

Welfare in a Society of Permanent Work

Ron Haskins
Committee on Ways and Means
U.S. House of Representatives

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Table of Contents

	<u>Section</u>
	<u>Page</u>
List of Figures	iii
List of Tables	iv
Background	1
The New Welfare System	2
End Cash Entitlement	2
Block Grant Funding	3
Work Requirements	4
Sanctions	5
5-Year Time Limit	5
Summary of 1996 Welfare Reform Law	6
The Work Support System	7
Developing the Work Support System	7
Earned Income Credit	
Medicaid	
Child Support Enforcement	
Other Benefits	
Assessing the Work Support System	14
Effects of the 1996 Welfare Reform Law	17
Change at the Local Level	18
Caseload Reductions	20
More Money Available to States to Help Poor Families	23
Work Rates	24
Income and Consumption	26
Poverty	30
Nonmarital Births	33
What We Should Do Now: The New World of Permanent Work	36
Fix Medicaid	37
Fix Food Stamps	39
Help Floundering Families	41
Building a Permanent Employment System	43
A Final Word	44
References	45

Child Care

List of Figures

Figure	Title	Page
1	Federal Spending on Child Care, 1990-99	12
2	Support for Working Families Increases Dramatically, 1984-1999	16
3	AFDC/TANF Caseload, 1959-1999	20
4	Total Employment and AFDC/TANF Enrollment, 1982-1990 and 1991-1997	22
5	Federal Funds Per Family on Welfare	23
6	More Mothers Heading Families Join Workforce	25
7	Employment-Population Ratio of Never-Married Mothers, 1978-1998	25
8	Average Income of Female Family Heads with Children in the Bottom Quintile of Post-Tax Income, 1993-98	27
9	Spending by Unmarried Female Unit Heads with Children in Bottom Income Quintile, 1993-98	28
10	Average Income of Female Family Heads with Children in the Second Quintile of Post-Tax Income, 1993-98	29
11	Spending by Unmarried Female Unit Heads with Children in Second Income Quintile, 1993-98	29
12	Welfare Caseloads and Children's Poverty Decline Simultaneously, 1995-1998	30
13	Decline in Children's Poverty by Two Definitions and in Two Time Periods	32
14	Rate of Nonmarital Births and Percentage of All Births that Are Nonmarital, 1980-1998	34
15	Teen Birthrate, 1980-1997	34
16	Fewer Teens Are Having Sex, 1991-1997	35

List of Tables

Table	Title	Page
1	Family Income from Welfare vs. Low-Wage Work	14
2	Changes in Returns to Work and Welfare, 1986 and 1998	15
3	Caseload Decline and Child Poverty Decline in States with High and Modest Caseload Declines between 1995 and 1997	31

Background

In recent years the nation has experienced two social policy changes that, taken together, constitute a revolution in American domestic policy. The welfare reform law of 1996, which codified and extended a reform movement that had been growing in the states for several years, made unprecedented changes in the statutes that govern cash and other welfare benefits for able-bodied adults with children. In effect, the welfare reform law of 1996 renegotiated the nation's social contract with the poor. The second revolution, which began in the mid-1980s and may be going on still, aimed to use federal dollars to make work pay. If the welfare reform revolution encouraged and, where necessary, forced people to work, the work support revolution made it possible for families to work at low wage jobs and still provide a decent if somewhat spartan life for their children.

In this paper I review the nature of these two vital developments in American social policy, examine evidence on the effects of the social policy revolution they comprise, discuss policies for strengthening the effects of these reforms, and assess the extent to which the current system and possible future improvements enjoy bipartisan support.

In an earlier paper for this project (Haskins, 1998), I examined the liberal and conservative influences on the 1996 welfare reform law. The welfare reform law passed Congress by a greater bipartisan majority than the majority that enacted Medicare in 1965 and was signed into law by a Democratic President. In the previous paper, I argued that a small group of liberals, led by Daniel Patrick Moynihan (1965), Ken Auletta (1982), Mickey Kaus (1986, 1992), Nicholas Lemann (1988 & 1989), and Christopher Jencks (1992), wrote movingly and persuasively about the problems being created by, or at least associated with, the Aid to Families with Dependent Children program (AFDC). While conservatives, almost always encumbered by minority party status in post-War America until the Congressional elections of 1994, were by tradition exceptionally critical of welfare and were always willing to radically change the system, it was not until the flaws of welfare became a target for liberal intellectuals and even Democratic politicians that the possibility for serious reform became real.

More scholarly and cautious observers than I may disagree, but I believe history will show that the welfare reform law of 1996 represents a discontinuity with previous welfare policy and that the new policy has already dramatically changed the way politicians, scholars, reporters, public intellectuals, and the American people think about welfare. There are any number of books and monographs that complain of the piecemeal way in which nearly all public policy, but especially welfare policy, develop in America (Burns, 1963). Given our Democratic processes, separation of powers, and two-party system of government, normal policymaking is continuous, cumbersome, and slow. But an unusual constellation of forces created the background support necessary for the remarkable welfare reform legislation of 1996 (Haskins, 1998). These forces were seized by a determined Republican majority following the 1994 Congressional elections – a majority that knew exactly how it wanted to change welfare. The new majority came prepared with a legislative proposal and a core group of members of Congress, including Tom DeLay and Newt Gingrich in the House Leadership, Bill Archer, Clay Shaw, Nancy Johnson, and Jim McCrery of the Committee on Ways and Means, Lamar Smith of the Judiciary Committee, Pat Roberts of the Agriculture Committee, and Jim Talent and Tim Hutchinson of the Education Committee, who supported the same set of proposals and who had created a set of arguments to defend their policy against criticisms from both Democrats

and the press. At every crucial moment in the debate, Capitol Hill Republicans were joined by Republican governors in defense of their far-reaching proposals.

Although the policies developed over a period of years by this team addressed child care, child protection, policy for disabled children, food and nutrition, and welfare for noncitizens, only the program that replaced AFDC and the child care programs will concern us here. Changes in AFDC were radical; those in child care only slightly less so, although child care is of less consequence than the fate of the nation's most important cash welfare program.

The New Welfare System

The 1996 reforms replaced AFDC with the Temporary Assistance for Needy Families (TANF) block grant. The heart of the reform can be grasped by examining five features of the new program, all of which were prominent provisions of every major Republican bill that gained consideration in the House during the nearly two years of welfare reform debate. These five features had been developed by House Republicans over a period of years and enjoyed almost universal support in the House Republican conference and among the 32 Republican governors who played such a key role during Congressional debate. These features were also strongly opposed by a majority of Democrats and elicited howls of protest and charges of Republican extremism and cruelty. Indeed, one prominent child advocate (Edelman, 1995) charged in the Washington Post, after likening the Republican bill to burning Vietnamese villages to save them, held that no one who considered themselves part of the Christian or Jewish traditions could support the bill.

End cash entitlement

Ending the federal entitlement to cash welfare (while retaining the entitlement to food stamps and medicaid health insurance) was the most controversial feature of the Republican reform. To liberals, the creation of welfare entitlements was one of the most important features of American social policy and one of their most valued achievements because entitlements guaranteed payments to most poor Americans, especially children and their parents. Thus, no matter what the status of the economy, no matter which political party was in control of Congress or the White House, and no matter how large the caseload might be at a given moment, payments for every qualified person were guaranteed. But to conservatives, entitlements inevitably carried a moral hazard. Because recipients were guaranteed payments regardless of their behavior, entitlement policy permitted or even encouraged dependent behavior such as nonwork and nonmarital childbearing. Moreover, as long as recipients had a legal right to benefits, it would be impossible to create the type of reciprocal welfare system with strong sanctions that conservatives wanted to establish. Conservatives were determined to make it clear that unless able-bodied, adult recipients took concrete steps to free themselves from welfare, such as looking for work or actually working a fixed number of hours per week, their cash benefits would be reduced or even eliminated.

Given the popularity of requiring welfare recipients to work for their checks among the American public, Democrats faced a dilemma. They could not oppose work. But neither could they support serious work requirements with sanctions for failure to comply because these provisions would seriously undermine entitlement. This aspect of the 1995-96 debate mirrored the welfare debate of 1988. Democrats tried to find a compromise between strong work requirements and preserving entitlement. In fact, 30 years of Democratic policies designed to

promote work while preserving entitlement had failed. As early as the mid-1980s, Mary Jo Bane and David Ellwood of Harvard had shown that 65 percent of those on welfare at a given moment would eventually have spells that lasted 8 or more years, despite the fact that there were many exits from welfare. Similarly, a student of Ellwood's, LaDonna Pavetti (1995), showed that the average length of stay on welfare, counting repeat spells, for those on the rolls at a given moment was nearly 13 years. In 1995, AFDC administrative data showed that only around 8 percent of recipients actually worked. Thus, on the eve of the Republican attack on cash entitlement, welfare dependency was a significant problem. A major part of the solution was to send a clear federal signal — entitlement welfare benefits were being replaced by earned welfare benefits.

Block grant funding

Republicans wanted states to have much more authority over welfare programs. If welfare were to become primarily a job program, flexibility at the state and local level was a must. The caseworker, who previously was interested primarily in getting the amount of the welfare check correct, was now to become a job counselor and motivator. With this new responsibility would come the need for more authority -- including the right to reduce or end the cash benefits of recalcitrant recipients.

Almost as important, giving states a fixed amount of money would provide them with great incentive to help people leave welfare. Under the old AFDC program in which states received additional federal funds for each recipient they added to the welfare rolls and lost federal funds for each recipient who left the rolls, the state reward for helping people find work was a reduction in their federal funds (although states did save money on the state share of welfare payments). Further, with very modest exceptions, the federal funds were provided as an entitlement to individuals. As a result, they could be used only to pay welfare benefits, not to help prepare people for work. Creating the TANF block grant, and allowing states to spend their funds on child care, transportation, training, education, work bonuses, or anything else that would promote independence from welfare or the reduction of illegitimacy rates, provided both the financial incentive and the flexibility needed to promote change. Fixed funding meant that when states helped people leave or avoid welfare, they retained control of all the money saved from the reduction in welfare payments. This feature of the block grant gave states a huge incentive to help people work rather than depend on welfare benefits.

Block grants also allowed states to develop policies tailored to state and local demographics, traditions, economic activity, and beliefs about welfare. Equally important, block grants maximized the opportunities for innovation. If states are given autonomy, they will develop widely divergent policies. Flexibility yields innovation. Through innovation, a host of new and potentially effective welfare strategies can be developed and tested. This innovation can be seen in the welfare waiver programs states mounted in the years leading up to the 1996 reform. For example, states began to test welfare diversion in which adults are helped to find employment or given resources to deal with a crisis, rather than join the welfare rolls. States also began to provide a combination of generous work disregards, in which welfare recipients were allowed to keep more of their cash benefit once they found work, and much more stringent training and work requirements. Many states also began to develop sophisticated job readiness programs, usually lasting for about a week, to prepare people to find work and begin working. These short programs usually involved help in networking for job location, practice in job interview skills, help preparing a resume, and lectures, discussion, and role-playing about

the so-called "soft" work skills such as being punctual, getting along with peers, following instructions, and dressing properly.

Not only will states use their new flexibility under a block grant to design and implement innovative policies, but states, if encouraged or required to do so, will submit their programs to third-party evaluations to examine the impacts of their new policies. Again, this tendency can be seen clearly in the state waiver programs that preceded national reform in 1996. Highly competent companies such as the Manpower Demonstration Research Corporation, Mathematica, Abt, and others have been used by states to test their programs. These companies, as well as a number of research institutes founded by universities, provide states with skilled, independent, and reliable evaluations that allow the entire nation to profit from both successes and failures of innovative programs.

Work requirements

Work requirements were the third element of the reform strategy. These were the logical expansion of the modest participation standards that had been placed in the 1988 welfare reform legislation. A major justification for work requirements was that strong action was needed to ensure that the atmosphere of welfare offices changed. Most Republicans believed that when a sufficient number of adults on welfare began preparing for work, looking for jobs, finding jobs, and then actually leaving the rolls, a kind of contagion would take place in which most able-bodied adults on welfare would begin to perceive a real change and would feel themselves under pressure to make changes. Even more important, as particular states began to demonstrate that radically reconstructed programs at the local level could help adults on welfare end their dependency by finding jobs, other states would be likely to reform their programs along similar lines.

Stiff federal requirements of this type are inconsistent with the philosophy, inherent in block grants, that states should have great flexibility to design their own programs. However, few doubted that if state programs were to undergo real change, work requirements with teeth would be necessary. Thus, the federal government was requiring something that was almost universally regarded as essential to serious welfare reform. Further, the actual work requirements and penalties were negotiated with the governors, who somewhat reluctantly agreed to them, thereby ensuring that the new requirements accommodated state interests and capabilities to the maximum extent possible.

Sanctions

The fourth element of the reform strategy was sanctions. Two types were embodied in the legislation. First, after 30 years of soft federal legislation, states had to believe that Washington was serious about welfare reform this time around. After all, the Congress had been passing work and training "requirements" since 1967 and little had happened to change the routine check-writing operations of state and local welfare offices (Mead, 1986). Thus, the Republican legislation contained a number of cash penalties against states that failed to fulfill the work requirements. The governors' position was that as long as the federal government gave them adequate flexibility, control of resources, and clear requirements, they would agree to cash penalties for failure to meet the new norms.

The most prominent of the requirements was the work standard under which states had to place a specific percentage of their caseload in work programs every year. The standard began at 25 percent of the entire caseload in 1997 and increased at the rate of 5 percentage

points a year until it reached 50 percent in 2002. States that failed to meet these work standards were subject to penalties that could grow as high as 21 percent of the state's annual block grant. With penalties like this, states were unlikely to ignore the work requirements.

Individuals on cash welfare were also subject to substantial penalties. Although states had the flexibility to design their own penalty structure, the federal statute required that states impose penalties on individuals who failed to meet the work requirement and to do so in proportion to the seriousness of their failure to comply. At state option, the penalty could include complete termination of cash benefits and of adult Medicaid coverage. These penalties reflect the belief among Republicans that real change required that adults on welfare realize they were subject to serious penalties if they failed to change their behavior and work diligently toward independence.

5-year time limit

Finally, individuals were subject to a 5-year time limit on benefits paid with federal funds. With the exception of ending the entitlement to cash welfare, the 5-year time limit was the most controversial provision of the legislation. Republicans held that it was vital to send young welfare recipients a direct and unambiguous message from the first day they signed up for benefits; namely, that they must begin immediately to prepare for self support because welfare was now temporary and not a way of life.

Democrats strongly opposed this policy, often using harsh rhetoric about Republicans abandoning the poor. One Democrat, for example, said that the bill was “the most callous, coldhearted and mean-spirited attack on this country’s children that I have ever seen in my life” (Congressional Record, 1995, p. H3348); another, after reading a quotation about citizens remaining quiet while the Nazis destroyed various enemy groups before and during World War II, admonished his colleagues to “Read the Republican contract. They are coming for the children. They are coming for the poor. They are coming for the sick, the elderly, and the disabled . . . I say to my colleagues -- you have the ability, the capacity, the power to stop this onslaught” (Congressional Record, 1995, p. H3358).

