

Welfare Reform in the United States: A Background Paper

Michael Wiseman
University of Wisconsin–Madison

Abstract

A remarkable convergence of political developments produced a major change in the U.S. welfare system in 1996: the Personal Responsibility and Work Opportunity Reconciliation Act. This article reviews recent welfare policy history in the United States, surveys the major issues in welfare reform, outlines Democratic and Republican proposals, and summarizes the new legislation.

It is argued that the new initiative will increase the hardship experienced by the poor over at least the next few years. The act's changes in federal funding for public assistance plus state responses to new fiscal incentives the legislation creates are likely over time to increase, rather than reduce, the federal role in welfare finance, if not administration. The new welfare system presents an administrative and political challenge to governors and indirectly to political leadership in the nation's cities. Despite reduced federal regulation of public assistance, the federal government still has an important role in program evaluation.

Keywords: Policy; Welfare; Federal

Introduction

One of the commonly accepted rules of national leadership in the United States is that focus is essential: Any president who attempts too many things at once sacrifices his ability to mobilize public opinion or to concentrate media attention. The better strategy, according to conventional wisdom, is to line up the targets and fire at them one by one. Problems arise, however, when targets change while waiting in the queue and other people are also taking shots. For President Bill Clinton, welfare reform was such a case.

Like most presidential candidates since the 1960s, Bill Clinton campaigned for office promising welfare reform. Once he was elected, however, President Clinton moved welfare changes well back in the queue of supplicants for his attention as deficit reduction, the North American Free Trade Agreement, crime,

and health care took precedence. Prodded by members of Congress impatient with the strategy of delay, the administration finally released its welfare reform program, the Work and Responsibility Act (WRA), in June 1994. But by this time the game had changed, and the proposal faced substantial competition. The act joined 21 other reform bills already introduced in the House of Representatives or the Senate.

WRA was largely forgotten as the country prepared for midterm congressional elections. But welfare reform was not dead; Republicans campaigned on a platform, the Contract with America, that called for reductions in welfare benefits, time limits for assistance receipt, and a work requirement. Within three weeks of their resounding victory, House Republicans began circulating draft legislation that would dramatically change the national welfare system. By mid-1995 both the House of Representatives and the Senate Finance Committee had approved welfare reform legislation incorporating many provisions of the contract. As the 1996 presidential election approached, incentives developed for both the White House and Congress to reach agreement on change, resulting in passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA).

This article surveys the major issues surrounding welfare reform, outlines the competing proposals for reform, reviews PRWORA, and comments on the outlook for further reform. I argue that the likely outcome of the coming struggle over welfare reform is, at least over the next few years, increased hardship for the poor. Contrary to popular wisdom, however, I also argue that the new legislation is likely to produce a larger federal role in welfare and more difficulty for governors than would have been the case given continuation of the programs ended by welfare reform. Because so many poor families using public assistance are located in central cities, many of the consequences, both positive and negative, of the reform effort will be concentrated there. Welfare reform is in essence an urban policy issue.

The welfare system: The big four

By convention, the term “welfare” is applied to programs of public assistance that give aid to individuals or families on the basis of need and means. There are many such programs in the United States, including locally funded and state-funded general relief; various housing assistance programs; the Low-Income Home Energy Assistance Program; school lunch and breakfast programs; and the Special Supplemental Food Program for

Women, Infants, and Children (WIC). The four means-tested programs most important to the national welfare reform debate are Aid to Families with Dependent Children (AFDC), food stamps, supplemental security income (SSI), and Medicaid. AFDC gives cash to needy families with children; food stamps are special coupons that indigent families and individuals can use to purchase food; SSI provides income to needy aged, blind, and disabled persons; and Medicaid provides health care for the poor. PRWORA replaced AFDC with block grants to states for Temporary Assistance for Needy Families (TANF) and altered eligibility standards for food stamps and SSI. The TANF block grant allows states to sustain the AFDC program for at least the coming fiscal year, and as a result the changes have yet to affect either programs or caseloads significantly. Thus I begin with discussion of welfare before PRWORA. I then turn to predictions of how states will change the welfare system under block grants.

Both the Food Stamp and Medicaid programs include some individuals and families not receiving AFDC, and it has been illegal to draw both SSI and AFDC benefits at the same time. Only about half of food stamp recipients and one-third of Medicaid recipients are in AFDC households (U.S. House Committee on Ways and Means 1996). Nevertheless, prior to PRWORA, AFDC was viewed as the core of welfare, and for both politicians and citizens "welfare reform" was often taken to mean changing AFDC. This focus reflects to some degree the fact that of all means-tested programs for families, only AFDC delivered benefits in cash and not commodities such as food, housing, or health care. As a result, AFDC lacked the strategic advantage of a "producer" as well as a "recipient" constituency. SSI also lacks a producer constituency, but the program has the political advantage of addressing the needs of the "worthy" poor. SSI and AFDC were linked because some households combine groups receiving AFDC with individuals receiving SSI. For reasons detailed below, the number of recipient households in this situation is increasing.

Extreme reform in the United States means "ending welfare as we know it." The problem is knowing welfare as we end it: What can we say with confidence about public assistance as practiced before 1996? How will these characteristics be changed by PRWORA? These issues are controversial. What was known about AFDC and the rest of the welfare package at the start of reform can be roughly divided between numbers and judgments.

An overview of the numbers¹

I choose 1993, the year between the election of President Clinton and the landmark congressional election of 1994, as point of reference.

Caseload trends. Political concern about welfare has been driven in part by exceptionally rapid recent caseload growth. Between 1980 and 1989, the AFDC caseload grew by about 5.5 percent (figure 1). Between 1989 and 1993, the caseload grew by 33 percent. Part of this acceleration is attributable to the recession of 1990 to 1992. However, the economic downturn at the beginning of this decade was by most measures no more severe than that of 1980 to 1982, when the caseload response was much less.

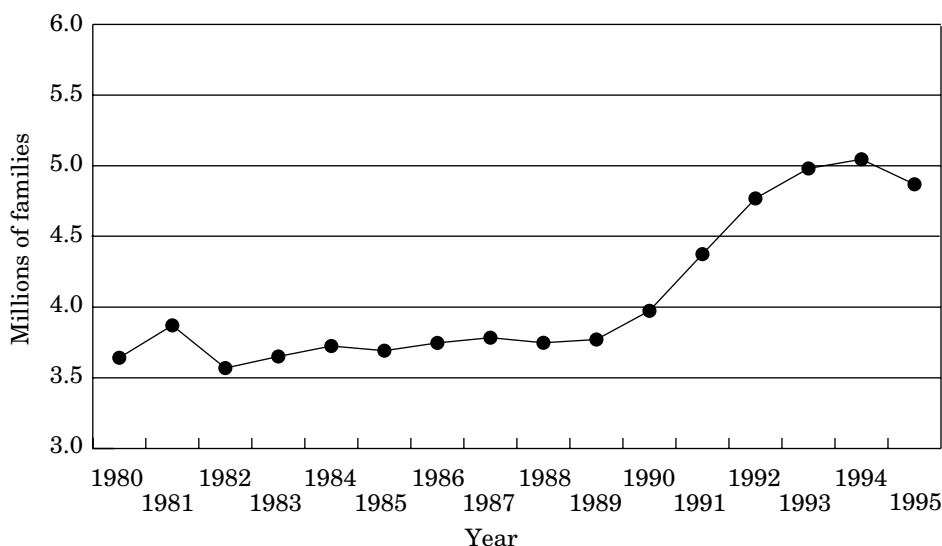
These trends produced a substantial increase in the proportion of American children living in families at least partly dependent on welfare. In a typical month in 1980, about 1 child in 10 lived in a family receiving AFDC; by 1993 the odds had increased to 1 child in 8. Almost 14 percent of American families with children received AFDC during an average month in 1993; a higher proportion received such benefits at some time during the year.

Welfare costs. Between 1980 and 1993, the welfare caseload grew by 39 percent. Over the same interval, real outlays for the “big four” transfer programs grew by 116 percent, and the composition of welfare outlays changed in ways that affect both the state and federal share of outlays and the effect of the system on poverty. These changes have had important consequences for welfare politics in the 1990s.

A number of observations can be made by examining constant-dollar expenditures on AFDC, food stamps, SSI, and Medicaid for 1980 through 1995 (table 1):

1. *Effort has increased.* It is difficult to argue that the national antipoverty effort has diminished since President Carter’s last year of office. In addition to outstripping the rate of growth in the AFDC caseload over this interval, the 116 percent growth in overall real outlays for public assistance substantially exceeded growth in population

¹ Wherever possible, this article relies on data from a single source, the *Green Book* (U.S. House Committee on Ways and Means 1994, 1996). Specific citations are given only where computations were involved or the *Green Book* location might be difficult to identify. A detailed list of citations is available on request from the author.

Figure 1. AFDC Caseload, United States, 1980–1995 (Monthly Average)

Source: U.S. House Committee on Ways and Means (1994).

Note: Data for 1995 are preliminary.

(13 percent), in real gross domestic product (36 percent), and in the number of poor children (29 percent). The rate of growth accelerated after 1985.

2. *Medicaid is the villain.* While national effort at public assistance may not have decreased, it has been redirected. Most (80 percent) of the increase in assistance outlays is attributable to rising costs of Medicaid. In 1980, Medicaid accounted for 45 percent of outlays in the four categories identified here; by 1993 this share had grown to 63 percent and was continuing to rise. While approximately 36 percent of Medicaid recipients are in AFDC households, this group accounts for only about 30 percent of Medicaid outlays. Costs for members of other served groups (the elderly, the disabled) are typically much greater. From 1980 to 1988, the share of payments on behalf of AFDC recipients in Medicaid costs fell. Between 1988 and 1993, the share grew by 25 percent. Thus, while AFDC-related Medicaid costs are slightly less than a third of Medicaid outlays, the growth of this segment during the period leading up to the Contract with America was exceptionally rapid.

Table 1. Outlays on Public Assistance, 1980-1995

Program	Total Expenditures (1993 \$, Billions)			Annual Rate of Increase (%)		Cumulative Increase (%)	Program Share of Public Assistance Outlays (%)				Federal Share of Program Costs (%)	
	1980	1993	1995	1980-85	1985-93		1980-93	1980	1993	1995		1980
AFDC	22.1	25.2	24.4	-0.6	2.1	14.1	23	12	11	55	55	54
Food stamps	16.2	26.3	26.2	1.6	5.1	62.0	17	13	11	96	94	94
Medicaid	43.8	132.0	149.0	4.1	11.9	201.4	45	63	65	56	57	57
SSI	14.6	25.6	28.7	1.5	6.3	75.3	15	12	13	76	85	88
Total	96.8	209.2	228.3	2.3	8.6	116.2	100	100	100	66	65	65

Source: U.S. House Committee on Ways and Means (1996).

Note: Dollar figures are deflated using implicit price deflator for gross domestic product.

3. *AFDC is the loser.* Outlays for AFDC benefits grew more slowly than the number of AFDC recipients from 1980 to 1993 (a 14 percent increase compared with a 33 percent increase). Thus, real cash benefits received by individual families declined. States set the level of AFDC benefits. Between January 1985 and January 1994, the maximum AFDC grant for a family of three in the median state (based on benefits) fell from \$461 to \$367 (a 20 percent decrease) in constant (January 1994) dollars.²

The decline in AFDC benefits was in part offset by food stamps. The food stamp benefit is based on income from all sources, including AFDC. As a result, when AFDC benefits go down, part of the decline (about 30 cents per dollar) is offset by increasing food stamps. Food stamp benefits are indexed for price changes, and benefits change to adjust for prices at the beginning of each federal fiscal year (October 1). If food stamps are added in, the decline in median benefit between 1985 and 1994 is reduced to about 5.5 percent, from \$696 to \$658 in constant dollars.

The bottom line is that “spendable” welfare (i.e., food stamps and AFDC) has become increasingly federalized over the past 13 years as states have lowered AFDC benefits while food stamp benefits have been sustained.

