Did Welfare Reform Increase Employment and Reduce Poverty?

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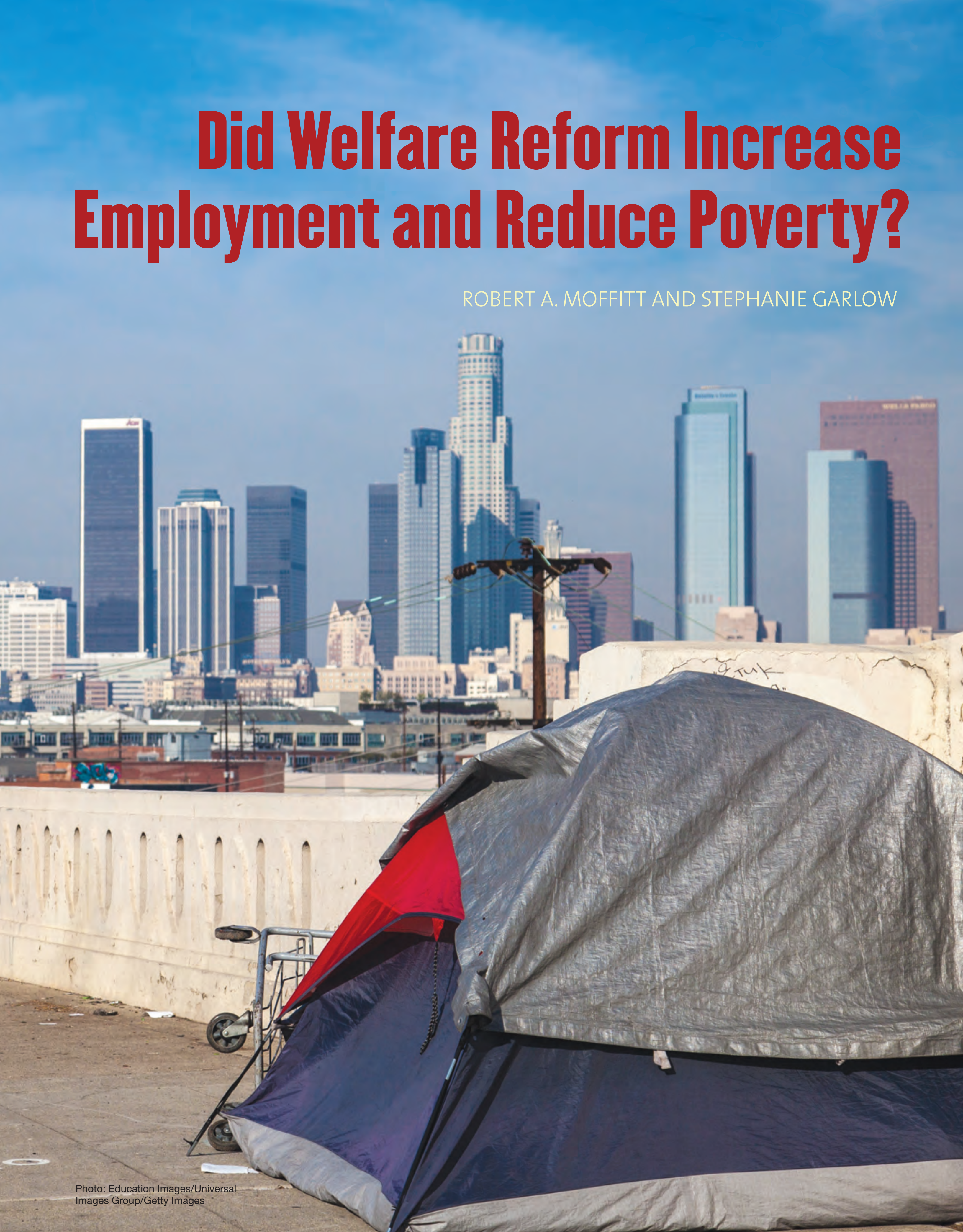

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In 1935, in the midst of the Great Depression, Congress created a welfare program to provide cash to poor families with "dependent" children. The new program—called Aid to Families with Dependent Children (AFDC)—was meant to provide financial assistance to single mothers, mostly widows, so they could stay home with their children instead of going to work.