Even so, Republicans were insistent that welfare recipients became dependent primarily because entitlement welfare encouraged them to do so. If an emphasis on temporary benefits were an inherent part of the welfare system, the majority of recipients would respond appropriately. The House Floor debate in both 1995 and 1996 is full of Democratic claims that without entitlements, recipients and their children would be in grave jeopardy. To this claim, Republicans responded that it was the entitlement system itself that made recipients appear helpless and that if young adults on welfare understood from the beginning that the program now offered only temporary support, and if they were given help in preparing for and finding work, they would display the same ability to support themselves and their families as other Americans. In addition, caseworkers would be more likely than under previous welfare reforms to help recipients join the workforce because the alternative was loss of benefits. Time limits also had the effect of reducing the present value of future benefits, thereby further encouraging recipients to enter the workforce. Regardless of what disadvantages able-bodied adults faced in their personal lives, Republicans argued that the welfare system must not provide them with an excuse to surrender their natural inclination for self sufficiency.

Republicans did agree with Democrats that there would be some individuals on welfare, particularly those with large families, addictions, children with disabilities, personality disorders, or mental limitations, who would need more than 5 years to achieve independence. Thus, the

law allowed states to make exceptions to the 5-year limit for up to 20 percent of their caseload in order to accommodate these hardship cases.

Summary of 1996 welfare reform law

The sweep of the 1996 welfare reform law was immense. Taken together, these five provisions of the new TANF program constituted one of the most substantial changes ever made in a major American social program. Because the AFDC program was in many respects the lynchpin of entitlement welfare policy for the able-bodied, enacting these reforms had a major impact, not just on the AFDC program, but on the host of programs that contribute to the entitlement mentality that had proved so destructive to many young Americans and to scores of inner-city communities.

Although the welfare reforms of 1996 have enjoyed extensive coverage in the media, a more subtle set of changes in means-tested programs for poor and low-income workers had been taking place since approximately the mid-1980s. To fully understand the choices confronting welfare applicants and recipients, and to comprehend the actual financial incentives in place to assist adults deciding to avoid or leave welfare, it is essential to understand this work support system in greater detail.

The Work Support System

America's work support system can be defined as a set of means-tested programs that provide public benefits to supplement the income of working families. For our purposes, the work system has five major and several minor components. The major components are the Earned Income Credit, Medicaid, child care, food stamps, and child support enforcement. The other components include housing, transportation, school lunch, Head Start, the Workforce Investment Act, and a growing set of state-supplied benefits.

Developing the work support system

Earned income credit— The heart of the work support system is the Earned Income Credit (EIC; Committee, 1998, pp. 866-870). Enacted in 1975 and expanded several times since, the EIC is essentially a reverse income tax that supplements the income of low-wage workers. The payment schedule can be thought of as a pyramid with the top cut off. Along the left, upward sloping wall of the modified pyramid, the EIC payment increases as wages increase. In 2000, the credit for a mother and two children is a cash income supplement equal to 40 percent of income up to a maximum income of approximately \$10,000 (all figures are rounded); thus, between \$1 and \$10,000 of income, working parents receive an additional 40 cents for every additional \$1 of income. When income reaches \$10,000 at the top of the modified pyramid, the EIC pays a constant \$4,000 until income reaches \$12,000. As income passes \$12,000 along the right, downward sloping wall of the pyramid, the credit begins to phase out at a rate of about 21 percent for each additional dollar of earnings. At \$20,000 of income, for example, a worker would receive the maximum credit of \$4,000 minus the phase out rate times the amount of phase out between \$12,000 and \$20,000 (21% times \$8,000). This calculation is \$4,000 minus \$1,680 or \$2,320, which the family receives as a cash tax return. The credit is completely phased out at about \$30,000.

When enacted in 1975, the credit was a mere 10 percent of income up to \$4,000, yielding a maximum credit of \$400. Many who supported the original EIC thought of it as a replacement for Social Security taxes. Congress expanded the initially modest credit on several occasions. The credit received a nice boost, first proposed by that famous liberal Ronald Reagan, in the major tax overhaul of 1986. Similarly, the EIC was given another substantial boost by the child care reform legislation written primarily by House Republicans and supported by the Bush Administration in 1990. Finally, the biggest boost of all was proposed by President Clinton and enacted in 1993. After the Clinton reforms, the EIC provided a maximum credit of 7.65 percent of incomes up to \$4,340 for childless workers (who had never previously been included in the EIC); 34 percent applied to incomes of up to \$6,500 for workers with one dependent child; and 40 percent applied to incomes of up to nearly \$10,000 for workers with two or more children.

The 1993 installment of the EIC expansion was designed by David Ellwood of Harvard who had joined the Clinton Administration in 1993 and was assigned the task of figuring out how to deliver on President Clinton's promise that full-time work at the minimum wage should remove a family from poverty. Ellwood's proposal to dramatically increase the EIC was quickly adopted by the President and tucked into his controversial and divisive tax increase of 1993. The entire package was enacted without a single Republican vote in either Houses of Congress. Ironically, this bill, which contained one of the biggest tax increases in American history, is widely believed to have contributed to Democrats losing control of both Houses of Congress in the 1994 elections.

Medicaid— The Medicaid program pays for health services provided to eligible low-income families with children, as well as to the aged, the blind, and the disabled. In the case of children, Medicaid provides access to preventive health care through Early and Periodic Screening, Diagnosis, and Treatment; well-child care; physician and hospital services for acute care; prescription drugs; vision and dental care; and long-term care for children with disabilities. Following its enactment in 1965, Medicaid was widely viewed to be flawed because, with minor exceptions, only those enrolled in either the AFDC program or the Supplemental Security Income program (or its state-run predecessor programs) could gain access to Medicaid benefits.

However, under the leadership of Congressman Henry Waxman and others, in the mid-1980s Congress embarked on a series of largely bipartisan reforms that had the effect of allowing many more children, including children not enrolled in either the AFDC or SSI programs, to be eligible for Medicaid. These reforms can be boiled down to three types of coverage that operate outside the cash welfare programs. First, states must cover all children under age 15 in families with incomes below the federal poverty level (about \$13,900 for a family of 3 in 1999). When originally enacted, this provision required states to cover only children under age 5. However, the legislation mandated states to raise annually the age-groups receiving mandatory coverage by 1 year until all children under age 19 receive coverage in the year 2003. Second, states must cover all children under age 6 living in families with incomes below 133 percent of the federal poverty line (about \$18,500 for a family of three in 1999). Third, states have the option of covering children under age 1 and pregnant women in families with incomes up to 185 percent of the federal poverty level (about \$25,700 for a family of 3 in 1999).

If these provisions opened the door to Medicaid coverage to those outside the welfare programs, the 1996 welfare reform law blew the door off its hinges. Both Republicans and Democrats were determined to ensure that children would not lose Medicaid as a result of the new emphasis on work. After many hours of negotiation, and over the very strong opposition of the governors, the negotiators decided to virtually sever the link between the new TANF program and Medicaid. The revised Medicaid statute now requires states to cover any family that meets the income, resource, and family composition guidelines in place for AFDC eligibility on July 16, 1996, before the enactment of welfare reform. This provision was included because Democrats were concerned that states would use the flexibility provided by the TANF block grant to lower their income and resources standards, thereby reducing the number of families that could qualify for TANF benefits. If Medicaid eligibility continued to be tied to TANF as it had been to AFDC, many families could lose coverage.

As governors pointed out with a certain level of energy (one Republican governor threatened to call a press conference and denounce the entire bill), the new requirement meant that states would very likely be required to compute two eligibilities—one for TANF and one for Medicaid—where previously they could calculate just one that covered both AFDC and Medicaid. To appease the governors, states were provided with an additional \$0.5 billion in administrative funds for the Medicaid program.

The welfare reform law also added two mandatory coverage requirements for families leaving welfare. Specifically, welfare leavers with employment were given 6 months of Medicaid and, if family income remained below 185 percent of the federal poverty level (\$25,700 in 1999) at the end of the first 6 months, an additional 6 months of coverage was mandated.

Thus, by the time the welfare reform law was signed by President Clinton in August of 1996, the Medicaid program had been transformed from one tied almost exclusively to participation in cash welfare programs to one that provided a host of ways to qualify for coverage. Then, a year later in the Balanced Budget Act of 1997, Congress provided still more health insurance coverage for children by enacting the \$20 billion (over 5 years) Child Health Insurance Program (CHIP). This program was intended to help states provide health insurance to children from families with incomes above the Medicaid cutoff but below 200 percent of the federal poverty level (\$27,800 in 1999). Combining the expanded Medicaid coverage with the new CHIP program, there is no question that more children are now eligible for government health coverage than ever before—whether they actually receive the coverage is another issue to which we return below.

The upshot of these various expansions is that mothers can leave welfare and retain Medicaid coverage for their children, and often for themselves. Although the exact role of health coverage as a disincentive for leaving welfare is not well established in research (Ellwood & Adams, 1990), it is certainly reasonable to suppose that mothers facing the prospect of low wage employment and spotty health coverage might make a rational decision to stay on welfare simply to ensure that their children would have Medicaid coverage. Similarly, even many conservatives agree that policymakers who want to create a system in which mothers are strongly encouraged or compelled to leave welfare for work must do everything they can to ensure that these mothers and their children do not lose health insurance coverage. Ironically enough, the Waxman expansions were often referred to by Republicans during the welfare reform debate of 1995-96 as part of the justification for using compulsion to cause mothers to leave welfare.

Child care—The major conflict in federal child care policy over the past several decades has been a struggle between those who want to simply provide federal subsidies for routine market care while parents work and those who want to provide high-quality, “developmental” child care so that preschool children from poor and low-income families will receive the stimulation they need to achieve proper development. As the history of federal child care policymaking since roughly the 1970s has shown, there are two strategies that policymakers, especially Democrats, have followed to achieve the goal of providing more developmental care.

The first is to directly provide federal funds and federal standards to create developmental care. Nearly everyone, Republicans and Democrats alike, agrees that preparing poor children for school is a worthy goal and that it is appropriate for the federal government, in its role of helping the poor, to spend money and set general policy directions in this area. Head

Start is, of course, the quintessential program that promotes the development of poor children. In announcing the new Head Start program in his famous Howard University address in 1965, President Johnson (1966) stated the goal of federal developmental child care policy quite clearly. The purpose of Head Start, he said, was to bring poor children to the “starting line” provided by their entry into the public schools on par with their more advantaged classmates.

In its nearly 35 years, Head Start has enjoyed a charmed existence. Despite its spotty record for actually helping children achieve more in the public schools (Haskins, 1989; Currie & Thomas, 1995), both Republicans and Democrats strongly support the program. Even during the period after Republicans took over Congress in 1995 when many federal social programs were subjected to intense scrutiny, Head Start was never a target for budget cuts. Indeed, quite the opposite. Since 1995, the Head Start budget has increased from \$3.5 billion to \$4.7 billion, almost a 35 percent increase.

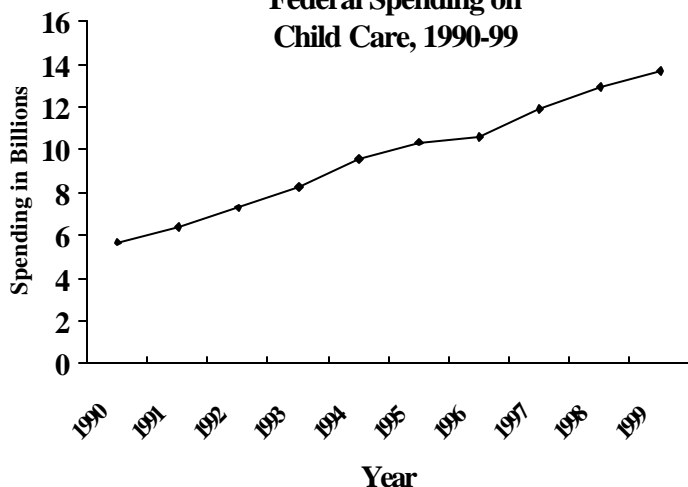
The second policy pursued by Democrats to ensure increased availability of developmental care is the regulatory route. Now almost forgotten, for two decades or more there was a serious struggle at the federal level over something called the Federal Interagency Day Care Requirements (FIDCR; Nelson, 1982; Steiner, 1976). The goal of FIDCR was to create federal regulations on quality child care—including staff-child ratios, teacher training, physical resources, curriculum, and a host of other requirements—that had to be met by any facility receiving federal funds. Head Start represented the direct federal creation and virtual federal ownership of developmental child care; FIDCR represented the indirect creation of developmental care by imposing quality guidelines on hundreds of thousands of child care facilities in both the private and public sectors throughout the country.

As the drive to help mothers leave welfare increased, it became clear that inexpensive child care was a key to policy aimed at helping mothers escape welfare dependency (Steiner, 1971; Haskins, 1992). Here's why. Assume that the goal of welfare reform was to reduce the welfare caseload from the high water mark of around 5.1 million families to 3 million families. Assume that half these families have a preschool child. If federal law required that each of these children be placed in a Head Start-like program that provided full-time, year-round care, even at a conservative cost estimate of \$9,000 per year, the cost would be about \$9 billion per year. Even more extravagant, serious scholars such as Barbara Bergmann (1998) of American University have proposed that all poor children receive this type of developmental child care at a total cost of around \$40 billion per year.

These figures demonstrate that federal policymakers faced a choice: they could pursue either welfare reform or universal developmental child care. The policy they selected was to continue moderate increases in the budget for Head Start, to kill FIDCR, and to simultaneously provide states with more money to purchase routine care for poor and low-income working mothers, especially those leaving welfare. Because everyone agreed that much more child care would be needed once the welfare reform law was enacted, the final bill included an additional \$4.5 billion over 6 years in child care funds.

This dual policy of nurturing Head Start as the federal commitment to developmental care while stopping Federal regulation of routine market care can be seen in both the 1988 welfare reforms and the important 1990 expansions of federal child care policy. In the former case, Congress authorized child care funds for families participating in the Job Opportunities and Basic Skills Training (JOBS) program but refused to create anything like the FIDCR regulations. In retrospect, it seems reasonable to conclude that the 1988 welfare reform legislation was the death knell of serious federal regulation of market child care and, even more

Figure 1
Federal Spending on
Child Care, 1990-99



Note. Programs include the Child Care and Development Block Grant, Head Start, the Social Services Block Grant, the Child and Adult Care Food Program, the Dependent Care Tax Credit, and the Exclusion of Employer-Provided Child Care. Spending in 1999 dollars.

Source: Congressional Research Service

important, that it laid the basis for the child care compromise between liberals and conservatives that persists to this day. Specifically, the developmental strand of child care policy would continue through the Head Start program, but there would be no specific federal regulations that would attempt to expand the supply of high-quality, developmental child care by forcing child

care facilities throughout the country to meet federal standards. Rather, states would enjoy almost complete autonomy in deciding what types of care to regulate, in setting the specific regulations, and in enforcing regulations. Congress did decide that federal funds could be spent only in facilities that met whatever standards states might impose on child care facilities of certain types.

The major child care legislation of 1990 expanded and further codified all these elements of the child care compromise. In addition, the 1990 legislation added the requirement that, in order to promote parental choice, states must make child care vouchers available to qualified families that requested a voucher.

The major innovation of the 1996 legislation was to end the parallel child care programs that were run through the old AFDC programs and to place all funds, including new funds of around \$4.5 billion over 6 years, in the Child Care and Development Block Grant. Other than these two changes, the 1996 legislation, like the 1990 legislation, simply confirmed the decision to leave child care regulation in the hands of state and local officials.

