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My goal in this testimony is to clarify one of the most important issues in American social policy. This issue, which has been evolving since passage of the Social Security Act in 1935, has been brought to the forefront by the recession that now plagues us. The issue is who should be expected to work and how far should social policy go in demanding work.

The elderly, the disabled, and children are the easiest to deal with. Hardly anyone expects members of these large demographic groups to work, although even here there are important issues of definition. The definition of the elderly for the purposes of Social Security is being gradually increased from 65 to 67 as a result of recommendations by the Greenspan Commission in 1983.[1] Some policy analysts have recommended that the age of eligibility should be increased still further. There is little or no pressure from the public or major organized groups to change the definition of age for purposes of program eligibility, but it is a good bet that when Congress finally decides to seriously address the nation's cancerous budget deficit, the definition of elderly will get close scrutiny.

The definition of disability is one of the great conundrums of American social policy. There is a large class of people who have medically established physical disabilities about which there is little or no disagreement, although some people with extensive physical disabilities who could easily qualify for disability payments choose to work. The definition of emotional and behavioral disabilities is more tortured. I recall that during the debate over welfare reform in 1995, a senior analyst at the Congressional Research Service testified that, due to the interaction of unclear statutes and regulations plus confused interpretations of the statutes by the Supreme Count,[2] the definition of childhood disability in the Supplemental Security Income (SSI) program was essentially behaving in an age inappropriate way. Clay Shaw, the subcommittee chairman, immediately remarked that under that definition half the members of Congress were qualified for SSI.

The welfare reform law of 1996 significantly tightened the definition of disability in the SSI program. Before 1996, anyone found to be addicted to drugs or alcohol was entitled to a guaranteed cash benefit and health care coverage. The welfare reform law simply eliminated alcoholics and drug addicts from both the SSI program and the Social Security Disability Insurance program by dropping them from the definition of disability.[3] There may have been negative impacts on addicts who would have been eligible for SSI under the old definitions but are no longer eligible, but if there are no one has demonstrated them in a good study.

These definitional problems with age and disability are relatively modest compared with the lively debate conducted over the years about the eligibility of able-bodied adults – especially mothers – for welfare benefits. Before the 1996 reforms, mothers who met a test of low resources and low income were entitled to cash welfare from the Aid to Families with Dependent Children (AFDC) program and their entire family was covered by Medicaid and the Supplemental Nutrition Assistance Program (SNAP; formerly food stamps). From time to time Congress passed provisions that encouraged able-bodied mothers to work or prepare for work.[4] But these provisions were weak and ineffective. In a typical year before welfare reform passed, data from the Department of Health and Human Services showed that less than 10 percent of AFDC recipients participated in a work program or a program in which they searched for work. Few of these participated full-time. By contrast, nearly 35 percent of the caseload was enrolled in educational activities, although the evidence that these educational experiences led to work was minimal.[5]