4. *SSI lost, too.* The basic SSI benefit is wholly federally funded. The law permits (and, in some instances, requires) states to supplement the federal payment. Currently, all but eight states provide some type of supplement to the federal benefit. However, over time state SSI supplements have not kept up with inflation, while the federal benefit has. The result is that the direct federal share in overall SSI costs has increased (see table 1) and food stamp benefits paid to

² The maximum grant was calculated from *Green Book* data (U.S. House Committee on Ways and Means 1994, 366–67 and 375–77) and comparable data from the same volume for earlier years. Population data were taken from the U.S. Bureau of the Census (various years). The median value used here is not that reported by the Ways and Means Committee. The *Green Book* ranks states and the District of Columbia by benefit and then locates the benefit value halfway down the list (in 1994 this was Maryland). From a national perspective, a more appropriate approach is to rank states and the District by population, move down the list until half of the national population is accounted for, and then use the benefit value associated with that state (Illinois in 1994). This method has the advantage of not treating Wyoming and California as equivalent observations in assessing AFDC. While the approach taken here may be theoretically preferable, in practice the two approaches lead to similar conclusions concerning benefit trends.

SSI recipients have also gone up. This too has increased the federal share of the costs of aiding the SSI target population.

5. *The state share remains unchanged.* The federalization of spendable welfare cited above would be expected to increase the federal share in overall assistance payments. In fact, the federal share of the cost of AFDC, food stamps, SSI, and Medicaid combined did not change at all over the 1980–95 interval. The reason is clear from table 1, and the culprit has already been identified. Medicaid outlays grew much faster than food stamp and SSI benefits combined. The federal government still pays only slightly more than half the costs of Medicaid. The rapid growth in total Medicaid outlays kept the overall federal share at slightly less than two-thirds.

The reasons for state cutbacks in AFDC and SSI are controversial. Practically speaking, state discretion in Medicaid operation and benefit setting is constrained, and for the most part states have been forced simply to pay for the spiraling costs of the health care system. These cost pressures have undoubtedly spilled over to produce reduction in outlays on other fronts, including AFDC and SSI benefits. But incentives are also at work, and some portion of this behavior is definitely strategic.³ State governors and legislators are aware that benefit cuts are in part offset by food stamps. Moreover, any AFDC recipient—child or adult—who can be shown to meet federal disability criteria produces a substantial savings because the assistance payments for that person may be shifted to SSI and federal funds. Most state welfare agencies now specifically detail some caseworkers to promote SSI eligibility for AFDC applicants and recipients.

Strategic response to federal welfare law is also evident in Medicaid. Part of the increase in federal Medicaid outlays has been generated by state artifice. Some states collect funds from

³ Much of the empirical literature on welfare focuses on the effect of transfer system incentives on the behavior of individuals. The issues raised in this paragraph involve the effect of incentives on the behavior of state governments. The nature of these responses and the relative importance of general budget effects versus specific incentive effects in producing the outcomes evident in table 1 remain unresolved. Moffitt's (1992) review of welfare incentive effects skirts the issue of the system's impact on government decision making but asserts that states reduced both AFDC benefits and the level of real Medicaid benefits after 1975. The measure Moffitt uses to assess the value of Medicaid benefits is, however, crude, and the calculated downward trend in the benefit may have more to do with Medicaid reimbursement procedures than any change in benefit as perceived by recipients.

agencies involved in Medicaid provision either as “donations” or as taxes earmarked for the program. These self-imposed expenses are then fully reimbursed, and the costs are used to claim federal matching funds, which also go in part to providers. The Urban Institute (1995) reports that state revenues from this source grew from \$400 million in 1990 to \$7.8 *billion* in 1992. Even under the generous assumption that all funds accumulated by states in this way were used for actual Medicaid costs, the implication is that the outlays reported for 1993 and 1995 in table 1 are inflated by at least \$8 billion to \$10 billion and that the real federal share is larger than the table suggests. Even with this adjustment, Medicaid remains the largest component of the growth of state public assistance costs.

In sum, despite cutbacks, states have not found substantial fiscal relief in public assistance policy. Although the states were clearly attempting to reduce their fiscal contribution to social welfare costs, the rapid increase in Medicaid offset the attempt so that as late as 1995 the states’ apparent share was virtually the same as it had been 13 years earlier. Given the failure of national health insurance reform, it was likely that states would seek fiscal relief in other ways. The fact that states do respond strategically to the incentives created by federal assistance policy is important, because PRWORA changes state incentives substantially.

Welfare and poverty. At the same time that outlays for public assistance were increasing, so too were poverty rates. In 1980, 18 percent of all children lived in families with reported incomes below the federal poverty standard (approximately \$12,000 in current dollars for a family of three); by 1993, the proportion was 23 percent. The 1995 poverty rate among all persons, children and adults, was 13.8 percent; in 1980, it was 13 percent, and it has not fallen below that level since.

The official poverty assessment is based solely on cash income. As a result, the apparent failure of antipoverty policy is attributable in part to the omission of the benefits of major systems (Medicaid and food stamps) in assessing family circumstances. In addition, the poverty rate is evaluated without adjustment for taxes paid (it is based on “pretax, post-cash-transfer” income), so variations in purchasing power that result from changes in state and federal taxes, including subsidies such as the earned income tax credit (EITC), are also not acknowledged. One set of adjustments that takes account of in-kind benefits, taxes, and possible overadjustment of the poverty standard for cost-of-living increases reduces the official poverty rate for 1993 from 15.1 to

10.7 percent. However, growth in poverty since 1980 under this adjusted measure is greater than is recorded using the official index.

Since 1980, American welfare costs have increased while cash benefits have declined, the poverty rate is substantially higher, and the cost of welfare to states continues to rise faster than personal income or other taxable resources.

Judgments

The persistence of poverty in the face of substantial fiscal effort for public assistance is a great puzzle for American citizens and a great frustration for American politicians. In part, poverty may endure because structural changes in the national economy have reduced opportunities for persons with few skills to increase their productivity and income. However, it is common to argue that the welfare system itself shares fault for poverty trends by exacerbating both the incidence and the persistence of need among some families. Most critics emphasize one or more of the following seven allegations.

Welfare is inadequate. Cash benefits are clearly low, and as the data presented earlier indicate, benefits are declining. In many states, welfare does not provide a stipend adequate to support a recipient involved in training for better paying (and above-ground) jobs. Consequently, to meet minimum household expenses, some recipients seek surreptitious sources of cash. Given firsthand appreciation of the dilemma of trying to live on too little, caseworkers who see modest fraud are tempted to look the other way. Even if system operatives were inclined to do more to suppress such transgressions, the costs of policing are substantial and the benefit savings are likely to be small. In this context AFDC appeared to subsidize the underground economy while at the same time allowing recipients without access to supplemental income to suffer.

Welfare discourages work. Welfare programs all involve compromise in the face of three incompatible goals: (1) ensuring an adequate benefit to those without other means, (2) encouraging efforts at self-support, and (3) minimizing overall program costs. An adequate guarantee can be sustained financially only if payments can be limited to people with incomes at poverty levels or below. But such limitation requires that as earnings increase, payments must decline. This welfare benefit reduction acts like a tax on earnings. When combined across AFDC, food stamps, and

other means-tested programs, the benefit reduction rate applied to additional wages at some earnings levels can exceed 100 percent; that is, \$100 in additional earnings per month may reduce benefits by more than \$100 and lead to a net loss of income. This surely discourages efforts at self-support. However, it is disingenuous for critics to dramatize the consequences of the disincentives generated by benefit reduction without acknowledging the tradeoff dilemma.

Welfare destabilizes families. Two-parent families in which the principal earner is unemployed were eligible for AFDC payments if needy by AFDC standards.⁴ Needy or not, two-parent families in which the principal earner was working more than 100 hours a month were denied access to AFDC, even if wages earned were low enough to qualify, in the absence of the 100-hour restriction, for AFDC supplementation. Given this restriction, in some instances it may have been strategic for a principal-earner parent who found a full-time job to leave the household, especially if the job did not provide health benefits. The working parent's absence would qualify the caretaker parent and the children for ongoing AFDC and Medicaid, even if the absent parent paid child support, as long as payments fell below the income level used to determine AFDC eligibility. Like the work incentives problem, the potential for encouraging abandonment is inherent in most welfare schemes. As long as public assistance is available to single parents with children, and absent parents can find ways of providing financial support that do not lead to reduction in assistance payments, an incentive exists for such separations to occur. Such incentives may have been exceptionally strong in AFDC because the 100-hour requirement could create situations in which full-time employment of an adult led to dramatic reduction in family income and access to medical care.

Welfare encourages illegitimacy. Welfare benefits increase with family size, and until recently in most states, teenage mothers could receive AFDC on their own. Nonmarital births in the United States increased by 82 percent between 1980 and 1991; in 1993, about 31 percent of infants were born to unmarried mothers. The problem is particularly severe among some minority

⁴Families qualified on this basis are in what is termed AFDC-U. Inclusion of AFDC-U was a state option until passage of the Family Support Act of 1988, which required all states to adopt the program by 1991. Some were allowed to restrict payments under AFDC-U to six months or less per calendar year. Even after the program was made universal, the number of cases qualified under the AFDC-U provisions was far smaller than the number receiving benefits as the result of absence or disability of a parent. Of the 5 million AFDC cases open on average every month in 1993, only about 7 percent were AFDC-U.

households. Currently more than two-thirds of births to African Americans occur out of wedlock. Critics argue that welfare facilitates the growth in nonmarital births.

The attention given to the issue of births outside marriage in the political debate over welfare reform is growing, but its relevance is controversial. Shortly after the passage of WRA in June 1994, a group of 79 prominent scholars in fields related to poverty and welfare reform issued a statement denying that welfare programs are among the “primary reasons” for trends in out-of-wedlock births. They argued that the link between welfare and such births is belied by two facts: (1) nonmarital rates have been rising as welfare benefits have been falling, and (2) state-to-state variation in AFDC payments is not closely linked to state-to-state variation in out-of-wedlock childbearing. Nevertheless, it is possible that the social dynamic leading to increasing numbers of nonmarital births, once initiated, does not reverse with modest benefit declines, and what counts in state-to-state comparison is not the absolute level of benefits but the value of welfare compared with earnings opportunities in local labor markets.

Welfare is static and myopic. Historically, the AFDC, Food Stamp, SSI, and Medicaid programs have been present oriented. The central administrative issue in determining both eligibility and payments has been assessment of the family’s status (or individual’s status, in the case of SSI) at the beginning of the month; this status determines eligibility and payments. Critics argue that at least the cash portion of the core system should be refocused on change: reducing dependence on welfare through a planned sequence of service interventions that lead to employment.

Welfare costs are distributed inequitably. Before PRWORA, the federal government paid for virtually all food stamps and most SSI costs but in aggregate only slightly more than half the cost of AFDC and Medicaid (table 1). The federal share of AFDC and Medicaid costs varied from state to state on the basis of per capita income; it was 79 percent in Mississippi and 50 percent in California. Large, high-income states historically have provided higher levels of benefits; critics claim that such benefits lead to in-migration of welfare recipients from less benevolent states and reduced out-migration of poor persons who might have better job prospects elsewhere.

Interstate variation in benefits has diminished in recent years as benefit levels in high-benefit states have eroded. Food stamps

further reduce the effect on spendable income of interstate variation in AFDC. Between 1985 and 1993 the variance across states of combined AFDC and food stamp benefits fell by almost 30 percent.⁵ By 1993 interstate variation in Medicaid benefits was also far less substantial than interstate variation in AFDC.

At the same time that effects of benefit differentials on interstate migration may have been diminishing, international migration has served to increase welfare caseloads in some states, notably California and Florida. While undocumented aliens are not eligible for AFDC and food stamp benefits, children born in the United States to such families are. Since immigration and border patrol fall within the domain of federal policy, it is argued that the financial consequences of such policies should not fall disproportionately on the states in which immigrants, documented and otherwise, congregate.

