Introduction

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Two decades of federal and state demonstration projects and experiments with cash welfare in the United States culminated with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). PRWORA, aka welfare reform, is widely viewed as the most fundamental reform to the U.S. social safety net since the New Deal by its dismantling of the major cash entitlement program Aid to Families with Dependent Children (AFDC) and replacement with the nonentitlement block grant program Temporary Assistance for Needy Families (TANF). Ten years after reform, a host of unanswered questions remain on the well-being of low-income families: Are labor-market earnings and total incomes higher, and are the effects of the reform the same across the income distribution? Did welfare reform and the concomitant expansions in the Earned Income Tax Credit (EITC) foster lasting transitions from welfare to work? What impact did these policy reforms have on household consumption and child outcomes? Did welfare reform affect health insurance and health outcomes for adults and children, and were there differential effects between immigrant and native populations? Did welfare reform, which encouraged the formation of two-parent families, succeed in increasing marriage? The 10 chapters in this book bring together leading poverty scholars to address these and many related questions on the longer-term consequences of welfare reform for America's poor.

I. Setting the Context: The Pre–Welfare Reform Era

Momentum for welfare reform had been building for the better part of two decades prior to its passage.[1] Conservative commentators, alarmed at the

[1] For comprehensive treatments of the issues leading up to welfare reform see Bane and Ellwood (1996), Blank (1997), DeParle (2004), and Haskins (2006).

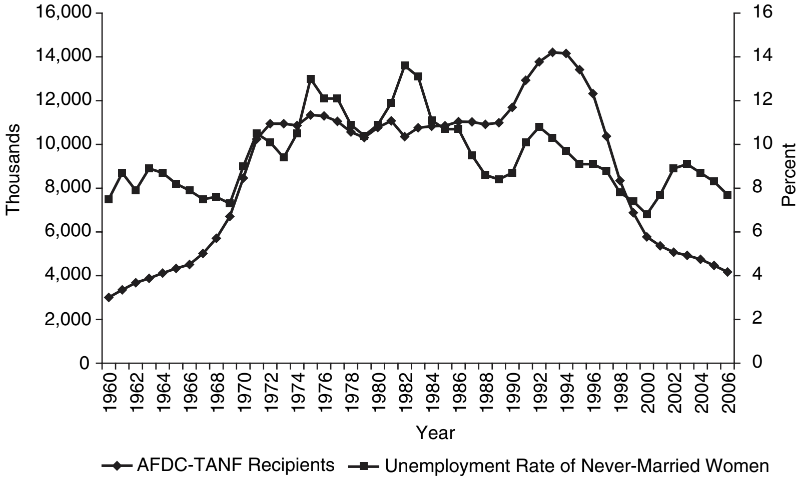

Figure I.1. Trends in Welfare Recipiency and Unemployment Rates, 1960–2006
Source: Author's calculations from HHS and BLS data.

growth of AFDC in the 1960s and early 1970s (see Figure I.1), saw welfare as the source of a variety of the nation's social ills (Murray 1984). With the election of Ronald Reagan in 1980, the retrenchment of AFDC was set in motion.[2] Early in his first year, President Reagan signed the Omnibus Budget Reconciliation Act (OBRA) of 1981, which, among other things, increased the implicit tax rate on earnings and reduced the liquid asset level required to qualify for benefits, each of which reduced the potential pool of recipients. At the same time, the macroeconomy went into a severe slump and unemployment rates shot up across the board, as seen in Figure I.1, including the primary group of never-married women who are at greatest risk of receiving welfare. As an entitlement program, AFDC participation normally would have been expected to rise with the recession of the early 1980s, but the reforms in OBRA 1981 counteracted the anticipated increase; in fact, welfare participation declined between 1981 and 1982.