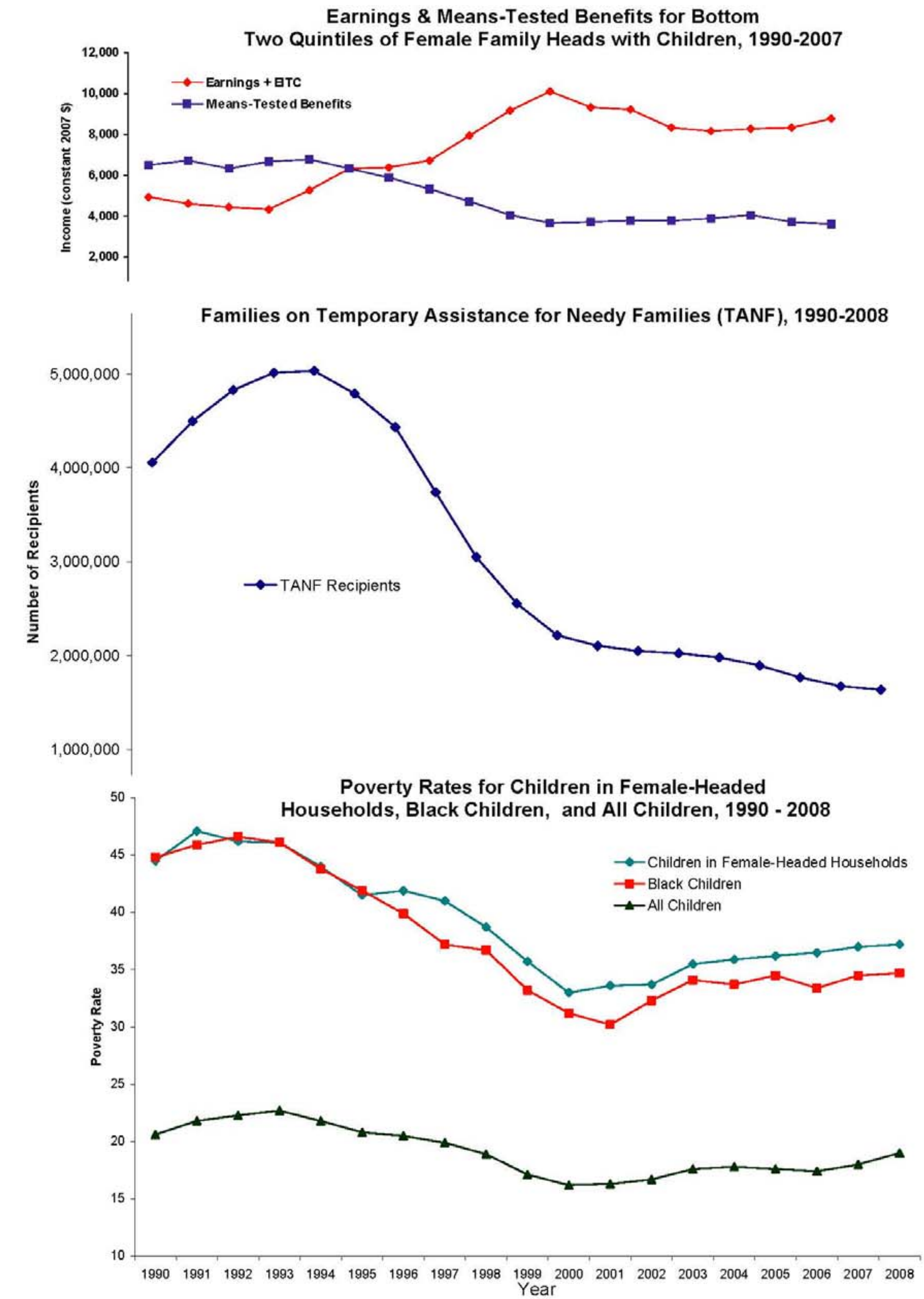
Perhaps the most important single issue in the 1996 welfare reform debate was that Republicans wanted to have tougher work requirements but Democrats were reluctant to put impoverished mothers at risk by penalizing them if they didn’t work. The Family Support Act of 1988 had strengthened work provisions somewhat, but still, as the data just cited demonstrates, the overwhelming majority of adults on AFDC did not work or prepare for work.

That changed with the election of President Bill Clinton in 1992 and the Republican takeover of Congress in the 1994 elections. Clinton campaigned on limiting time on welfare and emphasizing work requirements. Although he did not deliver on this promise in his first two years in office, upon achieving a majority in the 1995-1996 session of Congress, Republicans immediately introduced a bill that backed up work requirements with sanctions and time limits and provided states with a block grant featuring fixed funding that gave them a strong incentive to help adults leave welfare. The Republican bill strictly limited the amount of education that could count as work on the philosophy that only work led to more work. After a bitter Congressional fight that lasted until July 1996, a bill that had tough work requirements backed by sanctions and time limits passed on a bipartisan basis and President Clinton signed the bill in August 1996.[6]

