

## **What Did the 1990s Welfare Reform Accomplish?**

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Eugene Smolensky has spent his life thinking and writing about poverty and income distribution (e.g., Danziger and Smolensky, 1983; Danziger, Gottschalk, and Smolensky, 1985). In an earlier era, he was involved with evaluating and critiquing President Carter's welfare reform proposals (Danziger, Haveman and Smolensky, 1977). It is only appropriate that a volume in his honor includes a paper discussing what we've learned from the latest round of welfare reform.

In August 1996, the Congress passed and President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). Many pieces of legislation are heralded as "pathbreaking reform" when they are passed. PRWORA was an exception in that such a claim has turned out to be correct. The changes that PRWORA initiated, along with several related policy changes that occurred at the same time, have fundamentally altered the ways in which we provide assistance to low-income families in the United States. The implications of these changes are only beginning to be understood. This paper reviews the provisions of PRWORA and its subsequent effects on welfare programs, provides some simple empirical summaries of the changes in behavior and well-being since the mid-1990s, summarizes the existing literature that analyzes the effects of these reforms and discusses a set of key questions about the effects of these reforms that are still unanswered.

## **I. What Did Welfare Reform Do?**

Since the Reagan administration, there has been a growing interest in providing welfare recipients with the assistance and the incentives to move rapidly off welfare into

employment. Experiments with welfare-to-work programs started in the 1980s. These experiments became more dramatic in the early 1990s under the Clinton Administration.

States were encouraged to experiment with major changes to Aid to Families with Dependent Children (AFDC), the cash welfare program that had been created as part of the Social Security Act of 1936. The Department of Health and Human Services received requests from states to run cash welfare programs that violated the federal requirements for AFDC, but that tested alternative ways to increase work incentives for women. By 1996, 27 states had major waivers in effect and a number of other states were experimenting with smaller changes. These waivers allowed states to experiment with time limits on cash assistance, with lower earnings disregards (allowing women who went to work to keep benefits for a longer period of time, hence creating incentives for women to take low-wage jobs), or with various other changes designed to encourage work and discourage welfare use.

The 1996 passage of PRWORA enacted federal changes to cash assistance programs.<sup>1</sup> Most notably, it abolished AFDC and in its place Congress created the Temporary Assistance to Needy Families (TANF) block grant. This had two major effects.

First, it gave states much more discretion over program design. TANF is not a federal welfare program, but a funding stream that the states can use (with restrictions). AFDC was a cash assistance program with a variety of eligibility and payout rules determined by the federal government, although program authority was shared and states determined other parameters of the program. A key aspect of AFDC was that it was an entitlement. Any individual who qualified for assistance under the combined

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<sup>1</sup> Weaver (2000) provides a detailed description of the history that led to the passage of PRWORA.

federal/state rules, had to be given cash assistance. Under TANF, states have a greater ability to design their own cash support programs and to limit benefit availability. No one has an entitlement to cash assistance; for instance, if states are under financial pressure they can simply reduce or eliminate assistance to certain groups.

Second, TANF provides funds to state programs as a block grant, whereas AFDC was funded through a matching grant. When states raised their AFDC spending, they drew down more federal dollars, so state-initiated changes in benefits and eligibility were partially funded by federal dollars. In contrast, the block grant is fixed and does not vary as state spending levels change, meaning that the states bear the financial risk of cycles in the need for assistance. In the years immediately following PRWORA, this worked to the states' benefit as caseloads fell but federal dollars remained unchanged. In times of tight budgets, when demand for assistance rises, the states must finance this without increases in federal dollars. Given the limits of state balanced budget requirements, most states will not be able to expand their welfare spending in a recession, hence TANF-funded programs are likely to provide less counter-cyclical support than did AFDC.<sup>2</sup>

In addition to the creation of the TANF block grant, the PRWORA legislation had a number of other provisions that limited the availability of cash assistance and increased the incentives for low-income families to move into work. PRWORA increased federal work requirements, by mandating that states place an increasing share of their active welfare recipients at work in order to receive their federal funds. By 2002, PRWORA required states to have 50 percent of their caseload at work or in work programs.<sup>3</sup> A provision lowered these requirements on states with falling caseloads, however. Since all

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<sup>2</sup> For a more extended discussion of these issues, see Chernick (1998).

