

Lessons for Welfare Reform

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Chapter 1 - Introduction

Dave M. O'Neill, Nathan Kline Institute for Psychiatric Research
June Ellenoff O'Neill, Baruch College, City University of New York

The growth of the U.S. Welfare system has generated many concerns, but perhaps the major one is that welfare receipt can turn into long-term welfare dependency with detrimental consequences for both the adult recipients and their children. Although Aid to Families with Dependent Children (AFDC), our welfare program for six decades, has functioned as a temporary helping hand for many families, a significant minority of these families have remained on the program for many years. Increasingly, the welfare caseload has been composed of women who have borne their first child while unmarried teenagers. These women are particularly vulnerable to becoming long-term welfare recipients.

Prompted by these concerns and by mounting criticism of the AFDC program, welfare reform became a prominent national issue. On August 22, 1996, federal legislation was enacted that terminates AFDC and replaces it with a new and significantly different program: the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (H.R. 3734-PL 104-193).¹

The new law draws on many reform innovations that were recently initiated at the state level. For more than a decade, an increasing number of states have conducted demonstration experiments and introduced more permanent reforms under waivers granted by the federal government. Those waivers have allowed states to implement changes in their welfare programs that would not otherwise have been permitted under the legislation governing the AFDC program.

The primary goal of the state initiatives has been to reduce dependency by promoting incentives to leave welfare or by discouraging going on in the first place. However, the programmatic approach to meeting this goal has shifted over time. The welfare reform efforts of earlier years focused largely on the development of employment and training programs that aimed to increase the potential earnings of welfare recipients. More recent efforts, however, began to tackle the other side of the equation through initiatives that would make benefits less generous and regulations more restrictive. Such initiatives have included limits on the number of years a family could receive welfare benefits and stricter work requirement for adults during periods of welfare receipt.

The new welfare legislation shifts considerable authority and power over welfare spending to the states. Under the old AFDC program, all eligible adults and children were guaranteed benefits (although the states determined the size of the benefits). This arrangement entitled the states to receive automatic and unlimited reimbursements from the federal government based on a formula (varying by state) that matched federal dollars to state spending on eligible AFDC recipients. Under the new legislation, the federal government instead will provide the state with lump-sum payments—block grants for Temporary Assistance to Needy Families (TANF). In addition to AFDC cash benefits, TANF funds would replace other welfare programs: Emergency Assistance, the Job Opportunities and Basic Skills Training Program (JOBS) and child care funding for AFDC recipients and certain other low-income families. Federal funding for the new block grants is set at \$16.4 billion annually through 2002. This is approximately equal to the 1995 combined level of federal funding on all of the commitments listed above.

Federal grants to the individual states are based on their recent spending on AFDC and JOBS. Supplemental federal grants are available under special circumstances, such as above-average population growth or high level of unemployment. A maintenance-of-effort provision requires each state to spend its own funds at 75 percent of what it spent in 1994 on the replaced programs.

The states are given broad authority to determine conditions of eligibility for the TANF grants. However, the law does mandate that all states set certain new conditions, including several provisions adopted by individual states under waivers. Of particular importance is the imposition of a lifetime limit of 60 months for receipt of TANF benefits. In addition, adult recipients will be required to fulfill a work requirement after a maximum of two years of benefits. Participants must spend at least 20 hours a week in an approved work activity up to 1999, with the hours requirement rising to 30 hours in the year 2000 and after. States are required to enroll 25 percent of their caseload in work activities by 1997, rising to 50 percent by 2002. (Higher participation rates are required for two-parent families.) Among other restrictions, unwed mothers under the age 18 are ineligible for TANF benefits unless they live in the home of an adult relative or in an arrangement—such as a group home—supervised by an adult.

It is impossible at this stage to predict how restrictive the new law will prove to be. For example, the five-year limit is likely to be less stringent than it appears. Up to 20 percent of the caseload can be exempted in cases of hardship. Moreover, states are not barred from using their own funds to provide benefits to those who have reached the five-year limit, and these funds could still be applied to their required maintenance-of-effort payment.

This study examines information that is relevant for implementing and assessing the possible impact of the new legislation. Some of the required program changes, such as the five-year time limit, will be a sharp departure from the status quo. Advocates of these changes point to the beneficial effects that a "tough love" policy might have by pushing welfare recipients toward independence; critics fear that most recipients lack the skills to become self-supporting and argue that a benefit cut-off would simply lead to greater deprivation for disadvantaged families.²

The objective of this study is to provide information and new data analysis useful for informing three particular areas of concern raised by a time-limited reform and more broadly by other reforms. One is the extent to which recipients respond to changes in the incentives imbedded in the welfare benefit system; the second involves the characteristics and work skills of welfare recipients; and the third is the effectiveness of employment and training programs. The book is organized as follows. Chapter 2 describes the AFDC program and examines trends in the size and composition of the welfare population. We examine the extent to which changes in the benefit structure may have shaped the changes in the size of the caseload and influenced the growth in female-headed families. In Chapter 3 we describe patterns of welfare use focusing on the duration of welfare participation, both in a single episode and in multiple spells, and we examine the correlates of short-term and long-term participation. We identify individuals who are likely to become long-term participants and compare their detailed personal characteristics with those of participants who leave welfare after a relatively short stay. An analysis is presented of the work experience and earnings of women after leaving welfare, and a comparison is made with the experience and earnings of women who were never on welfare. Training and other program services can be more efficiently targeted with this information.

Chapter 4 reviews the lessons that are to be derived from past initiatives to increase self-sufficiency of welfare recipients. After summarizing earlier efforts such as the WIN program, we examine the experiments evaluating the effectiveness of recent work, education, and training programs. Special programs targeted on young teenage mothers, as well as strict workfare programs, are distinguished from education and training programs for older mothers with school-age children.

Chapter 5 addresses questions concerning the capacity of state and local government to implement time-limited welfare reform, particularly when it is tied to an aggressive work-oriented program providing for a significant increase in the number of welfare recipients participating in work-related activities. Much was

expected from the framework established by the Job Opportunities and Basic Skills training program (JOBS), created by Title III of the Family Support Act (FSA) of 1988. JOBS made participation in the various component programs mandatory and required the targeting of program slots on certain subgroups of AFDC recipients. Did the JOBS framework make a difference? Chapter 5 also reviews the various experimental changes in the AFDC program that have been made under the state waiver program during the last few years.

Chapter 6 provides a summary and concluding comments, tying our findings to the implementation and possible outcomes of welfare reform.

NOTES

1. For a discussion of the political debate preceding the passage and signing of the new law and a detailed account of the provisions, see Katz (1996, p. 269).
2. Haveman and Scholz (1994-1995) discuss some of the concerns associated with time-limited welfare reform and the general problem and conflicts inherent in any welfare reform.