This seminal legislation marked a fundamental change in American social policy.[7] The AFDC program, with its entitlement to cash welfare, was repealed and replaced by the Temporary Assistance for Needy Families (TANF) program. The new program emphasized work over welfare and was followed by unprecedented reductions in the welfare caseload and major increases in work by poor mothers (see Figure 1). Up to 70 percent of mothers leaving welfare found employment.[8] By 2000 the percentage of single mothers who were employed reached nearly 75 percent, an increase of over 20 percent since 1995 and the highest level ever.[9] Throughout this period, child poverty fell rapidly even as cash welfare payments fell, and both poverty among black children and poverty in female-headed families reached their lowest level ever (Figure 1). Even after the recession of 2001, employment among single mothers stayed well above its 1995 level and the poverty rate for children in female-headed families remained about 20 percent lower than before welfare reform. A reasonable conclusion from these numbers is that as many as 2 million or more of the mothers who had been on welfare were capable of productive work.[10] Thus, the AFDC definitions of who should qualify for welfare on a more or less permanent basis and who should be required to work had been flawed The 1996 reforms significantly changed the definition of who was expected to work and the willingness of the nation's social policy to penalize those expected to work if they didn't.

It is important to point out that most of the jobs taken by mothers leaving or avoiding welfare paid low wages, around $8 per hour in 2000.[11] Many of the mothers were nonetheless better off than they had been on welfare because Congress and a series of Presidents had expanded programs that provided cash and in-kind assistance to low-

Figure 1


Earnings & Means-Tested Benefits for Bottom Two Quintiles of Female Family Heads with Children, 1990-2007
Income (constant 2007 $)
Earnings + EITC
Means-Tested Benefits
Families on Temporary Assistance for Needy Families (TANF), 1990-2008
Number of Recipients
TANF Recipients
Poverty Rates for Children in Female-Headed Households, Black Children, and All Children, 1990 - 2008
Poverty Rate
Children in Female-Headed Households
Black Children
All Children
Year

income working families. Specifically, the Earned Income Tax Credit (EITC) and other tax programs, day care, SNAP, and Medicaid were all expanded or modified to make it easier for low-income working families to receive the benefits. The dramatic welfare-to-work revolution met the quiet and drawn-out revolution of expanded work support programs to produce a total family income for working mothers that was higher than welfare even for mothers who had low-wage jobs.

The story so far is a solid success for the nation's social policy.[12] But the current deep recession is raising a serious challenge to the optimistic picture I have painted. Now the employment of females heading families has declined almost to its pre-welfare level. The 1996 reforms were successful when the economy was strong, and even during a mild recession like that of 2001. But that recession was nothing more than a modest thunder storm; the current recession is a hurricane. The question arises: how does the TANF program perform in a hurricane?