<sup>3</sup> Work programs are typically designed to help welfare recipients prepare for or search for jobs.

states experienced rapid caseload declines after 1996, no state had to meet the original requirement. In 2002, the average state had 38 percent of their caseload at work or in work programs.<sup>4</sup>

PRWORA also enacted time limits, limiting an individual's ability to receive TANF-funded assistance to 60 months (cumulative over a lifetime.) States have the ability to exempt a share of the caseload from these time limits and can always extend assistance further using state dollars. The time limits were a particularly important symbol of welfare reform, making a strong statement that cash assistance was no longer an entitlement.

Finally, a variety of PRWORA provisions limited access to income assistance programs among target groups. Immigrant access to TANF was restricted, as well as to food stamps and Medicaid. (The big cost savings in PRWORA largely came from limiting food stamps.) Certain types of disabilities were removed from eligibility for Supplemental Security Income (SSI), the cash assistance program for the elderly and disabled. Many of these provisions, especially those concerning immigrants, continued to be debated and a variety of amendments to the 1996 law were enacted in the following years to restore eligibility for certain groups. I will not focus on these issues further in this paper except to note that they reinforced the sense that federal involvement in public assistance programs would be more limited in the future.

## **II. How Did States Respond?**

The devolution of program authority over cash assistance programs from the federal to the state level provided states with both opportunities and challenges. Many

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<sup>4</sup> See [www.acf.hhs.gov/programs/ofa/particip/2002/table01a.htm](http://www.acf.hhs.gov/programs/ofa/particip/2002/table01a.htm).

observers (myself included) expected that many states would largely continue “business as usual”, renaming their old AFDC programs, making some changes to increase work programs, but continuing to provide cash assistance in much the same way as before. As it turned out, virtually all states made major changes in the structure of their cash assistance programs, promoting work and limiting access. These changes are described in more detail elsewhere<sup>5</sup>; I focus on a few key issues here.

As will be apparent, many states adopted a mix of new programs that reflected the experimental changes that had been tested under waivers, although even those states with waivers typically adopted additional program changes once they had full authority over program design. Hence, for states with major waivers, TANF gave them more discretion to push further in the direction they were already going. For states without major waivers, it gave them authority to enact changes without the same degree of federal oversight that waivers had required.

*Welfare-to-work efforts.* As expected, states greatly expanded their welfare-to-work programs. In many cases, the administrative structure of (former) AFDC offices was completely changed, so that women received encouragement to look for work from the minute they stepped into the office. States talked about changing the “culture of welfare”, and using TANF funds to create work-support programs rather than the AFDC cash assistance programs.<sup>6</sup>

*Earnings disregards.* One way that states supported and encouraged work was to lower the earnings disregards, that is, the rate at which cash benefits were reduced as earnings increased. Under the old AFDC program, for many women earnings gains were

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<sup>5</sup> For instance, see Blank and Haskins (2001) for a description of state changes and their consequences, or (for more technical information) see U.S. House of Representatives (2000).

<sup>6</sup> These administrative changes are discussed in more detail in Gais, et. al. (2001).

offset almost dollar-for-dollar by benefit declines once earnings rose above a (very low) disregard level. Under TANF, the majority of states provided for slower declines in benefits, allowing women to see greater income growth as their earnings grew. Blank (2002, Table 2) shows the enormous variation in earnings disregards among the states by the late 1990s.

