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Welfare to Work in the U.S.: A Model for Other Nations?

Robert Haveman
Department of Economics
La Follette Institute of Public Affairs
Institute for Research on Poverty
University of Wisconsin–Madison
E-mail: rhaveman@facstaff.wisc.edu

Barbara Wolfe
Department of Economics
Preventive Medicine
Institute for Research on Poverty
University of Wisconsin–Madison
E-mail: bwolfe@facstaff.wisc.edu

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Abstract

The 1996 welfare reform legislation establishing the Temporary Assistance for Needy Families (TANF) program marks a significant change in U.S. social and economic policy. This legislation represents the ascendance of the view that individuals and families need to be self-reliant and that collective support for individual well-being should be minimized. We first describe the major provisions of TANF, providing some background on its differences from prior policy targeted at needy families. Then we catalogue the wide variety of economic changes that are implicit in the new law, stressing those related to changed property rights, fiscal relations among jurisdictions, and economic incentives facing families. Third, we illustrate the form of state reforms that are likely to develop in response to the federal policy change by describing the actions of the state of Wisconsin, which has taken the lead in implementing the new policy. We conclude with a list of yet unanswered questions that will ultimately determine just how far this policy change will slide the nation along the efficiency-equity tradeoff function, away from the equity axis. The answer to these questions will influence the attraction the U.S. reform might hold as a model for other nations concerned with their own safety net programs for poor people.

Welfare to Work in the U.S.: A Model for Other Nations?

I. INTRODUCTION

In August 1996, the Temporary Assistance for Needy Families (TANF) program became law in the United States; it marks a significant date in the annals of U.S. social and economic policy.[1] This law represents the ascendance of the view that individuals and families need to be self-reliant and that collective support for individual well-being should be minimized. It produced a variety of outcomes that few laws ever contemplate, including:

- elimination of the right to financial support when destitute;
- a realignment of fiscal responsibilities and regulatory functions among national, state, and local units of the nation's federal system;
- alteration of numerous economic incentives facing both low-income families (including incentives regarding labor supply, family structure, childbearing, and migration) and states (including those for expenditures on social and work-enhancing programs);
- a sizable shock to the nation's low-wage labor market; and
- creation of a new and less supportive collective culture with which today's and tomorrow's poor families will have to cope.

We first describe the major provisions of TANF, providing some background on its differences from prior policy targeted at needy families. Then we catalogue the wide variety of economic changes implicit in the new law, stressing those related to changed property rights, fiscal relations among jurisdictions, and economic incentives facing families. Third, we illustrate the form of state reforms that are likely to develop in response to the federal policy change by describing the actions of one state that has taken the lead in implementing the new policy. We conclude with a list of yet unanswered questions

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[1]TANF, the centerpiece of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), constitutes the block grant replacing the nation's prior welfare program, Aid to Families with Dependent Children.

that will ultimately determine just how far this policy change will slide the nation along the efficiency-equity tradeoff function, away from the equity axis.

II. PRE-TANF SOCIAL POLICY

The system of social assistance to low-income families in place before TANF was one that everybody loved to hate. To understand the change brought about by the 1996 welfare reform legislation, it is necessary to understand what it replaced. The core of pre-TANF assistance policy consisted of four different programs. These programs were targeted at nondisabled working-age people living in poor families, especially those families with children. These four legs of the social assistance stool were installed at different points in time, with different objectives and administrative arrangements, and were awkwardly integrated with each other.

The central leg of the stool was the *Aid to Families with Dependent Children* (AFDC) program, providing cash assistance to poor families with children headed by a single parent or guardian. A federal government program, it was established in 1935 to provide funds to states to aid needy children who "have been deprived of parental support or care." At the time AFDC became law, nearly all of these children lived with mothers who were either widowed or deserted. The bulk of the financing came from the national government, which also imposed regulations on states regarding income and asset limits for determining who was eligible for support and rates at which benefits would fall as earned income rose. States were left to administer the program and to set benefit levels; they also had to share the cost of their programs according to a matching rate that varied inversely with state per capita income. On average, about 55 percent of costs were borne by federal taxpayers; state shares ranged from about 20 to 50 percent of the total.

To obtain AFDC support, needy families had to apply in person to a local office run on behalf of the state, provide a wealth of detailed information on family arrangements and available resources, and

document that no second adult capable of providing cash support and legally responsible for the children resided in the family.

At its peak in 1994, AFDC provided cash income support conditioned on family size to about 14 million people in 5.1 million families, or about 5.5 percent of the nation's population, up from about 7.4 million people (or 3.6 percent of the population) in 1970.[2] Over the past two decades, up to 80 percent of the nation's children who lived in officially defined poor families were assisted, although because of increasingly restrictive eligibility requirements this had decreased to about 60 percent by 1994. Support allowances varied enormously across the states; in 1995, for example, benefits for a family of four ranged from $740 per month in Connecticut to less than $150 per month in Mississippi. Average benefits had eroded over time from $704 per month in 1970 (1995 dollars) to $377 in 1995.

Table 1 (column 1) presents the trends in real AFDC expenditures on nondisabled working-age families from 1970 until 1995. Because of the decline in monthly benefits, total spending on AFDC remained nearly constant from 1975 to 1995 (1995 dollars) in spite of the rapid increase in beneficiaries. In 1980, AFDC was the largest of the support programs assisting nondisabled working-age families, accounting for 37 percent of total expenditures targeted at this population, as shown in the table. By 1995, AFDC accounted for only about 22 percent of total spending.