Welfare is done badly. No one thinks that public assistance in the United States is managed well. Beyond the distortions created by the various alleged incentive effects, administration of the program is complicated by program overlap and inconsistency. Despite the fact that eligibility and payments procedures for AFDC and food stamps are generally handled within the states by the same agency, eligibility criteria, income reporting, and payments procedures differ substantially and in ways unconnected to the objectives of either program. Conflicts multiply when Medicaid, SSI, and various housing assistance programs are added. A Welfare Simplification and Coordination Advisory Committee established by Congress in 1990 to examine the problem of program overlap concluded its 1993 report with a "primary recommendation" to "replace the numerous programs that currently serve the needy with one, family-focused, client-oriented, comprehensive program" (Welfare Simplification and Coordination Advisory Committee 1993, vii).

The problem of reform

The litany of indictments suggests that the U.S. welfare system is a ripe target for government reinventing. The lesson of recent American history is that welfare reform is hard to accomplish, and as bad as some problems are, the system can be made worse by ill-considered fixes. There are several reasons for this.

⁵ This calculation is based on benefits weighted by population. See footnote 2.

Poverty is complex

The welfare system in part mirrors the complexity of poverty in general. Simple solutions for many, if not most, poverty issues are elusive, and the enthusiasm of even the most zealous reformer often dims as special case after special case is identified. In general, the less experienced the author is with poverty and welfare operation and the farther the author is from the nearest welfare office, the simpler the solution proffered.

Goals conflict

Many of the objectives of welfare reformers conflict. The most important conflict is the triad of work incentives, adequate guarantees, and total costs already discussed. A similar conflict arises with respect to assets. Welfare is for people in need, and traditionally persons with substantial assets have not been thought needy. As a result, eligibility tests for AFDC, food stamps, and Medicaid all include asset standards. AFDC required that the family possess no more than \$1,000 in assets other than home or automobile equity. In celebrated cases, the ongoing eligibility of families has been challenged because children accumulated excess savings (allegedly for college) from part-time work. On the one hand, the ability of the family to save seems to suggest that welfare benefits exceed current consumption need. On the other hand, such savings may provide the means by which independence from welfare is secured.

The conflicts of objectives have an important political consequence: The system is always vulnerable to attacks on specific features. For example, critics can construct a strong case that work, or at least near-full-time employment, for many welfare recipients simply would not pay and therefore the system is irrational. Responding to this charge requires an artful explanation of the tradeoff between incentives and benefit adequacy that quickly exceeds the grasp of junior reporters, let alone the attention span of the distracted citizen voter. Moreover, any such defense quickly brands the speaker as a champion of the system as a whole, a role few desire to play. The result is that most challenges go unanswered, and over time, this silence has enhanced the credibility of those claiming that welfare as we know it must be ended. Nevertheless, the sad experience of generations of reforms has been that tradeoffs survive programs, and ending welfare as we know it will not leave the architects of any new system unencumbered by the facts of life.

Congressional responsibility for welfare is fragmented

Like many other welfare reform proposals, the 1993 recommendation of the Welfare Simplification and Coordination Advisory Committee calling for a single, comprehensive welfare program was greeted with resounding silence. The constituencies for the various programs differ, as do the committees of Congress responsible for oversight. AFDC (and its PRWORA replacement), food stamps, and Medicaid fall within the jurisdictions of 13 congressional committees and 15 subcommittees. If assisted housing is added, the jurisdiction expands to 17 committees and 19 subcommittees. As a result, it is difficult to find a champion for the “one comprehensive program” of public assistance that reformers often seek.

Knowledge is scarce

Even if Congress could be mobilized, appropriate strategies for dealing with some, perhaps most, poverty issues remain uncertain. It is one thing to assess income and assets, to calculate payments, and to deliver checks on time. It is quite another to bring about change—the objective of interventionist, dynamic welfare proposals. Considerable controversy exists concerning the best approaches to reducing pregnancy rates among teenagers, increasing child support, moving people into jobs, and the like. Such uncertainty makes it inappropriate to legislate specific strategies, even when agreement can be reached on objectives.

Change is costly

Finally, most welfare reform proposals, especially those that call for increased intervention in recipients’ lives, at least initially increase welfare costs. Uncertainty about the consequences of interventions renders estimates of such costs also uncertain. The political failure of both the Nixon administration’s Family Assistance Plan and the Program for Better Jobs and Income proposed by President Carter is attributable in part to congressional and public concern over the short- and long-run costs of substantial changes in welfare, especially when such changes require major increases in the federal government’s responsibility for program funding and operation. One surprising development during the summer of 1994 occurred when the Congressional Budget Office (CBO) initially estimated that the Clinton welfare reform plan would actually cost less than what was at the time the

leading Republican proposal. The difference was attributable largely to differences between the two proposals in the number of welfare recipients required to participate in mandatory work programs. Such programs are costly to run, and the Republican proposal called for participation by a much larger number of recipients than did the administration's plan.

The welfare reform consensus

Despite the substantial problems faced, change has taken place in welfare policy over the past 10 years. Prior to PRWORA, the most important single piece of reform legislation was the Family Support Act of 1988 (FSA). FSA grew out of a "new consensus" on welfare reform strategies that began to appear in the mid-1980s. The key ideas underlying this consensus are that (1) work is an obligation, (2) parents should be responsible, (3) tagging is appropriate, (4) management matters, (5) reform must come from both without and within, and (6) reform must be incremental. It is item 6, the necessity of an incremental strategy, that emerged by the beginning of the 1990s as the greatest stumbling block to bipartisan consensus.

Work is an obligation

One of the most important changes in the American social landscape is the change in labor force participation among women with children, including those with preschoolers. This change has generated political support for efforts to move welfare recipients into the labor force. Beginning with welfare reforms initiated by President Reagan in 1981, emphasis has increasingly been placed on bringing labor force participation about by requiring it rather than eliciting it through the use of financial incentives. The shift from incentives to requirements reflects the difficulty, already cited, of including financial incentives for work in a welfare system that provides adequately for those with no income but keeps costs down by limiting support for those with earned income. FSA established a national program called JOBS (Job Opportunities and Basic Skills) to support training and job search by public assistance recipients.

Parents should be responsible

Given the recent increase in the number of births to unmarried mothers, a substantial consensus exists that efforts must be

strengthened to identify fathers, obtain child support awards, and require that awards be paid. In 1991 (the latest year for which such data are available), there were 9.9 million women in the United States who were caring for children in the absence of their fathers. Of these, 44 percent had never been awarded child support rights. For poor mothers, the proportion without such awards was 61 percent. Even when awards had been made, only 70 percent of poor women reported actually receiving payments. Whether or not welfare encourages parental irresponsibility, lack of child support is clearly a major factor in both child poverty and welfare dependence.

Tagging is appropriate

Welfare policies must be sensitive to family and individual circumstances. For example, full-time training programs are less appropriate for mothers with very young children than for mothers whose youngest children are in high school. Since local economies differ, the training programs appropriate for one community will likely differ from those appropriate for another. FSA offered states considerable flexibility in setting up the JOBS program and required targeting available resources to recipients thought most at risk of long-term dependence. Tagging opens the door to variation across recipients in welfare agency strategy. For those likely to leave on their own, no intervention may be needed. For others, appropriate work-oriented services and procedures are likely to vary according to the skills and experience the recipient already has. If welfare is to be change oriented and money is to be spent on helping change take place, “one size fits all” makes no sense.

Management matters

Tagging and service variation require an agency capable of interpreting policy and managing the budget at the level of the local welfare office. It is one thing to apply rigid eligibility and payment standards and to achieve accuracy in check writing. It is quite another to construct and sustain a case management process intended to improve recipients’ lives as much as possible given a limited services budget. Work-oriented welfare reform involves finding ways to create capacity and incentives at the local level that are appropriate to ensure that local operators see national (or even state) objectives as their own. This is a difficult task, both because orientation toward change usually has not been part of the “culture” of welfare management and because so

much of what goes on in street-level welfare operation is difficult for higher levels of management to observe. Nevertheless, there is general agreement that welfare reform will happen only if incentives for operating agencies are changed.

Reform must come from both without and within

A common objective of welfare reformers is to assist those capable in leaving assistance altogether. It makes sense to do this by both improving the operation of the welfare system and increasing the security and income enjoyed by persons who are not dependent. Most adult AFDC recipients are single mothers with children; an effective system for securing reliable payments for child support from noncustodial parents might increase the willingness of such mothers to venture into jobs at modest pay. The child support system operates outside of welfare. FSA substantially increased the federal role in promoting development of effective child support systems in the states. Other means of enhancing the security of low-income families not receiving assistance include improving access to health insurance and reducing taxes applied to low wages.

Reform must be incremental

Unlike both the Family Assistance Plan and the Program for Better Jobs and Income, FSA was not presented as “comprehensive welfare reform.” Rather, the strategy was explicitly incremental—expanding federal oversight of child support, remolding existing welfare employment programs to make JOBS, and modestly increasing the coverage of the system by mandating a limited form of AFDC for two-parent families for those 23 states that lacked it. The essence of an incremental reform strategy is to seek modest system changes that address problems while recognizing both technical tradeoffs and political realities. Incrementalism has a bad name because each step generated by such strategies typically satisfies no one, and there are certainly some problems that cannot be solved piecemeal. But, unlike changes planned by more aggressive reform strategies, incremental changes get done, and over time change may accumulate to the point that what was once viewed—and avoided—as an unacceptable risk no longer appears to be so. Moreover, an incremental strategy tends to bring immediate focus on the difficult administrative tasks of implementation and to prevent separation of the relatively easy job of ending something from the much harder job

of devising a replacement. The linkage is a useful discipline for the political process surrounding welfare reform.

Reform, research, and the state initiatives

The FSA welfare reform episode was exceptional in another respect. While congressional debates over the Nixon and Carter reform proposals paid some attention to social science research, the outcomes were little affected, one way or another, by the results of experimental program evaluation. In contrast, most participants in the passage of FSA attach great importance to the role of research in securing bipartisan consensus on the bill. As is explained later, this legacy plays a double role in subsequent reform development.

Omnibus Budget Reconciliation Act demonstrations and welfare waivers

The research that made the difference involved studies of state welfare-to-work programs initiated during President Reagan's first term. Reagan came to office with considerable experience in welfare reform in California. The new administration's initial policy was to increase substantially the latitude granted states in designing and operating the AFDC program, and this latitude extended to allowing states to introduce "workfare" programs in which recipients could be obligated to do public service jobs in exchange for benefits. Congress was unwilling to accept the entire program, but in the Omnibus Budget Reconciliation Act (OBRA) of 1981, the discretion granted states to operate welfare employment and training programs was increased. Congress also accepted a key Reagan policy and substantially curtailed the financial incentives for work that were included in AFDC benefits calculation. Taken together, these actions represented a retreat from a "carrot" approach of encouraging employment among welfare recipients, in favor of treating self-support as an obligation. The reversal in approach was consistent with the "work is an obligation" feature of the emerging political consensus.

Following passage of the 1981 act, several states moved quickly to implement more ambitious job search, public service employment, and training programs for AFDC recipients and, in some cases, AFDC applicants. In a number of cases, such programs were initiated only in parts of the state or required relaxation of certain federal regulatory requirements. The enabling legislation

for the AFDC, Food Stamp, and Medicaid programs includes provision for waiver of some requirements for state experiments or demonstrations that have objectives consistent with program goals, in the judgment of the U.S. Department of Health and Human Services (HHS). Eventually 24 state demonstrations were initiated.⁶

Role of the Manpower Demonstration Research Corporation

Waiver approval typically requires the inclusion of program evaluation as part of a state's welfare reform demonstration. In the aftermath of the 1981 OBRA, a remarkable act of entrepreneurship occurred, attributable in part to the generosity of the Ford Foundation.⁷ A nonprofit organization supported by Ford, the Manpower Demonstration Research Corporation (MDRC) of New York, approached many of the states and offered to conduct the evaluation of whatever welfare-to-work demonstration was undertaken. There was one proviso: The evaluation had to be conducted using a so-called classical experimental design. This meant that the demonstration's net effects had to be evaluated by comparing outcomes—employment, earnings, welfare receipt—among demonstration participants with the same outcomes among recipients from a control group, selected at random not to participate in program activities. The states acquiesced in this approach for a variety of reasons, including that it was supported by HHS, that MDRC representatives were persuasive, and that random assignment provided an impartial procedure for rationing scarce program resources.

