work and TANF workers with a tool to reward recipients in their efforts to find work. Although recent research shows that, when combined with other program components such as sanctions or time limits, work incentives result in higher levels of employment and higher income (Miller et al. 1997; Bloom et al. 1998), it may be difficult to maintain these investments when there is more competition for a fixed set of financial resources. Although the fraction of the caseload that combines work and welfare is larger than it was prior to the expansion of earned income disregard policies, working recipients still account for a minority of TANF recipients. Between July and September 1997, 18 percent of the total TANF caseload was working. The variation from state to state was substantial: only 3 percent of recipients were working in Texas compared with 47 percent in Connecticut. As suggested by Wise County's experience, in a slack labor market it is possible that more families will only be able to find part-time work, resulting in an increase in the number of families who combine welfare and work. If this occurs, there may be pressure to control the costs of offering this additional assistance to working families. On the other hand, working recipients could help a state meet their work participation rates; the cost of providing partial grants to more recipients might be cheaper than implementing and managing large-scale subsidized work or CWEP programs.

The reduction in TANF caseloads has allowed many states to shift financial resources from providing cash grants to families to programs that help families pay for child care and transportation. Under the JOBS program, limited funds for these supportive services often resulted in long waiting lists. Even when families could identify education or training programs in the community in which they could participate at little or no cost, limited funds for child care often made it impossible for them to do. We are likely to see similar situations occurring if caseloads begin to increase, although it will occur in a more complex environment. Some states have used a portion of their TANF funds and their additional child care dollars to eliminate waiting

lists for child care for working poor families. If more families begin to receive cash assistance and are required to participate in program activities almost full-time, child care resources will undoubtedly be stretched. Because child care is no longer an entitlement for cash assistance participants, families receiving cash assistance and working poor families will be likely to find themselves in direct competition for the same child care dollars.

Reassessing Time Limits

Although it is impossible to predict when we might begin to see a downturn in the economy, it is likely to occur around the same time that time limits begin to kick in and high work participation rates are in effect. Although there is reason to be concerned about what will happen when time limits hit, many states have implemented extension policies that will provide them with procedures to address the situations of recipients who have looked for work but have been unable to find it. Virginia, for example, provides unlimited extensions to families who hit the time limit in areas with high unemployment rates. Some states with extension policies in place have already made widespread use of those extensions for families who have played by the rules (Bloom et al. 1998), which may set the tone for other states to do so as well.

If the economy weakens and remains weak for an extended period of time, there may be a need to examine the possibility of allowing for extensions to the federal time limit and/or increasing the fraction of the caseload who can be exempted from the time limit. Currently, PRWORA allows states to exempt 20 percent of their caseload from the 60-month lifetime time limit, meaning that 20 percent of a state's caseload can receive benefits for more than 60 months. It is up to states to decide who will be exempted from the time limit. Although PRWORA does not make a distinction between extensions and exemptions, states do make this distinction. Parents exempted from the time limit are parents who are not expected to meet the state's work requirements. Common exemptions include advanced age and a parent who is disabled or caring for a disabled child. Extensions to the time limit are generally granted to parents who are expected to work but have been unable to find work. Even if the 20 percent exemption ends up being sufficient to cover the number of families who are not expected

to work, it is unlikely to be sufficient to cover the additional needs of families who can work but can't find jobs.

Due to the extremely strong emphasis on work and personal responsibility, it is possible that gaining political consensus to extend time limits may be less difficult than gaining consensus to expand the definition of what constitutes participation in work activities. In most states, time limits have been implemented in conjunction with full family sanctions. This means that if policies are implemented as they are intended, the only families that will be affected by time limits are families that have played by the rules and have been unable to make it on their own. Families that do not play by the rules will have lost their benefits due to sanctions long before time limits hit. While there may be some opposition to extending time limits when jobs are not available (and especially when resources are limited), time limits may be less of an issue during an economic downturn than we might initially anticipate, especially if states are able to continue to mandate participation in work activities for families who have exhausted their time limit.