The second element in the pre-TANF system was and is the *Food Stamp* program, which was started by the federal government as a food relief program in the 1960s. In 1975, it became a nationwide program of food vouchers (booklets, varying in amount, that the holder can redeem at authorized food stores). The cost of the vouchers is borne by the federal government, but local offices administering the AFDC program assign booklets and determine their amounts.[3] In 1995, the average recipient family of

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[2]In August 1996, as PRWORA and TANF were passed, the number of families on AFDC had declined significantly to 4.4 million (see Figure 1).

[3]While Food Stamps are available to all needy families and vary positively with family size, states can and do mandate some form of work effort.

TABLE 1
Public Transfer Program Expenditures Allocated to Nondisabled Working-Age Families
(billions of 1995$)

	AFDC	Food Stamps[a]	Medicaid[b]	Earned Income Tax Credit	TOTAL	TOTAL as a Percentage of GDP
1970	16.4	4.9 (1973)	7.1	NA	NA	NA
1975	23.8	9.7	13.3	3.4	50.2	1.2
1980	21.8	12.5	14.4	3.7	52.4	1.0
1985	20.7	12.9	14.2	3.0	50.8	.9
1988	21.6	12.4	16.6	7.6	58.2	.9
1990	21.8	14.0	21.8	8.0	65.6	1.0
1992	24.2	18.4	30.1	13.6	86.3	1.3
1994	23.4	18.9	33.0	20.2	95.5	1.4
1995	22.0	18.5	36.0	25.1	101.6	1.4

Source: Calculations by the authors from data in U.S. House of Representatives, *Green Book*, various years.

[a]Between 1980 and 1995, the share of benefits supporting households with either an elderly head or an elderly member ranged from 17 to 23 percent. Assuming the average benefit paid to these families equals that paid to nonelderly families, we estimate that 80 percent of the benefits are paid to working-age families. Of these benefits, we assume that 90 percent of the benefits support food consumption of nondisabled families.

[b]We have assumed that program expenditures allocated to Medicaid recipients eligible for benefits by virtue of their being dependent children under age 21, adults in families with dependent children, or in other Title XIX eligible categories support the medical care costs of nondisabled working-age families. In 1995, the Medicaid expenditures allocated to these families totaled about one-third of all Medicaid expenditures.

four secured a booklet worth about $280 per month for food purchases. In that year, 10 percent of the nation's population, about 27 million people, received Food Stamp benefits; the cost of the program was nearly $26 billion. We estimate that about $18.5 billion of Food Stamp expenditures (72 percent of total spending shown on Table 1) was targeted at nondisabled working-age families in 1995.[4] Although total benefits have increased in real terms over time, Food Stamps as a share of total expenditures targeted at these families declined from 29 percent in 1980 to 18 percent in 1995.

The *Medicaid* program is the third leg of the stool of social support to poor people in the U.S. It began as a series of medical assistance programs in the mid-1960s; these were brought together into a single program in the early 1970s. Medicaid provides health care benefits to poor children (even those in two-parent families), single mothers who receive AFDC benefits, and pregnant women.[5] The benefit package is quite generous—1995 average expenditures for a single mother with three children were about $350 to $400 per month.

Like the AFDC program, Medicaid is a joint federal-state government program administered by the states (again, largely through the local welfare offices). As with the AFDC program, a variable matching formula determines the share of total expenditures borne by state taxpayers. Lower-income states cover about 30 percent of program costs, and 50 percent is the highest matching rate. Overall nearly 60 percent of the costs are borne by federal taxpayers. Medicaid costs have grown rapidly, owing to rapid increases in health care prices and expanding coverage. As Table 1 shows, by 1995 total

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[5]Medicaid eligibility differs across states, but less than has been the case with AFDC.

Medicaid expenditures on nondisabled working-age people and their children totaled about $36 billion,[6] or about 35 percent of total expenditures on this group.

The final leg of the social assistance stool is the *Earned Income Tax Credit* (EITC), enacted in 1975. The EITC is financed completely by the federal government and is administered through the annual personal income tax. The EITC is available to all low-income working taxpayers but is targeted at those with dependent children. The credit is determined by a schedule which (in 1995) subsidized incremental annual earnings at a 40 percent rate up to about $8,500 for a family with two children (for a credit of more than $3,000 per year). The credit is refundable and available to the taxpayer only after filing a return in a given year, which records income and tax liabilities for the previous year. The maximum credit is available until annual earnings of the two-parent family reach about $11,500, after which it is reduced at a rate in excess of 20 percent. No EITC is available for families with incomes exceeding about $28,500. In 1995, some $25 billion of credits were paid to 18 million families, for an average credit of about $100 per month; nearly 85 percent of the credits were refunded after tax filing. In 1995, the EITC accounted for about 25 percent of total social expenditures targeted at nondisabled working-age families.

In addition to these four programs, a wide variety of other programs, both federal and state, provide income support to nondisabled working-age poor families. The Supplemental Security Income (SSI) program is the largest among them, providing from $3 to $5 billion in cash benefits in 1995 to poor families headed by an able-bodied person, primarily in the form of support for disabled children.[7] In

[6]We have assumed that Medicaid program expenditures allocated to recipients by virtue of their being (1) dependent children under age 21, (2) adults in families with dependent children, or (3) recipients in other Title XIX eligible categories support the medical care costs of nondisabled working-age families. In 1995, Medicaid expenditures allocated to these families totaled about one-third of all Medicaid expenditures.