As shown in Figure 1, regardless of the various debates taking place at the time, spending on child care has increased almost every year. Given the likelihood that Congress will provide increased funding for Head Start almost every year, the open-ended nature of child care provisions in the tax code, and the planned increases in the Child Care and Development Block Grant enacted as part of the

1996 welfare reform law, we can expect federal expenditures on child care to continue increasing for at least the next several years.

Food stamps—Food Stamps is seen by both Republicans and Democrats as a vital link in the work support system. Every individual and family that meets the program's income and

resource standards and submits an application receives coupons or an electronic benefit transfer card that are redeemable at millions of facilities that sell food. The gross income test is 130 percent of the federal poverty level or around \$17,500 for a family of three in 1999. If this test is met, a series of calculations is applied to earnings to determine the benefit amount.

Although there were numerous changes in the food stamp program in the 1996 welfare reform law, most of these changes had only a modest effect on welfare recipients. In most cases, if the mother went to work as a result of the reforms, she faced precisely the same maximum benefit and the same phaseout rate as she would have faced before welfare reform was enacted. But food stamps remained an important part of the work support system because, as we will see, most mothers leaving welfare for work at low wages remained eligible for around \$1,500 in food stamps. Moreover, since many families move into and out of work in the initial few years after leaving welfare, the food stamp benefit would be worth even more because the family could receive the maximum benefit during periods of unemployment.

Child support enforcement—Signed into law by President Ford in 1975, the Child Support Enforcement program is designed to encourage and, when necessary, force noncustodial parents to support their children even though they no longer live with them. Originally intended to collect money primarily from fathers whose children were on welfare, the program quickly expanded to include nonwelfare families. Few programs have the widespread and deep bipartisan support enjoyed by child support. Major reforms of the program passed Congress unanimously in 1984; managers of the Family Support Act of 1988, which contained substantial reforms of both the AFDC and child support programs, were widely believed to have included child support reforms in the bill in order to attract the votes necessary to ensure enactment; the still more elaborate and important reforms included in the 1996 welfare reform legislation were developed and supported on a bipartisan basis, despite the fact that many of the welfare reforms included in the bill were highly partisan and caused no end of political conflict.

Among other reforms, the most important changes in child support enforcement included in the 1996 legislation were extensive automated data processing requirements, a state and national directory of basic information on all new employees hired in the United States, a state and federal directory of all child support orders in the United States, and mandatory state enforcement mechanisms such as revocation of fishing licenses and driver licenses, financial institution data matches, and periodic data matches of new hire with case registry data. Taken together, the 1996 reforms are generally agreed to be the most thorough and far-reaching reforms of child support in the history of the program. The Congressional Budget Office estimated that they would save about \$320 million per year when fully implemented (although the associated administrative costs would absorb most or all of the savings).

One of the most basic features of the child support program is the set of rules that determine how collections are to be distributed between mothers and children, state government, and the federal government. Generally, collections made while the mother and children are on welfare are retained by the state and split with the federal government. But before passage of the 1996 reforms, once the mother left welfare, different rules for distributing payments might apply. Payments on current support had to be paid to the mother, but any payment on arrearages above the level of current support could be denied to the family and retained by the state (and split with the federal government) to repay taxpayers for their support of cash welfare.

Because the major goal of the welfare reform law was to help mothers leave welfare and achieve self support, House Republicans wanted to change the distribution rules so that states would be required to provide all post-welfare collections to mothers until all the arrearages owed to them had been repaid. Only then would states be allowed to keep arrearage payments. Sharing both collections for current payments and collections on arrearages with mothers would impose costs on both federal and state governments since under previous law most states retained arrearage payments and split the collections with the federal government. According to CBO, the federal cost of this new distribution rule would have been about \$400 million per year when fully implemented. Even so, House Republicans included this provision in the bill that passed the House in March of 1995.

However, states were opposed to the provision because it also imposed over \$350 million per year in costs on them. After lots of sometimes acrimonious negotiation, necessitated by Republicans on the Senate Finance Committee siding with the states to oppose Republicans on the Ways and Means Committee, a compromise was reached. Ignoring several complexities, the post-welfare arrearage payments would be split such that states could retain all payments obtained from the tax intercept program but were required to pay all payments obtained by any other means to mothers and children. According to CBO, this policy resulted in mothers and children receiving about \$350 million in additional child support payments each year -- but deprived them of an additional \$300 million or so per year they would have received if all collections on arrearages had been given to mothers.

Other Benefits—Low-income working families are eligible for lots of benefits in addition to those discussed above. These include school lunch, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), housing, and a host of education and training programs. In fact, according to the Congressional Research Service, there are about 80 programs that provide benefits to those with limited income, 28 of which had a funding level of at least a billion dollars in 1996 (Burke, 1997). Unfortunately, I know of no analysis that attempts to identify the portion of this spending that helps working families. The amount, however, must be very substantial, probably at least \$20 billion in addition to the amount spent under the primarily entitlement programs (see below). Moreover, many states conduct their own benefit programs that help working families. For example, in addition to generous disregard rules on their TANF programs and free preschool education programs for 3 and 4 year olds, many states now offer a state Earned Income Credit (EIC) and several more are considering an EIC program (Johnson & Lazere, 1998). The point is simply that our nation has made a very substantial commitment to low-income families that work. Anyone who asserts that the 1996 welfare reform legislation removed the nation's safety net must leave room in their analysis for these numerous and generous benefit programs.

Assessing the work support system

Table 1 depicts perhaps the most basic argument Republicans presented during the 1995-96 welfare reform debate to convince Democrats that mothers who left welfare for low-wage jobs would be better off than if they stayed on welfare. Given the expanding work support system, even mothers working at low-wage jobs would be much better off. Democrats responded with several arguments to refute this claim (Edelman, 1997). They held that jobs were not available in sufficient numbers; that welfare mothers could not hold jobs because they had problems with health insurance, transportation, child care, and so forth; and that in any case the entire enterprise of expecting mothers on welfare to support themselves was too risky (for a good discussion of these long-standing arguments, see Mead, 1992). As Republicans and Democrats, joined frequently by editorial page writers in the nation's leading newspapers, conducted a spirited and partisan debate on whether poor mothers were capable of supporting themselves in the American economy, the Urban Institute, a widely respected think tank in Washington, DC, published the results of an econometric study that claimed to show that the Republican bill would cast a million children into poverty (Zedlewski et al., 1996). Even so, Republicans stuck to their basic argument that because low-wage jobs were widely available, mothers would be able to combine income from these jobs with income and benefits from the new work support system and make themselves and their children better off than they had been on welfare.

Table 1
Family Income from
Welfare vs. Low-Wage Work

Welfare		Work	
Aid to Families with		Earnings	\$10,000
Dependent Children	\$4,500	Earned Income Credit	3,500
Food Stamps	3,500	Food Stamps	2,000
	8,000		15,000

Table 2
Changes in Returns to Work and Welfare, 1986 and 1998

		AFDC/ TANF and	Earned Income	Total
Welfare	Federal			

Medicaid

or Work	Earnings	Taxes	Food Stamps	Credit	Income	Coverage?
1986						
Welfare	\$ 0	\$ 0	\$8,747	\$ 0	\$8,747	yes
Work	<u>10,000</u>	<u>-956</u>	<u>2,584</u>	<u>728</u>	<u>12,356</u>	<u>no</u>
Difference	\$10,000	-\$956	-\$6,163	\$728	\$3,609	loses coverage

1998						
Welfare	\$ 0	\$ 0	\$7,870	\$ 0	\$7,870	yes
Work	<u>10,000</u>	<u>-765</u>	<u>4,240</u>	<u>3,756</u>	<u>17,231</u>	<u>yes</u>
Difference	\$10,000	-\$765	-\$3,630	\$3,756	\$9,361	children

Note: Estimated 1986

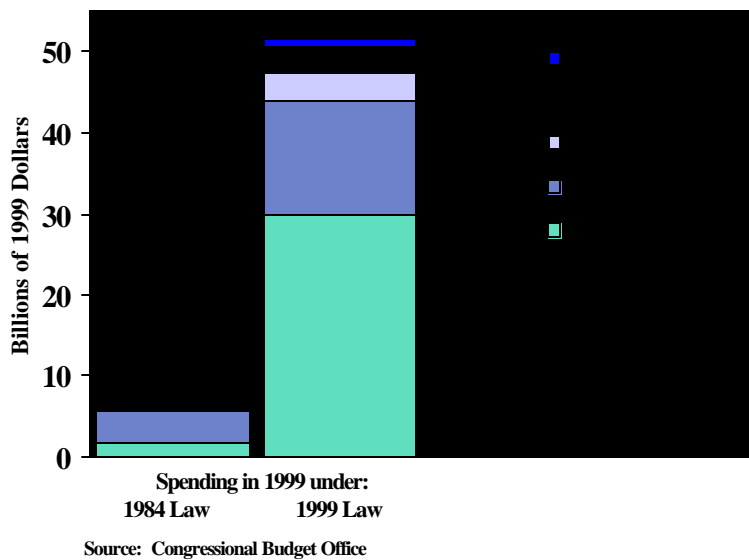
deduction but do assume the standard deduction of \$75, the \$30 deduction, and a \$160 child care deduction. Federal taxes are income taxes and FICA taxes. Calculations made by the Congressional Research Service.

Table 2, adapted from Ellwood (undated), is an updated (that is why the numbers are different) and more sophisticated version of Table 1. By comparing income by source for a hypothetical Pennsylvania mother facing the decision of whether to stay on welfare or work in 1986 and in 1998, we can see the dramatic impact on work incentive of the growth of the work support system between these two dates. Even in 1986, mothers on welfare had a financial incentive to work because they could increase their income by around \$3,600. On the other hand, they would lose all Medicaid coverage for themselves and their children. Given a system like the one that existed in 1986, it is not difficult to imagine a mother making a rational decision to stay on welfare. By 1998, however, the financial incentive to work had increased to well over \$9,000, both the mother and children would receive Medicaid for at least a year after

leaving welfare, and children up to age 16 would retain their Medicaid coverage for as long as the mother's income was less than the poverty level.

The three major sources of increased work incentive depicted in Table 2 are a decrease in welfare benefits for nonworking mothers of about \$900, an increase of over \$1,600 in the amount of welfare a mother can retain when she goes to work, and an increase of about \$3,000 in the EIC. The first change is attributable primarily to states allowing the value of the AFDC/TANF benefit to be eroded by inflation; the second to generous changes in state income

Figure 2
Support for Working Families
Increases Dramatically, 1984-1999



disregard rules for reducing the TANF benefits of mothers who go to work; and the third to the huge increases in the federal EIC discussed earlier. Clearly, both states and the federal government have made policy changes in the last decade or so that, taken together, greatly increase the returns to low-

wage work.

We can get an idea of the magnitude of the federal changes from Figure 2. Republicans on the Ways and Means Committee recently asked the Congressional Budget Office (1998) to estimate how much the federal government is spending in entitlement dollars on the work support programs that have been expanded or created by Congress since 1984. These programs include entitlement child care, CHIP, the child tax credit, Medicaid, and the EIC. If Congress had not expanded these work support programs, the federal government would have spent less than \$7 billion in entitlement funds to subsidize the incomes of low-income, working families in 1999. However, due to the expansions, the federal government will actually spend nearly \$52 billion. The difference between \$7 billion and \$52 billion in entitlement funding represents a dramatic commitment by the federal government to the well-being of working families.

The federal commitment is actually even more impressive than these figures would suggest. The CBO analysis was based on only entitlement spending and on programs that had changed substantially since 1984. Thus, food stamps, housing benefits, school lunch, and a host of other, primarily non-entitlement, benefits were excluded from the analysis. If these programs

are included, it is likely that the federal government will spend at least \$70 to \$80 billion on benefits for poor and low-income working families in 1999.

There can be no question that the federal government has committed itself to a new approach to policy for poor and low-income families. While it is certainly true that welfare reform greatly strengthened the likelihood that mothers would work or leave welfare, it is also true that the nation is evolving a very generous work support system that helps former welfare mothers, as well as other low-income working families. In the long run, American taxpayers may be far more amenable to maintaining and even improving a work-based system than a welfare system.

Effects of the 1996 Welfare Reform Law

It has been more than a decade since many states began to implement work programs under waivers granted by the Department of Health and Human Services, 5 years since more than half the states implemented their own welfare-to-work programs under waivers, and nearly 3 years since passage of the federal welfare reform law itself. Few pieces of legislation enacted by the federal government have stimulated as much study and research as the 1996 reform law. As a result, we have lots of information on the early effects of the law. This information permits us to make informed judgments about the joint effects of the welfare reform legislation and the expansions of the work support system. Although many observers claim that we need to wait for additional studies, enough is now known to conclude that the immediate effects of welfare reform are positive. To be sure, there are issues and questions that need further attention, but enough is known to draw at least tentative conclusions about the effects of the 1996 law.

At the most general level, there seems to be widespread agreement that:

- there has been no race to the bottom by states; indeed, many states have increased benefits;
- there is little evidence that states have simply dumped people from the rolls;
- many – perhaps a majority – of poor families on welfare have shown that they are capable of supporting themselves once they leave the rolls, in part because of the federal work support system for working families;
- there is little evidence of an increase in homelessness related to welfare reform; and
- there is little evidence of an unusual increase in state foster care caseloads.

As we will see, the implementation of welfare reform has raised other issues and problems, but the widely predicted disasters have not materialized.

By contrast, there is solid evidence of a host of positive effects – on welfare offices around the country; on caseload sizes in nearly every state; on per family money available to states to conduct their benefit and work programs; on female labor force participation of mothers, especially never-married mothers; on income in female-headed families; and on poverty. In addition, there are hints that welfare reform may be having an impact on nonmarital childbearing.

Change at the local level

As generations of intervention research have shown, treatments cannot have effects unless they are actually implemented faithfully. In the case at hand, an assessment of the effects of welfare reform must begin with a determination of whether its provisions have actually been implemented at the state and local level.

Among many good and interesting studies of state and local change, one stands out for its breadth, depth, and even-handedness. Scholars Richard Nathan and Thomas Gais (1999) of the State University of New York have conducted a thorough study providing extensive information on welfare reform activities at the state and local level in 20 states. Their methods were innovative but straightforward. Nathan and Gais organized 20 small groups of experienced academic researchers, each of which conducted an extensive study of one state. Using a common protocol, they studied state statutes and regulations, visited local offices, examined administrative and budget data, and interviewed state and local officials. Each team then completed standard reporting forms to summarize the information on each state in a common format. The information they collected and analyzed has now been summarized by Nathan and Gais in a handy and readable little book entitled "Implementing the Personal Responsibility Act of 1996: A First Look".

According to the reports from state after state, the essence of welfare reform has been deep and pervasive change at the local level. More specifically, local offices that used to be organized primarily to gather information from recipients so that officials could write welfare benefit checks are now engaged much more heavily in a host of activities designed to help people work. The changes in these offices range from the superficial to the profound.

Many offices changed their name to remove the word "welfare" and substitute the word "work". More importantly, Nathan and Gais document substantial changes in the behavior of welfare bureaucrats. Former check-writers now turned job counselors tell recipients and those applying for benefits that what they really need is not a welfare check, but a job. The new "Work Office" is reorganized to provide welfare recipients and applicants with help preparing for and finding a job. It is now routine practice for welfare workers to help their "clients" prepare resumes, participate in classes on job preparation, check want ads, use the Internet to find potential jobs, practice job interviews, arrange transportation, arrange child care, sign up for the earned income credit and other work-related benefits, and participate in many similar activities designed to lead to actual work, usually in a private-sector job.