*Sanctions.* Not only did states encourage women to work, they also enacted sanctions, enforcing benefit losses on women who did not participate in state-required programs. Sanctions were imposed most often for non-compliance with work programs, but could be imposed on recipients for not following any of the state's requirements. States varied widely in the penalty imposed by such sanctions. In some states, repeated infractions could result in permanent disqualification for any future benefits; in other states, sanctions involved benefit reductions of increasing severity. Estimates of the number of families affected by sanctions vary enormously across studies with somewhat different methodologies. Around 20 percent of case closures seems to be due to sanctions (Pavetti, Derr and Hesketh, 2003).

*Time Limits.* As noted above, the federal government imposed a 60-month time limit on women's eligibility for TANF-funded programs. A substantial minority of states (17) set shorter time limits. States could choose to continue payments to any family using state funds. Many states did not have administrative systems that easily tracked months on welfare among women with multiple welfare spells. As a result, there appears to be great diversity among states in how they are implementing time limits. As of early 2002, about 230,000 families had reached time limits, of which 40 percent had their case closed and another 16 percent faced benefit reductions (Bloom, et. al., 2002).

*Cash Benefits.* The benefits available to women who qualified for cash welfare support varied as widely across states in the TANF era as in the AFDC era. Under AFDC, states set the benefit levels, resulting in wide variation in the cash payments a woman on welfare could receive. These benefit variations were largely unchanged after PRWORA was passed, with maximum monthly benefits in 2000 ranging from \$164 in Alabama to \$923 in Alaska (family of three).

All of these changes have led to enormous divergence in the availability of cash welfare across the states. Prior to 1996, state welfare generosity could typically be measured by state benefit levels. After 1996, simple state rankings of more or less generous states became much more difficult. States with high benefits might have low earnings disregards. States with high disregards might have short time limits. Comparative state rankings might be different among women in different life circumstances.

A major effect of these changes has been a major shift in the uses of welfare program dollars. The Department of Health and Human Services (DHHS) estimates that state and federal welfare dollars spent on noncash assistance rose from 23 percent in 1997 to 56 percent in 2002, while the proportion of money spent on direct cash assistance declined from 77 percent to 44 percent.<sup>7</sup>

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<sup>7</sup> These numbers are from a tabulation done by DHHS for the *New York Times* and reported in an article by Robert Pear on October 13, 2003 (pA1). They are consistent with estimates from the Urban Institute (2002) that indicate 76 percent of Federal and State welfare went to direct cash assistance in 1996; by 2000 this had fallen to 41 percent.

### **III. The Interaction with Other Programs**

The transformation of state AFDC programs into TANF-funded programs was not the only policy change occurring in the mid-1990s. A variety of other program changes were implemented at about the same time, many of them closely related to the changes induced by PRWORA. These other changes are important because in most cases they supported and reinforced the effort states were making to move women off welfare and into work.

Major expansions in child care subsidies were an important part of state changes. As work increased, an increasing amount of TANF funds were directed to child care subsidies among workers. But dollars from the Child Care and Development Fund (created by PRWORA by merging several preexisting programs) also expanded over this time, and in the late 1990s many states also increased their own dollars going to child care assistance for low-income women. The Urban Institute (2002) estimates that spending on child care increased from 4 percent to 19 percent of all Federal and state welfare payments between 1996 and 2000.

AFDC receipt had long been closely tied to food stamp and Medicaid receipt. In most cases, AFDC recipients were automatically eligible for these two other programs. As states eliminated AFDC programs, women moved into work and welfare caseloads fell. It is perhaps not surprising the food stamp receipt and Medicaid receipt fell as well. For instance, between 1996 and 1998 food stamp caseloads fell as rapidly as TANF caseloads, although many women leaving welfare for work still had incomes that should have left them eligible for food stamps. By 1999, states were making major efforts to inform and re-enroll eligible families in Medicaid and food stamps. This required them

to reach out to working poor families with these programs, a group that historically had very low enrollment rates.