[7]Total SSI expenditures were about $30 billion in 1995. Of the 6.5 million SSI recipients, only about 3.5 million are aged 18 to 64, and these are either disabled or blind. About 2.3 million SSI recipients are elderly, and many of these are in nursing homes. In addition, about one million children who are disabled and living in poor families receive benefits. A reasonable estimate of the total expenditures aiding families headed by a nondisabled working-age person—namely, those with a disabled child—would be $3 to $5 billion.

addition, governments spent about $24 billion on housing benefits through public housing and rent subsidies and $12 billion on children's compensatory education programs, some portion of which provide support to poor families of working age.

This constellation of existing transfer and tax programs improved the lives of the nation's most disadvantaged families and reduced poverty rates. The 1995 benefits paid (plus some social insurance benefits) reduced the poverty rate for families with children from about 21 percent to about 15.5 percent; the nearly 6 percentage point reduction represents a nearly 30 percent reduction in the number of poor people in these working-age families.[8]

Yet, by the mid-1990s not all was well with these programs. If their ultimate goal was to reduce poverty, they appeared to have failed. At the same time that expenditures on these programs were increasing, so too were poverty rates. From 1973 to 1995, for example, the poverty rate of all families with children rose from 11.4 percent to over 16 percent (Baugher and Lamison-White, 1996, Table C-3). (The Appendix describes the measurement and trend of poverty in the U.S.) There has also been a striking increase in income inequality in the nation, beginning in the 1970s but accelerating during the 1980s. The share of total income to families with children decreased from 5.8 percent to 3.7 percent between 1973 and 1994 for the poorest 20 percent of these families. The share going to the richest 20 percent of families with children increased from 39 percent to 44 percent (U. S. House of Representatives, 1996, Table H-20).

In addition to the well-documented deterioration in labor market opportunities for low-wage workers in the U.S., the antipoverty programs themselves have, in all likelihood, contributed to the growth of the poverty problem. These programs carry with them a disturbing set of incentives. The most

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[8]The antipoverty effectiveness of these programs can also be described in terms of their impact on the size of the "poverty gap," the number of perfectly targeted dollars necessary to raise each poor family's income to the poverty line. About 60 percent of the poverty gap that would exist in the absence of these programs (about $70 billion in 1995) was eliminated by the benefits that they provided (see U.S. House of Representatives, 1996).

prominent of them are the high marginal (and average[9]) tax rates placed on the earnings of households that receive benefits. Such large benefit-reduction rates cause some recipients to cease job search completely and others to reduce hours worked.[10]

In addition to placing high marginal tax rates on earnings, the transfer system makes it nearly impossible for recipients to legally accumulate the assets necessary to make a wide range of choices leading to self-sufficiency. While asset tests help target benefits to families with the least resources, they also make it difficult for program recipients to acquire skills that may help them or their children avoid poverty.

The programs, especially AFDC, also incorporate a variety of other adverse incentives. Because benefits are conditioned on family size, the incremental cost of children to recipients lies below that faced by nonwelfare families; the system is pronatalist. Moreover, because program eligibility depends on having dependent children, continued childbearing by single-mother recipients insures continued eligibility and enables long-duration dependency. These incentives—when combined with large family sizes of some recipients and a considerable number of long-term recipients—led some to conclude that the system fosters excess childbearing and dependency by recipients. Similarly, because two-parent families are generally ineligible for AFDC support, the cost of both marital separation and nonmarital childbearing is reduced. Again, high rates of divorce and increasing rates of nonmarital childbearing

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[9]Because of the withdrawal of benefits when working, the *net* wage rate associated with accepting work at, say, $6 per hour can be less than $2 per hour. Welfare recipients who work face combined tax rates of up to 70 percent, with the rate higher for those working above the minimum wage. These high rates derive from the federal income tax and phase-outs of the EITC, state income tax, Food Stamps, Medicaid, and, for those who receive them, housing benefits. This high marginal tax rate stems primarily from the benefit-reduction rules of the programs and not from the tax system. (Indeed, few poor persons pay income tax, and the EITC has offset much of the burden of the payroll tax.) In the AFDC program, for example, recipients with earnings can shelter some of their earnings through program exemptions for work expenses and child care costs, but beyond these exemptions a marginal tax rate of 100 percent is confronted.

[10]Danziger, Haveman, and Plotnick (1981) and Moffitt (1992) review research on the labor supply effects of welfare benefits and conclude that work effort is reduced by from 25 to 50 percent from its “without benefits” level.

(especially among teenagers) fueled the belief that the welfare system played an important causal role in encouraging these unattractive behaviors.[11] In addition, the pre-reform welfare system encouraged recipient participation in activities outside of the regular economy, some of which (e.g., failing to report earned income) were illegal.