By 1986–87, MDRC began to publish the results of the demonstrations. The firm followed a consistent announcement format that simplified presentation to the media and facilitated synthesizing results. By 1986, MDRC's president, Judith Gueron, was willing to aggressively promote a portfolio of findings.⁸ The state demonstrations, she asserted, showed that (1) OBRA-initiated welfare-to-work programs had statistically significant but modest effects on the likelihood that welfare recipients found jobs

⁶ For a discussion of these initiatives, see Greenberg and Wiseman (1992). Some counts are larger because definitions of what constitutes a welfare reform demonstration vary.

⁷ This episode was discussed in detail several years ago in a symposium published by the *Journal of Policy Analysis and Management*. See Wiseman (1991) and the other papers in the same volume.

⁸ These were published in 1987 by the Ford Foundation (Gueron 1987).

over fixed intervals following accession to welfare; (2) such effects were evident in a variety of approaches and in a variety of settings; and (3) at least some of the interventions were cost-effective—that is, program costs could be offset by reductions in welfare benefits and increases in earnings and taxes paid by recipients. Moreover, the obligations imposed by some demonstrations (others were voluntary) did not appear onerous and were, judged from survey findings, viewed positively by recipients.

However modest, the near universality of the MDRC assessments gave many governors—including Governor Clinton of Arkansas—material to tout.⁹ Up to that time, welfare policy was rarely seen as an opportunity for gaining political advantage. Also, by repeatedly emphasizing that observed impacts were significant but not large, Gueron managed to communicate the novel (to politics) notion that modesty, rather than hyperbole, in the description of program impacts was a virtue. Indeed, the very smallness of the effects seemed to lend credence to MDRC's claims. This effect was enhanced by MDRC's emphasis on the importance of random assignment evaluation as the foundation of meaningful assessment.

It was common for Gueron to end any presentation regarding what was known with emphasis on what was not. She was determined to prevent others from exaggerating or overextending the results of the OBRA demonstrations. This restraint seemed to have three effects. Her caution and scientific responsibility inspired confidence in the conclusions she was willing to venture. At the same time, numerous unanswered questions left by the state initiatives, plus the governors' discovery that there might be political gold in the hills of welfare reform, stimulated further state experimentation. But above all, Gueron's was a conservative message: There was no magic solution to the welfare problems, but if care was taken, progress might be made, one demonstration at a time. This was an incrementalist message, consistent with the last of the six elements of the reform consensus cited above.

As laudable as the overall MDRC accomplishment was, three aspects of the effort have arguably had negative effects on subsequent welfare policy development. First, MDRC analyses emphasized outcomes—the net difference in earnings, labor force

⁹ Arkansas experimented with a combination of job search assistance and assignment of some recipients to unpaid “work experience” jobs in local government. The program was called WORK—a name that reappears in later policy history. The MDRC evaluation is by Friedlander et al. (1985).

participation, and welfare receipt between experimental and control groups. The evaluations paid little attention to process—what exactly it was that states did—beyond providing general program descriptions. Since virtually everything that states did had a positive effect, the implication was that as long as minimal levels of expenditure were accomplished, something good was likely to happen. If this were the case, the outcomes MDRC had found in a few experiments could, by extension, apply to many others, even if not rigorously evaluated. Second, by focusing on outcomes rather than process, MDRC put off the day of reckoning for many demonstrations. In welfare, it is common and reasonable to expect policy effects on welfare caseloads to take a long time to materialize. In the interim, all sorts of accomplishments may be claimed if no one is actively monitoring and reporting on implementation. For those whose motivations for welfare reform included political considerations, the lesson was to announce demonstrations, to claim the benefits ascribed to such things by MDRC, and then to postpone evaluation and, indeed, even implementation as long as possible. Finally, MDRC may have focused too much on communication with Congress and too little on making vital contacts in the states. Although people are always talking about welfare reform in Washington, by the late 1980s the center of gravity of welfare reform was beginning to shift away from the Potomac.

One of Gueron's unanswered questions concerned scale. Most of the OBRA demonstrations were quite small, involving a modest number of welfare offices and covering only a small fraction of the recipients who might be eligible for services were the innovation to be implemented generally. The outcomes assessed by MDRC covered only the consequences for this small "treatment" group. It is a substantial leap of inference to claim that what states managed with a few hundred (or, in some cases, a few thousand) recipients could be expanded and sustained statewide. Yet for many the message of the demonstrations was that states were capable of reforming welfare, promoting employment, and saving substantial amounts of money if the straitjacket of federal regulation could be removed.

The two tracks and state welfare reform initiatives

President Reagan and the Family Support Act

Growing consensus on goals of welfare reform did not imply consensus on means. Beginning in 1986, welfare reform in the

United States began to develop on two separate tracks, both of which had roots in the OBRA demonstrations.

One track was national. The results of the OBRA demonstrations supported the political consensus that produced FSA. The JOBS program was fashioned with reference to the state OBRA demonstrations, and the legislation explicitly called for an evaluation of the program's effects by random assignment. The evaluation, by MDRC, is ongoing (Hamilton and Brock 1994; HHS 1995). Liberals were willing to accept training, job search, and some work requirements in return for a national mandate for welfare for two-parent families because OBRA had shown, according to MDRC, positive benefits and little recipient resentment. Conservatives appreciated the increased emphasis on obligation and the broader state discretion in program design that FSA offered. President Reagan said that FSA would help families achieve "lasting emancipation from welfare dependency" (Rich 1988).

The second track was routed through the states. In his 1986 State of the Union Address, President Reagan revived interest in welfare reform by renewing his call for it. This cue was taken up in Congress by the architects of FSA, but the president himself followed up by appointing a special subcommittee of the White House Domestic Policy Council (the Low-Income Opportunity Working Group) to work on welfare reform. The report of the working group called for increasing the latitude granted states for demonstrations and encouraging greater breadth in approach. An Interagency Low-Income Opportunity Advisory Board was established to coordinate waiver policies for demonstrations that involved, in addition to the employment and training interventions characteristic of the OBRA experiments, such novelties as the substitution of cash for food stamps ("cashing out" the stamps), altering work incentives in benefit calculation, and creating incentives for teenage welfare dependents to stay in school.

Welfare reform in the states

The Bush initiative. By 1991, a variety of state demonstrations were under way. However, with the exception of major initiatives in Washington State and Alabama, most of the demonstrations were modest in both objective and size. In 1991, the Bush administration made a strategic decision to encourage state welfare demonstrations as a means of establishing an initiative in this area at minimal federal cost.

In his 1992 State of the Union Address, President Bush encouraged states to continue efforts to “replace the assumptions of the welfare state and help reform the welfare system” and promised to make the waiver process “easier and quicker.” The response was swift and substantial. Between the State of the Union message and the end of the Bush administration the following January, 22 state applications for waiver-based welfare reform demonstrations were received. Of these, 14 were approved and the remaining 8 proposals were carried over to the Clinton administration. None were denied (Wiseman 1993).

Following precedents established by the Reagan administration’s Interagency Low-Income Opportunity Advisory Board, the Bush administration applied two standards in dealing with these initiatives. To be approved, waiver-based demonstrations had to be cost neutral and rigorously evaluated. A demonstration was cost neutral if it would not add to federal welfare outlays. Rigorous evaluation meant, for the most part, evaluation by random assignment. The two criteria were linked: A demonstration’s effects on costs were assessed by comparing costs between control and experimental groups. States were obligated to cover the difference between federal per-case costs for the controls and federal per-case costs for recipients in the experimental group. Content did not play a major role in waiver strategy.

Clinton policy. Since the ambitious waiver program was largely a Republican initiative, one might have expected the new Democratic administration to curtail waiver-based welfare demonstration activity. Instead, two weeks after his inauguration, President Clinton promised the National Governors’ Association that his own administration would continue to support state demonstrations, as long as the results were “honestly evaluated.” The result was rapid growth in the number of waiver applications and waiver-based demonstrations approved. In the interval between Clinton’s inauguration and the 1994 congressional elections, the administration approved 21 more waiver demonstrations in 20 states. By mid-1996, on the eve of PRWORA’s passage, it had approved waivers for 43 states and the District of Columbia.

These state initiatives featured an extraordinary collection and combination of interventions, ranging from benefit reductions to cash incentive schemes for encouraging inoculation of children against disease. Objective evaluation of this avalanche of novelties is difficult. A defensible summary is that few will ever produce any results usable in the process of policy development. In general, the interventions were too poorly planned, the number

of program changes too large, and the evaluation schemes too limited in scope to encompass the range of possible program effects. In some ways this outcome was politically desirable. In state welfare reform initiatives, the political payoff from demonstration activism may be more important than the modest gain in knowledge that might be attained. Moreover, in most cases the political payoff seems to come early, while assessment is postponed virtually indefinitely.

The waiver leader: Wisconsin. A prime example of the difference in timing between political attention and demonstration outcomes is provided by Wisconsin's Work Not Welfare initiative. Proposed in early 1993 following President Clinton's address to the National Governors' Association, Work Not Welfare is an experiment designed to test the impact of a time limit for welfare receipt. The program was approved by HHS in November; it began in two small Wisconsin counties in January 1995 with a target number of experimental cases under 1,000. The final report is scheduled for the year 2006.

Work Not Welfare is one of nine Wisconsin welfare reform demonstrations initiated since Governor Tommy Thompson took office in January 1987 (Wiseman 1996). Overall, Thompson's record on welfare has been extraordinary: Between his inauguration and January 1994, the AFDC caseload in Wisconsin fell by 21 percent. The Thompson administration is understandably willing to attribute this decline to the welfare reform initiatives. However, most of the reduction was accumulated before the state's waiver-based initiatives were under way, and like Work Not Welfare, some of the more celebrated of the Thompson initiatives have involved only a small proportion of the caseload. Contrary to the image of the Thompson administration beyond the state's borders, a significant proportion of the Wisconsin waiver-based demonstrations have actually increased the generosity of the welfare system by improving services and extending eligibility to two-parent families without application of the 100-hour rule. It is the Thompson administration's benefit strategy and income tests that have been restrictive.

While definitive assessments are complicated, it appears that at least through 1994 the overall Wisconsin achievement is attributable to the combination of a robust economy (the September 1994 unemployment rate in Wisconsin was 4.5 percent, compared with 5.9 percent for the nation), a gradual tightening through inflation of the welfare eligibility standard in the state, a freeze on welfare benefits, and aggressive use of the funds for recipient job assistance provided by FSA (Wiseman 1996). In

1994, *Rising Tide*, the Republican National Committee's news magazine, reported that Thompson considered the JOBS program his "favorite" in the welfare arena (Shively 1994, 25). *Rising Tide* failed to note that JOBS is a product of FSA, not the waiver process.

Since 1994, both Wisconsin's unemployment rate and its welfare caseload have continued to decline. The state has launched two additional initiatives—Self Sufficiency First and Pay for Performance—intended to increase efforts by local operating agencies to move persons applying for assistance into employment and to facilitate penalizing recipients who fail to participate in JOBS programs. Between December 1994 and mid-1996, the AFDC caseload fell an additional 29 percent. The state is conducting an evaluation of these initiatives based on comparison of outcomes for cases subject to the Self Sufficiency First–Pay for Performance initiative with outcomes for a set of cases selected at random to be exempt, but results are not yet available. The evaluation may be terminated as the state moves to its latest initiative, Wisconsin Works, to be discussed later.