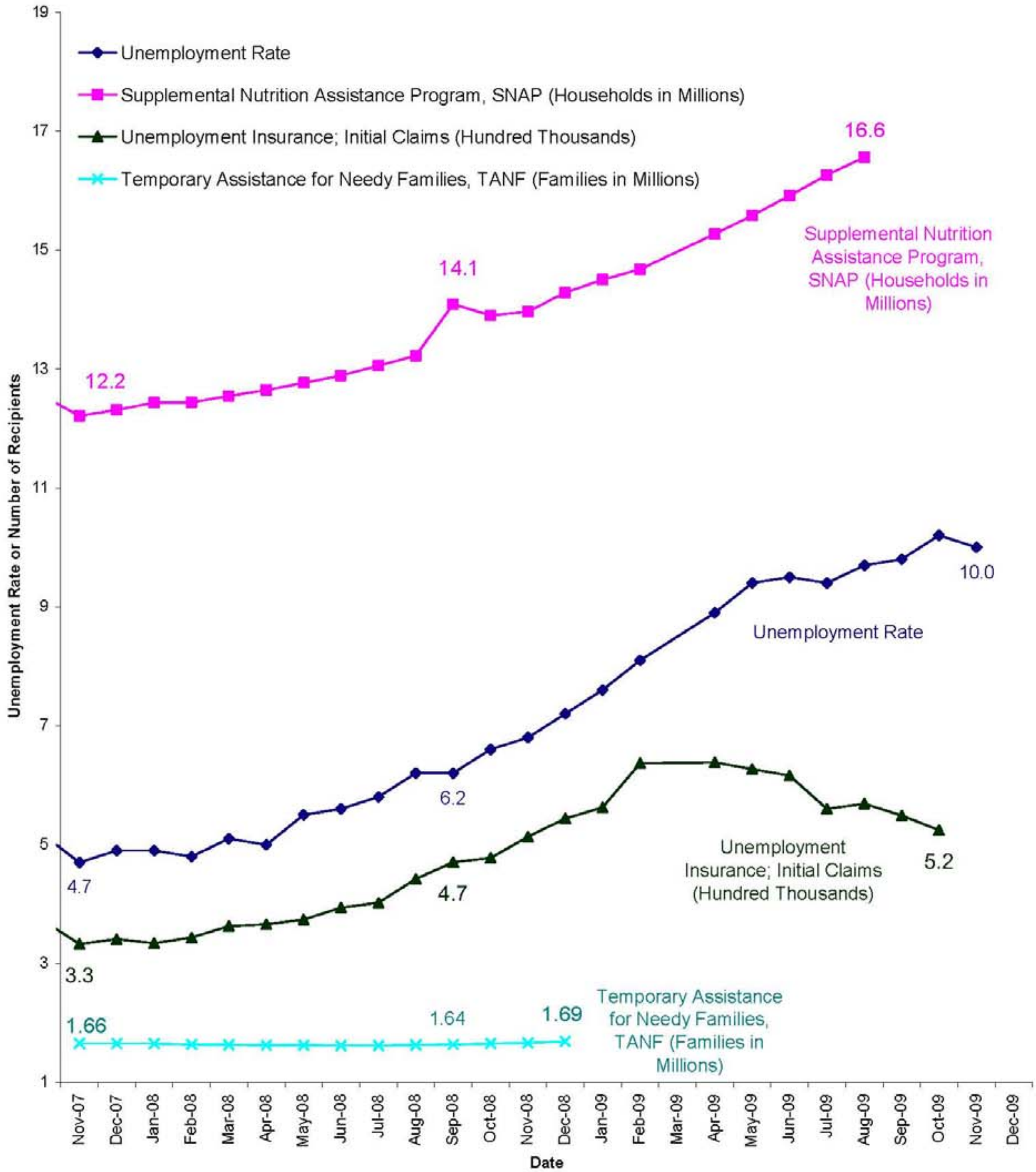
Figure 2 shows the unemployment rate, and enrollments in the TANF, SNAP, and Unemployment Compensation programs between November 2007, a month before the recession began, and either December 2008, August 2009, or October 2009 depending on the program and the availability of data. Assume that means-tested programs should automatically (without legislative action) increase during a recession; assume further that the unemployment rate is a useful measure of the severity of a recession. It follows that the graphs in Figure 2 for enrollment in TANF, SNAP, and Unemployment Compensation should follow the graph for the unemployment rate. Unemployment benefits and SNAP roughly conform to the pattern of unemployment, that is, as unemployment rises, enrollment in both programs rises as well. But TANF does not.[13]

More recently, a story published in June in the *Wall Street Journal*, based on a survey of 30 states that account for 88 percent of the U.S. population, found that the TANF rolls in 23 or the 30 states increased between March 2008 and March 2009.[14] The rolls in two states increased by more than 20 percent during this period. These findings, if confirmed by official data, suggest that the TANF program in many states may now be responding appropriately, albeit on a delayed basis, to the recession.

Should TANF, the nation's major cash benefit program for needy children, provide benefits to more people during a recession? Put this way, I think most Americans

Figure 2

Unemployment Rate and Number of Supplemental Nutrition Assistance Program (SNAP), Unemployment Insurance, Temporary Assistance for Needy Families (TANF) Recipients



and most members of Congress would say yes. But we don't need to rely on guesswork. There is direct evidence on this question in the case of members of Congress.