Aggregate welfare levels remained steady throughout the remaining 1980s, in part because of the countervailing influences of strong regional business cycles involving a recession in oil-producing states that pushed welfare up and an expansion in states with high concentrations of defense-related industries that pulled welfare down (Ziliak 2002). But beginning

[2] The TANF data in Figure I.1 do not contain those recipients of the TANF State Supplemental Program. If those data are included, then the total number of recipients is fairly constant after 2001; that is, states are picking up the full cost for an increasing number of welfare cases, now close to 10 percent of the total number of cases.

in 1990, participation in AFDC surged in all states and the District of Columbia. This was a surprising development, as the recession of 1991 was mild compared to the deep recession of 1981–1982. Unemployment among never-married women (see Figure I.1) increased by just over 2 percentage points between 1989 and 1991, compared to a 4 percentage point increase in the early 1980s. The increase in caseloads was also surprising because, at the end of his second term, Reagan signed the Family Support Act of 1988, which required most welfare mothers without a child under age three to engage in education, work, or training under the Job Opportunities and Basic Skills Training Program (JOBS). If anything, the formal work requirement was expected to deter entry into AFDC. In spite of these reforms, welfare participation in the early 1990s accelerated at a pace unseen since the 1960s.

The timing of the surge in welfare caseloads could not have been worse from a state budgetary perspective because tax revenues plummeted with the recession. Funding for the AFDC program came from a federal-state matching formula that was set as a progressive function of the state's personal income (the same formula as the current Medicaid program); that is, poorer states had a larger fraction of their AFDC expenditure covered by the federal match. With the across-the-board increase in participation, state budgets were strained to meet the higher need. In search of relief, many states applied for waivers from federal program rules under Section 1115 of the Social Security Act in order to experiment (usually via demonstration projects) with their welfare programs. A total of 12 states were authorized to receive waivers under President George H. W. Bush's administration. During his 1992 campaign for president, Bill Clinton vowed to "end welfare as we know it," and by 1996, 43 states had received approval of waiver requests.

The waivers, which are described in detail in Grogger and Karoly (2005), varied in scope, ranging from work requirements to stringent sanctions for failing to work or participate in a training program to a time limit on benefit receipt. Not all waiver requests were "sticks" designed to deter participation; some were "carrots" designed to encourage work (e.g., higher earnings disregards) and asset accumulation (e.g., expanded liquid asset and vehicle equity limits). Many of the waivers were significant departures from post–New Deal thinking about entitlements, especially those waivers that time-limited benefit receipt and those that placed a cap on family size benefit adjustments. Probably more than any aspect of welfare, the ability to receive benefits year after year (assuming that a dependent child under age 18 was present in the family) undermined support for AFDC not only among detractors of government-sponsored assistance, but also among

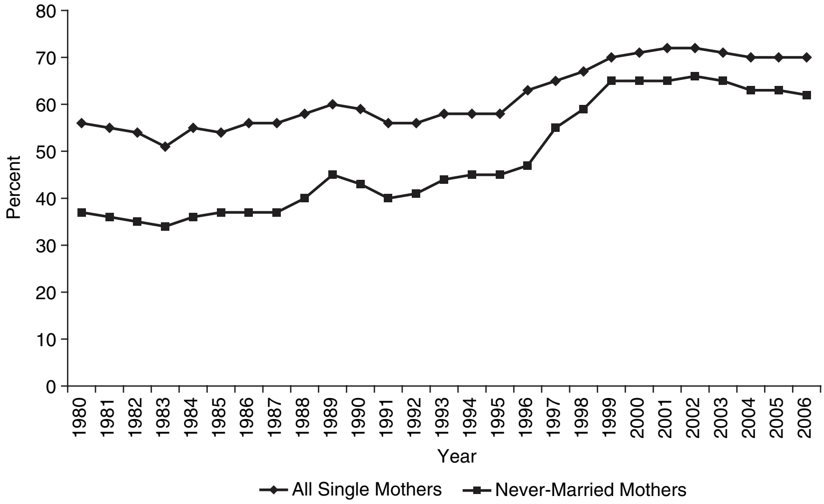

Figure I.2. Current Employment Rates of Single Mothers Ages 16–54, 1980–2006
Source: Author's calculations with March CPS data.