It is too early to have learned very much about how time limits have affected the behavior of recipients. However, early implementation analyses suggest that time limits have created a sense of urgency in local welfare offices and local communities that did not exist prior to welfare reform (Bloom and Butler 1995; Holcomb et al. 1998). One dilemma decision makers will face when jobs are not available is how to extend time limits for families who are unable to find employment while maintaining the sense of urgency that time limits have created. That sense of urgency has brought many communities together to identify opportunities for collaboration and to create common program goals, building on each organization's strengths to provide welfare recipients with the resources they need to succeed on their own. If time limits are relaxed and the sense of urgency is reduced, it is unclear whether community-based reform efforts will have garnered sufficient momentum to continue. It is interesting to note that in Wise County, Virginia, where recipients who exhaust their time limit will be eligible for benefits for an extended period of time because of the high unemployment rate, the community has banded together to bring jobs to the area and to create opportunities for recipients to work in CWEP positions that might lead to future employment. The sense of urgency that

exists in the county mirrors that found in other counties with significantly lower unemployment rates.

Maintaining a Focus on Job Retention, Job Advancement, and Strategies for the Hard-to-Employ

Concerns about long-term welfare dependency provided the catalyst to dramatically alter the purpose and structure of providing cash assistance as an entitlement. In spite of this focus on reducing long-term welfare dependency, most state and local efforts have emphasized reductions in caseload, not distinguishing which types of welfare recipients were leaving the welfare rolls. To increase work among welfare recipients, most states have focused on strategies that have worked for recipients with moderate, but not more severe, barriers to employment. Many of these recipients probably would have had relatively short stays on welfare without any assistance or prodding. Those in the midst of long stays on welfare are most likely to still be on the welfare rolls today.

Now that caseloads have declined and states have more financial resources per recipient available, many states have turned their attention to strategies to help the hardest-to-employ, many of whom are long-term welfare recipients. Some states are working on integrating substance abuse treatment into their welfare-to-work programs by co-locating substance abuse professionals on site; others are trying to identify recipients with learning disabilities and provide accommodations such as specialized testing or job coaches for them; others are developing supported work programs, building on programs developed for persons with developmental disabilities or chronic mental health problems. Except in a few isolated programs, these strategies were not part of earlier welfare-to-work efforts.

Prior to the current round of reform, many hard-to-employ recipients were exempt from participating in welfare-to-work activities; others who were not exempt languished in a holding status because TANF workers had neither the time nor the resources to work with them. The current resource-rich environment provides states and localities with an unprecedented opportunity to identify promising strategies for working with this group of families. A downturn in the economy has the potential to stall or significantly reduce these efforts. We know lit-

tle about what strategies might work best for this group of families; in times of competition for scarce resources, states will be far less likely to invest in strategies that do not have a proven track record than they are in the current environment.

Similarly, the decline in caseloads has allowed states to begin to think about longer-term strategies for helping welfare recipients stay employed longer and move into better paying jobs. If resources become strained, these efforts are likely to be perceived as luxuries rather than necessities. Thus, like efforts to find promising strategies for the hard-to-employ, these efforts are likely to be halted if the economy weakens.

FACTORS AFFECTING THE MAGNITUDE OF THE POLICY AND IMPLEMENTATION CHALLENGES

Many factors will undoubtedly affect how policymakers and program administrators respond to a change in the economy. Two factors stand out as especially important: the extent to which caseloads increase when the unemployment rate begins to climb and the extent to which states and localities have created a stable infrastructure to support their current reform efforts.

How Much and How Fast Caseloads Increase

The magnitude of the problems states will face in maintaining a focus on work will largely depend on how much and how fast caseloads rise. The more caseloads rise, the fewer resources states will have for providing alternative work or training activities for families unable to find employment in the paid labor market, for providing earned income disregards and work supports, and for maintaining their current efforts to promote job retention and identify strategies for the hardest-to-employ. Although research based on historical data suggests that caseloads will rise substantially when the unemployment rate rises, there are several reasons why these models may overestimate caseload increases in the current policy environment.

First, if a substantial fraction of recipients have left welfare for work and the economy continues to stay strong for awhile, we should expect some families who lose their jobs during an economic downturn to qualify for unemployment insurance. Only after an extended period of unemployment should these families need to turn to the welfare system for support. While it is too early to tell how many families may fall into this category, as more employment data becomes available for recipients who have left the welfare rolls, it should be possible to estimate the fraction of recipients who appear to meet the eligibility criteria for unemployment insurance and will not immediately need to turn to the welfare system for support. However, in a recession, many workers exhaust their unemployment insurance benefits. This will be more of a problem if the recession is deep and long.