For 60 years, AFDC endured as the country's best-known cash assistance program for the poor, until Congress replaced it in 1997 with the Temporary Assistance for Needy Families (TANF) program. In a dramatic departure, the new welfare law introduced time limits and work requirements with the goals of encouraging work and discouraging "dependency."

Were those goals realized? There is of course a swirl of opinions on this question. In this article, we review the *high-quality* research on the law's effects on work and poverty, with the simple objective of examining whether welfare reform succeeded in reducing dependence on welfare and increasing self-sufficiency.

Was Welfare Recipiency Discouraged?

It is useful to begin by asking whether the new welfare regime affected the number of people on the welfare rolls. The data make it clear that over the past half century, the number of people receiving welfare has fluctuated dramatically. As Figure 1 shows, the number of AFDC recipients rose sharply during the welfare explosion of the 1960s, then flattened over the next two decades, before peaking in 1994 with more than 14 million AFDC recipients.[1]

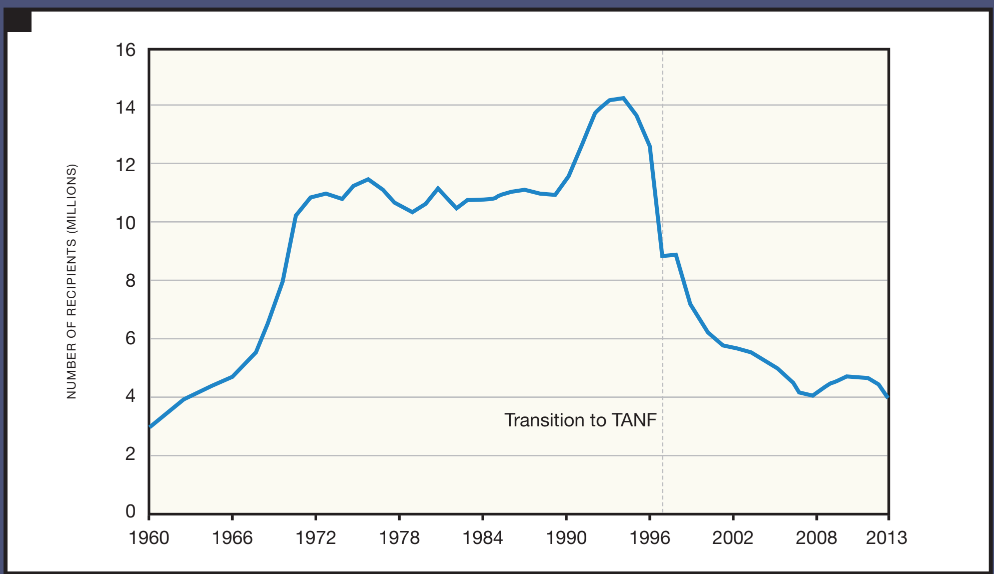
It then started falling, declining by 40 percent over the next three years, coincident with the transition from AFDC to TANF. By 2000, half as many people were receiving welfare. Even the Great Recession in 2007–2009 caused only a small increase in caseloads. By 2013, about 4.1 million people collected welfare, about the same number as in 1964.[2] Thus, it's clear that many fewer people depend on welfare assistance now than before the enactment of welfare reform.

But how much of a role did welfare reform play in driving people off the rolls? It's hard to say because it's difficult to isolate the effect of welfare reform from the effects of other important economic changes. Three years before the passage of welfare reform, Congress expanded the generosity of the Earned Income Tax Credit (EITC), increasing the financial incentives to low-wage work. Additionally, over the same period, the economy boomed and the unemployment rate dropped to historic lows, from 7.5 percent in 1992 to 4.0 percent in 2000.[3]

Many studies have tried to disentangle the various factors at play. While welfare reform unquestionably contributed to the decline, many of the initial studies focused on the role of the strong economy. Geoffrey Wallace and Rebecca Blank estimated that 28–35 percent of the reduction in welfare caseloads in 1997–1998 was due to the enactment of TANF, and other studies put the number even lower.[4]