Conclusion: Image and reality. Perhaps the most important conclusion to be drawn from the plethora of state initiatives is that no one, not even Thompson, has really found the key to welfare savings by means other than cutting benefits and active and broad-based efforts at job placement and training. As politically significant as the state initiatives may be, both the content and the scale of implementation of most have been modest, and states like Wisconsin that have undertaken more ambitious efforts have done so in an exceptionally favorable economic context. Governors know that political hyperbole is one thing, budget consequences another. An index of real state commitment to welfare-to-work efforts is provided by the JOBS program. While most states appeared eager to pursue welfare demonstrations, as of March 1996 only 12 states (including Wisconsin) had claimed all federal funds available for the JOBS operation, even though such funds required very little in state matching expenditure.

The record of the Thompson administration and the panoply of state initiatives spawned by Bush and Clinton waiver policy were important elements of the politics of welfare in the aftermath of the 1994 election. Wisconsin's achievement was generally cited as representative of what states could do when not hampered by federal regulation. In 1995, Thompson became chairman of the National Governors' Association, and he used this position to promote award of even greater latitude to states

to structure their welfare programs. This gubernatorial effort might have been cast as the leading alternative to the strategy set forth in the Clinton administration's WRA, were it not for the emergence on the stage of welfare reform of a third set of players, the House Republicans, led by Speaker Newt Gingrich. Since the congressional Republican initiative was originally aimed at the Clinton reform, it is the Clinton plan that is discussed first.

The Clinton plan

Welfare politics caused the Clinton administration's WRA to be pitched as "ending welfare as we know it." This characterization was disingenuous, since much of the proposal was a continuation of the reform trajectory established by FSA. What was new, of course, was the time limit. But the significance of even this centerpiece, as proposed by Clinton, should not be exaggerated. Its billing had more to do with the political strategy of the 1992 presidential campaign than with the substance of the program.

The time limit

Prior to assuming national office, President Clinton was actively involved in welfare reform, both in Arkansas and as part of a task force of the National Governors' Association. During the presidential campaign, Bruce Reed (then a volunteer speechwriter) brought the work of Harvard scholar David Ellwood to Clinton's attention. With the support of the Ford Foundation, Ellwood had recently published a book, *Poor Support* (Ellwood 1988), that offered a plan for welfare reform.

Poor Support called for a divide-and-conquer antipoverty strategy that combined a substantial increase in services and payments to the poor with different approaches to be fashioned for different subgroups (recall the "tagging is appropriate" welfare reform principle). Ellwood argued that with such a strategy in place, the nation might limit welfare payments to a period ranging from 18 to 36 months; adults still without jobs by the end of that period could be required to accept some form of public employment. Ellwood's time-limit proposal was based in part on his earlier research with a Harvard colleague, Mary Jo Bane, on the duration of spells of welfare receipt. That research indicated that a substantial share (in the original version almost half) of welfare cases close within two years of opening. If this result was correct, the implication was that more costly interventions could

be avoided for many recipients by waiting for nature to take its course.

Reed and Clinton seized on the notion of a time limit but translated the range offered by Ellwood to a fixed target of 24 months and downplayed the service side of the strategy.¹⁰ Repeated reference to the 24-month limit during the campaign meant that when the president took office it would be impossible to modify the restriction without appearing to break faith with preelection commitments. The time limit became a focal point of the effort to construct a welfare reform proposal. David Ellwood became assistant secretary for planning and evaluation in HHS, Mary Jo Bane became director of the Administration for Children and Families (the HHS agency responsible for AFDC), and Bruce Reed became the president's White House domestic policy aide. All three were placed at the helm of the administration's Working Group on Welfare Reform, Family Support, and Independence, and the program announced in June 1994 was the result of their efforts.

Work and Responsibility Act

As released, WRA built on the strategy established by FSA by increasing federal and state efforts to obtain child support from noncustodial parents, changing JOBS, continuing the process of eliminating the distinction between the regular (single-parent) and the unemployed-parent (two-parent) subprograms in AFDC, and developing national performance standards for agencies involved in delivering welfare services. The legislation went beyond FSA in developing a National Teen Pregnancy Prevention Initiative to "encourage responsible behavior." The act responded to the recommendations of the Welfare Simplification and Coordination Advisory Committee by proposing streamlining of eligibility procedures and standards across the AFDC and Food Stamp programs. State flexibility in welfare program design was to be increased to allow states greater latitude in setting program parameters without waivers. In particular, states were to be allowed to vary work incentives incorporated in payment computation and to eliminate welfare benefit increases for children conceived after their mothers began receiving assistance. Finally, new state demonstrations were proposed in such areas as payment procedures for the EITC, methods of job search assistance, and effects of state assumption of responsibility for

¹⁰ The best journalist's review of what went on is provided by Whitman and Cooper (1994).

ensuring that child support awards are paid on schedule. Thus while WRA increased state latitude in welfare program operation, it also took steps toward establishing an agenda for reform-oriented experimentation.

WRA had many facets. However, given the focus of the presidential campaign, most attention was directed to the time limit. It immediately became apparent that at the hands of the welfare reform working group, the nature of the time limit had changed substantially. Instead of being a strict deadline for assistance, the time limit amounted to another restriction on the JOBS welfare-to-work case management process. If, after 24 months in job search and training, certain recipients had not found employment, WRA called for assigning them to the WORK program. The WORK activity was to be a subsidized job in a private firm, public agency, or nonprofit organization. Participants would earn wages, and such earnings would in turn be counted in assessing welfare benefits. Such subsidized employment was not expected to last indefinitely, and some recipients were likely to be re-routed back to JOBS. But when the local welfare agency succeeded in creating such a slot, a recipient beyond the time limit could be required to take it, and failure to comply would mean reduction of the welfare benefit.

The welfare reform group recognized that the WORK innovation could be costly and could be difficult to implement on an adequate scale. Indeed, the lesson of experience, including that of Governor Reagan in California in the early 1970s, is that subsidized employment is difficult to do, and no state experiment with welfare work requirements has yet to attain the scale contemplated by WRA. But while certainly difficult to implement, a work assignment incorporated as a scheduled feature of JOBS case management had many attractive features. There is some evidence that work experience increases the chances that recipients will obtain unsubsidized employment. A work requirement is a way out of the problems posed by the design of financial incentives for work. A common work requirement provides more leeway for unifying the treatment of single- and two-parent families in AFDC; WRA offered states the option of eliminating the 100-hour employment restriction for two-parent families. Above all, a timed work requirement might assist in making the entire welfare-to-work process "time conscious."

Assessment

WRA addressed a variety of transfer system problems with a variety of initiatives, but the fundamental structure of the AFDC and Food Stamp programs was to remain intact. Like FSA, WRA emphasized child support enforcement and expanded emphasis on welfare-to-work programs. States were encouraged to increase attention paid to systematic guidance and support (called case management) for persons involved in training and job search activities. Even the 24-month time limit turned out to be primarily a case management tool. As incorporated into WRA, the time limit simply established a job assignment as an automatic experience for adults who failed to make a transition to employment by the deadline. It did not eliminate public assistance for their families, even in cases in which the obligated adult refused to take a job.

While WRA was an incremental reform proposal, the direction of increment reflected the changing political environment of welfare policy. This was the first major welfare reform effort initiated by Democrats that included no reference to the level of benefits or methods to reduce interstate disparities. WRA proposed to allow states to eliminate benefit increases for children conceived while a parent was receiving welfare. As late as 1990, it would have been inconceivable that a welfare reform proposal initiated by Democrats would contain such a provision.

Viewed from the perspective of political strategy, WRA was at the same time too much and too little. It was too much in that, by addressing a wide range of system problems at once, it appeared to be just another manifestation of the “tireless tinkering” that some feel has characterized welfare reform in the past. The bill contained 431 pages of text, not including 187 pages of explanation. In the political forum, it was difficult to explain why “ending welfare as we know it” took so many words.

The words themselves seemed to involve a sort of political sleight of hand. The administration emphasized that the proposal “ends welfare as we know it,” with the time limit and system reorientation. But the reorientation toward self-support was already evident in FSA, and on close inspection the time limit incorporated in the Clinton proposal looked like just another mandate for the way case management was to be handled. This was not necessarily a bad idea, and some sort of progression toward obligation made sense as a next step in the direction of welfare reform, especially as an experiment. But casting the

change as a watershed was hyperbole, and all parties to the debate knew it.

On the other hand, the bill was too little in that many serious problems were treated glibly. No state had yet been successful in generating the quantity of public employment that the WRA timetable would likely require, even if phased in by first focusing on mothers younger than 25, as the administration proposed. And no large state had a case management information system adequate to perform the tracking task that a time limit required. Development of the organization and data management infrastructure necessary for substantive implementation was certain to be costly. The proposal called for an elaborate system of performance indicators, but experience with efforts to motivate states to measure and report performance in welfare-to-work efforts is not reassuring. Few believe that JOBS performance data reported by states are reliable (indeed, they are reported in congressional publications with a prominent warning to readers; see U.S. House Committee on Ways and Means 1994, 358–59). WRA called for much more.

The rest of the strategy

WRA was only part of the Clinton reform strategy. Consistent with the “work from without” welfare reform consensus, the administration has pursued efforts to improve in two ways the well-being of working poor families who are outside the welfare system. The first was by expanding the size of the EITC, a task accomplished with the 1993 OBRA. The credit, which is paid to low-income working taxpayers, amounts in 1996 to 34 percent of gross earnings up to \$6,330 for families with one child and 40 percent of gross earnings up to \$8,890 for families with two or more children. This provision produces a maximum credit of \$2,152 in the one-child case and \$3,556 for families with two or more children. The credit is phased out at rates of 15.98 percent (single child) and 21.06 percent (two children) beginning with earnings above \$11,610. The credit works basically as a wage subsidy, and the amounts involved are significant: In 1995, 17 million families received total EITC benefits of about \$21 billion (1993) dollars. As table 1 indicates, this is an amount equivalent to about 86 percent of all outlays on AFDC.

The EITC expansion assists in making work pay. A second component of the Clinton strategy was to decouple health insurance from welfare by folding Medicaid into a national health care plan. Given the importance of medical assistance in the

movement to self-support and the fiscal consequences for states of increases in Medicaid costs, it made strategic sense to order the ducks of welfare reform with the EITC first (as part of the deficit reduction package), followed by health care and, once health care was taken care of, by a direct attempt to tackle welfare.

The administration got the EITC expansion, but the rest of the strategy failed. The health care system was not reformed, and Medicaid remains essentially untouched. The delay in resolving the health care issue meant that welfare reform itself was delayed, and critics (notably New York Senator Daniel Patrick Moynihan) were quick to claim that the president was reneging on his welfare reform commitments. The strategy eventually selected was to announce the welfare reform proposal before the health care issue was resolved, but then to encourage deferral of consideration until the next Congress convened. This strategy did not take into account the possibility that the 104th Congress would be controlled by Republicans. Any remaining political viability for WRA ended in early December when the CBO revised upward its estimates of the overall costs of the plan from \$9.3 billion to \$11.8 billion and stated that the plan would cost states \$2.6 billion rather than the \$1 billion originally predicted by the administration.

Summary

WRA was a creditable effort at welfare reform. The problem is that there was little in it that would not have been there had the same task force produced draft legislation a year earlier. By delaying, the administration fueled expectation that something entirely different was in the wings, an expectation that WRA did not fulfill. By appearing to deliver its own initiative stillborn, the administration devalued it, thus opening the field for less thoughtfully constructed congressional and state alternatives. At least when viewed in terms of media attention, states have been responsible for far more action on the welfare reform front since 1992 than the federal government, and the administration's delay encouraged Congress, governors, and, apparently, voters to fill the gap.

Republican alternatives

The major Republican congressional response to the Clinton administration's failure to deliver welfare reform was the

Personal Responsibility Act (PRA). Wisconsin produced the boldest of the plans advanced by Republican governors.