Anticipating that single mothers leaving or avoiding welfare would have trouble finding work during recessions, the authors of the 1996 reforms put three important provisions to fight recessions in the legislation.[15] The first allowed states to save federal dollars from the TANF block grant without limit for a rainy day (see Section 403(e) of the Social Security Act). As the welfare rolls declined after 1996, many states were able to save money because they were paying much lower cash welfare benefits. All of this saved money could be used to pay TANF benefits during a recession. The second provision allowed "needy" states that were experiencing high unemployment to, logically enough, count more job search as work. The third and most important provision, called the Contingency Fund, created a pot of $2 billion to be given to states that had high unemployment or substantial increases in SNAP enrollment during an economic downturn (see Section 403(b) of the Social Security Act). These three provisions demonstrate unequivocally that congressional Republicans and Democrats realized that recessions could be a problem for work-based strategies of helping the poor, that parents on welfare would have trouble finding jobs during a recession, and that states would therefore need more flexibility and additional funds to pay benefits to a rising caseload.

Over the first decade of welfare reform, this issue of giving states additional money to handle a rising caseload was moot. During the booming economy of the last half of the 1990s, only one state qualified for money from the Contingency Fund. Even during the rise of unemployment in the mild recession of 2001, only a few states qualified for Contingency funds because of the modest increase in the number of single mothers who lost jobs.

But now that a serious recession has arrived, many more parents have lost their jobs and as many as 18 states are now or have been qualified for contingency funds since the recession began. So many states have qualified that the Congressional Budget Office projects that the Contingency Fund will run out of money early in 2010.[16] Anticipating this evaporation of money from the Contingency Fund, in February of this year Congress put a provision for giving states up to $5 billion of additional money to pay for expanded welfare rolls in the American Recovery and Reinvestment Act (ARRA). This action, consistent on its face with the intent of 1996 law to give struggling states additional money during times of high unemployment, caused a partisan fight in Congress, with

Republicans charging that Democrats were trying to undermine the work requirements of the 1996 law.[17]

Leaving aside the political fight over the new emergency fund, and keeping in mind the fact that since 1996 it has been federal policy to give states more flexibility in meeting work requirements and more money when their caseload increases during recessions, we should now raise the question of why, as shown in Figure 1, states seem to have been slow to increase TANF enrollment during the current recession. National caseload data on TANF enrollment show that the caseload increased by only 3 percent between December 2007 when the recession began and December 2008 (Figure 2). Further, caseload declines continued in 20 states, including drops of over 10 percent in five states.[18] Why, in other words, is the TANF graph in Figure 2 so different from the graphs for unemployment compensation and SNAP?

There is no doubt that states are giving TANF benefits to a much smaller fraction of eligible families that ever before. In 1995 before welfare reform, fewer than 900,000 of the families qualified for welfare benefits did not receive them; by 2005 this figure had increased to well over 3 million and it seems likely that the figure is higher still today. There are several possible explanations for why eligible parents are not being enrolled in the TANF program. These include increased stigma of being on welfare that makes families more hesitant to sign up; the alternative many mothers have of living with partners, friends, or relatives who have income; and living for a period on savings or borrowed money. But some of these families with children are facing difficult financial challenges, especially when there are more than three times as many of them as there were before welfare reform.

Another possible explanation of the sluggish increase in TANF enrollment is that states, now in the worst financial shape they have been in for decades, have taken various actions to prevent parents who cannot find a job from coming on welfare. Foremost among these actions could be requirements – such as a 30-day job search before qualifying for welfare – that states impose on adults applying for welfare. Many states also conduct a protracted application process that could feature administrative hassle for applicants, causing some to give up before the application process is completed. Another administrative technique to trim the caseload is strict enforcement of rules that can lead to families losing their welfare benefit because of minor infractions. A recent survey of states conducted by the Urban Institute indicates that 42 states have programs that aim to "discourage enrollment" as the Urban Institute puts it.[19] On the other hand, many states operate diversion programs that try to help adults intending to join the welfare rolls find jobs instead. Depending on how states help these parents find jobs, the diversion approach can make great sense for some families, especially those who would like to avoid welfare if they can.