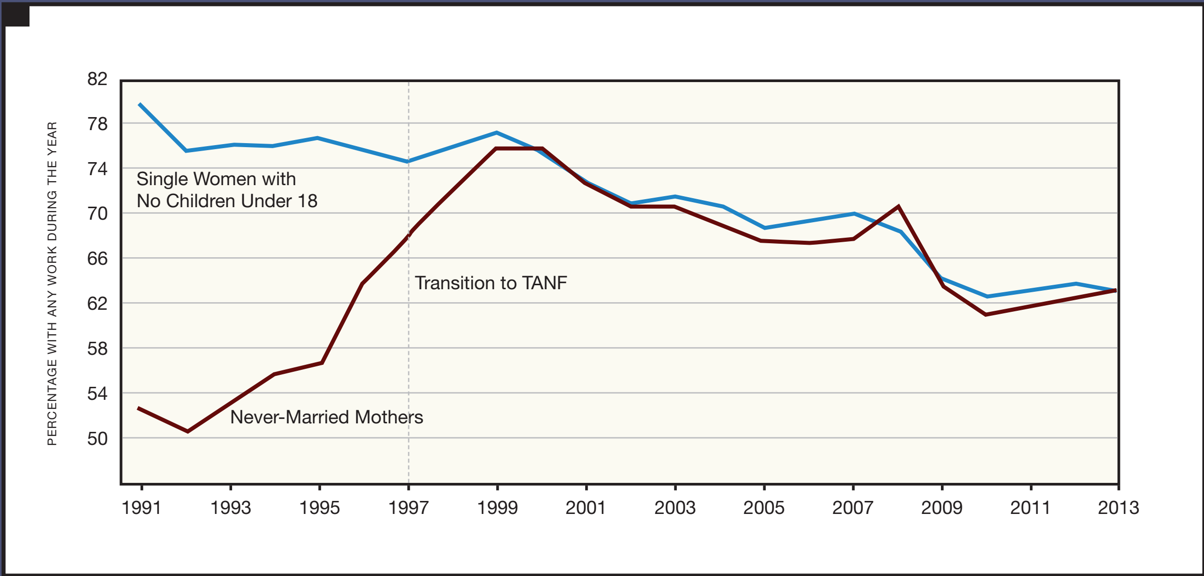
But looking at the longer-term trends, it now appears that those initial estimates were too low. As Figure 1 shows, caseloads did not increase significantly during the mild recession

FIGURE 1. AFDC/TANF Recipients, 1960–2013



Source: Ziliak, 2016.

FIGURE 2. Work Rates of Never-Married Women, Aged 20–49 with a High School Education or Less, 1991–2013



Source: Center on Budget and Policy Priorities analysis of Current Population Survey.

of 2000–2001 or during the Great Recession, when unemployment rose to 9.6 percent, suggesting that studies conducted in the early years of welfare reform may have underestimated its effects. It now appears that welfare reform drove the reduction in caseloads.

The Effect on Employment

If we know that large numbers of Americans—and particularly women—left the welfare rolls in the 1990s, we next ask: What happened after they left welfare? Did they join the workforce? Were they stably employed?

In Figure 2, we compare single women without children to never-married mothers, who tend to fare worse economically than divorced or separated women and have the highest rates of welfare receipt. We find that the employment rates of never-married mothers climbed dramatically starting in the AFDC waiver period and continued to climb throughout the 1990s.

"Leaver studies"—studies that tracked families who left the welfare rolls—provide additional insight. Although different localities used different methodologies, most "leaver studies" reported that between 53 percent and 70 percent of welfare leavers were ultimately employed after exiting the rolls.[5] Over half of employed leavers worked at least 30 hours per week.[6]

But again, we have to ask whether this increase in employment is, in fact, attributable to welfare reform. In some of the available causal studies, welfare reform has been shown to be responsible for raising employment rates between 2.9 and 3.9 percent.[7]

It is possible, however, that these estimates overstate the effects of welfare reform. The main competing claim is that the introduction and expansion of the EITC drove much of the increase in employment.[8] For example, Jeffrey Grogger concluded that the expansion of the EITC appears to have been the "most important single factor in explaining why female family heads increased their employment over the 1993–1999 period."[9]

The Effects on Earnings and Poverty

Given the mass exodus from the welfare rolls, we want to know whether the transition from welfare to work improved the financial circumstances of those who would have received welfare. In other words, did welfare reform actually raise people out of poverty?