Three tools that the Nathan and Gais teams, as well as other researchers, have found in frequent use by local offices are welfare diversion programs, personal responsibility agreements, and sanctions for failure to perform. Diversion programs, a recent innovation, are designed to help adults applying for welfare avoid actually joining the rolls. The theory behind this approach is that welfare could be habit-forming (President Franklin Roosevelt, 1938, once referred to welfare for the able-bodied as a "narcotic") and is therefore best avoided. To avoid welfare, caseworkers provide advice and services to get applicants into the workforce as quickly as possible. Several states require applicants to search for work before they can qualify for welfare benefits, something that would not have been possible under an entitlement system. Caseworkers provide assistance in the form of help finding child care, finding jobs, managing family budgets, and arranging transportation. In some states, only those who cannot find jobs after a serious effort are actually allowed to go on welfare. Many states have also initiated the practice of making one-time cash payments to individuals in need of welfare because they face a crisis of some sort. In these cases, states provide their clients with cash payments to repair a

broken car, make child care arrangements, pay rent or electricity bills, or move to acceptable housing. The goal of this approach is to make a one-time payment that allows families to continue or begin working and thereby avoid going on welfare with its attendant hazard of getting trapped.

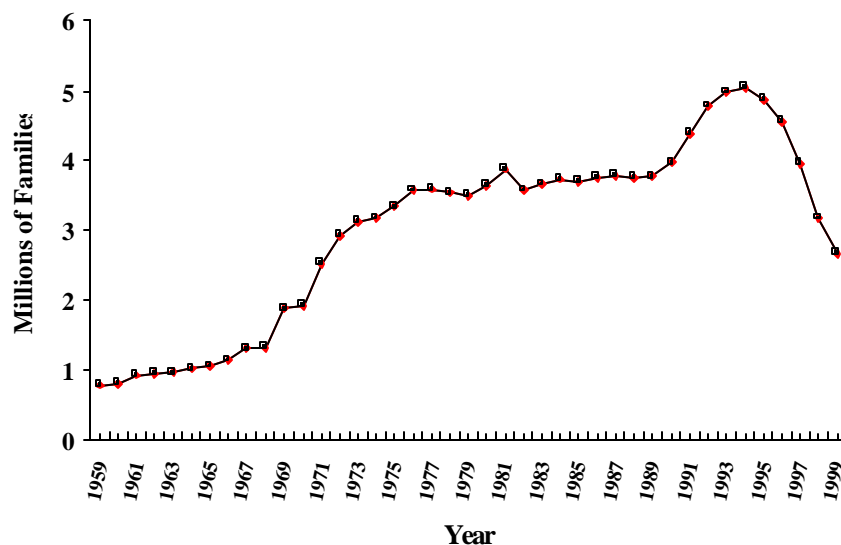
A second tool that states have used widely is the personal responsibility agreement. This agreement specifies what services and benefits the state will provide in exchange for a list of specific obligations by the recipient. In some states, the agreement is little more than a standard form with no individualized agreements tailored to specific recipients. In other states, however, the agreement spells out in great detail what the local welfare office will do and a series of specific steps clients must take to reach self-sufficiency. These personal responsibility agreements embody the new philosophy of the nation's cash welfare system. The agreements show clients that they no longer have the option of getting something for nothing. Rather, the agreement underlines the reciprocal nature of the new system -- we'll do A if you do B.

But what if recipients ignore the requirements spelled out in their agreement? After all, since 1967 federal law has required states to refer appropriate recipients to work activities, and yet only in recent years has work really taken hold. An important part of the answer is that both federal and state law now require that serious sanctions be placed on individuals who do not live up to their side of the bargain (Pavetti & Bloom, 1999). In the past, clients who failed to show up for job preparation activities or failed to search for work were sanctioned with a letter or at most a partial benefit reduction. Now 33 states can end the family's cash benefit entirely, usually after one or more warnings for failure to perform.

Few on any side of the welfare reform debate question the importance of sanctions in explaining why the welfare rolls have declined and work has increased. In fact, Robert Rector (1999) of the Heritage Foundation has recently argued that the states with strict sanctioning policy have much greater caseload declines than states with weak sanctions. Rector divided states into three categories according to the strength of their sanctioning policy and found that states with strong sanctions have had average caseload reductions of 42 percent, those with moderate sanctions averaged 28 percent reductions, and those with weak sanctions averaged 17 percent reductions. Caseload declines, in short, were directly related to the magnitude of sanctions. On the other hand, Rector's claims have not gone unchallenged, especially because they are correlational in nature and therefore cannot support causal conclusions (Weaver, 1999).

The welfare reform law aimed to change the behavior of bureaucrats and through them the behavior of welfare recipients and potential recipients. Although we do not have information

Figure 3
AFDC/TANF Caseload, 1959-1999



Source: Congressional Research Service

on the percentage of local welfare offices that have made a full transition of the type described by Nathan and Gais, there is now no doubt that many welfare bureaucracies throughout the nation have changed. Such change was the first and essential step in reforming welfare and

thereby reducing dependency and increasing self-reliance. It seems reasonable to predict that more and more local welfare offices will begin to emphasize work over the next several years. As Richard Nathan has remarked, all they did was pass a law in Washington. Of course, Washington had done that many times before. But this time the law has produced dramatic changes in the behavior of welfare bureaucrats throughout the nation. Although we may never know exactly what constellation of factors produced this surprising level of bureaucratic change, it is a good bet that the five major reforms in federal law outlined above played a major role.

Caseload reductions

Having shown that there is agreement that many, perhaps most, welfare offices have been converted from mere check-writing operations into job-placement operations that write checks as a secondary activity, we can now search for evidence about whether these changes have produced effects on welfare recipients themselves. Consideration of the effects of welfare reform properly begins with caseload reductions (Figure 3). Critics point out that reduced caseloads cannot be the major goal of welfare reform. After all, caseload reductions can be achieved by simply throwing families off the rolls. Even so, caseload reductions are an exceptionally important measure if for no other reason than that the rolls have so rarely declined in the past. Moreover, young adults cannot achieve self-reliance until they actually leave welfare.

Thus, it is of great significance that between the spring of 1994 and March of 1999, the most recent period for which we have data, the number of families on welfare had fallen 47

percent after nearly 5 consecutive years of decline. This caseload decline is without precedent in the history of cash welfare. In fact, as can be seen by examining the trends in Figure 3, declines in just 2 consecutive years are almost unprecedented. In any case, the greatest previous decline since the Korean War was a mere 8 percent.

Two additional points provide perspective on these caseload declines. First, many people seem to think that welfare rolls move up and down in rough correlation with the economy --

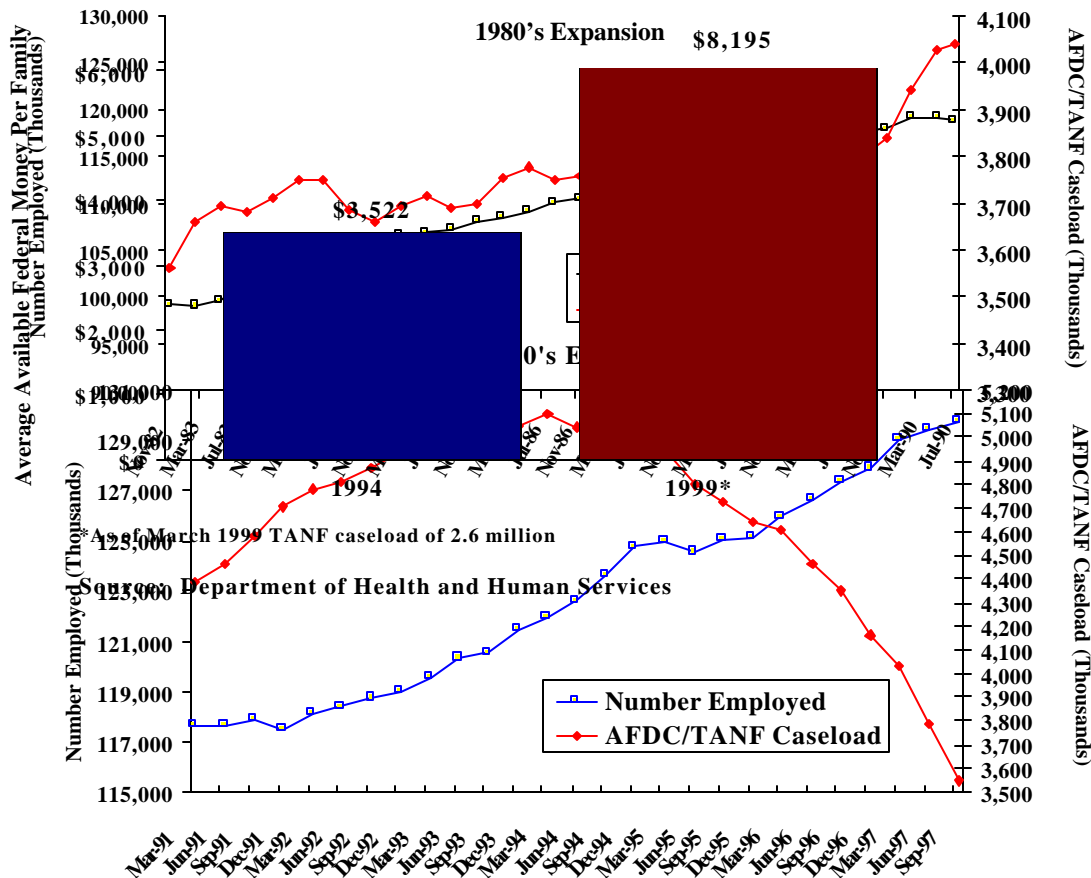
when the economy is good and employment is high, the rolls decline; when the economy is bad and employment is declining, the rolls increase. Almost every media story about the recent caseload decline contains the claim that a primary cause of the decline is the nation's booming economy.

But this view is questionable. Consider Figure 4. The top panel of the figure depicts both the number of people employed and the number of families on welfare throughout the duration of the booming economy of the 1980s. Over this extended economic recovery of nearly 8 years, during which the economy produced a net increase of around 18 million jobs, the welfare rolls actually increased by over 12 percent. Similarly, as shown in the bottom panel of Figure 4, during the initial 3 years of the 1990s recovery, as the economy was adding about 3 million jobs, the welfare caseload experienced one of its most rapid periods of growth, exploding from 4.4 million to 5.1 million families. It was not until the Spring of 1994, at which time more than half the states had mounted their own welfare reform programs based on work requirements, that the rolls began to decline. The decline was modest until 1996, when federal reform was enacted. Since then, the rolls have been in free fall. Even the President's Council of Economic Advisors does not claim that more than one-fifth of the caseload decline can be attributed to the economy (Council of Economic Advisors, 1999, p.119). Evidence from the 1980s and early 1990s provides little support for the claim that the hot American economy has produced the historic decline in welfare caseloads. We have had hot economies before, but never anything even remotely similar to the current caseload decline. No doubt a good economy provides a useful background condition that supports welfare reform, but an expanding economy without welfare reform has never led to substantial caseload declines—until now.

A second interesting point about caseload declines is that, as remarkable as a national 47 percent decline might be, many states have had substantially greater declines. Sixteen states have had declines between 50 percent and 59 percent, and 10 states are over 60 percent. Three of these states, Idaho, Wyoming, and Wisconsin, experienced declines that exceed 80 percent.

If anyone had suggested in 1994 that before the end of the decade, over three-quarters of the states would have welfare caseload declines in excess of 40 percent and that half would lose more than

Figure 4
Total Employment and AFDC/TANF Enrollment,
1982-1990 and 1991-1997
Figure 5
Federal Funds Per Family on Welfare



Source: U.S. Bureau of the Census and the Congressional Research Service

half their caseload, welfare experts and program administrators would have laughed. The fact that such momentous declines have now occurred should serve as a caution to anyone who thinks they understand what is happening to cash welfare caseloads in the United States. We are in completely uncharted territory. Predictions are therefore risky, since they are not based in any way on experience.

The most important prediction that should be questioned is how deep caseload reductions can go. To put it another way, what percentage of the people who used to be dependent on welfare can in fact join the productive economy and support themselves and their

families? Experts and media reporters are now arguing that the caseload reductions cannot go much further because the rolls consist primarily of adults who have serious barriers to work. But until 1996, many observers argued that most adults on welfare were unemployable. Moreover, when three states have reduced their caseload by over 80 percent, some optimism about national caseload reductions beyond the current 47 percent seems justified. The national project of helping the formerly or potentially dependent become productive should have no artificial limits.

More money available to states to help poor families

While caseloads have plummeted, the average number of federal dollars per family that states have to spend has increased substantially. As shown in Figure 5, whereas the average state had federal funds that averaged \$3,522 per family under the old AFDC and child care programs, by 1998 states had an average of \$8,195 per family, well over twice as much. This impressive increase is the mathematical result of the fixed funding feature of the block grants combined with the precipitous drop in caseloads.

The welfare reform law also greatly increased the money available to states for the child care needed to help poor parents work. According to the Congressional Budget Office (1998), the 1996 reforms will increase federal entitlement spending on child care for poor and low-income children by about \$4.5 billion over the 1997 to 2003 period.

The numbers in Figure 5 actually understate the total number of additional dollars available to states. This is the case because states are required to continue spending state dollars (as opposed to the federal dollars just discussed) at not less than 75 percent of the level of state spending in 1994 on the programs replaced by the TANF block grant. Given that the national caseload has declined 47 percent since 1994, state spending—even at the absolute level of 75 percent of 1994 spending—on a per family basis would still be much higher than in 1994 and would therefore increase the excess funds above the amount shown in Figure 5.

When these three sources of support for poor families are combined—federal TANF money, federal child care funds, and state maintenance-of-effort funds—it becomes quite clear that states have enough money to maintain benefit levels of those remaining on welfare and yet

spend aggressively on programs designed to help mothers—and even fathers—enter the labor force or get better jobs.

Whereas many experts predicted a race to the bottom if states were given full responsibility for cash welfare, the opposite has happened. States have used their money to maintain and even expand benefits, primarily by making their income disregard rules more generous so that working mothers could retain more of their cash welfare benefit once they begin working. Moreover, many states are investing in child care, transportation, post-secondary training, education, wage supplements, and a host of other welfare-to-work services and benefits designed to help poor mothers and fathers join the workforce. Thus, the financial landscape nearly 3 years after the welfare law was enacted is exceptionally positive.

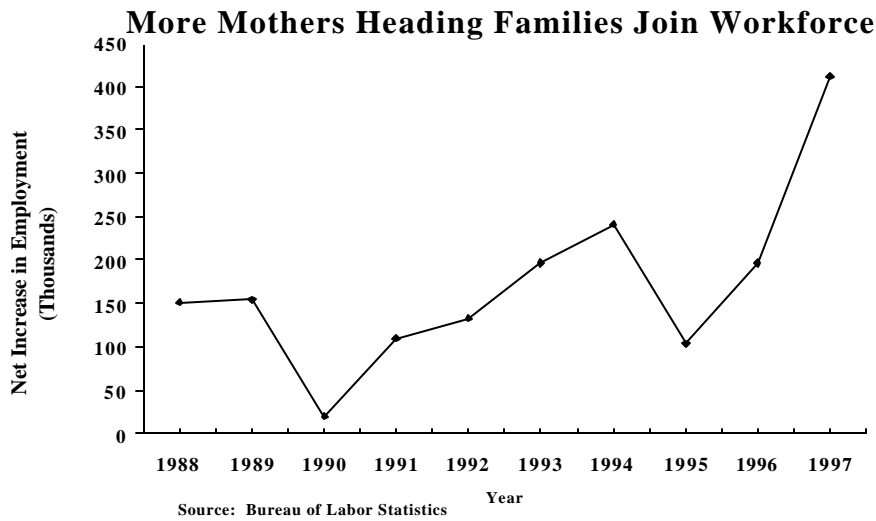
Work rates

A fundamental expectation of the Republicans who insisted on strong work requirements was that most people who left welfare would work. This was an important point during the debate on the Floor of the House. Liberals argued that the poor must have entitlement benefits because otherwise they would not be able to support their families; Republicans argued that most of the poor were capable of supporting themselves but did not because they had been trapped by the entitlement-based welfare system.