many inclined to provide prima facie support for such programs. Although most spells on AFDC were completed in less than a year, a sizable minority of recipients remained on it for a decade or more (Blank 1997). Time-limit waivers were thus designed to break long-term spells on AFDC. Likewise, notions of horizontal equity—the equal treatment of equals—led states to raise the size of the welfare check as the number of persons in the recipient family increased. However, some believed that more generous welfare benefits created incentives to have more children out of wedlock. Thus, family cap waivers were designed to eliminate these perverse incentives, even though the social science evidence supporting such claims has never been strong (Moffitt 1992).

From the perspective of states, the waivers seemed to be working. As seen in Figure I.1, AFDC caseloads peaked in 1993, and by 1996 they had already fallen below their 1991 level. However, there were simultaneously other important forces at work, most notably a growing macroeconomy and expansions in the refundable EITC. The nation's economy emerged from the recession at a rapid clip, driving down unemployment rates. Although some states recovered sooner than others, by 1995 unemployment was dropping in all states. At the same time, the OBRA of 1993 increased the maximum first-dollar subsidy rate of the EITC from 14 percent to 40 percent over the ensuing three years. Figure I.2, which depicts current employment rates of all single mothers ages 16–54 as well as those of never-married mothers,

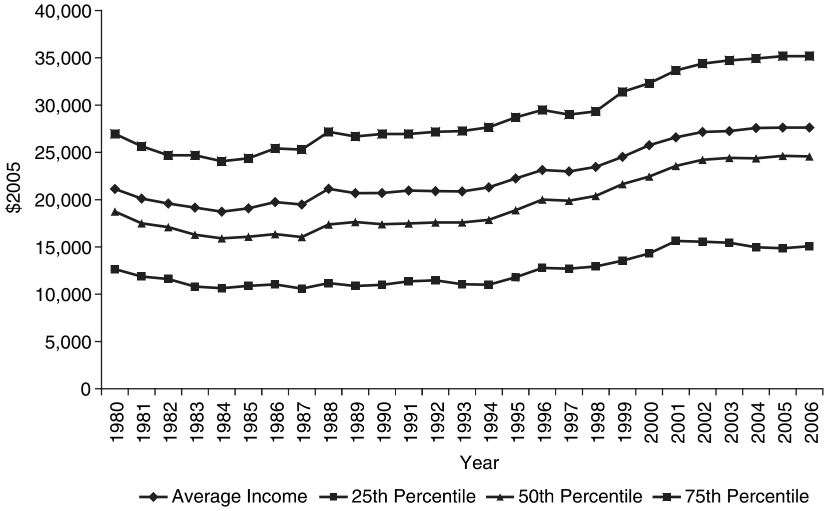

Figure I.3. After-Tax Incomes of Single Mothers Ages 16–54, 1980–2006
Source: Author's calculations with March CPS data.

shows that the primary population of welfare recipients responded to the economic and policy developments by increasing employment. Figure I.3 shows that after-tax incomes of single mothers started to rise, even in the first quartile of the distribution, and poverty rates fell (Figure I.4).[3]

A flurry of research emerged in the wake of these changes, primarily focused on the decline in welfare participation, the key policy outcome of interest at the time. In particular, the studies attempted to quantify whether the decline in caseloads between 1993 and 1996 was largely due to the welfare waivers, the macroeconomy, or other policies such as the EITC. The three most prominent papers in the group (Blank 2001; Council of Economic Advisers 1997; Ziliak et al. 2000) reached broad agreement that the macroeconomy was a critical determinant, but they disagreed on the amount and on whether welfare waivers had anything to do with the declines. The Council of Economic Advisers found that about one-half was due to the growing economy, while Ziliak et al. (2000) found that about

[3] The estimates in Figures I.2–I.4 come from the 1980–2006 Annual Social and Economic Study (March) of the Current Population Survey. In Figure I.2 employment rates refer to the month of the interview, whereas the income and poverty data in Figures I.3 and I.4 refer to the prior year. After-tax income in Figure I.3 is defined as gross income (the definition used in census poverty calculations), plus the dollar value of food stamps and school breakfast and lunch programs, less federal, state, and payroll tax payments (inclusive of the state and federal EITC). Poverty rates in Figure I.4 are based on the official census definition of income poverty.