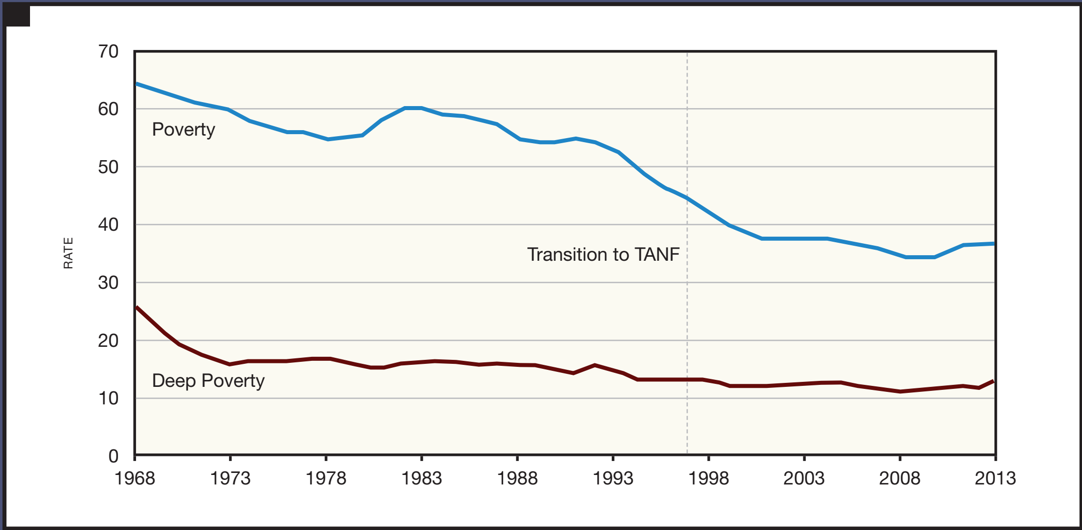
As discussed above, a substantial portion of welfare recipients who left welfare were successful in finding full-time or nearly full-time work. Unsurprisingly, women with greater levels of education, better health status, and older children tended to fare better,[10] and many are now better off than when on welfare.

However, many women took low-wage jobs, and the increase in their earnings was often canceled out by their loss of welfare benefits, leaving their overall income relatively unchanged.[11]

And welfare reform seems to have made matters worse for a significant number of single mothers who lost their welfare benefits and could not find work. About 40 percent of former welfare recipients are not working, and Rebecca Blank estimated that 20–25 percent of all low-income single mothers were neither working nor on welfare in 2007.[12]

This distribution of effects on earnings is echoed by the trend in the rates of poverty, deep poverty, and extreme poverty. As Figure 3 shows, the poverty rate for single mothers had started falling in the 1980s and kept falling after the passage of welfare reform. Most of that decline in the poverty rate comes from fam-

FIGURE 3. Poverty and Deep Poverty Rates of Single Mothers, 1968–2013



Note: Poverty rates calculated using the Supplemental Poverty Rate.
Source: Fox, Liana, Christopher Wimer, Irwin Garfinkel, Neeraj Kaushal, JaeHyun Nam, and Jane Waldfogel. 2015. "Trends in Deep Poverty from 1968 to 2011: The Influence of Family Structure, Employment Patterns, and the Safety Net." *RSF: The Russell Sage Foundation Journal of the Social Sciences* 1(1), 14–34.

ilies who used to make between 50 percent and 100 percent of the poverty line, but whose increased earnings have now raised them above the poverty threshold.

In contrast, the deep poverty rate—the percentage of families making less than 50 percent of the poverty line—has not changed much, as Figure 3 again shows. And extreme poverty has risen sharply. Since the passage of welfare reform, the number of families in extreme poverty has grown dramatically (see the following piece by H. Luke Shaefer and Kathryn Edin on the rise of extreme poverty since welfare reform).

This pattern of effects suggests that welfare reform offered more help to families who were close to the poverty line than to families mired in deep or extreme poverty.

Components of Reform

Thus far, we've considered welfare reform as a whole, but the law actually comprises many different pieces—work requirements, time limits, sanctions, block grants, and much more. Did caseloads decline because of work requirements? Did employment increase because of sanctions? What role did block grants play?