Personal Responsibility Act

Originally championed by the new Speaker of the House, Representative Newt Gingrich of Georgia, PRA was a follow-up on the promise of welfare reform included in the Republican Contract with America introduced in August 1994 and was built on a reform scheme proposed in November 1993 by 160 House Republicans. As originally formulated, the plan tackled WRA and the underlying administration strategy for welfare reform virtually point by point. Everything was made tougher; the most important provisions involved the JOBS/WORK program, time limits, teen pregnancy, illegitimacy, program consolidation, federal and state financing, and aid to immigrants.

JOBS/WORK. Nowhere was the contrast between the Clinton and Gingrich plans more dramatic than in the statements made about the relationship between welfare reform and work. Here is Clinton:

Our approach is based on a simple compact designed to reinforce and reward work. Each recipient will be required to develop a personal employability plan designed to move that individual into the work force as quickly as possible. Support, job training, and child care will be provided to help people move from dependence to independence. Time limits will ensure that anyone who can work, must work—in the private sector if possible, in a temporary subsidized job if necessary. (Clinton 1994, 1)

Here are Gingrich and colleagues:

The intent of the Congress is to . . . provide States with the resources and authority necessary to help, cajole, lure, or force adults off welfare and into paid employment as quickly as possible, and to require adult welfare recipients, when necessary, to accept jobs that will help end welfare dependency. (PRA 1994, 1)

WRA proposed increasing the amount of structure imposed on the JOBS program by federal regulations. The original PRA removed virtually all restrictions on how the JOBS program was

to be structured, except to require that a rising fraction of participants be involved each month in work. The target set for 2001 was 29 percent. Superficially, this target appears only slightly higher than the 20 percent participation rate mandated for JOBS in 1995 by FSA. In fact, the PRA requirement would have been much more substantial because of differences in what counts as participation and in the way the indicator is constructed.¹¹ No state AFDC work program had ever attained the level of participation contemplated in the Republican proposal.

The approach to work in PRA was fundamentally different from that in WRA. PRA jobs were “workfare”; that is, welfare recipients are expected to work 35 hours a week in return for welfare benefits. The Clinton plan explicitly rejected the workfare model and emphasized substitution of employment in subsidized wage-paying jobs for benefits as a source of income for recipients. It is difficult to predict exactly how many jobs implementation of either WRA or PRA would have required, since the outcome depends on program effects on the number of households seeking assistance. However, it is likely that by the end of the century the Republican plan would have required at least three times as many work slots as WRA. Presumably workfare jobs would be easier to create than WRA-type jobs, but they would be expensive nonetheless.

Time limits. In the Clinton plan, the time limit marked a point of transition from one type of employment service to a work requirement. In PRA, the time limit meant the end of welfare eligibility. States would be required to terminate assistance for any family after five years. States could terminate assistance payments to any family that had received AFDC for two years, as long as the parent (or one parent, in the case of two-parent families) had spent at least one year in workfare. There would be no exemptions.

Teen pregnancy and illegitimacy. In contrast to the educational emphasis of WRA’s National Teen Pregnancy Prevention Initiative, the Republican proposal denied assistance to unmarried women who gave birth before their 18th (or, at state option, 21st) birthday. Apparently the children in such families would remain ineligible for assistance for as long as the mother remained

¹¹ The JOBS participation “rate” was not a rate at all in the dictionary sense of the term. States were allowed to put people in the numerator who were not in the denominator. In addition, the definition of activities that qualify for inclusion was much more generous in JOBS than that contemplated by PRA. For a critical description of the JOBS participation measure, see Wiseman (1993).

unmarried or, if she married, for as long as her husband refused to adopt them. Like the Clinton plan, the Republican proposal allowed states to eliminate aid increases associated with children born after a woman began receiving assistance.

Program consolidation. The Clinton proposal approached the problem of program overlap and interaction by proposing steps toward harmonizing standards for eligibility and payment determination. The Republican proposal approached the problem by combining food stamps and other nutrition-related programs in a single block grant to states and allowing states to decide, subject to certain categorical constraints, how the funds were to be allocated. Thus, if the states wanted conformity between AFDC and food stamp eligibility standards, presumably they could get it, subject only to the requirement that funds designated for nutrition be spent on nutrition (see below).

Federal and state financing. The most far-reaching aspect of the original House Republican proposal was the contemplated change in procedures for welfare system finance. Rather than continuing to finance public assistance through the open-ended, matching grant procedures, the Republicans proposed substantial consolidation of programs and imposition of caps on year-to-year changes in total federal assistance outlays. The result amounted to a shift to block grants to states for public assistance programs.

The PRA approach differed slightly between nutrition-related programs and programs related to other forms of welfare assistance. The Republican legislation called for consolidating all nutrition-related programs—including food stamps, WIC, and various school nutrition programs—into a single grant to states for food assistance for “economically disadvantaged” persons. The aggregate federal commitment to the nutrition package was fixed at the amount budgeted for fiscal year 1996 and increased thereafter to accommodate the rate of increase in food costs and the rate of change in population. For the first years of the program, states were required to spend specified proportions of funds on school nutrition programs and for WIC-type activities. The remainder was then to be allocated to general food assistance, which could be delivered via food stamps purchased by states from the Department of Agriculture. State shares in the food assistance block grant allocation are determined by relative shares of the economically disadvantaged population.

PRA did not attempt to consolidate nonnutrition programs such as AFDC, SSI, and low-income housing assistance. However,

total spending on these programs was also capped at fiscal 1996 levels and allowed to increase thereafter only by an amount adequate to accommodate changes in prices and changes in the number of poor persons. State latitude in determining eligibility and payments was greatly increased, and “entitlement” to assistance under AFDC or SSI was eliminated. The implication was that whatever nominal eligibility standards for public assistance a state might apply under PRA rules, families meeting the standard had no legal recourse if the state failed to deliver.

Most of the programs covered by PRA block grants were partly funded by states. Where funding was by matching grant, as in AFDC, an additional dollar of benefits paid cost state taxpayers less than a dollar—much less in the case of AFDC and food stamps. Under both the nutrition and general assistance systems created by PRA, the last dollar of public assistance would always come out of state budgets, and a dollar spent on aid would mean a dollar less for all other categories of state expenditure. Critics argued that the incentives so created would lead to contraction of general state outlays and a “rush to the bottom” in state expenditures (Peterson 1995); at minimum they would increase the vulnerability of public assistance expenditure to fiscal pressures created by economic downturn. PRA did not include requirements for sustaining state contributions, or what is usually termed “maintenance of effort.”

Aid to immigrants. WRA addressed transfer issues related to resident aliens only in the context of establishing conformity between AFDC and food stamps in the definition of which types of resident aliens are eligible for benefits and in ensuring that sponsors of some immigrants be held responsible for their support. PRA was much more aggressive, denying benefits to virtually all aliens resident in the country, regardless of legal status. Exceptions are granted for the very elderly (75 or more years old) legally resident in the country for at least five years and for emergency medical assistance.

The Republican plan was appropriately called radical reform. The designation is justified not as much by the time limit as by elimination of the federal commitment to share in every dollar of a state’s transfer expenditures to people meeting basic standards of need and the concomitant decision to expand discretion granted to states in deciding just who is, and who is not, worthy of assistance.

Legislative changes

Many of the changes incorporated in the original PRA were modified during the first six months of the new Congress. The House of Representatives version of the law (H.R. 4) was passed in March 1995 and retained the "Personal Responsibility Act" title. The Senate Finance Committee passed a substitute bill, the Family Self-Sufficiency Act, later in the year.¹²

Both the Senate and the House bills repealed the AFDC program and replaced it with block grants to states for TANF. States lost entitlement to unlimited federal sharing (matching) in the costs of assistance, but they were to gain full authority for setting benefit levels, determining income standards for assistance eligibility, and administering programs. Eligible families lost their entitlement to cash assistance; access to public assistance is no longer a "right" of families meeting income and composition standards. Time limits were imposed on the duration of cash benefits, and work requirements were substantially increased.

Despite substantial conformity, important differences arose. The House legislation followed the original PRA in banning cash payments for children born to families already receiving assistance, to unwed mothers under 18 years of age, and to most noncitizens. The Senate legislation banned no children from assistance and let states determine whether aid was to be given to noncitizens. The House bill ended the JOBS program; the Senate bill kept JOBS, but in modified form. The House bill gave states the option of operating a simplified Food Stamp program using the same eligibility rules that are applied under TANF. In contrast, the Senate bill did not address the Food Stamp program. Both the House and Senate bills left Medicaid eligibility untouched. Indeed, eligibility for Medicaid would continue to be evaluated on the basis of the rules applied in the old AFDC program.

Most significant, both the House and Senate versions of the TANF program would have substantially reduced costs. The CBO has estimated that, in the absence of reform, the existing AFDC program and related JOBS and child support enforcement efforts would cost the federal government approximately \$98 billion over the last five years of the decade. The House proposal would have reduced this amount by 9 percent, the Senate version by slightly less.

¹² The summary that follows is based on Burke (1995).

These differences were hardly insurmountable. But before they could be addressed, welfare reform was sidetracked by conflict between the White House and Congress over the federal budget. When Congress reconvened early in 1996, the outlook for welfare reform was clouded by the presidential campaign. In the meantime, the number of states involved in waiver-based welfare reform demonstrations continued to grow.

Wisconsin Works

The most ambitious of the state initiatives was produced in Wisconsin as a follow-up to the two-year time limit experiment described earlier.¹³ To conduct his Work Not Welfare experiment, Governor Tommy Thompson needed to obtain approval from the Wisconsin state legislature as well as from the federal government. The legislature approved the initiative but attached a provision calling for the state's social service agency to submit by 1995 "a proposal for welfare reform in this state" that would replace most public welfare programs by 1999. The proposal was to guarantee income support to needy persons who could not work, guarantee employment to those who could work but could not find jobs, and assure low-income persons "affordable child care" and "affordable health care."

The legislature's "end welfare" requirement was a boon to Governor Thompson. In the context of the national debate over welfare reform, the requirement allowed him to use state resources to develop and advertise a comprehensive reform scheme. The Hudson Institute, a conservative policy analysis organization, set up an office in Madison and organized foundation funding for technical support for a task force appointed to draft a plan. The proposal, called Wisconsin Works and nicknamed W-2, was completed in early spring of 1995. It was formally announced by Governor Thompson on August 3 of that year, following a Vermont meeting of the National Governors' Association. Enabling legislation was passed by the state legislature in March 1996.

Viewed from both state and national perspectives, W-2 is an extremely important development. It is the first fully articulated plan for what a state welfare system might look like in an era of block grants. For citizens concerned about the direction of public assistance policy under something like PRA, Wisconsin Works provides a picture of one direction that states might go should

¹³ The description that follows is taken in part from Wiseman (1996), which contains extensive references for the material cited.

they be freed of the program restrictions previously contained in the Social Security Act.

W-2 is a strategy realized in a program. The strategy has six major features:

1. Virtually all cash assistance is linked to some form of employment.
2. The variety of situations and capabilities of persons seeking public assistance is addressed by tagging and case management.
3. The connection between benefits and dependence is reduced by decoupling cash assistance from access to health insurance and child care assistance.
4. State administrative control and incentives for efficiency are enhanced by allowing public and private agencies to compete for designation as local program operators.
5. The change in the orientation of public assistance as well as agency culture is dramatized by a shift in responsibility for public assistance from the state's social service agency to the employment service agency, the Department of Workforce Development.
6. The "end of welfare" is taken seriously: The state is committed to rapid and complete implementation, with all components in place by September 1997.