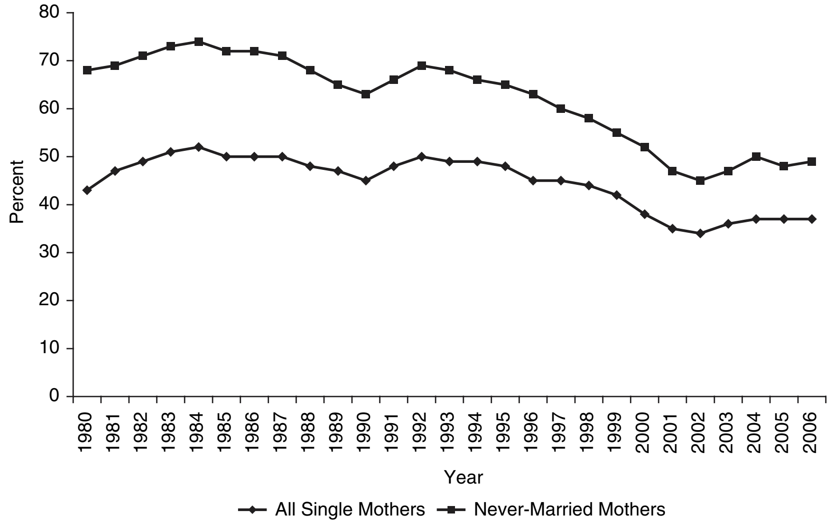

Figure I.4. Poverty Rates of Single Mothers Ages 16–54, 1980–2006
Source: Author's calculations with March CPS data.

three-fourths was due to the economy. The Council attributed about one-third of the decline in welfare caseloads to state waiver policies; Ziliak et al. attributed none of it to waivers. (Blank's estimates fell in between on both counts.) The difference in results stemmed from modeling choices, in particular whether explicit dynamics in caseloads were incorporated into the model (this is the approach of Ziliak et al.). Presumably the unexplained residual contributor to the caseload declines in all the papers was the expanding EITC, which made work relatively attractive. Indeed, Meyer and Rosenbaum (2001) attribute up to 60 percent of the rise in employment of single mothers between 1984 and 1996 to the expanded EITC.

II. Setting the Context: The Post–Welfare Reform Era

By 1996 the consensus in Washington was that welfare reform was a winning proposition at the federal level. To be sure, there were substantive differences over the content of the legislation across party lines, and between Congress and the Clinton administration, especially with regard to time limits and provisions restricting immigrants' access to programs. However, with the looming presidential election and the desire to fulfill his 1992 campaign pledge to end welfare, President Clinton signed PRWORA on August 22, 1996, thereby closing the final chapter on the AFDC program.

In addition to eliminating AFDC and creating the state block grant program TANF, PRWORA greatly expanded state authority over welfare program design. For example, under TANF, the new federal rules included a five-year lifetime limit on benefit receipt, but states had the option of lowering the limit to as little as two years, and many states chose that option (Grogger and Karoly 2005). States also had broad leeway on the amount of earnings that they could disregard prior to reducing the benefit, on the amount of liquid assets and vehicle equity they could exempt prior to losing eligibility, and on the stringency of work requirements and sanctions for failing to fulfill those requirements, among other factors. In some respects, PRWORA simply codified into federal legislation what many states were already implementing through the waiver process. Indeed, states that implemented a wide array of waivers left their welfare programs substantively unchanged after passage of the 1996 legislation. In other respects, PRWORA opened a completely new chapter in the development of the social safety net through the elimination of entitlement to cash welfare. In fact, the only remaining program in the safety net that resembles an entitlement is the Food Stamp Program. However, welfare reform did not leave food stamps untouched, as it removed many immigrants from eligibility and restricted benefits among healthy childless adults.