Unfortunately, the research to date has not succeeded in disentangling the relative contributions of each of these components. The reform was adopted nationally after 1996, providing little opportunity to perform cross-sectional or cross-state comparisons. Additionally, the different components of welfare reform are complex and correlated with each other within states, making measurement difficult.

The upshot: We cannot say with confidence what might have happened if we had changed just one component of the welfare system—such as work requirements—while leaving everything else fixed.

Conclusion

In evaluating the implications of welfare reform for work, there are three especially important questions, each of which we've sought to take on here. Although the answers are less definitive than one would like, we would argue that the following answers reflect the weight of current evidence.

Did welfare reform reduce welfare recipiency? The welfare rolls indeed plummeted under the influence of welfare reform. If anything, some of the early studies underestimated the causal effect of welfare reform itself (as against the effects of economic expansion).

Did it increase employment? Although there remains some ambiguity on the relative importance of the EITC and welfare reform in accounting for changes in employment, it is clear that welfare reform played an important role. In the initial years after reform, many more women joined the labor force than even the reform's most ardent supporters had hoped.

Did it reduce poverty? There are two sides to the answer to this question. It would appear that, while welfare reform assisted families with incomes close to the poverty threshold, it did less to help families in deep or extreme poverty. Under the current welfare regime, many single mothers are struggling to support their families without income or cash benefits. Even women who are willing to work often cannot find good-paying, steady employment.

Is it time for another round of reform to address these remaining problems? The simple answer: Yes.

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Notes

1. Ziliak, James P. 2016. "Temporary Assistance for Needy Families." In *Economics of Means-Tested Transfer Programs, Volume I,* ed. Robert A. Moffitt. Chicago: University of Chicago Press.

2. Ibid.

3. Bureau of Labor Statistics, U.S. Department of Labor. Unemployment Rate. Retrieved March 20, 2017, from https://data.bls.gov/timeseries/LNU04000000?years_option=all_years&periods_option=specific_periods&periods=Annual+Data.

4. For an overview of research on caseload changes, see Blank, Rebecca, M. 2001. "Declining Caseloads/Increased Work: What Can We Conclude About the Effects of Welfare Reform?" *FRBNY Economic Policy Review* 7(2), 25–36. Retrieved from https://www.newyorkfed.org/medialibrary/media/research/epr/01v07n2/0109blan.pdf.

5. Brauner, Sarah, and Pamela Loprest. 1999. "Where Are They Now? What States' Studies of People Who Left Welfare Tell Us." *Urban Institute*. Retrieved from http://webarchive.urban.org/UploadedPDF/anf32.pdf.

6. Ibid.

7. Grogger, Jeffrey, and Lynn A. Karoly. 2005. *Welfare Reform: Effects of a Decade of Change*. Cambridge, MA: Harvard University Press.

8. In one of the earliest studies that tried to disentangle the effects of both welfare reform and the EITC, Bruce Meyer and Dan Rosenbaum found that the EITC had a larger effect, but they only used data from the pre-1996 waiver period. See Meyer, Bruce D., and Dan T. Rosenbaum. 2001. "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *Quarterly Journal of Economics* 116(3), 1063–1114.

9. Grogger, Jeffrey. 2001. "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families." NBER Working Paper 8153, 30.

10. Moffitt, Robert, and Jennifer Roff. 2000. "The Diversity of Welfare Leavers." U.S. Department of Health and Human Services. Retrieved from https://aspe.hhs.gov/basic-report/diversity-welfare-leavers.

11. See, for example, Bollinger, Christopher, Luis Gonzalez, and James P. Ziliak. 2009. "Welfare Reform and the Level and Composition of Income." In *Welfare Reform and Its Long-Term Consequences for America's Poor,* ed. James P. Ziliak. New York: Cambridge University Press.

12. Moffitt, Robert. 2007. "Welfare Reform: The US Experience." Revision of a paper prepared for the Economic Council of Sweden conference, "From Welfare to Work," Stockholm, May 7, 2007. Retrieved from http://www.econ2.jhu.edu/People/moffitt/moffitt_sweden_Nov07.pdf; Blank, Rebecca M. 2007. "Improving the Safety Net for Single Mothers Who Face Serious Barriers to Work." *Future of Children* 17(Fall), 183–197.