In the previous decade, Medicaid eligibility had become increasingly de-linked from AFDC eligibility. Legislation enacted in the 1980s provided Medicaid coverage to children in low-income families, sequentially covering older and older children in each year. By 1999, all children in families with incomes below the poverty line were covered by Medicaid.<sup>8</sup> Unfortunately, relatively low usage of Medicaid services by these families suggested that they had little awareness of these eligibility expansions. In 1997, the Children's Health Insurance Program (CHIP) was enacted to provide dollars to states to expand the health care usage among low income children. Many states used CHIP dollars to help increase the use of health care services for children whose mothers left welfare for work.

Child care subsidies, food stamps, and health care all provide in-kind benefits to working low-income families. Two other policy changes in the 1990s directly expanded the cash income received by these families. In 1993, significant expansions in the Earned Income Tax Credit (EITC) were enacted, as a result of the legislative proposals sent by the Clinton administration to Congress to fulfill their campaign promise to "make work pay." The EITC is a refundable tax credit, which means that it can either reduce taxes owed or (if no taxes are owed) pay subsidies to recipients.

The most important aspect of the EITC is that it is paid to low-wage workers in low income families. By running the EITC through the tax system rather than as a separate program, payment can be made conditional upon total family income. This

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<sup>8</sup> Children under 5 were covered if they lived in families with incomes below 133% of the poverty line. At their option, states could set higher eligibility lines and many states covered children in families with incomes up to 185% of poverty. For more information on Medicaid, see Gruber (2003).

means that the EITC is extremely well targeted to low income working poor families (unlike the minimum wage which is received by all low-wage workers regardless of their overall family income.) The EITC expansions of 1993 turned what had largely been a tax reduction program into a program that provided substantial income subsidies to very low-income working families. The maximum subsidy available rose from \$1730 to \$3888 (in 2000 dollars) for low-wage working families with two or more children between 1993 and 2000. These increased subsidy levels meant that the EITC had to be phased out over a longer income range and affected families much higher in the income distribution. By 2000, families with two children with incomes as high as \$31,152 could be eligible for some tax reduction through the EITC.

Furthermore, for single-mother families on welfare, EITC dollars do not count as income when states calculate TANF benefits. Welfare-to-work programs resulted in a growing number of women who combined welfare and work, especially in those states with higher benefit levels (where women could work part-time before losing all benefits) or those states that enacted lower benefit disregards (allowing women to retain some benefits as their earnings increased). In these states, the EITC functions like an additional earnings disregard and increases the incentive to work.

Along with the EITC expansions, there were also minimum wage increases enacted in the mid-1990s as well. Between 1993 and 1998, the minimum wage rose from \$4.25 to \$5.15. Despite concern that this would reduce employer demand, several

studies in the mid-1990s concluded that these increases had small or zero effects on employment of less skilled adults.<sup>9</sup>

The combined effect of increases in the minimum wage plus increases in the EITC was to substantially increase the returns to work among low-wage workers. A mother with two or more children who worked full time at the minimum wage would have seen her real income increase from \$10,568 in 1989 to \$14,188 in 2000 (both numbers in 2000 dollars), a 34.3 percent increase. (The equivalent increase for mothers of one child was 19.7 percent, from \$10,568 to \$12,653.) In 1990 these mothers (whether with one or two children) would have had cash income below the poverty line, while by 2000 they would have been above the poverty line.

The bottom line of all these other program changes is that they largely supported and reinforced the welfare program changes being enacted by states. The minimum wage and EITC changes increased the returns to work, particularly among low wage workers. The growth in child care subsidies provided better in-kind support for single mothers who left welfare for work, as did the expanded Medicaid and health insurance coverage for children in low-income families. The only exception was signaled by the decline in food stamps; if this reflected the (incorrect) belief by single mothers that food stamps were no longer available to them after leaving welfare, this would have made the benefit loss of welfare appear greater and the “cliff” that earnings needed to fill seem even larger, providing less incentive to move rapidly into employment.