Finally, antipoverty policy before the 1996 reform was a patchwork system. Programs were designed to serve particular categories of people, and only if the various eligibility criteria were met could benefits be secured. As a result, the system had gaps—holes in the safety net through which people could fall—the largest being the horizontal inequity between working-poor people and poor people who did not work. Poor families headed by someone who worked a significant number of hours per week were eligible for only Food Stamps and the EITC; AFDC was unavailable and Medicaid benefits covered only the children. Similarly, equally poor people in different states were treated very differently. In addition to creating horizontal inequities, such large interstate benefit variations provided incentives for poor households to make decisions about where to live that they would not otherwise have made.[12]

While these efficiency and equity problems are real and troublesome, the nearly universal dislike of the U.S. welfare system had a deeper core, namely the fundamental difference between the objectives of the system and citizens' judgments regarding the nature of the poverty problem. While the system adds collective support to poor people's own efforts to secure a level of living that exceeds some minimum standard, many Americans see the poverty problem as something quite different from the simple need for income assistance. With the rapid growth in the number of women with children who work outside the

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[11]Numerous research studies have failed to confirm quantitatively large or economically significant effects of these incentives, although some response in the expected direction has been found (see Haveman and Wolfe, 1995, and Moffitt, 1997). It is worth noting that during the same period that these trends in family structure and childbearing are observed, the generosity of AFDC benefits—and hence the asserted incentives—fell.

[12]See Levine and Zimmerman (1996) and Walker (1994). These studies find little if any evidence of sizable migration in response to differential benefit levels. Levine and Zimmerman state that the "upper bound of the impact of welfare-induced migration on caseloads in high-benefit states is approximately 5 percent. . . . In all likelihood, the effect is actually smaller than that" (p. 31).

home, able-bodied women with children are expected to contribute to their own well-being through work. And with the serious decline in real earnings for young and low-education people who work, concern with maintaining the incomes of similar people who did not work waned. These attitudes have been reinforced by perceptions of counterproductive behaviors and choices of some of the poor. While these images may be colored by stereotypes and prejudice, it is clear that some of those in the bottom tail of the distribution today are there because of choices they have made—the choice to bear children out of wedlock as a teen; the choice not to complete high school; the decision to refuse minimum wage employment when it is available; the decision to abuse, and sell, drugs; and the willingness to run in gangs and to engage in crime and violence, often against other poor people. And, while economic and social factors, urban schools, neighborhoods with concentrated poverty and crime, limited work opportunities, little family planning or contraceptive availability, and racially based obstacles to progress may make these choices a rational response to the options available, it is also true that these outcomes—which are more common today than three decades ago—are socially costly and destructive.

Such perceptions, reinforcing the negative assessment of the incentives and inequities created by the system, generated questions that the 1996 reform legislation attempted to answer: If transfer recipients are able to work, why don't we require work as a condition of providing help? If recipients are unable to break into regular jobs because of a lack of job search skills or know-how, or an inability to pay for child care services, why don't we try to provide these things at the same time that we require work? Why should we not try to change the behavior of recipients in a variety of dimensions—nonmarital childbearing, nonmarriage, nonwork, off-the-books or illegal activities—at the same time that we offer services?

III. IMMEDIATE PRECURSORS TO THE 1996 REFORMS

While there was general agreement that the old welfare model had to be revamped, TANF did not spring full-blown out of a vacuum. Nearly a decade earlier, federal legislation required the states to establish a Job Opportunities and Basic Skills Training (JOBS) program to "help needy families avoid long-term welfare use." JOBS provided job search assistance, education, work experience, vocational training, and other employment-related services, and it required all parents except those with small children to participate or face a reduction in their AFDC grant. Evaluations of the JOBS program were mixed at best (Freedman and Friedlander, 1995).[13]

Along with JOBS, and in anticipation of a major reform, the federal government encouraged states to come forward with demonstrations designed to test proposed reforms. States responded in force: by 1995 proposed demonstration projects had been approved for 43 states, covering three-fourths of AFDC recipients. The range of demonstration proposals mirrors the problems that are associated with the welfare system. For example, 36 states implemented some form of work requirement; 31 states proposed time limits on receipt of benefits; 41 states adopted financial incentives (positive or negative) to encourage the move from welfare to work; 39 states proposed "encouraging parental responsibility" either by education or by sanctions for having another child while on welfare, for teenage recipients who

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[13]For those participants in programs emphasizing job-finding, employment rates were about 25 percent greater than those in a control group, and welfare recipiency rates were about 16 percent lower. Larger effects were found for those with a high school degree and work experience. However, JOBS participants had no higher incomes than those in the control group, and fewer had health insurance. Given the characteristics of the population of welfare recipients, these mixed results are not surprising: nearly one-fourth had a child under 3 years old, more than 40 percent lacked a high school degree, and nearly 90 percent of the youngest children in the family were reported to have "no father." The average AFDC recipient has reading-math skills of about the typical 8th grader, and 30 percent have basic skills below the minimum of all women in the lowest skill occupation (household workers). Estimates of the earnings potential of recipients suggest that, even with full-time work, earned income would not exceed $1,000 per month. When work-related costs such as child care are subtracted from these earnings, net income would fall short of welfare income and the poverty line (see Burtless, 1995, and Wolfe and Hill, 1993). It should also be noted that, in the U.S., few mothers with preschool-age children who are not welfare recipients have full-time, full-year work. Calculations for Wisconsin indicate that only about one-third of *all* women aged 20–40 who lived with a child worked full-time, full-year; the proportion is substantially smaller for women with low education and substantial child care responsibilities (Meyer and Cancian, forthcoming).

lived apart from their parents, or for failing to attend mandated education/training programs.[14] The move from this free-for-all potpourri of program changes to comprehensive reform is not as large a leap as it might appear at first—states had already been thinking about new ways of doing business in this area.[15] Indeed, the rapid fall in the number of families (cases) receiving AFDC benefits since its peak in 1994 likely reflects the effects of some of these changes (see Figure 1).