Second, assuming states continue to mandate participation in employment-related activities and impose full family sanctions, families who are unwilling or unable to comply with these requirements will continue to be ineligible for benefits. Although there is no research that examines how much full family sanctions or noncompliance with applicant job search requirements have contributed to the decline in the AFDC/TANF caseload, the large number of families sanctioned would suggest they have played a nontrivial role. If work requirements become less stringent or are expanded to allow broader participation in education and training activities, it is possible that some families who previously failed to comply with work requirements may return to the welfare rolls. In addition, if sanctioned families are now relying on family and friends who fall on hard times, they are likely to return to the welfare system if no other alternatives are available to them.

Third, with a more stringent work mandate in place, more recipients may find work in an economic downturn than would have prior to the implementation of such mandates. That is not to say that recipients will not find it very difficult to find employment. However, if recipients are required to look for work even in times of high unemployment, the speed with which and rate at which families leave welfare for work should be higher than they would have been during earlier years with similarly high unemployment rates when such mandates were not in place. Again, Wise County is a case in point. Although Wise County's caseload has not declined as fast as the state as a whole (40.2 percent),

between June 1995 and April 1998 the county's caseload declined by 18.5 percent.

The Stability of the New Welfare Infrastructure

States and localities are all at different stages of shifting to a work-based assistance system. While some states started to implement major reforms only recently, others implemented major reforms long before welfare reform passed at the federal level. States and localities that have a longer history of implementation will not be immune to the policy and implementation issues that all states and localities will face during an economic downturn. However, they are likely to be in a better position to develop alternative program strategies and to redeploy staff resources. Organizations that are still in flux and have not yet developed a new, stable infrastructure to accommodate a focus on work will face an especially difficult time in responding to a downturn in the economy. Change takes time and is difficult for most staff, even when they believe the changes are positive. Implementing new changes before the first changes take hold could prove to be a disaster for local offices that are still trying to create an environment that promotes and supports work.

If TANF caseloads increase, food stamp and Medicaid caseloads will undoubtedly increase as well. While states have dealt with increases in these programs in the past, the environment in which these programs are currently operating has changed to accommodate the implementation of a work-based assistance system for families with children. To provide TANF program workers with reduced caseloads that make it feasible for them to focus on work-related and eligibility activities, many offices have increased the caseloads of workers who work with food stamp and Medicaid recipients not receiving TANF benefits, making it far more difficult for the latter workers to increase their caseloads any further.

Although states with lower caseload declines are likely to have a more difficult time meeting work participation rates in the short term, their current experiences may put them in a better position to adjust to a downturn in the economy. The strategies they are implementing are less likely to rely on the availability of the "extra" resources that states with very large caseload declines have available. In addition, they are

more likely to have (or be putting into place) strategies that will help them to meet the work participation rates, without the advantage of an extremely large caseload reduction credit. For example, Kentucky and New York primarily have met their work participation requirements through actual participation rather than caseload reduction credits. New York operates a large community work experience program; Kentucky makes extensive use of vocational education and work experience in addition to unsubsidized employment.

CONCLUSION

A downturn in the economy is inevitable; at some point, policy-makers at the federal, state, and local levels will be faced with decisions about how to sustain a work-based assistance system when jobs are less readily available. While it seems unlikely that policymakers or program operators would shift away from a focus on work, it may be necessary to broaden the definition of what constitutes participation in a work activity. Such a definition might include more liberal use of vocational education or training programs and might also include active participation in community activities such as volunteering in a child's school. The other alternative will be to develop more alternative program activities such as community work experience or public service employment programs, but these programs often are costly to operate. With a fixed level of funding, states and localities will be faced with difficult choices about how to balance competing interests and program goals. Although it is impossible to fully prepare for an economic downturn, the choices states and localities make now will significantly affect the issues they will face when jobs are not as readily available as they are now. Given the range of choices available to them about how to spend their TANF and Welfare-to-Work dollars, it is probably in every state's interest to begin, even if on a small scale, the development of a community service, work experience, and/or subsidized employment program now while the economy is still strong. Developing the infrastructure for such a program in a resource-rich environment is likely to be far less daunting than it will be when resources are tight and employment opportunities are limited. States

and localities have made significant progress in shifting to work-based assistance; nonetheless, welfare reform remains a work in progress. The ability to weather an economic downturn will be an important test of whether it is possible—and what it takes—to sustain an employment-focused assistance over the long term.

Note

1. Although states can choose to exempt families with a child over the age of one from participating in work activities, these families are included in the state's base of families who are subject to a work requirement for purposes of calculating a state's work participation rate.

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