We now have two major sources of empirical information on whether mothers who leave welfare are working. The first is national data sets of representative samples of the U.S. population; the second is studies by states that locate and interview former welfare recipients. Both sources reveal a dramatic increase in work.

To begin with national data, Figure 6 summarizes data from the Bureau of Labor Statistics on the annual net increase in employment by mothers heading families. As is consistent with one of the most important demographic trends of the 20th century, mothers' participation in the work force increases almost every year. In fact, between 1988 and 1995, the average net increase was around 140,000 per year. But in 1996, the year the welfare reform law was enacted and when many states were well along in implementing their work programs, the number moved up to 197,000, well above

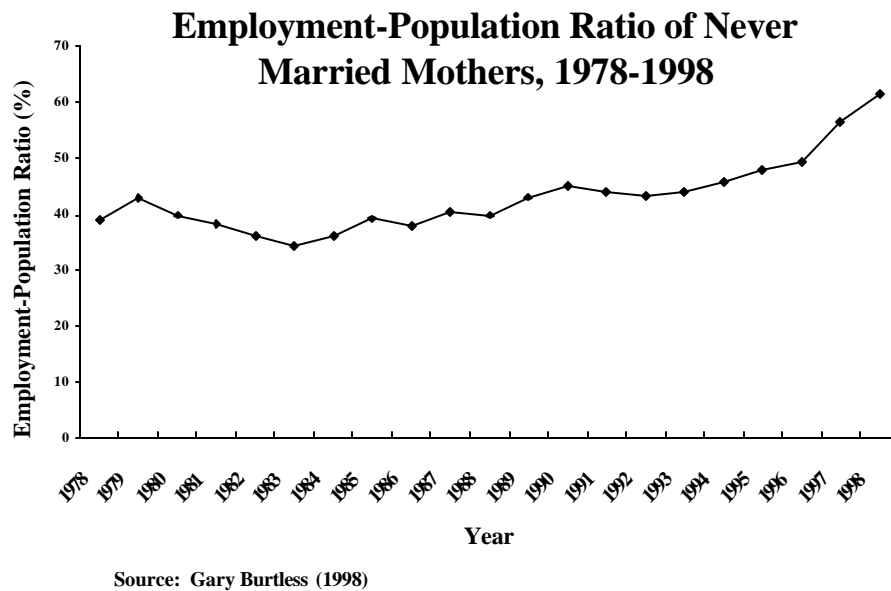
Figure 6



the average for the previous decade. But 197,000 was modest compared with the 1997 net increase of 412,000, by far the greatest increase on record, for the first full year of welfare

reform implementation. Seldom has a national data set of economic performance shown a 1-year change of this magnitude.

Figure 7



If we now look behind this curve to learn more about the types of mothers who were likely to enter the labor force, we find that it is precisely low-income mothers who displayed

the biggest increase in labor force participation.

Figure 7 shows that between 1993 and 1998 the percentage of never-married mothers who were employed increased from 44.0 percent to 61.5 percent, an increase of 40 percent in 5 years. In the previous 15 years, the biggest increase over a roughly comparable period was 19 percent between 1986 and 1991. Again, the magnitude of increase in labor force

participation has no precedent. In this case, the evidence applies to never-married mothers, the ones most likely to be on welfare. For example, according to a widely-cited 1990 study by the Congressional Budget Office, over half of the young mothers who give birth outside marriage wind up on welfare. Similarly, over 60 percent of the mothers on welfare at any given moment are never-married. Even more important, never-married mothers are more than twice as likely as other mothers to spend more than 8 years on welfare. It follows that the unprecedented increase in employment by never-married mothers is a major factor in the welfare caseload decline.

The second source of data on the effects of welfare reform on employment is state surveys of mothers who have left welfare. At least 17 states have conducted these surveys and made the results public. After reviewing the studies produced by these 17 states, the U.S. General Accounting Office (1999b) determined that seven of the studies -- those conducted in Indiana, Maryland, Oklahoma, South Carolina, Tennessee, Washington, and Wisconsin -- were of sufficient quality that reliable conclusions could be drawn from the results. These states located and interviewed welfare leavers who had been off the rolls between 2 and 18 months.

Two findings from these seven states are pertinent to our concern in this section. First, of the six states that reported the percentage of welfare leavers who were employed at the time of the interview, all found at least 60 percent of the leavers employed. Second, in all but one state, at least 80 percent had been employed at some time since leaving welfare. These numbers are probably somewhat of an underestimate of the true employment level of those leaving welfare because in some of the surveys those who had returned to the welfare rolls were included in the sample.

These increases in labor force participation are precisely what Congress and the President hoped to achieve with welfare reform. Now well over a million additional young mothers, including many who were very disadvantaged, are working rather than languishing on welfare. But in addition to the impacts on the lives of individual families, so substantial has been the increase in labor force participation that labor economists have begun to take notice of the impacts on the American economy. Professor John Bishop (1998) of Cornell University argues that single mothers have been responsible for "almost all of the increase in the overall labor force participation rate between 1994 and 1998." Bishop attributes their increased labor force participation to the combined effects of welfare reform and the increased value of the EIC.

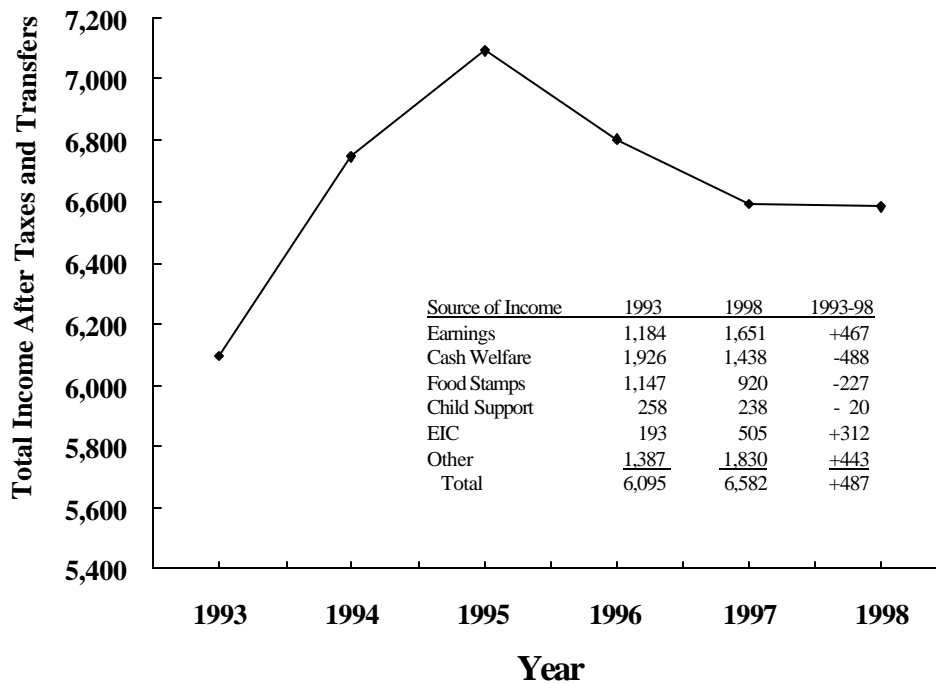
Income and consumption

Good information on the income of mothers who leave welfare is now becoming available. Researchers at the Urban Institute (Acs et al., 1998), based on a careful study of 12 states, concluded that mothers who left welfare for a half-time minimum wage job and who received all the benefits from the work support system for which their family was qualified would be financially better off than when on welfare. There is a certain irony in this study because the Urban Institute is the same think tank that predicted during the welfare debate that welfare reform would put a million children into poverty. Even so, the Acs et al. finding is entirely consistent with the Republican argument that mothers would be better off when they left welfare, discussed at the beginning of this section, that was so hotly contested during the welfare debate. Although it is reassuring to learn that on paper mothers who work even half-time at minimum wage are better off, too many things can go wrong between the on-paper version of reality and the reality that meets mothers who actually leave welfare. As always, we need to conduct detailed studies of low-income mothers to determine what actually happens.

Fortunately, there is representative national data that permits us to examine the financial condition of poor and low-income mothers. The Current Population Survey obtains detailed demographic and income data on a nationally representative sample of American adults each March. This information can be used to trace the amount and sources of income of mother-headed families over time. An advantage of using these data is that they provide estimates for all mother-headed families in the U.S. If welfare reform has reduced income, information on representative samples of all low-income mothers will, ceteris paribus, show lower income over time; if welfare reform has increased income, the CPS income data for low-income mothers will

increase over time.

Figure 8
Average Income of Female Family Heads
with Children in the Bottom Quintile of Post-Tax Income,
1993-98



Source: U.S. Bureau of the Census

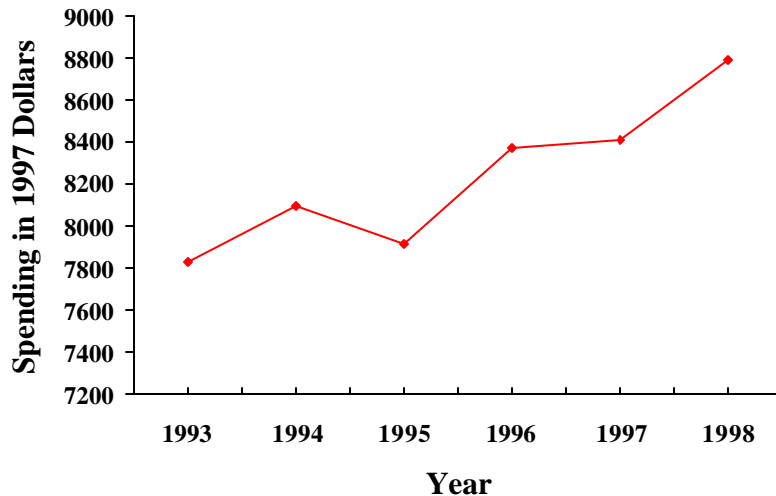
A complication with this analysis is that the CPS samples are cross-sectional. CPS data will not tell us about the amount and sources of income of particular mothers

over time. Rather, CPS will give us annual cross-section samples of low-income mothers for comparison. In the following analysis, based on the work of Richard Bavier of the Office of Management and Budget (1999), I examine income and spending data for the bottom two quintiles of mother-headed families. The bottom quintile includes incomes up to about \$10,000 in 1997; the second quintile up to about \$16,000 in 1997. These two quintiles should include all mothers still on welfare and nearly all mothers who left welfare for work. A few mothers leaving welfare may have incomes over \$16,000 per year, but probably not many. All data is presented in 1997 dollars.

If we accept 1994 as the first year of welfare reform at the state level that produced moderate declines in the caseload, it is appropriate to compare income data for 1993, the best estimate of pre-welfare reform income, with income data for 1998, the most recent year for which CPS data are available (Figure 8). This comparison shows that mean income increased by nearly \$490 over the period. However, the pattern of income change was uneven, with strong increases in both 1994 and 1995, but then declines in both 1996 and 1997 as welfare reform picked up steam, and a leveling off in 1998. I don't know what to make of this pattern

except to state the obvious -- that the overall increase between 1993 and 1997 is good, the decline in 1996 and 1997 is troubling, especially since the decline occurs as the rate of mothers leaving welfare was increasing, and the leveling off in 1998 is somewhat, but not completely, reassuring. It is worth noting that the components of income change presented below the line graph in Figure 8 reveal a pattern that would be expected from the combination of strong

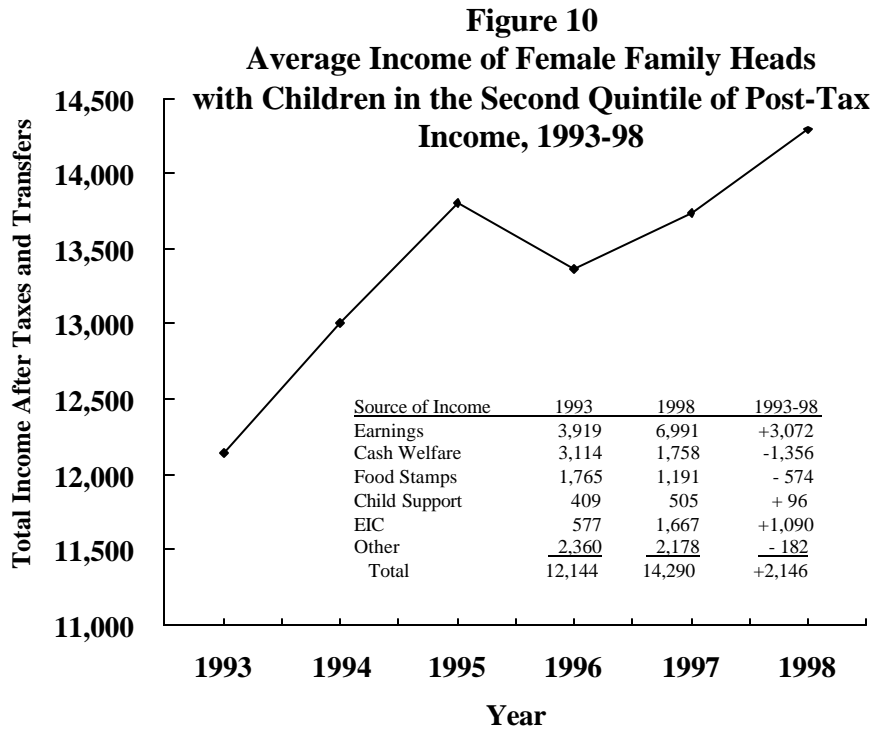
Figure 9
Spending by Unmarried Female Unit Heads
with Children in Bottom Income Quintile, 1993-98



Source: Consumer Expenditure Survey

welfare reform and an effective work support system; namely, decreases in cash welfare and food stamps but increases in earnings and the Earned Income Credit.

Turning now to spending rather than income, Figure 9 shows spending by mothers in the bottom quintile. Like the Current Population Survey, the Consumer Expenditure Survey, on which Figures 9 and 11 are based, represents a national sample of female heads with children. There are some definitional and methodological differences between the two surveys, but the story portrayed by spending data differs sharply from that portrayed by income data. First, the level of spending exceeds the level of income by at least \$1,000 each year and often by as much as \$2,000. Although the exact reason for this difference is unclear, results for the Consumer Expenditure Survey reveal this difference year after year. The explanation surely differs from family to family, but borrowing, use of savings, and underreporting of income are probably the major explanations for the difference. Second, the pattern of year-to-year changes is very different. Whereas income increases in 1995 by around \$400, spending decreases by nearly \$200. Income decreases in both 1996 and 1997, but spending increases smartly in both years. These differences are difficult to reconcile, but it is clear that the picture based on spending is more positive than the picture based on income. Thus, during the period in which the welfare rolls declined by nearly half, spending by the poorest mothers heading families increased in all but one year and over the entire period increased by nearly \$1,000 or 12 percent.



