

June O'Neill

COMMENTARY

Few policy analysts fully anticipated the extraordinary plunge in welfare caseloads that has occurred over the past few years. In fact, one would have to go back to the surge in caseloads from the mid-1960s to the early 1970s to find a comparably dramatic change in the number of welfare recipients, albeit a change in the opposite direction.

Changes of these magnitudes seldom occur in ongoing social programs, and it is noteworthy that the two episodes coincided with significant changes in welfare policy. The surge that started in the 1960s took place in a period of liberalization of the welfare program; the decline in the 1990s occurred in a period of program deliberalization. Given the large magnitude of the caseload changes and their coincidence with policy change, it seems likely that policy played a significant role in the caseload changes. However, other factors also could have contributed. The economic boom of the late 1990s is an obvious candidate for explaining or helping to explain the recent caseload decline (although the economy, which was booming in the late 1960s, seems unlikely to have played a leading role in the welfare surge in the 1965-72 period).

BLANK

Rebecca Blank summarizes the results of the growing number of research studies measuring the separate effects of welfare

reform and the economy on the caseload decline of the 1990s as well as on the less studied rise in the work participation of single mothers—the predominant demographic group receiving welfare benefits.

The various studies differ considerably in the data and methodology used and in the period of time covered. Blank's summary provides a useful table succinctly describing those differences along with the major findings of each study. Not surprisingly, the findings differ. But Blank identifies a few results that might qualify as conclusions. She notes the generally consistent evidence that both the economy and welfare policy contributed to the caseload decline of the 1990s. Another finding of a number of studies is that the implementation of welfare reform through state waivers in the period before the Temporary Assistance for Needy Families (TANF) program—1992 to 1996—had a weaker effect on caseload decline than did the implementation of TANF, from late 1996 through 1997.

However, the decline in unemployment generally is found to have played a more important role in reducing caseloads in the pre-TANF period than in the post-TANF period, when its contribution was smaller than that of the TANF policy reforms.

In a new analysis of the determinants of change in both welfare and work participation, Hill and O'Neill (forthcoming) incorporate one more year of post-TANF observation than has been included in most studies and use microdata rather than the more usual aggregated or caseload data. Nonetheless, their results concerning the effects of policy and economic factors on

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welfare participation are consistent with the mainstream conclusions described above. Their results differ, however, from those of Schoeni and Blank (2000) with respect to the relative effects of policy and the economy on work participation. Hill and O'Neill find that policy contributed much more to the increase in the work participation of single mothers during the TANF period than did the decline in unemployment, although unemployment tended to be more important than policy in the waiver period. Schoeni and Blank, however, find that only economic factors affect work participation in the TANF years. One reason why Hill and O'Neill's results might differ is that they restrict the analysis to nonmarried mothers, while Schoeni and Blank include all women in their population sample. The work participation of married women and unmarried women without children is unlikely to be affected by changes in the welfare program, but it certainly could be influenced by the economy.

Statistical analysis of the effects of the 1990s welfare reform on various outcomes is bound to be problematic. The changes occur over time and coincide with a major economic expansion, making it difficult to isolate the effect of reform. Moreover, it is difficult to measure the relevant explanatory variables as precisely as one would wish. It is particularly difficult to ascertain the actual content of the welfare reforms initiated in the different states and, even more so, the manner in which they were implemented. However, lack of precision in measuring policy variation would tend to bias results away from finding a strong effect of welfare reform.

One important factor that is often neglected in studies of determinants of welfare participation is the potential wage rate welfare recipients could earn if they worked. Some studies have used federal and state minimum-wage levels as a measure of that wage. But this is a questionable practice on several grounds. For one thing, most single mothers who work earn more than the minimum wage. A finding that an increase in the minimum wage is associated with caseload reduction is likely to be the result of a positive association of increases in the minimum wage and increases in the wage level generally. It would be misleading to infer from this finding that increasing the minimum wage would increase earning opportunities for welfare recipients. A minimum-wage increase that boosted the wage above the productivity level of welfare recipients would reduce their employment prospects, not improve them.