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<sup>9</sup> Bernstein and Schmitt (1998) find no evidence of employment-related effects following the minimum wage increases of the mid-1990s. Neumark (2001) finds effects only among young workers, and not among adult men or women.

#### **IV. The Economy's Role**

Policy changes weren't the only news in the last half of the 1990s. While the economy grew slowly coming out of the recession of 1990-91, starting in 1995 the U.S. entered a period of sustained high growth, rising productivity, and low unemployment. By the time the expansion ended in 2001, it had become the longest period of continuous economic growth in U.S. history.

The effect of this expansion was particularly noticeable for less-skilled workers. Despite a consensus view in the early 1990s that the expected long-term unemployment rate in the United States was between 5.5 or 6 percent, unemployment remained at or below 5 percent from April 1997 through October 2001. Even among adult high school dropouts – whose unemployment rates were in the double digits in the early 1990s – unemployment fell to less than 7 percent.

Wages also rose throughout the wage distribution. This was particularly good news for less-skilled (and especially male) workers, who had experienced substantial wage declines for 15 years starting around 1979. Although the wage increases after 1995 did not make up all of the ground lost in the previous two decades, they clearly increased the economic returns to work.

The result of this economic boom was a job-rich economy that offered more job availability and better wages to low-skilled workers than at any time in the previous two or three decades. This allowed states to largely ignore job availability concerns as they redesigned their welfare-to-work programs and encouraged a growing number of welfare recipients to seek work. States could focus on program design and implementation for their new TANF-funded programs.

## V. The Results

A substantial literature documents the dramatic changes in welfare and work behavior over the 1990s. In this section I briefly highlight some of those changes and discuss the research literature that attempts to measure how much of these changes were due to policy efforts or to economic expansion.

*Caseloads.* Most discussed has been the dramatic decline in caseloads in the late 1990s. A sharp increase in caseloads in the early 1990s was a major impetus for states to support welfare reform, but even the strongest supporters of welfare reform did not forecast what actually happened. Figure 1 shows caseload changes between 1970 and 2003. After a long period of largely constant levels, AFDC caseloads rose steeply in the early 1990s (one reason behind state support for welfare reform.) Caseloads began to fall prior to the 1996 passage of PRWORA, but the decline accelerated in the late 1990s. By the end of 2001, caseloads were at 42 percent of their level in 1994. Every state experienced these dramatic declines.

The economy slowed in 2000 and was officially in a recession through much of 2001; since then, there has been slow growth and continuing higher unemployment rates. Yet, while caseload declines appear to have stopped, caseloads have not risen, particularly in comparison to the early 1990s when a mild recession was associated with a large caseload increase. In part, the rise in caseloads in the early 1990s was explained by other factors than the economy, particularly the increase in the availability of AFDC for so-called “child only” cases, where AFDC dollars supported only the child, not the adult, in the family (Blank, 2001). Yet, as I shall discuss later, the lack of increase in caseloads

in this period of slower economic growth is something of a mystery. In particular, it is unclear if women want cash assistance but are not seeking it because they believe themselves to be ineligible, or if women are remaining employed and able to avoid returning to the welfare rolls.

One test of whether these caseload changes were significantly correlated with policy changes is shown in Figure 2. Here I label as the “zero point” on the X-axis the time when either a major waiver was adopted (caseloads among states with major waivers are shown with a solid line) or when a TANF plan was adopted (caseloads among states without a major waiver prior to TANF are shown with a dotted line.) Essentially, I align caseload data for each state around the point where major policy change was enacted, allowing me to show how caseloads changed in waiver and non-waiver states immediately before and after new policies were adopted.

It is clear in Figure 2 that the enactment of waivers or of TANF are not a sufficient explanation for caseload declines. For both groups of states, there were significant caseload declines prior to the change in policy. In both cases, however, caseload decline accelerated after the policy change.