IV. 1996 WELFARE REFORM: ITS OBJECTIVES, REQUIREMENTS, AND CONSTRAINTS

It is within this context that welfare reform was debated within Congress, within the Clinton administration, and between the two—and ultimately passed and signed into law. What did TANF try to do, and how did it intend to accomplish these goals?

Viewed broadly, the PRWORA legislation and the TANF program represent a major restructuring of federal-state fiscal and administrative relations in the area of means-tested income support (AFDC, Medicaid, and Food Stamps) and in a host of other federal social welfare initiatives affecting children (child welfare services, child care, nutrition programs). While federal expenditures for AFDC were diverted into another form—a block grant—benefits and expenditures for Food Stamps and the EITC were maintained, with minor changes.[16]

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[14]In addition, many states required mothers to identify their children's fathers and implemented tough child support enforcement efforts (U.S. Department of Health and Human Services, 1996). Wiseman (1996) presents an evaluative summary and description of these demonstrations.

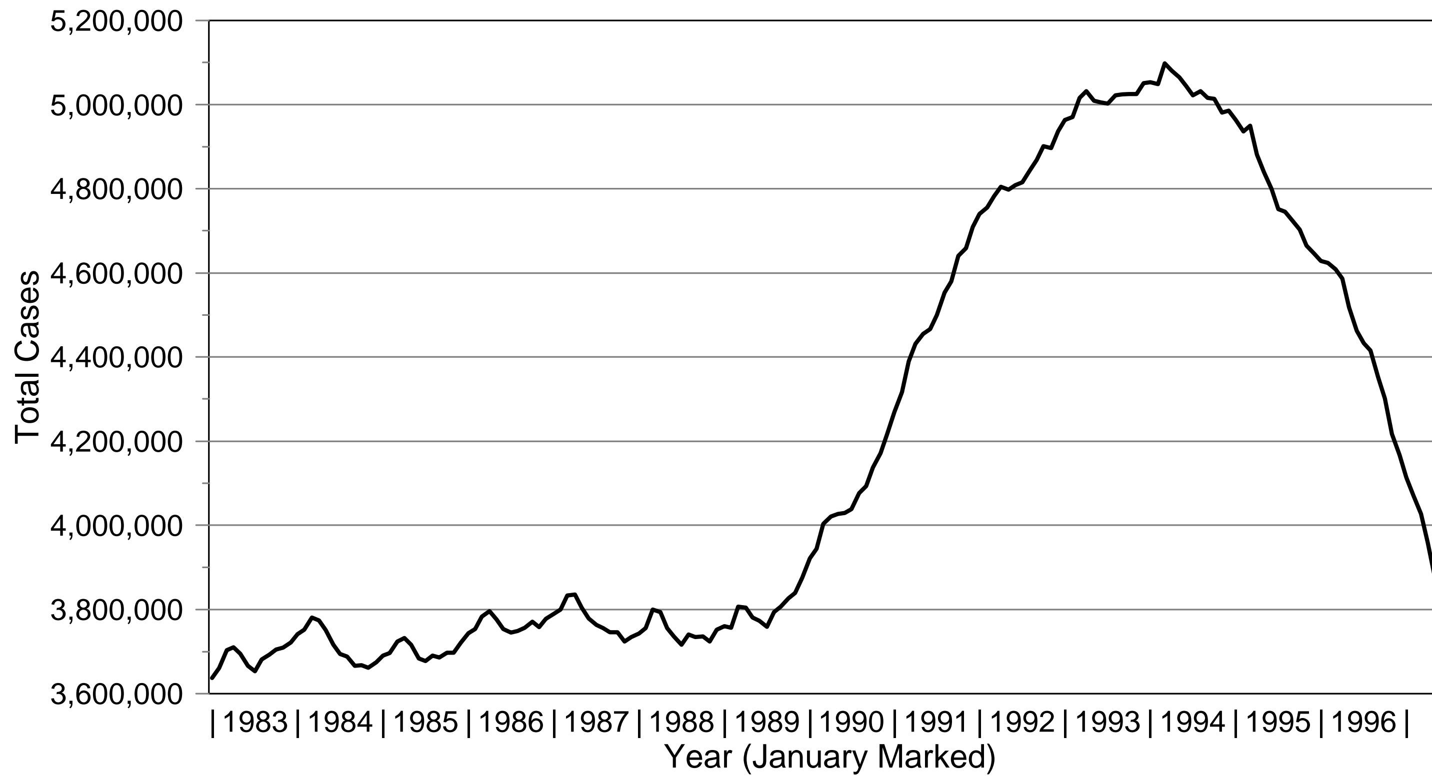
[15]Consider one state, Wisconsin, as an example. Although its post-reform program, Wisconsin Works, went into effect on September 1, 1997, two transitional components had been in place since March 1996, though not statewide. "Self-Sufficiency First" attempted to divert AFDC applicants into work by requiring them to complete an interview with a financial planning resource specialist before applying for AFDC and then to participate in the state JOBS program during the following 30 days, including 30 hours of direct employer contact. "Pay for Performance" was an intensive JOBS program requiring 20–40 hours per week of participation by AFDC recipients and imposing heavy sanctions on those who failed to comply.

[16]The changes for the EITC are minor and concern the treatment of certain components of unearned income and certain reporting requirements. The Food Stamps change reduced benefits somewhat and established a new work requirement under which prime-age, healthy individuals without dependent children lose Food Stamps if they do not work at least 20 hours per week or participate in a workfare or approved training program.