Another possible explanation for the delay in TANF caseload increases is that administrative problems are causing state TANF programs to take longer to respond to rising unemployment. As we have seen, last year, with unemployment rising rapidly, the national TANF caseload continued to decline in 20 states and rose only 3 percent nationally. The trend toward increasing caseloads is continuing this year, and many more states are experiencing caseload increases. When we have complete data on TANF caseloads for 2009, it could well be found that caseload increases are greater in percentage terms than in 2008 and that many of the 20 states with declining caseloads in 2008 are now experiencing caseload increases. Thus, state TANF programs may be responding to the recession by bringing more families onto the rolls, but with a time lag. Further, some states may be responding more quickly than others. Because TANF is a state administered program, it is to be expected that evaluations of state performance in responding to the recession will show large variability across states.

Conclusion

Congress and the administration should carefully investigate the response of the TANF program to the recession that began in December 2007. Next year's reauthorization of the 1996 welfare reform law provides the perfect opportunity to learn a lot more about the response of TANF to the recession and on the basis of this knowledge to determine whether additional reforms are required.

In conducting its investigation, Congress and the administration should define its goal as understanding how to maintain the strong work requirements in the TANF bill while providing temporary cash assistance to destitute families that cannot find work. The impact of the 1996 welfare reform law on employment and earnings by poor single mothers shows that most of these mothers are capable of finding jobs and improving their total family income during normal economic times. It would be a serious mistake if the nation's response to the current recession were to dismantle the 1996 reforms and return to an AFDC-like program that provided cash welfare with few or no strings. That major policy shift would solve the problem of admitting more destitute mothers to welfare during a recession, but it would return us to the days when millions of able-bodied mothers accumulated on the rolls and became victims of welfare dependency.

Moreover, the combination of strong work requirements in the TANF program and the system of supplemental benefits provided to low-income workers – especially the EITC, SNAP, child care, and Medicaid – is the most effective poverty fighting strategy the nation has developed since the War on Poverty began in the 1960s. That strategy enabled us to achieve the lowest poverty level among female-headed families and among black children ever recorded within four years after passage of the 1996 welfare reform law. Most – but not all[20] -- of those concerned about the well-being of low-income families, regardless of their political views, now realize that families cannot escape welfare unless they work.[21] A return to the pre-1996 policies that caused welfare dependency is a return to a policy of guaranteed poverty.

However, even the below-poverty benefits of TANF and SNAP are better than no public support when parents cannot find work. The nation's welfare system should be premised on strong work requirements, but it should also adapt when unemployment rises and allow workers who can't find jobs and who are not qualified for Unemployment Compensation to receive cash welfare. The 1996 reformers recognized this principle and included provisions in the law intended to make sure states had greater flexibility and enough money to pay for expanded welfare rolls during recessions. Similarly, the current Congress recognized the problem and drafted a new provision, included in the ARRA that would provide states with additional funds to ensure they could pay for expanded welfare rolls.

Despite these provisions, it appears now that many states may have been too slow to take destitute families back on the rolls. We lack sufficient information to determine exactly why states may have been slow. So let's use next year's welfare reform reauthorization to find out. Permanent policies made during a recession are likely to constitute an overreaction to dire circumstances. My own view is that the TANF structure of strong work requirements with provisions for flexibility and additional funds during recessions is sound but that its provisions on helping states have enough money on hand to increase their rolls when parents experienced high levels of unemployment may not have worked as planned. Our goal now should be to find out why and to determine what changes in federal and state policy would allow states to respond more quickly and completely during the next recession – but without any permanent loosening of the work requirements.

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[1] National Commission on Social Security Reform, *Report of the National Commission on Social Security Reform* (Washington, DC: Social Security Administration, January 1983).

[2] *Sullivan v. Zebley*, 493 U.S. 521 (1990).

[3] Similarly, the definition of childhood disability was tightened so that approximately 100,000 children were dropped from the SSI roles and many hundreds of thousands of children have since been denied SSI coverage under the new definition. Taken together, the two changes in the definition of disability are now and will continue to save taxpayers billons of dollars each year.