MOFFITT AND STEVENS

Only a few papers that have analyzed the relationship between welfare reform in the 1990s and changes in welfare

participation have examined how the results differ among population subgroups differentiated by skill, race, and other characteristics. Hill and O'Neill (forthcoming) show that the observed percentage point decline in welfare participation among single mothers in the 1990s was greatest for those who might be regarded as having the greatest disadvantages—high-school dropouts, black and Hispanic women, young mothers with young children. Yet one frequently hears the comment that as the caseload declined, those left behind were increasingly disadvantaged. Therefore, the paper by Robert Moffitt and David Stevens, which focuses on the issue of compositional change in the caseload, is particularly welcome.

Moffitt and Stevens first provide a conceptual discussion of the expected effects of welfare reform on the composition of the caseload. In general, it is true that welfare recipients are more likely to be those with weaker skills and less education than others because their potential earnings and income off welfare would be lower. Most studies of welfare duration (or of entry onto and exit from welfare) have shown this to be the case. However, that relationship pertains to time periods when Aid to Families with Dependent Children was the nation's welfare program. The passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) and some of the policy changes introduced earlier through state waivers dramatically changed the relative attractiveness of being on welfare. Time limits ultimately restrict the choice, work requirements and tough sanctions alter life on welfare, and the enhanced-earnings disregards adopted in some states make it possible to earn more income without losing benefits. Moffitt and Stevens examine how these and other policy changes would influence women in different circumstances, and conclude that some changes would disproportionately discourage or encourage the less advantaged—while others would similarly affect the advantaged—with no clear net impact.

I agree with their conclusion, although I would place somewhat different emphasis on the expected effects of particular policy changes on the different categories of women. The time-limit and work requirements (which in twenty states allow no exemption for mothers of children over the age of six months) represent the most dramatic change for those who would have accumulated more than five years of welfare allotment under the old system and those who are less predisposed to work. These typically are women with low skills, and I would expect the changed policy to reduce their entry onto welfare, as well as to increase their exit rates, disproportionately. Potential recipients would have an incentive to postpone entry to save up the five years of allotment for a rainy day. Some may be shocked into rethinking their life situation and follow a different path: stay in school longer, acquire more work skills, postpone a first birth.

However, while the change in policy appears most radical for the disadvantaged, those with more education may respond more quickly because they are better informed and more capable of adjustment.

Moffitt and Stevens present two types of empirical analysis to investigate compositional changes in the welfare population. The first, based on data from the Current Population Survey (CPS), investigates how a series of skill-related characteristics has changed among the welfare population compared with the total population of single mothers. They then use regression analysis to identify the effect of PRWORA on these characteristic-intensity measures after controlling for business cycle effects and other factors. The analysis indicates that PRWORA has not been associated with an increased concentration of welfare recipients with disadvantaged traits.

The second empirical investigation conducted by Moffitt and Stevens utilizes data on eleven successive cohorts of female welfare recipients from Baltimore who have been followed over five-year periods, starting in 1985. All of the women in each cohort were age nineteen at the start of the five-year period and participated in welfare in at least one of the five years. Six of the cohorts completed the five survey years prior to the enactment of PRWORA, while the rest were increasingly exposed to the policy reform. The purpose of constructing the cohort samples

is to observe changes in the characteristics of the caseload before and after the implementation of reform.

Unfortunately, the Baltimore data do not contain any independent information on important personal characteristics, such as education, that typically is used to measure skill or disadvantage. It is hard to get around this deficiency, and the attempt to use years on welfare during the five-year observation window does not really work. Changes in the percentage of time spent on welfare by each cohort over the five-year window largely reflect the effects of policy and the economy. Thus, the percentage of time on welfare rises during the early to mid-1990s and then declines at the end of the period. Time on welfare might be a better proxy for level of disadvantage if it referred to duration prior to the period in which exit rates are measured. However, that would require panels of older women as well as a method for adjusting for the effects of the economy.

The first portion of the Moffitt-Stevens paper, which analyzes CPS data, provides evidence that the national welfare caseload has not become more disadvantaged as it shrank. That should help dispel the concerns of those who fear that welfare reform has not touched people who lack education and other work-related skills.

REFERENCES

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