



Was Welfare Reform Successful?

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Welfare reform was passed by Congress and signed by President Clinton in August 1996. Back then there were many skeptics: several senior members of President Clinton's administration resigned in protest. Now, it is 10 years and many research articles later. What do we know about the success or failure of these policy changes?

The Clinton administration and state governors both pointed to the legions of people who went off the welfare rolls as a sign of

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success. But, what happened to these women and children once they left welfare? Did they find employment? Was their economic well-being higher or lower?

It turns out that those who left welfare did well enough to surprise the skeptics, myself included, but it remains hard to identify all the reasons.

THE REFORMS

The 1996 law (i) abolished the Federal Cash Assistance program, Aid to Families with Dependent Children (AFDC); (ii) turned program design authority for cash welfare assistance over to the states; and (iii) replaced the AFDC program with a federal funding stream to the states, the Temporary Assistance to Needy Families (TANF) block

grant. By giving the states primary authority for program design, the law eliminated the federal entitlement to cash assistance for low-income families with children. The new law gave the states strong incentives to push more welfare recipients into jobs or job placement programs. Furthermore, concerned about long-term welfare use, it mandated time limits on access to federally funded programs, limiting eligibility to 60 months over a woman's lifetime.

Most people who supported the legislation believed that it would reduce welfare usage and move more women more quickly into employment, increasing their earnings and leaving them better off in the long run. (While a small share of welfare-recipient families is married couples, 90 percent is single mothers.

I refer almost entirely to single mothers in this article, as they are the group of most concern.)

Critics of the new law worried whether the states would help women find employment, and feared the states would cutoff people from cash assistance without enabling them to find alternative income sources. The time limits were particularly criticized. Moreover, those who found employment in unstable low-wage and/or part-time jobs might not be able to fully replace welfare benefits with earnings and could end up worse off.

I was one of those wary about “welfare reform.” While substantial evidence in the mid-1990s indicated that the states could increase work and reduce welfare usage with well-run welfare-to-work programs, there was less evidence that family incomes would increase. I feared the effects of time limits and get tough welfare-to-work programs that pushed women into the labor market without providing resources to find reliable child care, or that pushed them into short-term unstable jobs that quickly ended, leaving them with neither earned income nor welfare benefits.

THE AFTERMATH

In the years following 1996, welfare reform became one of the most studied public policy changes in recent history. Researchers used administrative data to track welfare recipients over time; new data collection efforts were launched to provide additional information on the circumstances of ex-welfare recipients; and existing national databases were used to extensively study changes among single-mother families post-1996.

Welfare caseloads, which started to fall in 1994, plummeted from 1996 through 2000. By 2001, they were at their lowest level in 30 years, despite a vastly larger single-mother population. The caseload decline stopped and caseload numbers became flat after the early 2000s, as unemployment started to rise and jobs became scarcer. However, there was no caseload increase. Even the strongest supporters of welfare reform in 1996 would not have dared forecast the steep declines and continued low levels of welfare caseloads a decade later.

At the same time as welfare usage fell, work increased. Among single mothers, labor force participation rose from 44 to 66 percent

between 1994 and 2001—a much faster labor force participation growth than among any other group of women over this time period. Labor force participation tapered off somewhat in the slower economy of the early 2000s, and was down to 61 percent by 2004. Yet, it remains well above where it was in the early 1990s.

Finally, incomes rose, and earnings increases were larger than welfare benefit declines. The average income for single moms was around \$18,000 from the mid-1980s through the mid-1990s. Between 1995 and 2001, it rose to nearly \$23,000. Poverty rates among single-mother households fell to historically low levels by the late 1990s. While they have ticked up slightly in the past four years, they still remain well below where they were in the early 1990s.

It is worth noting that increases in employment were greater than declines in poverty. More women went to work, but only some earned enough to escape poverty. As a result, the share of working poor rose in the late 1990s and has remained higher than the early 1990s.

Some critics of welfare reform suggest that we are not adequately measuring the pain

associated with these changes. Our measures of income do not take into account increased work expenses that these women bear, nor do they measure changes in stress as mothers of young children juggle day care and jobs. There is at least some evidence that cohabitation has increased post-1996, and that a slightly higher share of children are living with adults who are not their parents.

The well-being of children following welfare reform is hard to study with existing data. In general, most research suggests that there do not appear to be large positive or negative effects on children as a result of welfare reform. Income increases in low-income families are generally associated with improved school performance and lower levels of behavioral problems among children, which suggests welfare reform should have had positive effects on children. The increase in the use of center-based child care, due to the growing availability of child care subsidies, seems to be associated with some positive behavioral and achievement effects for younger children. On the other hand, a few studies have found that more time spent at work by mothers seems to have had some small negative effects

on adolescent school performance.

One of the most troubling statistics is the rising number of single-mother families who report themselves as not being on welfare and not working; and their reported income appears inadequate. From our available data, it is simply hard to say how they are actually surviving. The research does suggest one group that seems clearly worse off following welfare reform: Those women who are involuntarily terminated from welfare benefits due to time limits or sanctions appear to have lower incomes and worse outcomes than others.

These are serious concerns, and suggest that some women have become worse off following welfare reform. However, the overall rise in incomes among single mothers and the decline in poverty suggest that many women did gain following welfare reform.