The W-2 program has four tiers of support for adults with children. Persons seeking assistance will first meet with a financial and employment planner, whose job is to help needy applicants "think through their best options to provide for the economic security of their families." Those meeting eligibility standards will be directed to one of the tiers, rungs in the self-sufficiency ladder. Some applicants will move into unsubsidized employment, the highest tier. Applicants initially unable to find unsubsidized employment will be either accommodated in "trial" subsidized jobs in private or public organizations or placed in community service jobs. The bottom rung, W-2 Transitions, is "for those legitimately unable to perform independent self-sustaining work even in a community service job." The program is structured so that movement upward on the ladder raises income, and duration of tenure in each category save W-2

Transitions is strictly limited. The overall lifetime limit on cumulative participation in any W-2 activity is five years, but the plan includes some options for extension.

Grants provided in the W-2 Transitions and trial jobs tiers are “flat”; that is, they do not increase with family size. This, the state argues, best simulates common work arrangements in which wages paid do not vary by family size. When participants fail to cooperate with activity requirements, their grants are reduced proportionately, just as hours not worked would reduce earnings in regular employment. The planned shift to a flat grant increases benefits for small families and lowers them for large ones.

Persons in each tier are eligible for subsidized health and child care, with copayments dependent on income. More generally, W-2 commits the state to provision of child care and health care subsidies to working parents with children without time limits and on the basis of income and assets only. Eligibility for some subsidy is to be extended to families with incomes as great as 165 percent of the federal poverty line. Child care costs are to be constrained by some relaxation of standards for caretaker eligibility; health care costs are to be constrained by use of managed care, benefit reductions, monthly premiums, and restrictions on the ability of persons previously participating in employer-paid health insurance plans to transfer to the W-2 health program. The state’s intention is that public assistance be earned as cash through work or delivered as services needed to support work; for some families assistance may involve only subsidization of health insurance and child care.

In sum, W-2 is dramatic in ambition, scope, and detail. Once again, Governor Thompson challenged the Clinton administration, this time by demonstrating that a state could develop a comprehensive welfare reform package in far less time than had been required for the WRA. If implemented, W-2 would genuinely end welfare, as Wisconsin’s legislature had required. Moreover, like most of the state’s initiatives, W-2 involved considerable financial commitment, especially given the state’s promise of universal means-tested access to child care and insurance for families with children. The program appears to be a dramatic refutation of the arguments of some that states would respond to the fiscal incentives produced by a change to block grant funding with a “rush to the bottom.” W-2 seems to be better characterized as a rise to the challenge.

Drama in scope and ambition notwithstanding, the W-2 announcement attracted little public attention outside the state, perhaps partly because the media had become inured to years of Wisconsin welfare reform hyperbole. Few appreciated the difference between W-2 and earlier programs. More important, however, was the shift of national attention to the struggle between Congress and the president over the budget. It began to appear that action on welfare reform would await another election. For Thompson, this outcome was galling. W-2 was not intended as just another waiver-based demonstration. Given the breadth of the proposal, something akin to the authorization contained in PRA was believed essential. By spring 1996 it began to appear that resolution would await the outcome of the coming presidential election.

President Clinton's announcement and the end of the impasse

However, the politics of welfare reform took a new turn the following May when President Clinton used his weekly radio address to claim credit for state welfare reform initiatives and to challenge Congress to act on welfare reform (White House 1996). "There are bipartisan welfare reform plans sitting in the House and Senate right now," he said, "that do what the American people agree welfare reform must do: They require welfare recipients to work; they limit the time people can stay on welfare; they toughen child support enforcement and they protect our children. So I say to Congress: Send me a bill that honors these fundamental principles; I'll sign it right away. Let's get the job done."

The president congratulated Wisconsin for adding momentum to the "quiet revolution" in welfare reform with the W-2 proposal, which "has the makings of a solid, bold welfare reform plan." He then appeared to endorse the plan by pledging that his administration "would work with Wisconsin to make an effective transition to a new vision of welfare based on work." This endorsement was extraordinary given that the state had not even applied for waivers for W-2. Governor Thompson's staff scrambled to complete a waiver proposal, which the governor delivered personally to HHS.

This episode was a clear short-term victory for the president on the welfare reform issue. If Congress did not act, the president would respond to any Republican campaign challenge on welfare policy by claiming that it was Congress, and not he, that had

prevented the accomplishment of welfare reform in 1996. Congress did indeed respond, and after reconciliation of House and Senate versions of reform legislation, the result was PRWORA (Public Law 104-193). Despite last-minute protests from various members of his administration and others, the president signed the bill in August.

Personal Responsibility and Work Opportunity Reconciliation Act¹⁴

PRWORA is the most substantial welfare reform legislation since establishment of the SSI program and revision and expansion of the Food Stamp program in the 1970s. The most significant change is the termination of entitlement by families to cash assistance provided under Title IV-A of the Social Security Act (the authorizing legislation for AFDC). In place of the matching grant program, PRWORA creates block grants to cover TANF and related services. The new law restricts or eliminates provision of public assistance to most noncitizens, families that have received aid for more than five years, and children previously made eligible on certain criteria for SSI. The law contains major new policies aimed at reducing the rate of nonmarital births as well as substantial revisions in the Federal-State Child Support Enforcement Program, in the Food Stamp program, and in child nutrition programs.

The heart of PRWORA is replacement of AFDC, JOBS, and Emergency Assistance with a block grant for TANF. (The Emergency Assistance program provides matching funds for use by states to support families with children at immediate risk of destitution or homelessness.) Each state receives a fixed amount based on federal payments received for the three supplanted programs in fiscal year 1994, payments for fiscal year 1995, or the average for fiscal years 1992 to 1994, whichever is largest. Given that for most states caseloads have declined (see figure 1), the TANF block grant results in a net increase in federal funds over what would have been received under pre-PRWORA regulations. The TANF block grant is supplemented with a substantial increase in federal funding for child care. A contingency fund is established for support of states with exceptional unemployment rates, and states with either exceptional population growth rates or very low benefits are eligible for supplemental grants.

¹⁴ The description that follows is based on U.S. House Committee on Ways and Means (1996, appendix L).

TANF funds are to be used to help needy families with children, assist parents in moving to self-support through work and marriage, prevent and reduce out-of-wedlock births, and “encourage the formation and maintenance of two-parent families.” In general, how states are to do this is left open, but the law includes certain restrictions and performance requirements. States are required to sustain spending of state funds on the replaced programs plus child care at 75 percent of the spending done in fiscal year 1994. Eligibility for federally funded TANF is denied families with members who have received assistance for five years or more (states are allowed to exempt 20 percent of their caseloads from this requirement).

As in the original Clinton plan, adults receiving TANF assistance must “engage in work” after two years (or less at state option). The criteria for satisfying the work engagement requirement are left to states to define. However, in addition to the two-year work engagement requirement for individuals, the law follows PRA by requiring states to have a specific and increasing fraction of their entire caseload involved in certain work activities identified by the legislation. The required level of participation for single parents is 25 percent in 1997 and rises five percentage points a year to 50 percent in 2002. For adults in two-parent families, the required participation rate begins at 75 percent in 1997 and jumps to 90 percent in 1999. “Participation” initially means 20 hours per week for single parents; for parents with no children under six, the requirement rises to 30 hours by 2000. Adults in two-parent families must work 35 hours per week. States are allowed some variation in these standards, but the end result will still be a much higher level of activity required from recipients and more monitoring to enforce these requirements than under AFDC.

Like PRA, PRWORA eliminates the entitlement of needy families to assistance under the funded state programs and replaces it with a state entitlement to federal block grants. State plans for TANF are required to include “objective criteria for delivery of benefits and determining eligibility” and to provide “explanation of how the state will provide opportunities for recipients who have been adversely affected to be heard in an appeal process.”

PRWORA makes many changes in the Food Stamp and SSI programs. The principal cost savings are accomplished by restricting access to food stamps and SSI by immigrants and tightening the standard of child disability used in determining eligibility for SSI. Most legal immigrants (both current and future) will be ineligible for SSI and food stamps until

citizenship is obtained. CBO projections show PRWORA reducing federal welfare program outlays by \$54 billion (from \$1,563 billion) between 1997 and 2002. Eighty-five percent of this cut is attributable to almost equal expected reductions in food stamp and SSI expenditures.¹⁵

While the new law does not prescribe procedures for states to follow in attaining PRWORA objectives, it does create penalties and incentives. Penalties are imposed on states for failure to meet the work participation requirement, failure to submit required reports, misuse of funds, failure to participate in child support collection systems, poor child support collection performance, failure to comply with the time limit, and failure to comply with other program conditions. On the other hand, states are to be rewarded for performance relative to block grant goals and reducing out-of-wedlock births.

PRWORA contains detailed requirements for information collection, requirements that cannot be met at the present time by the management information systems available in any state. To make sure that states are meeting the work requirements, PRWORA also requires quarterly reports covering the information needed to assess the participation rates as well as other data. One set of information must be drawn from the experience of closed cases. The reports must be delivered quickly, with penalties for laggards. The information may be derived from “the use of scientifically acceptable sampling methods approved by the Secretary.” As something of a mid-text afterthought, Congress instructed the HHS secretary to report on the status of state data-processing systems and to find out “what would be required to establish a system capable . . . of tracking participants in public programs over time” (Public Law 104-193, Title I, Section 106(a)).

The new law seems to dramatically contradict an important dictum cited earlier in this article: Reform must be incremental. Elimination of entitlement hardly seems incremental, yet it seems to have occurred. An alternative view is that PRWORA constitutes a promise rather than a realization. It is difficult to object to the goals of the legislation, and the new law increases the operating funds available to most states; so, as always, reform is costly. However, in this case the immediate costs are imposed on constituencies—immigrants, poor families with

¹⁵ Calculated from CBO projections reported in U.S. House Committee on Ways and Means (1996, 1332). This *Green Book* table reports an erroneous figure for Medicaid, which has been corrected here.

functionally impaired children—that have little political clout. The legislation recommends no specific strategies, so the threat to constituencies that might be posed by detailed change is avoided. Indeed, the program leaves Medicaid untouched, and the structure of the Food Stamp program remains unchanged. At bottom, Congress gave the governors more money and asked for a comprehensive shift toward work-oriented, time-conscious public assistance policy. After years of touting the accomplishments of state reform demonstrations, it was impossible for the governors to demur.

Reflections

Put another way, PRWORA has initiated change, but we are uncertain of the direction. I close with nine observations.

Seeing consequences will be difficult

The new law makes extensive provision for expanding the collection of data from states and through expansion of household surveys. However, as indicated earlier, while in principle much of the information required by Congress would be desirable to have, states simply lack the capacity to collect it. Provision is made for acquisition of new data systems, but there is no guarantee or even reasonable expectation that information generated by such systems will be reliable or comparable across states.

One possible consequence of the elimination of entitlement by TANF is that states will attempt to cut costs by making it more difficult to apply for aid. Wisconsin is already experimenting with a system, Self Sufficiency First, that requires persons seeking assistance to complete 60 hours of employment search before the state even begins processing their aid applications. Other states may practice more subtle means of dissuasion, and it is likely that some people in need will lose access to assistance altogether. This “entry effect” will never be captured by agency information systems because such systems cover only the status of persons approved for assistance.¹⁶ Under AFDC, persons meeting standards of need but denied access to assistance could and did seek legal aid. Careful attention needs to be paid to the way state systems come to accommodate, or dissuade, applicants.

¹⁶ To its credit, Wisconsin has contracted with the Urban Institute for conduct of a survey of low-income households not receiving public assistance that is intended in part to identify effects of its dissuasion policy.

Equity is a problem

Under AFDC, federal assistance was distributed to states on the basis of state expenditure effort, per capita income, and need—that is, the number of eligible families applying for assistance. While the details of the formula actually used may be difficult to justify, the principle seems sound. The lion's share of PRWORA funds will be distributed for the next five years on the basis of circumstances at the beginning of the decade. These circumstances were established in part by a recession that varied substantially across states in impact. In contrast, PRA proposed allocation of funds across states based on trends in population and numbers of poor households. It is likely that before long losers under the new system will demand redress.