Source: U.S. Bureau of the Census

Both the income and spending data for the second income quintile are encouraging (Figures 10 and 11). Over the 1993-98 period, average income increased by over \$2,100 or 18 percent. Examination

of changes by income source shows almost the same pattern as that for the bottom quintile, except in this case the changes are more substantial. Earnings increased by over \$3,000 and income from the EIC increased by nearly \$1,100. Income from both cash welfare and food stamps decreased quite sharply. The net result of the two opposing trends – increase in earnings and the EIC, declines in cash welfare and food stamps – was a \$2,232 increase in income. The pattern of income

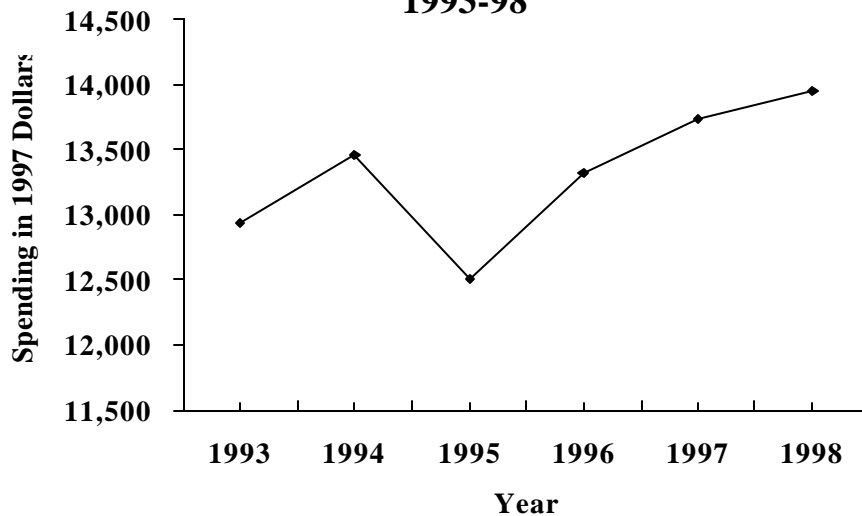
over time also differed from the bottom quintile's pattern. Whereas income at the bottom declined in both 1996 and 1997 before holding steady in 1998, income for the second quintile declined only in 1996; the 1997 increase for the second quintile compensated almost entirely for the 1996 decrease and the 1998 increase added almost \$800 more.

Spending by mothers in the second quintile increased every year except 1995. Although the similarity in annual income and spending is greater for the second quintile than the bottom quintile (averaging only around \$300 per year as compared with about \$1,000 for the bottom quintile), spending is still greater than income in 4 of the 5 years. Income exceeded spending only in 1995, probably because the results of the 1994 elections prompted these upwardly mobile mothers to be more frugal. But spending showed strong increases every year between 1996 and 1998; by 1998,

spending by mothers in the second quintile was up more than \$1,000 or 8 percent.

Thus, income and spending in both quintiles increased over the 1993 to 1997 period, although the patterns are a little bumpy, especially in the bottom quintile. The income pattern for the bottom quintile causes concern because of the declines in 1996 and 1997, but the pattern of spending in the bottom quintile gives some reason to hope that the income decline is more apparent than real. Nonetheless, the income pattern in the bottom quintile suggests that there are mothers who are floundering under welfare reform, a finding to which I return below. By contrast, there is every reason to celebrate the story told by both income and spending data for

Figure 11
Spending by Unmarried Female Unit Heads
with Children in Second Spending Quintile,
1993-98



Source: Consumer Expenditure Survey

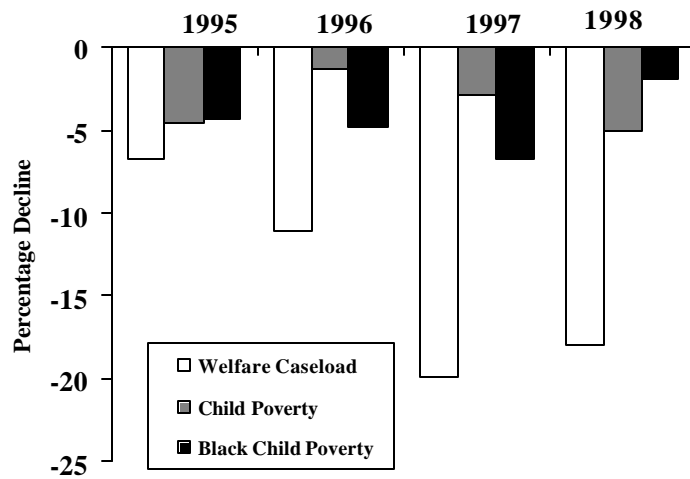
the second quintile. Because the CPS data are not longitudinal, we don't know what happened to individual mothers. But the fact that so many previously dependent mothers went to work is

consistent with the claim that many moved into the second quintile. Both the income and spending data for the second quintile portray a picture that contrasts sharply with the claims of those who, during the welfare debate and since, have worried about the fate of mothers taking low-wage jobs. In all likelihood, the second quintile in 1998 contained many mothers who had fulfilled the promise of welfare reform as portrayed in Tables 1 and 2.

It is also noteworthy that both quintiles showed increased earnings and decreased reliance on welfare – exactly the pattern to be expected from the dual policy of reduced dependence on welfare and increased reliance on earnings supplemented by income from the work support system.

Poverty

Figure 12
Welfare Caseloads and Children’s
Poverty Decline Simultaneously, 1995-1998



Source: Caseload Data from Congressional Research Service; Poverty data from Census Bureau

Figure 12, based on poverty data from the Census Bureau and caseload data from the Department of Health and Human Services, compares the percentage decline in the welfare caseload, the child poverty rate, and the poverty rate among black children for 1995, 1996, 1997, and 1998 (the last year for which poverty data are available). Both the welfare caseload and child poverty decline in every year. Most notable is 1997, the first full year of federal welfare reform implementation. During that year, the welfare rolls declined by almost 20 percent, more than in any previous year. Yet during that year, the overall child poverty rate declined by around 3 percent and black child poverty declined by nearly 7 percent, the biggest single-year decline ever for black children.

Another way to judge the impact of welfare reform on poverty rates is to examine the poverty status of children in states that had the biggest declines in their welfare caseloads. As would be expected from the decline in welfare caseloads — as well as the decline of federal and state spending on cash welfare benefits — unless there is some offsetting source of

increased household income, more of these mother-headed families are going to be poor. This inevitable effect of reduced welfare income would be greatest in states that have the highest level of caseload reduction and consequent reduction in income from welfare. In this sense, the poverty rate in states with the greatest caseload reductions is the most acute test of the claim that the welfare reform law increased poverty.

Table 3
Caseload Decline and Child Poverty Decline in States with
High and Modest Caseload Declines between 1995 and 1997

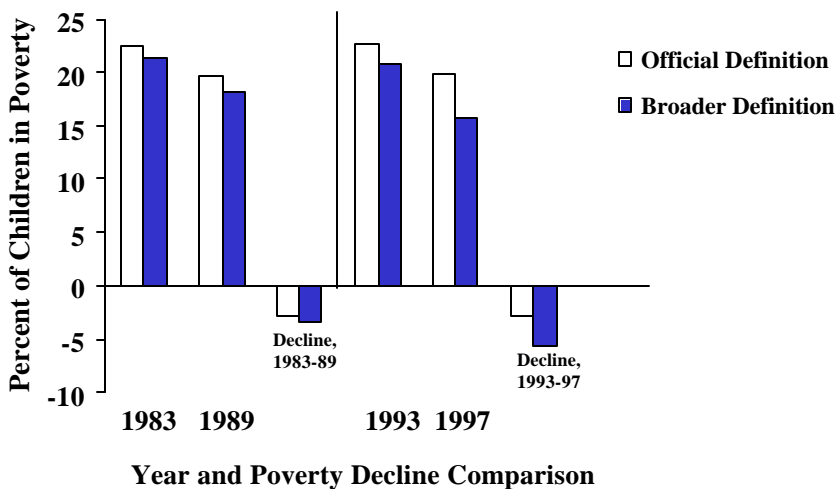
Type of State	Average Percentage Caseload Decline	Average Poverty Rate Change (Percentage Points)
High Decline	-31.2	-1.8
Modest Decline	-17.0	-0.3

Source: Congressional Research Service.

Table 3 shows the average change in child poverty rates for the 23 states that had caseload declines of 25 percent or greater as compared with the 27 states that had caseload declines of less than 25 percent between 1995 and 1997. If caseload declines caused increases in poverty, we would expect the high decline states to experience higher poverty levels. The opposite is the case. States with high declines actually had an average poverty reduction of 1.8 percentage points between 1995 and 1997. Not only did the poverty rate fall by nearly 2 points in states that had big caseload declines, but the 1.8 percentage point reduction in poverty in these high decline states was six times greater than the 0.3 percentage point reduction in modest decline states. It is not appropriate to conclude from these results that welfare caseload declines cause poverty declines, but both the national poverty data and the analysis of poverty in the states with the greatest caseload declines fail to provide any evidence for the claim that declines in welfare benefits lead to increases in poverty. The most likely explanation for these results is that many families leaving welfare are also leaving poverty, although the connection between these two events is unclear.

The official measure of poverty is flawed because many federal and state benefits, especially those that comprise the work support system, are not included in the calculations. The progress against poverty discussed above ignores, for example, both food stamps and the Earned Income Credit. Since virtually all families leaving welfare are eligible for food stamps and the 80 percent or so of families that leave welfare and work during the course of the following year (U.S. General Accounting Office, 1999b) are eligible for the EIC, a measure of poverty that includes these benefits would probably show even more progress against poverty than the official measure.

Figure 13
Decline in Children's Poverty
by Two Definitions and in Two Time Periods



Source: U.S. Bureau of the Census

The data in Figure 13 present children's poverty rates under both the official definition and a broader definition that takes into account additional benefits such as EIC and food stamps. Data in the left panel are for the first and last years

of the 1980s recovery (1983 and 1989); data in the right panel are for the first year of the current recovery (1993) and the last year for which I was able to obtain the required data (1997). Two points are immediately apparent. First, under the broader definition of poverty, children's poverty is lower than under the official definition in all four years. Thus, the broader measure of poverty shows that the work support system is effective in reducing the child poverty rate in every year. Second, the last set of bar graphs in both panels shows that the decline in poverty as the economic expansion proceeds is greater under the broader definition than under the official definition. These data are consistent with the interpretation that as the economy heats up, more and more single mothers enter the labor force and their earnings, combined with income from the work support system, lifts them out of poverty.

A third difference between official poverty data and the broader definition is less obvious than the first two. During the 6 years of the 1980s economic expansion, the decline in poverty under the broader definition was about 15 percent. By contrast, the decline during just the first 4 years of the current recovery has already reached almost 25 percent. This impressive difference suggests that the work support system is even more effective now than in the past at removing children from poverty, probably because more previously poor mothers are working than in the past and because the work support system (especially the EIC) has provided low-income working families with ever richer benefits.

It is worth pausing here to note how significant these poverty data are. Although the measure of poverty suffers from many shortcomings, it is nonetheless the single broadest and most reliable measure of how many American families are experiencing serious economic difficulty. When liberals predicted that the Republican welfare reform bill would cause huge increases in children's poverty, they were employing one of the most powerful tools in the arsenal of methods for attacking reform initiatives. To produce scientific evidence that a

controversial reform proposal would greatly increase poverty was a serious and effective charge. No wonder that liberal scholars, social critics, and editorial page writers seized upon this prediction and used it to argue that the Republican bill was misguided or worse.

Now, 3 years after the Republican bill became law and produced pervasive institutional changes at the local level, and after the welfare rolls have declined more than anyone predicted, we find that poverty has actually fallen during each year of welfare reform, that it has fallen among minority children by an unprecedented amount, that it has fallen more in states with high welfare caseload declines than in states with modest caseload declines, that the decline is even greater if we use a poverty measure that includes benefits from the work support system, and that the work support system is even more effective in removing children from poverty in the 1990s than in the 1980s. That our nation can achieve historic declines in welfare caseloads simultaneous with unprecedented declines in poverty rates is a remarkable achievement.

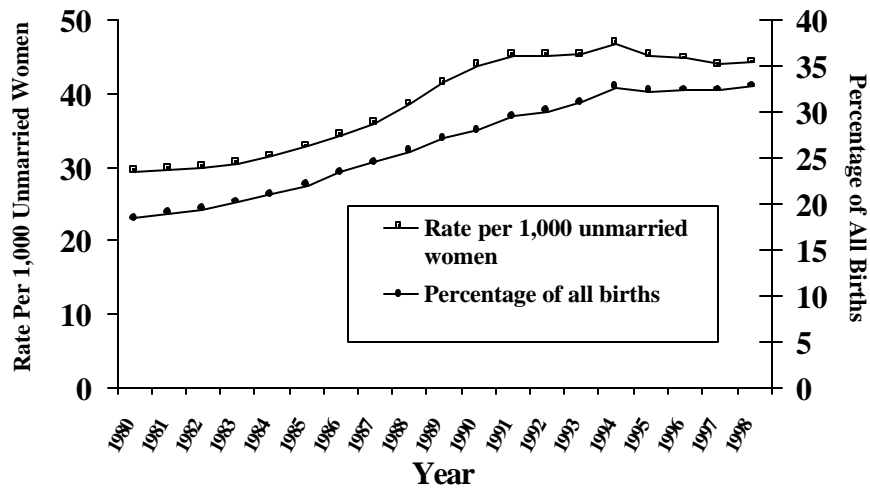
Nonmarital births

Although controversial in the late 1980s, there now seems to be widespread agreement that nonmarital births are a major cause of many of America's social problems (Whitehead, 1993). A large and growing number of studies show that children born to never-married parents are more likely to be poor, to be raised by welfare-dependent families, to fail in school, to have poor health, to be delinquent, to quit school, to go on welfare and commit crimes as adults, and to themselves grow up to have children outside marriage (Maynard, 1996). Moreover, studies show that never-married mothers are more likely to become dependent on welfare than divorced or married mothers (Adams & Williams, 1990; Committee, 1998, p. 539).

In the years before the welfare reform debate of 1995-96, the number and percentage of American children born outside marriage continued its relentless increase. Republicans argued that even welfare reforms promoting work would prove of only limited significance unless something was done to reduce the number of illegitimate births. Thus, Republicans included several controversial provisions in their welfare reform bill that were designed to attack illegitimacy. These included a cash reward for states that reduce nonmarital births while decreasing abortion, funds for abstinence education, a requirement that unwed teen mothers live with a responsible adult, and exceptionally strong paternity establishment requirements. Further, the bill's substantial reform of the child support enforcement program can be seen as part of a comprehensive attack on illegitimacy because effective child support builds understanding among young males of the long-term financial burden that nonmarital childbearing places on fathers (Garfinkel et al., 1999). Finally, the block grant structure of the welfare reform law allowed states to develop their own policies to reduce illegitimacy. One response to this flexibility is that about half the states now prohibit additional payments to mothers already on welfare who have additional children.

It is possible that these initiatives against irresponsible childbearing are helping slow the increase in nonmarital childbirth. Figure 14 presents the trends in both the rate per 1,000 unmarried women of nonmarital births and the percentage of all births that are outside marriage.