HOW MUCH WAS DUE TO WELFARE REFORM?

With low and stable welfare caseloads, increased numbers of single mothers at work, and higher incomes for single mothers, many politicians (particularly state governors) have declared welfare reform a major success.

The research on welfare reform's effects is somewhat more ambiguous. Welfare reform did not occur in a vacuum. In the mid-1990s, several other major policies changed and increased the rewards to work: substantial expansions in the Earned Income Tax Credit (EITC), increases in the minimum wage, expansions in child care subsidies, and ongoing efforts to broaden Medicaid to cover all children in low-income families. The economy boomed—1996 to 2000 saw low unemployment and rising wages among all skill groups and in all regions.

Only some of the major behavioral changes in the mid-1990s were due to welfare reform per se. Increases in EITC benefits and the ready availability of jobs in a booming economy were also important.

From a statistical viewpoint, it is hard to fully explain the major declines in caseloads and increases in employment. Most regressions explain—at best—one-third of the caseload and labor force changes. My own interpretation is that we don't know how to adequately specify the synergies that happened when all of these policy and economic changes pushed in one direction and were matched with a strong public

message that welfare was going to be much less available in the future and that work was going to be the only choice for the long term.

Nevertheless, it is clear that more welfare recipients were able and willing to enter the labor force than most of us would have predicted. The U.S. labor market, with a large number of lower-wage and lower-skilled jobs, does provide work opportunities—anybody who has watched either welfare reform or the growth in new immigrants over the past decade is very skeptical about claims that the U.S. is losing its low-wage jobs overseas. And, a high share of single mothers with younger children, when given some support for job searches, seem able to find and retain some employment. The rate for welfare leaving and job finding was much higher than I would have predicted, with real gains in income. The supporters of welfare reform a decade ago were right in claiming that more low-skilled single mothers could find work. Furthermore, these behavioral changes seem to have been maintained, even in the slower-growing and less job-rich economy of the early 2000s.

OPEN QUESTIONS

I am struck at how much we still don't know about these mid-1990s changes in behavior and well-being among single-mother families. Let me note three major issues that remain unresolved—and perhaps are irresolvable, at least given the data we currently have available.

First, we really don't know what combination of positive and negative incentives reduced welfare caseloads so dramatically. Was it the greater rewards to work (higher EITC payments, higher minimum wages, lower benefit disregard rates, etc.), the greater availability of work due to lower unemployment rates, or the greater effort within the welfare system to push people out (sanctions, time limits, messages that welfare was no longer available or desirable)?

Second, most observers (myself included) are puzzled not only by the rapid magnitude of these changes in the late 1990s, but also by their persistence in the 2000s when the labor market was no longer so hospitable. The economic problems of the early 2000s were focused in the manufacturing and traded-goods sectors. Strong consumer spending throughout the 2000s may have protected many welfare leavers' jobs,

typically located in the retail-trade or health-care sectors of the economy, but even women who lost jobs appear to have worked hard to find a new job or made do (perhaps with income from boyfriends or off-the-books work) rather than return to welfare.

I continue to believe that a deeper economic downturn that reduces jobs in the sectors where low-skilled women are employed would produce a renewed demand for cash support, but so far we haven't experienced that downturn. It is also possible that welfare offices in some states have become hostile enough to new applicants that increased applications will not produce increased caseloads. Other programs may have picked up some of the worst off who left welfare; for instance, many states actively worked to reduce their welfare rolls by moving some persons into the federally funded Supplemental Security Income (SSI) program for disabled adults and children.

Third, the question that most people asked following welfare reform was "Were the women and children better or worse off?" While there is a lot of evidence that work has increased and that earnings on average rose more than benefits fell, the translation of these facts into a definitive

statement about well-being is hard to make. More women are now working and poor, rather than nonworking and poor. More women are now paying for child care out of their earnings. More women appear to be sharing more income with other adults in their lives. Some of you who read this will immediately think that these results are good news; some of you will believe that these are problematic. The interpretation of these behavioral changes remains unsettled. We do not have the nuanced data on well-being nor do we have enough data on the long-term effects of these behavioral changes on children or families to yet make definitive pronouncements on the long-term successes and failures of welfare reform.

A decade ago, the U.S. took a major step in moving from a cash-support oriented welfare system to a work-support oriented system. Some of the primary public subsidies available to low-income families are now conditional upon employment. While there is broad consensus about demanding employment among those able to work, there remain large gaps in the system. Child care subsidies remain inadequate, particularly if we want women to utilize center-based care (and a growing amount of evidence suggests that

good center-based care improves child outcomes relative to other child care options). The lack of health insurance coverage for low-wage working adults (even as we've covered their children) continues to create problems. I worry that we have cut the availability of traditional welfare payments in ways that makes them inadequate for the ongoing groups in the population for whom employment (much less economic self-sufficiency) is just not possible. Particularly in the face of a major economic shock (such as we saw in the early 1980s), the current system of public assistance may not provide adequate support for many of our poorest families if high job losses suddenly occurred in this population.

But, the supporters of welfare reform tell me that I'm just too used to being a critic and can't acknowledge good news when I see it.

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