Large-scale workfare will be costly

As politically attractive as they may be in the abstract, welfare employment programs are costly to operate and difficult to manage. The reasons are clear: Even bad jobs require capital and some management (at minimum, rakes and straw bosses), and unlike “real” employment, welfare employment programs encourage high turnover. The skills required for management of effective workfare operation are quite different from those sought elsewhere in government, and they do not come cheaply. PRWORA requires an unprecedented level of participation in work and work-related activities, and the funds for meeting these standards come out of the same aggregate appropriation as basic benefits. The consequence may be expanded state costs, reduced benefits, or both.

CBO estimates of costs likely to be imposed on states by the plan provided the last nail in the coffin of the Clinton administration's Work and Responsibility Act. Such estimates followed automatically from CBO calculation of federal costs because WRA was funded with matching grants. Because federal costs for TANF are fixed by the block grant, it has not been necessary for CBO to devote the same level of attention to state outlays required under the program. This has forestalled confrontation.

The bottom still looms

Regardless of motivation or dedication of governors, PRWORA creates substantial incentives for reduction in benefits. While the law includes some safeguards for maintenance of effort, the

standard is set low (75 percent of 1994 expenditures if the state meets the work participation requirement) and the range of expenditure states are allowed to count as part of "effort" is broad. Moreover, states are permitted to set aside any amount of their TANF grants they like in a contingency fund to meet demand in the event of a recession or other development that increases need. For every state, the shift from AFDC to TANF at least doubles the cost to the state's general fund of financial assistance to the poor.

In the near term, the expansion of funds provided by caseload decline and the new block grant is likely to prevent any retreat on benefits. By the next budget cycle, however, the extent of reduction permitted under maintenance-of-effort requirements and the range of outlays that can be tallied to establish effort will be well understood. At this point, legislators will begin to appreciate the new terms of trade between public assistance and other state activities that PRWORA establishes. Likewise, the cost of meeting activity requirements will be better understood. Pressure will be felt to reduce welfare expenditures and shift the expenditure level that is sustained in the direction of supporting work programs. Spendable income for welfare recipients will, under this scenario, decline.

Earlier I argued that interstate variation in welfare benefits has in the past been reduced by incentives created by the matching grant formula. Those incentives are eliminated, or at least reduced, by PRWORA. Disparity in benefit levels is therefore likely to grow as some states drop benefits faster than others. This in turn may create incentives for high-benefit states to reduce outlays to discourage migration. It should be emphasized that these effects are hypothetical, but such predictions are not unwarranted. As evidence already cited indicates, states do respond to the incentives created by grant allocation procedures.

Again, the outcome of this process remains to be seen. But if CBO projections are accepted, PRWORA will result in only a 3¹/₂ percent decline in federal outlays on public assistance between 1997 and 2003. Any decline in state outlays in excess of this amount will increase the federal share in social assistance, and such effects will be magnified if benefit reduction leads to greater costs for food stamps. The nearly inevitable outcome will be a greater federal fiscal role at the same time that federal administrative control is curtailed.

Cities are where much will happen

For reasons rooted in the Constitution, negotiations over welfare reform have been almost exclusively a matter between states and Washington, DC. This emphasis on states obscures the likely concentration of effects of welfare reform in urban areas. A rough sense of this concentration can be gained from a recent study of public assistance receipt by the U.S. Bureau of the Census (1995). In 1991, 29 percent of the U.S. population lived in central cities of metropolitan areas. In contrast, 44 percent of recipients of AFDC, General Assistance (public assistance without federal contribution), and SSI did. PRWORA restrictions have their greatest effect on long-time recipients. The same study reported the geographic distribution of persons who reported receipt of public assistance for every month over the 1991–92 interval. *Half* of all persons reporting continuous receipt of AFDC lived in central cities. This allocation of population does not match the allocation of employment, so agencies charged with assisting people to find the employment required by TANF will have to reach beyond city and across county borders.

Many of the poor are indeed needy

It is easy to generate political support for abstractions like “eliminating fraud and abuse” or “illegal immigrants.” But most polls indicate continuing public support for government assistance to people who really look needy—those who appear to make valiant efforts at self-support but, because of bad fortune or other circumstances, fail. Inevitably, the restrictions imposed by states because of PRWORA will produce and publicize tragic cases of deprivation because of government fiat. People who lose welfare after running up against the time limit, children abandoned, aliens claiming risk of death or worse at home—all will attract media attention, and all will be state responsibilities. PRWORA does not preclude aiding such folk; in some instances it just precludes using federal dollars to do so. To the extent that such cases, when given faces, reveal true need, local and state governments will feel pressure to respond.

An early example of the problem of faces occurs with food stamps for single persons. PRWORA eliminates food stamps to such persons immediately if they have received food stamps for three months and are not working or participating in a work program. Such people are at risk of losing benefits at the beginning of 1997. The law allows the U.S. Department of Agriculture to

exempt states from applying the restriction in areas of high unemployment or where it can be shown that insufficient jobs exist for beneficiaries to meet the requirement. States have moved quickly to seek such relief.

Medicaid is still a problem

Despite the importance of Medicaid to state budgets, welfare reform left the program largely untouched. Indeed, eligibility for Medicaid continues to be determined on the same basis as before. Congress thereby avoided a bruising battle with the health care industry, but it also left untouched one of the principal problems in the social assistance system.

Wisconsin waits

The new law gives states the option of continuing operation of welfare demonstrations operated under federal waiver. Initial reports indicate that many will not do so, in part because of disinterest in sustaining evaluation programs based on random assignment and because some program features previously permitted only under waivers are allowable under new federal law. Ironically, the W-2 program still cannot be fully implemented without waivers, for the proposal involves changes in Medicaid and food stamps, as well as changes in treatment of child support payments in benefit computation, that are not permitted under the new law. Despite the president's commitment to "work with Wisconsin to make an effective transition to a new vision of welfare based on work," the state's proposal has been rejected, and its offer to work with the federal government to develop a satisfactory evaluation scheme has been largely ignored.¹⁷ State budgeting for W-2 was in part based on claims established in prior years on federal savings generated by earlier innovations. It is now the federal position that such claims have been superseded by the TANF block grant.

Failure to address W-2 is a manifestation of a larger issue: What will be the federal role over the next few years as states struggle

¹⁷ The application for federal waivers to permit W-2 implementation acknowledges "the key role to be played by the U.S. Department of Health and Human Services . . . in facilitating this undertaking and the dissemination of information to be gained from it." The plan calls for a "new partnership" evaluation strategy to serve both state and federal ends "to an extent without precedent in state welfare reform initiatives" (Wisconsin Department of Health and Social Services 1996, section 10).

with TANF implementation? In principle, the waiver-based system of state experimentation not only created opportunities for demonstration of reform alternatives but also ensured that rigorous evaluation would be conducted of program outcomes. Commitment to evaluation and federal capacity for ensuring that it occurred has diminished over the past five years. The need for such data has if anything grown. In PRWORA, Congress provided for collection of data on participants and child well-being, as well as continuation of state evaluation efforts. In November the Administration for Children and Families (ACF) announced availability of federal funding for support of ongoing waiver-based welfare reform demonstrations and development of strategy for assessing program alternatives under TANF. Matching rates for evaluation costs for projects approved under this initiative are very low; states are asked to pay 5 percent of costs. Up to \$7.5 million a year has been budgeted for the effort. According to the announcement, "ACF aims to develop a national strategy for welfare reform evaluation which includes funding a group of projects . . . that provide early information on program implementation, determine impacts of promising program models, and address a range of policy questions of the greatest importance to states, the federal government and the general public" (U.S. Department of Health and Human Services 1996, 2). While the request for proposals fails to identify the important questions, it does envision close ACF participation conducted under "cooperative agreements" with the states. This active federal role in coordinating and encouraging research efforts is potentially a new development, but the capacity of HHS to oversee development under TANF has been substantially curtailed. Like other PRWORA outcomes, what will materialize from the initiative remains to be seen.

*The effect on housing is uncertain*¹⁸

Because state responses to PRWORA are difficult to predict, so too are the consequences for housing markets and the housing stock. Since welfare reform will have its greatest effect on the poor, its immediate impact on the housing stock will be concentrated in neighborhoods where recipients of public assistance are located. If reduction of public assistance is not offset by increased earnings, the ability of families to pay for housing will decline. The effect may be compounded and extended through

¹⁸ Housing data reported in this section are from the U.S. Department of Housing and Urban Development (1996).

neighborhood multiplier effects generated by loss of purchasing power.

The effects on ability to pay will be registered in subsidies required for low-income housing programs. Of the 4 million households receiving assistance from both tenant-based and project-based Section 8 housing programs in 1995, about 1.5 million reported income from AFDC and/or SSI. The impact will be concentrated in housing subsidized by Section 8 programs, rather than in public housing, because Section 8 programs serve more families with children. Ability to pay falls with income, and if TANF and other PRWORA changes reduce incomes, subsidies needed by private and public housing providers will increase.

The CBO's cost projections for PRWORA do not include the consequence for the federal budget of these costs. The best guess by staff at the U.S. Department of Housing and Urban Development (HUD) is that when fully implemented the new law will raise HUD subsidy requirements by \$437 million per year. This estimate incorporates data on likely reductions in SSI payments made to children and loss of SSI by approximately 100,000 adult noncitizens currently receiving housing assistance. These effects are geographically concentrated: Three states—California, Florida, and New York—account for 60 percent of all noncitizen SSI recipients of HUD housing assistance in 1994.

The effect of the decline in benefits will possibly be offset by increased recipient earnings and the multiplier effects of income generated by increased expenditure on welfare-to-work assistance, including child care. HUD currently operates several employment training programs, job development programs, and moving-to-work demonstrations that will be involved in implementation of state welfare reform initiatives. President Clinton will likely promote his Welfare to Work Jobs Challenge or something similar in the 105th Congress; this program would provide more funds for inner-city employment stimulation and would presumably generate income to offset PRWORA effects. These programs and others funded through the Community Development Block Grant program will be the principal instruments for local policy response to welfare reform. As is true for other effects of PRWORA, evaluating the effect on housing is complicated by uncertainty concerning how states will respond. For housing, the consequences also depend on how the uncertainty about state policy affects the behavior of housing providers and financial institutions involved in investment in low-income neighborhoods.

One final effect should be noted. In 1995 public assistance was the primary source of income for 47 percent of the families with children that received housing assistance. Household-based subsidies have long been advocated by housing experts on the grounds that their portability encouraged and enabled families to seek housing away from unsuitable neighborhoods and closer to employment. The high incidence of public assistance receipt within this group suggests that simply increasing the flexibility of housing assistance is insufficient to promote greater employment. However, it is certain that in most states post-PRWORA reforms will substantially increase the incentive to seek employment. If the employment that recipients take to meet welfare requirements is located away from the neighborhoods where they are housed (as is likely), an incentive will exist to move, and families qualified for Section 8 certificates or vouchers will be relatively advantaged in responding to this incentive. Such moves will most likely further diminish the demand for inner-city housing.

Conclusion

Here, then, is where we are. The nation has achieved interim relief for states for public assistance expenditures. This relief has been accomplished in substantial part by restricting access to welfare. The federal share of public assistance expenditures has been increased, while the federal role in managing the core of the program, now called TANF, has been reduced. The problem of developing and implementing a research agenda for studying program management and effects has yet to be addressed. The consequences of PRWORA are difficult to predict because they involve response to the program by both states and actual and potential assistance recipients. What is certain is that while the new legislation may have ended AFDC, it has most certainly not ended the struggle for welfare reform.

Author

Michael Wiseman is Professor of Urban and Regional Planning at the University of Wisconsin–Madison and Visiting Scholar at the Russell Sage Foundation.

Comments and suggestions provided by Stephan Leibfried and Tom Kaplan are gratefully acknowledged, as is the assistance of Cheryl Seleski of the Russell Sage Foundation. Financial support for preparation of this paper was provided by the Helen Bader and Fannie Mae Foundations.

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