Figure 1

The National AFDC/TANF Caseload

1983-1997



Source: U.S. Department of Health and Human Services (1997).

As stated in this federal legislation, the objectives of the plan are fourfold: (1) to assist needy families to care for children, (2) to promote job preparation and work (to reduce “dependency”), (3) to reduce out-of-wedlock childbearing, and (4) to promote mother-father families.

To accomplish this, the legislation:

- ended the right (or “entitlement”) of families who meet certain eligibility requirements to income support through AFDC (and other programs assisting needy families);
- provided a fixed “block grant” to each state depending on the state’s previous AFDC expenditures, financed by federal contributions to pre-reform assistance programs;
- granted wide discretion to states in the use of the “block grant” monies, permitting allocations to child support enforcement, child care assistance, job subsidies, medical care assistance, training/education, and the creation of asset accounts to encourage saving;
- reduced the ongoing role of the federal government in making rules and regulating state programs, assuring accountability, and providing technical assistance.

While states were given great latitude in designing their own programs, demanding constraints were imposed to insure that they develop programs to achieve these objectives. In particular:

- States must meet stiff goals in terms of the proportion of assisted families that have full-time workers.[17]
- States are required to develop comprehensive programs for enforcing the collection of child support payments from noncustodial parents.
- States must continue to spend at least 80 percent of their pre-TANF expenditures on the new program.[18]
- States must implement programs designed to reduce the prevalence of teen nonmarital childbearing.[19]

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[17]By 2002, 50 percent of all one-parent families must have a worker employed at least 30 hours per week, and 90 percent of all mother-father families must have a worker employed at least 35 hours per week.

[18]This is known as a “maintenance of effort” requirement.

[19]TANF provides funding for abstinence education, requires that states be ranked annually on their performance in reducing nonmarital birth rates, provides $1 billion over 5 years for performance bonuses to states that achieve reduced nonmarital birth and increased two-parent family prevalence rates, and provides $400 million in bonus payments to states that reduce rates of nonmarital childbearing.

- Time limits are imposed on the receipt of services; in particular, no family can be given any help after a total of 5 years of assistance has been received.[20]
- Unmarried teen parents who receive help must be in school and living with parents (or under alternative adult supervision).
- No one convicted of a drug-related crime is permitted to receive help.
- Mothers who will not identify the father(s) of their children are denied all (or part) of the assistance package.
- If its income is above the former eligibility limit for AFDC, a family may not be eligible for Medicaid benefits.[21]
- Assistance provided cannot be limited to one-parent families, nor related to the size of the family.
- Legal immigrants admitted to the country after the passage of TANF (except refugees) cannot be included in a TANF program or receive Food Stamps.[22]

It is these constraints that will determine the real impact of these reforms.

V. THE WISCONSIN MODEL: WISCONSIN WORKS (W-2)

Wisconsin's W-2 program has been widely acclaimed as the motivation for the TANF legislation and as a model for other state efforts. It provides an example of the sort of program that is likely to be established by individual states in response to TANF. While W-2 denies the state's poor population entitlement to cash income support, it does ensure that all working-age people with income at or below 115 percent of the poverty line have—and do—*work*. And support for work activities, such as child care

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[20]TANF does permit states to exempt 20 percent of the people receiving services.

[21]Children in families with incomes up to 200 percent of the poverty line may be covered under a new initiative passed in 1997, the Child Health Insurance program. Similar to TANF, this program offers states a block grant and flexibility to design their own programs.

[22]However, states may use their own funds to provide such benefits. President Clinton proposed restoring Food Stamp benefits to legal immigrants in his budget for 1999.

assistance and subsidized health care (through enrollment in a health maintenance organization), is made available. While the pre-TANF AFDC system provided support and assistance for single-parent families, all poor and near-poor families are included in W-2. As a result of the program, all members of this low-education, unskilled, working-age population, many with young children and health problems, will have to work to secure income support.[23]

Poor people who appear at a W-2 office are guided into a work-oriented regime. They meet not with a welfare caseworker but with a "Financial and Employment Planner," who advises them of their work options and assists them to make the best choice among these options. Counseling is provided and clients are told of the job-finding support offered by the program and the child care and health care subsidy arrangements that are available. All clients are told to expect to be employed full-time, full-year, and that their income will depend on their work efforts, not on their family size or needs.

Some clients will be allocated to the top category of work options—*regular jobs in the private economy*—and given information and advice on how to find such a job. If they are successful, they will earn income on which to support themselves; they will cost the state very little, except for the day care and health care subsidies they receive. They will also be eligible for Food Stamps and the EITC. Given their skills and experience, most of these people will likely be self-sufficient, earning enough to boost them and their families above the poverty line.

People with fewer skills or work experience will be assigned to the second level, in which W-2 staff will work with them and with *an employer who is subsidized to provide them a full-time job at the minimum wage*. The state will pay this subsidy, which will range up to 80 percent of the wage costs and can last for several months. This state-borne cost is in addition to the day care and health care subsidy to which the person is entitled; again recipients are eligible for Food Stamps and the EITC. Given the low

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[23]The bulk of the citizens affected by the W-2 program are those who would have been AFDC recipients.

wage base at which these people are compensated, many will not be able to secure sufficient income to escape poverty.