PRWORA had four main goals, not the least of which was to promote work and to end dependence on welfare. Based on the trends shown in Figures I.1–I.4, the first five years of the reform appear to have been a smashing success. The number of TANF recipients fell 55 percent between 1996 and 2000 to levels comparable to those of the late 1960s, and the employment rate of never-married single mothers soared nearly 40 percent. At the same time, after-tax incomes rose over 10 percent at the 25th percentile and higher, and poverty rates among all mothers as well as never-married mothers fell over 15 percent in the first five years after passage of PRWORA. These changes came as a surprise to many in the policy and research communities, some of whom had predicted dire consequences and others of whom had not predicted such large reductions in welfare use and poverty based on historic experience.

The social science research covering the waiver period and the first few years after the passage of PRWORA is comprehensively reviewed in Blank (2002), Moffitt (2003), and Karoly and Grogger (2005) and thus will not be reexamined here. Because the early research focused primarily on welfare caseloads, employment, and earnings, the three surveys necessarily emphasized those outcomes. But as Figures I.1–I.4 make clear, the employment gains, income gains, and poverty reduction came to a halt in the next five years after reform. From 2000 to 2005 there was a recession, the 9/11 terrorist attacks, two wars in Afghanistan and Iraq, major natural disasters such as Hurricanes Katrina and Rita, rising poverty, declining private health insurance coverage, and stagnant household incomes. How each of these macroeconomic and political forces interacts with welfare reform and the EITC to affect the lives of the poor over the longer term is not well understood and thus serves as the starting point for this book.

III. The Longer-Term Consequences of Welfare Reform

At the beginning of this decade, researchers started to shift their attention from caseloads and employment to a broader set of outcomes not covered in the earlier literature reviews, including health, marriage, fertility, consumption, and saving, among others. In Chapter One, Rebecca Blank provides a critical survey of this research, bringing the literature up-to-date on what we know about welfare reform leading up to the new work presented in the remaining nine chapters of the volume.

Blank's survey demonstrates that the expanded research shows highly mixed effects of welfare reform. Blank concludes that these studies show that welfare reform reduced access to health insurance, both public and private, but with little corresponding change in health outcomes. TANF did cause welfare caseloads to fall (accounting for about 20 percent of the drop in the few years after 1996) and employment to rise, but Blank also points out that the macroeconomy was the primary driver of the caseload decline even in the TANF period and that the EITC expansion had more to do with employment growth, much as it did in the waiver period. Welfare reform had little significant effect on child outcomes, some positive effects for toddlers and some negative effects for adolescents, but it did have a significant positive effect on the take-up of center-based child care. This is likely a direct result of the expansion of the Child Care and Development Fund that was included as part of PRWORA. Even though three of the four goals of welfare reform focused on marriage and fertility, the studies reviewed by Blank continue to reveal little effect of welfare on marriage and fertility choices, which is consistent with the historical evidence. Welfare reform also had little effect on consumption and saving, with the possible exception of increasing vehicle wealth.

Blank also discusses a key methodological challenge facing researchers using nonexperimental survey data after the 1996 reform, including some of the work contained herein, namely, that identification of TANF effects is greatly inhibited by the fact that the policy was implemented across all states within a relatively short period of time (roughly 18 months). In addition, while the bundle of policies differs in stringency (e.g., full benefit sanctions versus partial or no sanctions), the overall set of policies is basically congruent across states. This is in sharp contrast to the research on the welfare waiver period, when only a subset of states were adopting different waivers at different times over a four-year time horizon. The latter offered wide cross-state over-time variation in policy implementation to identify welfare waiver effects. Blank notes that some researchers have attempted to incorporate qualitative aspects of TANF programs as part of their empirical strategy, but most of them utilize a simple indicator variable that "turns on" in the month or year (or fraction of the year) when the TANF plan was implemented. Others have attempted to buy greater variation by interacting the TANF variable with other observed variables such as education, nativity status, and/or the business cycle. This is the strategy used by the authors of Chapters Two, Six, and Nine of this book to identify the effect of TANF.