*Employment.* The goal of welfare-to-work programs was not just to reduce caseloads, but also to increase work. Employment rose sharply in the late 1990s, especially among less-skilled single mothers, the group likely to have been most affected by these policies. Figure 3 shows the share of single mothers who report any work over the year from 1990 to 2002; the solid line is mothers with less than a high school degree, the dashed line is mothers with a high school degree only and the dotted line is for those with more than a high school degree. While employment among all groups of single

mothers rises over the late 1990s (as expected, given the very strong economy), it clearly rose fastest among the less skilled. (These data also show faster increases among single mothers than among married mothers.) Employment among single mothers without a high school degree rose from 42 percent in 1993 to 65 percent in 2000, an enormous increase over a very short period of time. With higher unemployment throughout the economy, employment among less-skilled single mothers falls by four percentage points by 2002, but remains far above its level of a decade earlier.

Figure 4 shows this trend in another way, graphing the share of women who report employment in March of each year, among the sample of women who report receiving some form of cash welfare assistance in the previous year. Figure 4 shows a dramatic increase in the flow of welfare recipients into employment. (These women may be on or off welfare in March when they make this report; the primary point is that an increasing share of women with recent welfare income were entering work over time.)<sup>10</sup>

The economic slowdown of the early 2000s is clearly visible in these data, combined with the effects of a steady caseload decline. The likelihood of moving into work, conditional on receiving welfare in the previous year, declines in 2001 and 2002 (although it rises again in 2003). In part this reflects higher unemployment rates and a more sluggish economy. In part it reflects the fact that the group of women who report public assistance income in each year is shrinking over time, creating a progressively smaller and more selected base sample.

Studies of women leaving welfare in the 1990s indicate that close to two-thirds of welfare leavers were working at some future point (Cancian, et. al. 1999; Loprest, 2001).

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<sup>10</sup> If you break the data for Figure 4 into those who received welfare in almost every month of the past year and those who received it only a few months, both groups show large increases in work over time.

Martinson (2000) indicates that only 20 percent of leavers appear to never work in a four-year follow-up of work programs in six sites. Data from 2002 indicate that a substantial number of recent welfare leavers are working, but employment is lower and recidivism is higher than among those who left welfare before 1999 (Loprest, 2003).

In all of these studies, however, it is clear that a significant minority of those who leave welfare appear to be jobless. Between 1995 and 2001, welfare caseloads fell by approximately 1.64 million. Employment among single mothers rose by approximately 820,000.<sup>11</sup> This rough calculation suggests that for every 100 families leaving welfare, 50 women entered the labor force.

This calculation almost surely underestimates the overall employment gain for two reasons: First, in 1995 some share of women on welfare were already working and any increase in hours that they experienced would not be captured in this calculation. Second, we know that job turnover is higher among less skilled workers, implying that some share of this population might be employed over the year but not at work at the time of any specific survey. Even with these caveats, however, these data together with the results from surveys of welfare leavers suggest substantial non-employment among those leaving welfare. We return to this issue below, because it creates a puzzle about how these women and their children are faring economically.

*Income.* Increases in employment may not leave women better off economically if their loss of benefits is as great or greater than their increase in earnings and work expenses. Most evidence suggests that single mothers' income rose over the late 1990s, although overall income rose less than earnings because of the loss of cash benefits.

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<sup>11</sup> These calculations are based on the Current Population Survey, March 1996 and 2002, respectively.

Table 1 provides a snapshot of income and its components among single mothers from 1985 through 2002.<sup>12</sup>

As the first column of Table 1 indicates, inflation-adjusted income rises very little among this group during the economic expansion of the late 1980s. During the expansion of the 1990s, however, income increases almost one-third between 1992 and 2000. These higher income levels are maintained in the economic slowdown, with average income of \$23,805 in 2002 among single mothers. There is an amazingly large change in the components of total income over the 1990s as well. Public assistance falls from almost one-quarter of total income to less than 5 percent. Own earnings by the mother increases from just over half to two-thirds of income. There is a slight rise in earnings by other members of the household as well. “Other income”, which includes other transfer dollars (such as SSI or unemployment insurance), child support, as well as any reported gifts or transfers from other households, also increases.