Those with even fewer skills or other work qualifications will be given a *public service job*; these jobs pay only $673 per month and require 40 hours of participation per week, a minimum of 30 hours in work with 10 hours of education/training. Providing these jobs is *very* costly to the state; all of the wage costs plus the supervision and job arrangement costs are paid by the state, and again day care and health care subsidies are available. Clients in this category are penalized the national minimum wage rate of $5.15 for every hour of the 40 hours missed without good cause, and they are not eligible for the EITC. The harsh terms in this option are expected to create the incentive to move up the job ladder, making this a temporary stopping point.

Finally, the least well-off, the least capable, will be placed in some type of enforced activity—called *W-2 Transitions*—that will be called "work." They too will be paid, but not much—$628 per month plus the health insurance and child care subsidies. Forty hours of participation per week are required, 28 hours of work and 12 hours of education/training. Again, no EITC support is available and the same hourly penalty applies. It is inconceivable that these least-capable citizens will be able to escape poverty, or to live at a level above that provided in the pre-W-2 AFDC system.

Consistent with TANF, W-2 will only provide services and employment assistance to any client for a maximum of 5 years. Teen parents are required to live with parents who *will* provide them support; they are mandated to attend high school, and W-2 only provides some in-kind support for child care. Similarly, W-2 adopts the TANF restrictions on providing services to legal immigrants and aggressively seeks child support from noncustodial parents, passing this support directly through to the children's caregivers.

As a result of these changes and the ending of the entitlement, the culture of state-assisted support has been fundamentally changed, and with it the expectations of the state's low-income

population. Bolstered by a robust and full-employment economy, the state has experienced a substantial decrease in the number of people seeking support. By 1997, the number of recipients of W-2 services was only about 30 percent of the number receiving AFDC benefits 3 years earlier.[24] For many, increased work has been secured (including some for whom mandated full-time work seems socially unproductive).[25] This has been accomplished not by increasing work incentives but by some combination of imposition of a mandate, withdrawal of alternative means of support, and provision of work-related supports such as child care assistance. By providing support for all families, the incentive contained in the AFDC program for family breakup or nonformation has been eliminated.

Many questions surround this strategy. The following are a few, with some comments:

- How much will W-2 cost? At the end of 1997, real spending on the W-2 program exceeded total spending in 1993 (in 1997 dollars) on Wisconsin's relatively generous AFDC program.[26] This is so even though the average number of W-2 recipients in 1997 was less than one-third of the number of AFDC recipients in 1993. As a result, the per family costs of the W-2 program have grown rapidly. Indeed, average expenditures per family rose to over $3,700 in 1997.[27] This is more than a fivefold increase from the per family costs of the AFDC program in 1993 (in 1997 dollars). In fact, the ultimate costs of the program are unknown and very difficult to forecast. It all depends on how many families qualify for W-2 services, how these lowest skilled and most dependent citizens distribute themselves across the four work categories, and the extent to which the state devotes financial resources to support work-facilitating activities for program clients.

- What about the state of the economy? If there was ever a time that W-2 might be successful, it is during full employment, which existed in Wisconsin as W-2 went into effect. But recession will inevitably come, and when it does, the low-skill, low-education, low-experience people who have

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[24]In 1993, the average number of recipients per month was 230,000; by the end of 1997, about 75,000 recipients were being assisted in the W-2 program. Indeed, in the first year after passage of TANF (from August 1996 to September 1997), welfare participation in Wisconsin dropped 40 percent, from 148,890 recipients to 88,575 (U.S. Department of Health and Human Services, 1998a, 1998b).

[25]Mothers of infants and young children and individuals with significant limitations might fall into this category.

[26]Average benefits per family in Wisconsin's AFDC program were about $511 per month in 1993 (1997 dollars). Including administrative expenses, the total cost of the Wisconsin AFDC program averaged $677 per month per case in 1993 (1997 dollars).

[27]Several factors account for this enormous increase in per case costs, including increased expenditures on child care and other services designed to facilitate work and extra implementation costs in making the transition from AFDC to W-2. It is expected that steady-state per family costs will fall from this level. Across the counties of the state, per family monthly expenditures in 1997 ranged from $828 in the largest county (Milwaukee) to $21,586 in a small county with only two cases.

secured private sector jobs are likely be the first to lose them. Given the structure of the program, when this happens the lower job categories are obliged to accept the cases, and with this shift the state's costs per recipient family will rise.[28] When a recession strikes, the W-2 program will encounter a severe tradeoff between allowing costs to increase and controlling costs by limiting services to qualified recipients. How it will respond is unknown, but without the federal government sharing costs (as in the pre-TANF system), the state is forced to make its own choice.

- How can such a work-only strategy cope with program-induced destitution? If the program is rigorously administered, some W-2 participants will become less well off, and more destitute, especially during a period of recession. They will not simply disappear. Some of those left worse off will move in with parents and relatives; others will combine households; some will do more unreported (and often illegal) work; some will just become increasingly hopeless, homeless, and helpless.

In addition to these issues, several other important questions must also be confronted, some of which pertain to the administration of such a complex program. Can welfare caseworkers develop the skills necessary to become effective Financial and Employment Planners, and how many of them will be needed? How will uncooperative participants, or those who run into the 5-year time limit, be handled in job categories below the top rung? Will employees in either the private or public sectors be displaced because of subsidized jobs or specially created public service jobs? How will families confined to the lowest job category get by financially, given the subminimum wage payment they will receive? Can child care slots be found; if so, at what cost and with what standards? How will children fare with less parental time?