Although the topical coverage expanded greatly in the early part of the decade, the work summarized by Blank is based primarily on survey data obtained no more than five years after passage of welfare reform. Only recently have enough postreform data become available, coupled with a complete business cycle, to address more comprehensively the effects of welfare reform over the long run. The remaining nine chapters are thematically linked in their focus on the intended and unintended consequences of welfare reform for single-mother families. A diverse array of survey and administrative data is brought to bear on varied outcomes including income, consumption, welfare and employment dynamics, health insurance, child well-being, and marriage. The chapters draw from major survey datasets such as the Current Population Survey (CPS), the Consumer Expenditure Survey (CE), and the Survey of Income Program Participation (SIPP); from two recent longitudinal surveys designed to follow low-income families after welfare reform (the Three-City Study and the Fragile Families Study); from random assignment experimental data; from a survey of social service providers in urban and rural areas; and from state-level administrative data. The use of multiple data sources offers a panoramic view of how welfare reform has affected low-income families across a number of outcomes, regions, and populations.

IV. How Has Welfare Reform Affected Income and Consumption?

There was general agreement that welfare waivers had a modest positive effect, and the EITC an even larger effect, on the earnings of single-mother families during the mid- to late 1990s. However, most of the research focused on average impacts, which limits our understanding of program effects at other points of the distribution, and none of it spanned a full decade after TANF was introduced. The latter is critical to a better understanding of welfare reform because, with the downturn and subsequent recovery of the macroeconomy in the early 2000s, it is now possible to examine whether the economy interacted with welfare reform to affect the economic status of families. In Chapter Two, Christopher Bollinger, Luis Gonzalez, and James Ziliak tackle these and related issues by estimating the effect of waivers, TANF and the EITC, and interactions of each with the business cycle and the education status of the mother, on earnings and after-tax incomes. They use 26 years of data from the March CPS to examine effects of policy and the economy at both the means and at several quantiles of the earnings and income distributions.

Bollinger et al. find that TANF and the EITC expansions raised the earnings of single mothers, but that both policies contributed to declines in after-tax income, especially among the low-skilled in the bottom half of the earnings and income distributions. They also show that strong local economies in the mid-1990s interacted with waivers to boost income and earnings gains among the less skilled. The estimates in Chapter Two suggest that the earnings gains among the low-skilled a decade after the implementation of TANF and expansions of the EITC have been more than offset by losses in transfer income and have left the most vulnerable single mothers behind. Some of the "claw-back" of transfer benefits is automatic as labor-market earnings increase, but the reduced after-tax income after the policy changes may also reflect the fact that some mothers are no longer receiving benefits even though they remain eligible. This seems to corroborate the findings of recent work by Blank (2007) on the growing ranks of "disconnected" single mothers who are neither working nor on welfare, and it raises the concern that deep poverty is not only expanding but has been exacerbated by recent policy changes.

It is well known that family income in a given year may not be an ideal indicator of the family's permanent economic status because job loss, illness, and a variety of other factors can make incomes volatile, a factor that is especially acute among low-income families (Jolliffe and Ziliak 2008). Consumption, on the other hand, often reflects a family's so-called permanent income; thus, an analysis of expenditures offers the opportunity to examine the longer-term impacts of reform on family well-being. In Chapter Three, Qin Gao, Neeraj Kaushal, and Jane Waldfogel examine the effects of social policy reforms, with a particular focus on the EITC, on expenditure and debt patterns of mothers. The focus on the EITC is