Figure 14
Rate of Nonmarital Births and Percentage
of All Births that Are Nonmarital, 1980-1998



Source: National Center for Health Statistics

The trend for the percentage of nonmarital births shows the rapid rises that preceded welfare reform in the mid-1990s. Just as we saw with welfare caseload declines, the good news began as the number of states implementing their own work programs reached a critical mass in the years after 1994. In this case, the percentage of nonmarital births actually decreased for the first time in a generation in 1995. The fall from 32.6 in 1994 to 32.2 percent in 1995 is not large, but even a leveling off of this portentous trend is welcome news. After a slight increase to 32.4 percent in 1996, the rate held steady at 32.4 percent in 1997 and then increased again to 32.8 in 1998. Thus, four consecutive years of data are consistent with the conclusion that the nation may be achieving some small victories in its fight against illegitimacy. However, the high level of nearly one-third of births outside marriage and the 1998 increase both suggest that we have a long way to go before claims of serious progress are justified.

More encouraging are the trends in nonmarital birth rates (Figure 14). Like the trends for percentage of illegitimate births, for several decades the nonmarital birthrate seemed to be on an elevator that moved only upward. After years of increases, the rate declined each year between 1995 and 1997 before increasing again in 1998. Over the entire 1994 to 1998 period, the rate of nonmarital births has fallen by a welcome 5 percent.

The trends in teen birthrates contain solid good news. Unlike the overall trends in

illegitimacy, which have moved up almost every year, the trend in teen birth rates has been more volatile (Figure 15). After a modest decline beginning in the early 1980s, the rate increased dramatically between 1987 and 1991. It then began a steep decline. Recent data from the

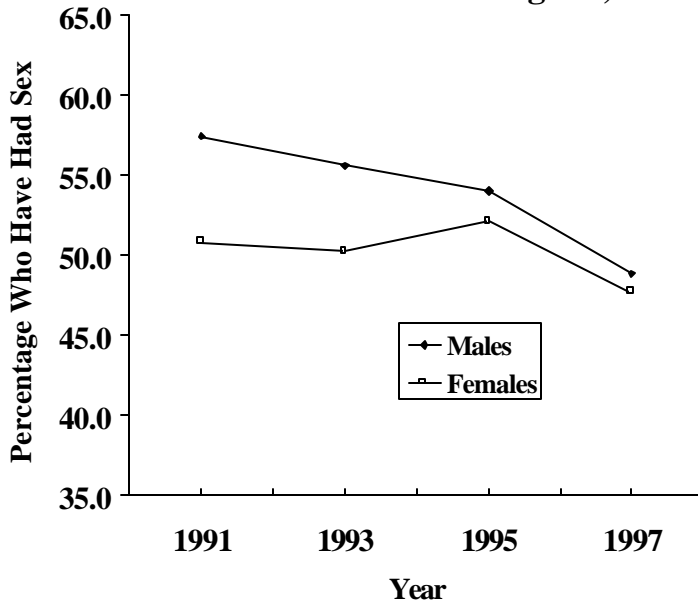
National Center for Health Statistics (Martin et al., 1999) show that in 1998 the decline

continued for the seventh consecutive year. Over that period, the rate fell 11 percentage points or nearly 18 percent, and returned almost to the levels of the mid-1980s.

The leveling off

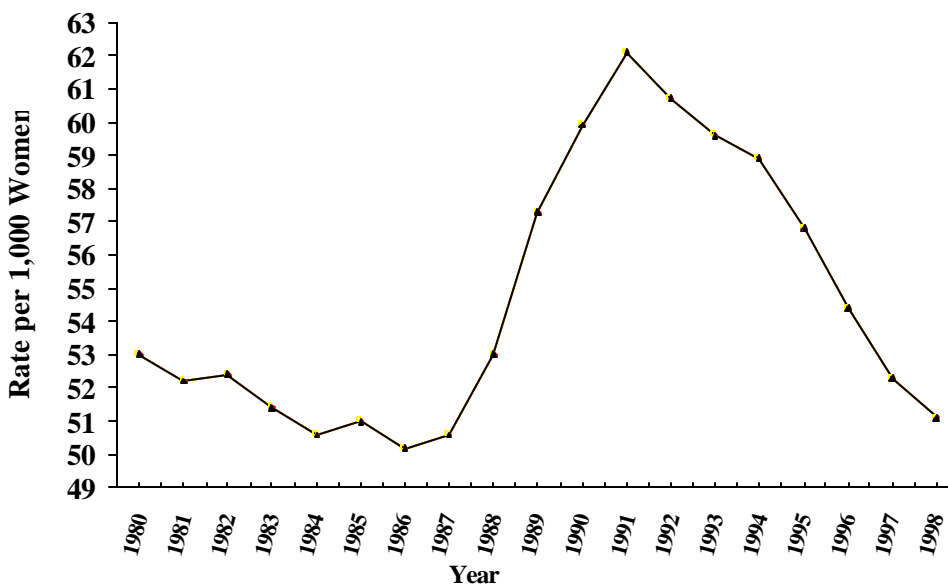
of the illegitimacy ratio, the decline of the illegitimacy rate for all women, and the very substantial

Figure 16
Fewer Teens Are Having Sex, 1991-1997



Source: Centers for Disease Control

Figure 15
Teen Birthrate, 1980-1997



Source: National Center for Health Statistics

decline in the teen birth rate are encouraging trends. Scientists who study these trends attribute them to a variety of factors, including increased abstinence among youth, more effective use of birth control, and demographic changes. For example, recent data from the Centers for Disease Control show impressive recent declines in the percentage of teenagers who have ever had sex, especially among males. Figure 16 shows that except for a slight increase among females in 1995, sexual activity among both males and females shows a pattern of slight decline between 1991 and 1995 and then a substantial decline between 1995 and 1997. These patterns of behavioral change among young people are consistent with the conclusion that one reason for the steep decline in teen births is increased abstinence among both males and females. A study by the Alan Guttmacher Institute (Darroch, 1999) shows that increased use of effective contraception also contributes to the declining teen birthrate. In either case, once again important behaviors with far-reaching consequences for individual young people are moving in the direction of greater personal responsibility.

It would not be justified to claim that the 1996 welfare reform law is the sole or even the most important cause of these trends. But consider the changes the 1996 law imposed on young unmarried mothers. The old welfare system guaranteed a bundle of welfare benefits to these mothers and allowed them to set up their own living arrangements while virtually guaranteeing that they would not be required to work for many years. By contrast, the new system requires them to live at home or with a responsible adult, requires them to identify the child's father, requires teen mothers to stay in school or work, and imposes a 5-year limit on their cash benefits. In addition, states are in competition with each other for cash bonuses of up to \$25 million per year for reducing their illegitimacy rates. Taken together, these strong measures may be playing a role in the leveling off or decline of the various measures of illegitimacy.

Perhaps even more important than the specific policies addressed to illegitimacy is the impact of the welfare reform debate at the national and state level on the thinking of young people. The national debate produced a surprising level of agreement that nonmarital births were destructive for children, destructive for parents, destructive for local communities, and destructive for the nation. In the context of this debate many politicians and other public figures argued strongly that it was wrong to have children outside marriage and wrong to have children that young parents could not support. This debate, and the reality that having a child outside

marriage would not guarantee an income without work, may have influenced young people to hesitate and reflect before engaging in the risky behaviors that lead to pregnancy. In the last three or four decades, the nation has been greatly improved by broad social movements that changed the behavior of millions of Americans. These movements included civil rights, use of car seat belts, and anti-smoking campaigns. It seems possible that we are in the early stages of a similar revolution in thinking and behavior about nonmarital births. If so, the welfare reform debate will have provided another vital benefit to the nation by signaling that federal policy holds nonmarital births to be destructive for individuals and the nation.

What We Should Do Now: The New World of Permanent Work

Three years into the nation's experiment of replacing welfare with work, two broad conclusions are justified. First, the combination of strict welfare rules that encourage or, when necessary, force families into self support and the work support system designed to help low-income working families has produced lots of success. On a ten-point scale, I would give it an eight. But second, there is a lot left to do. In examining where we are now and where we should be headed, it is useful to begin by recalling that under the old welfare system, progress against poverty – and more broadly progress in boosting family income at the bottom of the distribution – was virtually impossible to achieve. The nation tried for 30 years to decrease poverty by wrapping people in entitlement benefits. Just giving poor people more money turned out to have both political flaws and unintended consequences on family and community life. Thus, even though the nation increased means-tested spending by almost a factor of ten in constant dollars between 1965 and 1995, child poverty was not reduced at all by this avalanche of programs and money.

We have now embarked on a new strategy. All levels of government, public opinion, much of the media, and most politicians (the academic world seems to be an exception) now send or reflect the clear message that adults, including single mothers of young children, must work. Given the welfare reforms of 1996 and nearly two decades of expanding government support for low-income working families, the work message is now backed up by pressure to leave welfare and enticements to stay in or enter the labor force. As the review of evidence above demonstrates, early indications are that this new approach will reduce poverty and increase income for most – but not all – families at the bottom of the income distribution. Poverty data that take account of benefits from the work support system are especially revealing in this regard. As the economic expansion of the 1990s has proceeded, poverty by this broader measure has dropped more rapidly than poverty as measured by the official definition and much more rapidly than the drop by either measure in the 1980s economic expansion. At last, mothers who would ordinarily have been on welfare are working and their earnings, combined with income from the greatly improved work support system, are improving their economic status.

Although unlikely, it is not inconceivable that the nation could reverse course. Democratic Presidential candidate Bill Bradley, for example, seems to be intent on returning to the system of entitlement cash welfare. Bradley, doing his best imitation of Professor Jay Belsky (1986) and other alarmists of the child care debate, has even invoked the conservative argument that the place for mothers of young children is in the home with their babies lest the bond between mother and child be broken. Whether a President Bradley could muster enough political support to restore the cash entitlement and reduce work requirements is questionable, although he could count on lots of editorial support from the Washington Post, the New York Times, and several other leading newspapers as well as an outpouring of support from the

academic world. Moreover, if the nation were to fall into recession during a Bradley Presidency, and if the recession were to substantially increase unemployment among low-income mothers, big changes might be possible.

Despite the protestations of Senator Bradley and others, there does appear to be substantial bipartisan agreement that the new direction is the best one for our nation and widespread recognition that the early returns on its effects are largely positive. Of the many and growing indications of bipartisan agreement on the new direction, four give an indication of how solid and consistent the support appears to be. First, the bipartisan vote in favor of the 1996 bill in the House and Senate combined was greater than the bipartisan vote for the creation of Medicare in 1965 (to which a left-leaning wag might respond that Democrats are quicker to accept the future than Republicans). Second, Al Gore, previously a bellwether of liberal sentiment on social policy, defends the 5-year time limit because it is “important as a signal that [welfare] is a way station, not a way of life.” Third, a recent poll found that 74 percent of Democrats want the next president to maintain the 5-year time limit (Brownstein, 1998). Finally, when candidate Bradley released his anti-poverty program in October of 1999, he chose not to change any provision of the 1996 welfare reform law.

The best way to assure both political support for the new system and continued progress in reducing poverty and increasing incomes is to study the defects in the new system and fix them. My own version of this approach produces an agenda of four items, all of which could and should receive bipartisan attention and support.

Fix Medicaid

Why is it that when we seem to have enough entitlement money available to provide health insurance for all children in families earning less than around \$27,000 for a family of three or \$34,000 for a family of four we are actually witnessing declines in Medicaid enrollment? Almost since its inception in 1965, Medicaid has achieved continuous increases in children’s enrollment. Between 1991 and 1996, for example, children’s enrollment increased from 16.0 million to 20.5 million, an increase of nearly 30 percent in just 5 years. This increase, as we have seen, was to be expected given the substantial expansions of both mandatory and optional state coverages being enacted by Congress in the years after 1985. But in 1997, the very year in which the CHIP program was enacted, child enrollment in Medicaid dropped by over 840,000 or 4 percent. Between 1995 and 1998, Medicaid enrollment declined 12 percent in California, 18 percent in Florida, and 29 percent in Wisconsin, despite the fact that all three states had broadened their coverage (Ellwood, M., 1999).

Some observers think this drop in child enrollment is either not a problem or is actually a good thing. After all, Medicaid is welfare and what can be wrong with declines in welfare? But this view is shortsighted. First, the law says these children are eligible for Medicaid coverage. So, in order to faithfully execute the laws, government must try to provide health benefits to the children our legislative system makes eligible. Second, Americans want children to receive health coverage. I cannot recall any candidate for public office running on a platform of increasing personal responsibility by denying Medicaid for children. Third, low-income and poor single mothers are more likely to leave or avoid welfare if they know their children will receive health care coverage. Although the empirical data on this claim is only moderate (Ellwood & Adams, 1990), the logic of the position is so compelling that it should be assumed to be true until proven otherwise. And finally, there is the minor consideration that if these children actually receive Medicaid coverage, their health may be improved.

If we accept the need to figure out why more children of mothers leaving welfare are not covered by Medicaid, we find that the causes are exceedingly complex. In this as in so many other policy areas, there is no magic bullet. Fortunately, good studies of the problem are beginning to appear (Ellwood, M., 1999; Lyons, 1999; Smith et al., 1998). These studies are based on careful reviews of the Medicaid program in one or more states, on interviews with the state personnel responsible for administering the program, on reviews of the computer system in place to facilitate enrollment and send notices, and on study of state written policies and procedures. My reading of these studies is that a lot can be done fairly quickly to improve coverage.

The first problem is the federal statutes. It is certainly a good thing that new mandatory and optional coverages are now part of federal law, but the price has been exceptional complexity. Here's complex: If you call experts in Washington and ask them a detailed question about Medicaid coverage, they often respond "I think it's so and so, but let me check and get back to you." One solution to this complexity is increased state flexibility. Both the Bush and Clinton Administrations have allowed state demonstrations under Section 1115 of the Social Security Act, but much more flexibility is needed. The logical extension of state flexibility is a block grant. We should allow at least four or five states to have complete flexibility with their Medicaid and CHIP programs and money as long as they agree to provide a minimum set of coverages to all children living in families under 200 percent of the poverty level. The amount of federal money the states get each year would be negotiated before the demonstrations begin. Converting the entire Medicaid program into a block grant has zero political prospects, but given the right contractual guarantees by both the federal and state governments, it should be possible to allow a limited number of states to experiment, especially if they agree to thorough third-party evaluation of their program and its effects.

Another important factor in the decline of Medicaid enrollment is that both state administrators and parents have a difficult time understanding eligibility. According to Marilyn Ellwood (1999), in most states TANF caseworkers continue to play a major role in educating families about Medicaid eligibility. The caseworker's role is especially vital in both informing families who leave welfare of their continuing Medicaid eligibility and in ensuring that they actually sign up for the benefit. There are at least two problems with this arrangement. TANF workers are now trained to focus on helping people get off welfare. It seems possible that this approach could generalize to their handling of Medicaid eligibility. Second, TANF workers often see themselves as primarily responsible for TANF, with Medicaid as an unwelcome secondary responsibility. This fact, combined with the immense complexity of Medicaid eligibility rules, further undermines the role these caseworkers should be playing in guaranteeing Medicaid coverage. If workers specializing in TANF must explain complex Medicaid rules to parents who have difficulty understanding them under the best of circumstances, trouble is inevitable.