[4] House Committee on Ways and Means, *1990 Green Book* (Government Printing Office, 1990), pp. 337-545; House Committee on Ways and Means, *1994 Green Book* (Government Printing Office, 1990), pp. 337-359.

[5] House Committee on Ways and Means, *1996 Green Book* (Government Printing Office, 1996), pp. 423-424

[6] The combined House and Senate vote was 406 to 122. See Ron Haskins, *Work Over Welfare: The Inside Story of the 1996 Welfare Reform* (Washington, DC: Brookings Institution Press, 2006), p. 331.

[7] The bill also greatly reduced welfare benefits for noncitizens which removed a disincentive to work; ended the SSI benefits of drug addicts and alcoholics which removed a disincentive to work; and simplified and increased funding for child care, which provided an incentive to work.

[8] Gregory Acs and Pamela J. Loprest, *TANF Caseload Composition and Leavers Synthesis Report* (Washington, DC: Urban Institute, March 28, 2007).

[9] James Ziliak has shown that the employment rates of never-married mothers, the group most likely to be on welfare, increased even more rapidly than the employment rates of all single mothers; see James P. Ziliak, editor, *Welfare Reform and Its Long-Term Consequences for America's Poor* (Cambridge: Cambridge University Press, 2009), pp. 4-5.

[10] Ron Haskins, *Work Over Welfare: The Inside Story of the 1996 Welfare Reform* (Washington, DC: Brookings Institution Press, 2006), Chapter 15; Rebecca M. Blank, "What We Know, What We Don't Know, and What We Need to Know about Welfare Reform," in *Welfare Reform and Its Long-Term Consequences for America's Poor*, edited by James P. Ziliak (Cambridge: Cambridge University Press, 2009); Jeffrey Grogger and Lynn A. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge: Harvard, 2005), Chapters 5-7.

[11]Gregory Acs and Pamela J. Loprest, *TANF Caseload Composition and Leavers Synthesis Report* (Washington, DC: Urban Institute, March 28, 2007).

[12] I have argued elsewhere that two important problems with welfare reform were that some mothers who lost their cash welfare did not work steadily. As a consequence, many of them were worse off financially than they had been before welfare reform. Another serious issue is that most of the mothers leaving welfare failed to move up the job ladder to jobs with higher wages and employee benefits. There remain serious issues that should be examined thoroughly if Congress takes up reauthorization of welfare reform as scheduled in 2010. See Ron Haskins, *Work Over Welfare: The Inside Story of the 1996 Welfare Reform* (Washington, DC: Brookings Institution Press, 2006), Chapter 15; Rebecca A. Blank, "Improving the Safety Net for Single Mothers Who Face Serious Barriers to Work," *The Future of Children* 17, no. 2 (Fall 2007): 183-197.

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[13] These data are consistent with a front page story in the *New York Times* on February 2 that drew attention to the claim that TANF was underperforming during the recession; see Jason DeParle, "Welfare Aid Isn't Growing as Economy Drops Off," *New York Times*, February 2, 2009, p. A1.

[14] Sara Murray, "Numbers on Welfare See Sharp Increase," *Wall Street Journal*, June 22, 2009.

[15] A fourth provision, the ability to borrow money at interest from the federal government, was little used.

[16] Personal conversation with Jonathan Morancy of the Congressional Budget Office on December 7, 2009. See also http://www.acf.hhs.gov/programs/ofa/tanf/apprTANFemerfund.html.

[17] Sara Murray, "Numbers on Welfare See Sharp Increase," *Wall Street Journal*, June 22, 2009, A1.

[18] Urban Institute, "Highlights of State TANF Programs in 2008," Washington, DC: Author, 2009.

[19] Ibid.

[20] Peter Edelman and Barbara Ehrenreich, "Why Welfare Reform Fails the Recession Test," *Washington Post*, December 6, 2009.

[21] The combined maximum cash benefit from TANF plus the cash value of SNAP benefit provides families with income equal to about half the poverty level in the median state. See House Committee on Ways and Means, *2008 Green Book* (Government Printing Office, 2008), pp. 7-51 to 7-52.