VI. CONCLUSION

The transfer from the federal government to states of both **money** and the **responsibility** for assistance to the low-income population—"devolution"—represents a shift in policy with major

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[28] If W-2 maintains its commitment to ensuring that work is available, even in a recession, the potential for large cost increases is substantial. Including the losses associated with possible job displacement, budget costs of up to $15,000–$20,000 per work year are likely to be encountered in providing public service employment to clients who are unable to secure private sector jobs.

implications both for the individual choices made by citizens and governments (efficiency) and for the distribution of well-being in the nation (equity). While it is possible to identify those changes in the structure of incentives created by the policy, and to indicate some of the opportunities and dangers implicit in the change, providing quantitative answers regarding effects is difficult.

The discussion of the Wisconsin strategy highlights both the nature of the new policies that will be implemented in response to the TANF mandates and the questions and issues that these policies raise. In addition, a number of overarching issues must be resolved if other nations are to conclude that the U.S. welfare-to-work model is one worthy of copying.

- Interstate diversity in the structure of safety net programs will increase, and with it the incentive for states to minimize their financial liability for providing services to low-income families; the potential for a “race to the bottom” is created.

- Because the amount of federal block grant support is fixed, states are required to bear full costs of any expansion of program costs, reducing the incentive to expand coverage or increase support and increasing the incentive to reduce the number of needy people who are served and to shift increased costs to county and local governments.[29]

- No firm federal mandate is in place for rigorous evaluation of the state-based reforms, and without such impetus, individual states would appear to have little incentive to require and pay for serious evaluation efforts. Given that many participants will not be able to earn enough to escape poverty,[30] how will those people directly affected by TANF—children, single parents, and low-income families—fare over time?

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[29]Understanding how states will respond to the new incentives incorporated in the 1996 legislation is essential in assessing the ultimate economic impact of the reform. Chernick (1997) sets out a conceptual framework for studying these fiscal responses and provides rough estimates of the impacts of the reform based on quite divergent econometric estimates available in the literature. In attempting to answer the question regarding the overall impact of the reform on public spending on the poor, Chernick identifies several margins of state and individual response that are relevant, including the relationship between state TANF spending and spending on other programs targeted at the poor (see Table 1 in Chernick), state fiscal responses to both “price” and “income” effects contained in the reform, enforcement of “maintenance of effort” requirements on states, client entry to and exit from responses to the new programs that will be developed, and interstate migration responses to state differences in these new TANF programs.

[30]See footnote 13. Some evidence is available on the economic performance and well-being of those who exit welfare (see Meyer and Cancian, forthcoming; Harris, 1996; Smith, 1997).

Appendix

Poverty in the United States: Measurement, Trends, and Composition

Since the early 1960s, official poverty in the United States has been gauged by an absolute measure. This measure established a set of family-size-specific poverty thresholds based on of the cost of a minimum adequate diet multiplied by three (to allow for other expenses). The one-third ratio of food to total income was based on studies of consumer expenditures.

To determine a family's poverty status, its cash income before taxes is compared with the appropriate threshold. The U.S. Bureau of the Census publishes the official annual statistics on the number and proportion of poor (the poverty rate) by comparing the thresholds to estimates of families' cash income before taxes, using income information collected in March of each year in a nationally representative survey, the Current Population Survey. The thresholds are updated annually for price inflation but are not changed in real dollar terms. The 1997 poverty threshold value for a family of four (two adults and two children) was $16,050.

In 1996, 13.7 percent (36.5 million persons) of the total U.S. population lived in poverty. The trend over recent decades shows a significant drop in poverty rates in the 1960s and early 1970s, the period of the federal government's War on Poverty. In 1959, the overall poverty rate for individuals in the United States was 22 percent. Over the next 10 years, the rate declined to 12.1 percent. As a result of a sluggish economy, the rate increased slightly to 12.5 percent by 1971, but in 1972 and 1973 it began to decline again. The lowest rate since 1959 occurred in 1973, when it stood at 11.1 percent. At that time roughly 23 million people were poor, 42 percent less than in 1959.

The rate increased to 12.3 percent by 1975 and oscillated around 11.5 percent until 1979. After that, however, poverty increased steadily, reaching 15.2 percent in 1983. The lowest poverty rate in the last decade was 12.8 percent (31.5 million poor people) in 1989. In the recent period of job growth, the

proportion and number of the poor have declined from a high in 1993 of 15.1 percent, or 39.3 million persons, to about 13.7 percent, or 36.5 million persons, in 1996.

Poverty levels differ substantially among demographic groups. Poverty is extremely high among female-headed families with children (41.9 percent in 1996), which now constitute more than 50 percent of all poor families (54.1 percent). Among adults 65 and over, 10.8 percent, or 3.4 million, lived in poverty in 1996. This is a dramatic reduction from the more than 35 percent of the elderly who lived in poverty in 1959. Among children under age 18, the trend is far less positive: 20.5 percent, or 14.6 million children, were poor in 1996. In contrast to the steadily decreasing trend in the proportion of the elderly who are poor, children's rates increased from the early 1970s through the mid-1980s and have remained relatively stable since then.

Among African Americans and Hispanics, poverty rates greatly exceed the average. The poverty rate for African Americans remained above 30 percent from 1959 to 1994 and now stands at 28.4 percent. The poverty rate for all Hispanics remained near 30 percent during the 1980s and through the mid-1990s, and in 1996 was 29.4 percent.

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