Researchers have also found several administrative problems with the Medicaid eligibility determination procedures that contribute to reduced coverage. These include automated systems for determining eligibility that do not work well, complex and lengthy application forms that both caseworkers and parents have trouble following, burdensome office visits for continuing eligibility, and notices that are sometimes sent improperly and are difficult for parents to understand.

Finally, always lurking in the background of any discussion of children's Medicaid is a potential shootout over national health insurance. Many conservatives would be willing to support broadened government health insurance coverage of children up to, say, 200 percent of

the poverty level, especially if sliding fee copayments are required of parents. But once the program reaches universal entitlement coverage of most children, conservatives fear that liberals will use the program as leverage for promoting national health insurance. Thus, the best short-range policies that have the potential for bipartisan support are to push for administrative simplification, better computer capability, better staff training at the state level, and much greater state flexibility so that the complexity of federal statutes does not make rational state-level administration all but impossible.

Fix food stamps

The food stamp problem is similar to the Medicaid problem. The first indication of trouble are the data on declines in food stamp enrollment. In 1994, at the outset of state-initiated welfare reform, there were 27.5 million people on food stamps (at any given moment, roughly half the people on food stamps are children). By May 1999, there were 18 million people on food stamps, a decline of 35 percent in 4½ years. Although there were some changes in food stamp eligibility in the 1996 welfare reform bill, this decline is much greater than the one predicted by the Congressional Budget Office in 1996. The decline is also much greater than in previous economic recoveries. In fact, the March 1996 CBO baseline predicted food stamp spending would be around \$27 billion in 1999; actual spending in 1999 now appears to be about \$18 billion, 1/3rd less than expected.

Even more compelling, Sheila Zedlewski (1999) has found, based on the National Survey of America's Families being conducted by the Urban Institute, that families leaving welfare are less likely than families that never received cash welfare to be receiving food stamps. Averaged across all income levels up to the food stamp gross limit of 130 percent of poverty, 62 percent of families never on welfare are receiving food stamps compared with only 46 percent of families leaving welfare. Zedlewski also found that over 60 percent of the families leaving food stamps appear to be financially eligible to continue receiving benefits. Finally, the U.S. General Accounting Office (1999a) found that in fiscal year 1997, while the number of children living in poverty dropped by 350,000 or 3 percent, the number of children participating in food stamps declined by 1.3 million or 10 percent. Thus, the percentage of children living in poverty who received food stamps probably dropped during 1997.

Not all of the decline in food stamps participation is bad. Some families leaving welfare now earn too much to qualify for food stamps. In addition, there are undoubtedly families that regard food stamps as welfare and therefore do not want them. This group of families raises the difficult issue of stigma. Some observers think stigma is bad; if people qualify for benefits, they should get them and other Americans should not think less of them for needing the benefits. But, at least in my view, this argument is naive. All of us are motivated to some extent by the expectations, and especially the condemnation, of family members, friends, peers, and even the abstract "they". Family and community norms and expectations are a powerful influence on human behavior. As demonstrated by recent studies of welfare recipients themselves (Burton et al., 1998; Quint et al., 1999), those receiving benefits believe adults should try to support themselves. There even seems to be a view among legislators, the media, and researchers that part of the cause of the recent decline in welfare rolls is a growing belief among all Americans that work is better than welfare. As suggested by the word "better", there are social judgments here that welfare is less worthy than self support or even that long-term dependency is bad. I believe a majority of Americans would agree with these sentiments and would be highly respectful of families that turn down food stamps because they don't want the stigma of welfare. Stigma is a powerful and usually positive force; it should be maintained and respected.

Even so, few Americans would be likely to begrudge a thousand dollars or so in food stamps to a working single mother with an income of \$13,000 in food stamps and the EIC. For my part, I would be satisfied to let the mother make her own decision. But to make the decision, she must be fully informed about her eligibility and about the size of the food stamp benefit for which she is eligible. Thus, states have an obligation to ensure that families are fully informed about their eligibility for food stamps, especially when they begin working.

In this regard, part of the problem with insuring continued food stamp eligibility is identical to the problem with Medicaid. Once families leave welfare, they are more difficult to follow. Some may not even know they are eligible, or, if they have a general belief they may be eligible, they may not know the size of the benefit for which they remain eligible and what they must do to get it. As with Medicaid, there is lots of administrative work that states must do in figuring out how to keep clients informed of eligibility and of making application and continuing eligibility determinations as easy as possible, including the use of mail-in continuing eligibility forms, better computer-generated notices, and better staff training.

The problems with food stamps, however, go deeper than providing information. A major cause of the difficulty is that the philosophy of food stamps and the philosophy of TANF are at odds. When a family walks into a welfare office, they are told about work first, time limits, job search, and personal responsibility agreements. Many states and localities require participants to actually look for work before they can qualify for TANF cash benefits. In addition, some states even offer to provide a lump-sum, emergency payment if the family will agree to stay off welfare. In short, TANF is not an entitlement. But the food stamp program is. Thus, it is hardly surprising that food stamp rules are incompatible with the work first approach taken to cash welfare by most states today. According to the Department of Agriculture, applicants must be informed about food stamps and given a chance to apply for benefits during their first visit to a welfare office (Food and Nutrition Service, 1999).

Besharov and Germanis (1999) have argued that this philosophical difference between food stamps and TANF could undermine welfare reform. Because food stamp benefits are greater than TANF benefits in 16 states, mothers – especially those who live with relatives or a boy friend – may be motivated to avoid work by simply leaving or avoiding TANF and collecting the maximum food stamp benefit. This is especially the case since mothers with children under age 6 are exempt from food stamp work requirements. I suspect there would be sharp disagreement between liberals and conservatives about what should be done in this situation, liberals favoring continued eligibility and conservatives wanting these mothers to be subject to work requirements. If Congress were to put this issue to a vote, my guess is that the vote would fall heavily along party lines. Given the current small margin in the House, I doubt that any change is imminent; mothers with children under age 6 will continue to receive food stamps if they are willing to leave TANF before they are sanctioned for not working. In the meantime, we should conduct studies to learn whether mothers with children under 6 in low benefit states are leaving welfare but accepting food stamps and thereby avoiding the work requirement. My own view is that the law should be changed so that states would be allowed, but not mandated, to require mothers of young children receiving food stamps to meet work requirements.

Another incompatibility between food stamps and TANF is the food stamp quality control system. States are required to pay financial penalties to the federal government if they make too many errors in determining food stamp eligibility. Unfortunately, the cases most likely to have errors are precisely the households in which someone works. So TANF encourages or requires adults to work, which in turn raises the state food stamp error rate, which in turn results

in financial penalties. Given that food stamp benefits are paid entirely by the federal government and are open-ended entitlement funds, some type of quality control is necessary. But there is a clear tension between the TANF goal of work and the food stamp goal of reducing errors.

Given these many and diverse issues, the major burden is on states to revise their computer systems, simplify their application and redetermination processes, and in general make every effort to be certain eligible families know they are eligible and find it easy to apply for and maintain their food stamp benefits. But as long as there is such a vast difference in philosophy between food stamps and TANF, there will be problems with food stamp administration and receipt. One approach to determining whether food stamps and TANF could be reconciled would be to conduct a four or five state demonstration in which states were given complete control over their food stamp money. CBO and the Department of Agriculture should determine how much each participating state would spend over, say, a 5-year period and the state should be exempted from all federal requirements except the requirement that food stamp dollars can only be spent on food for eligible families. With proper oversight and evaluation, such a demonstration would allow us to discover whether the food stamp and TANF programs can be operated together in a more effective and efficient fashion.

Help floundering families

The review of income data presented above shows that there are problems at the bottom of the income scale. Primus (1999) and others (Children's Defense Fund, 1998) have argued that there is a substantial group of mothers who are actually worse off as a result of welfare reform. That some mothers are worse off is not surprising. Under the AFDC program, mothers were required to do virtually nothing except cash their checks. From time to time, Congress would pass laws requiring mothers to participate in work preparation programs, often by attending education classes. But if the mothers ignored notices to report for training, nothing happened in most cases. Now welfare mothers are required to participate in activities, including job search in nearly every state, and actual work experience in many states. If they fail to comply with requirements, they are sanctioned by having their welfare check reduced. Up to a third of recipients are sanctioned in some states and 33 states have full-check sanctions, meaning that the state can terminate all TANF benefits to families that violate work rules (Rector, 1999, Table 1). In short, under AFDC incompetent adults could remain on the rolls year after year; now adults who cannot or do not comply with requirements can lose their benefits and have very low incomes.

Anecdotal information about such cases, backed by statistical information of the type reviewed above, leads to the conclusion that some families are worse off since enactment of welfare reform. Liberals and conservatives should agree to conduct a lively argument about the number of such families and how government should respond under two conditions. First, liberals should admit that there are few policies that do not make some people worse off and that on balance the research shows that many more people are better off than worse off as a result of the 1996 welfare reform legislation. Second, conservatives should admit that some people are worse off as a result of welfare reform and, more importantly, should agree that every effort ought to be made to figure out how to help these families.

At least three actions should be taken to help these families. First, our review of income data from the bottom quintile makes it clear that the decline in income after 1995 is caused primarily by a drop in welfare income (earnings and EIC actually increased). Although food stamp income did not actually drop, it seems readily apparent that the average family is eligible for more food stamps than the family actually received. On average, these families received

about \$1,100 in food stamps in 1997 on earnings of around \$1,600. In most cases, a family of three with earnings of \$1,600 is eligible for \$3,500 in food stamps. Thus, insuring food stamp participation and full benefits could make a big difference in the income of these families (Parrott & Dean, 1999).

Second, as research by Toby Herr (1991, 1998) shows, a lot can be done to help these floundering families stay in or get back into the labor force. Herr has already developed a host of techniques for helping these multiple-problem families, most of which involve direct contact with the family, use of small steps to move them toward work, and lots of hand-holding following failure. Conservatives can be convinced that this type of intervention is justified, especially given that this is precisely the kind of work at which they believe churches and other faith-based organizations can excel. But it must also be acknowledged that much of this work with multiple-problem families will take place while they are on welfare. States have plenty of TANF money to keep these families on welfare as long as it takes to help them achieve self support. Moreover, the 20 percent exemption from the time limit, plus the regulatory flexibility states have to use state programs funded by maintenance of effort dollars to pay welfare for these families, provides the flexibility needed to keep these families on welfare provided they are meeting work requirements. At some point, when families totally fail to cooperate with personal responsibility agreements, government responsibility is greatly diminished.

Third, and here we encounter serious partisan issues, marriage among poor and low-income young adults should be pursued vigorously by the states. There is now extensive research showing that marriage has substantial advantages for both men and women (Gallagher, 1999; Stack & Eshleman, 1998; Waite, 1995; Waite & Gallagher, forthcoming). These advantages include positive impacts on health, on economic status, on happiness, and on frequency of and satisfaction with sex. Moreover, since publication of McLanahan and Sandefur's Growing Up With a Single Parent in 1994, there appears to be nearly universal agreement that two-parent families confer substantial advantages on children.

The House of Representatives has passed bipartisan legislation to provide states with money to fund local, community-based (including faith-based) organizations to conduct fatherhood programs with three goals – to increase marriage rates, improve parenting skills, and improve fathers' employment and income. Using money from the Welfare-to-Work grant program enacted in 1997, many states have already funded projects of this type. Although early research on the impacts of these programs is somewhat discouraging (Doolittle et al., 1998), better-designed programs might produce better results. McLanahan (1999), for example, based on her study of nonmarital births in 20 cities, found that about half of the parents were cohabiting at the time of the nonmarital birth and an additional 30 percent said they were involved in an exclusive relationship with their partner. In fact, 70 percent of the couples told interviewers that their chances of marriage were at least fifty-fifty. If projects could begin at around the time of the birth, when the couples are devoted to each other and their new baby, it may be possible to help them overcome the barriers that normally drive these couples apart. Helping the father earn more money is likely to be a vital part of this enterprise (Wilson, 1980).

Based on the overwhelming House passage of bipartisan fatherhood legislation at the end of the 1999 session of Congress (H.R.3073), it seems likely that Congress will be able to pass legislation promoting marriage, better parenting, and fathers' employment within the next several months. In addition, there appears to be bipartisan support for a tax code provision that would reduce the marriage penalty that is inherent in the structure of the Earned Income Credit (Ellwood, D.T., 1999). Indeed, this provision, which would lengthen the phase-out range for the EIC for married couples at a cost of around \$1.3 billion per year when fully implemented,

was included in the Republican tax bill enacted by Congress in August of 1999. Although President Clinton vetoed the Congressional tax bill, if there is bipartisan tax legislation within the next few years, the EIC provision would have an excellent chance of being included. In short, Congress has been taking action to make both work and marriage pay.

Building a permanent employment system

If my readers are still awake, they will gratefully acknowledge that this is not the place to initiate a major examination of recent changes in the global economy and our nation's unemployment and welfare programs (much of what follows is based on Good, 1998). Thus, I will simply assert that our economy is moving toward an increased number of small employers and an increased number of jobs and even careers for most, including white collar, workers. There will be even more churning of employees and employers than there is now, bringing new meaning to Schumpeter's aphorism that capitalism is "creative destruction". In short, lots of Americans, not just the poor, will be playing musical jobs. Rather than trying to stop the music, the role of government should be to help people join the dance.

Focusing exclusively on policy for poor and low-income workers, I believe we should develop a chain of government centers that blanket the nation to render four services to these workers or potential workers. The centers should help clients find jobs, retain jobs once found, find new jobs when they are hit by transitions, and improve their education and training (either directly or through brokered arrangements) so as to qualify for new and better jobs.

None of these activities is new; most even have a fairly substantial research base. Further, there are now a few centers around the country that perform at least three of these four functions. These model centers, including the ones in Racine, Wisconsin, Broward County, Florida, and Salt Lake City, Utah (there are many others), are now demonstrating what can be accomplished through containing interagency rivalries, coordinating federal and state funds, and emphasizing staff training.

Although these centers will probably have unique funding structures, TANF, the U.S. Employment Service, and the Workforce Investment Act will comprise the basic funding for most of them. If these centers are to provide the full range of services outlined above, they will need access to funding that provides great local flexibility. TANF already meets this requirement, but future legislation will probably need to build additional flexibility into funding of the Employment Service (Balducchi et al., 1997) and the Workforce Investment Act (U.S. Department of Labor, 1998). The goal of these changes would be to provide state and local officials with maximum control and flexibility over funding so they could spend money for any of the four services and any of the clients that they judge to be in need of the services. In locations that did not have enough money to serve everyone, this local flexibility would mean that officials would have the right to make some clients wait for services. Especially in the case of unemployed workers drawing Unemployment Compensation benefits, this approach would be controversial.

A Final Word

A final word concerns – what else? – money. We are now very fortunate to have lots of money available to states. Indeed, the Congressional Budget Office (Cullinan, 1999) estimates that the states will have saved over \$24 billion by the end of 2003 in TANF funds. Almost all the recommendations outlined above cost money. States should begin now to use all or nearly all of their TANF funding to address the remaining problems. If states do not spend the money, it is inevitable that Congress will reduce basic TANF funding. As the nation moves

toward a society of permanent employment for nearly all adults, it would be a shame if government were handicapped in helping poor and low-income families keep up because state legislatures and administrative agencies did not spend the money appropriated for this purpose. It would equally be a shame if Congress interpreted accumulated savings as a sign that the welfare and work systems were fulfilling their promise and didn't need all the available money. So the message to states is: Spend the money. And the message to Congress is protect the money.

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