Between 1990 and 2002, mothers’ earnings in single mother households rise by 63 percent, driving the increase in overall income levels. But declines in public assistance offset these earnings gains so that total income rises by only 29 percent. From Table 1 one can calculate the average changes in welfare benefits, earnings, and overall income among single mothers. Between 1995 and 2002, single mothers on average lost \$100 in welfare benefits, but experienced a \$209 rise in average earnings and a \$59 increase in other sources of income. The net result was a significant increase in income,

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<sup>12</sup> Top-coding of earnings changes over this period. For consistency, I top-code earnings for every year at its lowest level (in real dollars). This never effects more than 40 observations in any year, but does reduce the impact of a few high earners on these overall averages. Since my focus is on lower-income women, I view this as a plus rather than a minus. (I use averages rather than medians since I want to show how income component shares are changing within total income.)

with a \$168 increase in average income despite the \$100 decline in welfare benefits over these years.<sup>13</sup>

Of course, averages can obscure distributional changes. Since only a share of single mothers received welfare income, the benefit losses were concentrated among welfare leavers, while women with more skills or better labor market connections were probably able to make greater earnings gains. Yet, the evidence suggests that most single mothers experienced some income increases, even among the least-skilled groups of single mothers in the years after welfare reform was enacted.<sup>14</sup> Poverty rates among single mother households declined to 28.5 percent by 2000 and remained there through 2002. This is the lowest rate ever recorded and well below the 38 percent average poverty rate among single mothers over the 1980s and early 1990s. At worst, it appears that a small share of less-skilled women might have experienced income losses. For instance, the limited evidence available on women who left welfare due to sanctions or time limits seems to indicate that they experienced income losses (Kalil, et. al, 2002) .

One of the difficulties in interpreting these income changes, however, is that our data are incomplete. First, particularly for working single mothers, work expenses might be quite significant, primarily because of child care costs. Increases in earnings among these families might be entirely used up by increased child care payments, leaving them no better off. We have no fully adequate data set that allows us to calculate income

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<sup>13</sup> As discussed below, calculations that focus only on gross income may obscure important changes in disposable income. I could impute estimated EITC income, but to be accurate in estimating after-tax income, I would need to impute other state and federal taxes as well (in some states, state taxes on low income families are significant.) Similarly, I could impute Food Stamps, although there is substantial non-take-up of this program. To be accurate about in-kind income, I would also need to take account of child care subsidies, health insurance and housing subsidies as well. In short, coming up with an accurate disposable income calculation is quite difficult, which is the point made in the next few pages.

<sup>14</sup> See Haskins (2001) for tabulations of cash income; Meyer and Sullivan (2001) for tabulations of consumption.

changes net of work expenses. The substantial expansion in child care subsidies, described above, suggests that some of these work expenses are being offset. Giannarelli, et. al. (2003) indicate that 34 percent of low income employed families with recent welfare histories received some government assistance for child care in 1999, but more than half of these also incurred out-of-pocket child care expenses. Fully 18 percent of income went to child care expenses in 1999 among all employed families with children whose incomes were below the poverty line.

Second, tax and transfer benefits might also be very important to this population. The expansion of the EITC benefits might add as much as \$3000 to the income of some of these families, which the income data in most surveys does not account for. Offsetting this, the decline in food stamp participation would take more resources away from these households over the late 1990s than cash income suggests.

Third, cross-household transfers might be significant for this population. This includes child support payments received by these mothers, particularly as many states continue to try and increase child support collection. But it also includes support from relatives and boyfriends. The strong economy of the 1990s would have provided more income to all low wage workers and might have increased the inclination and ability of others to share income with single mother families to which they felt an attachment. This may be how welfare leavers who were not employed were surviving economically.

In order to assess the overall well-being effects of the changes of the 1990s, better data for all of these issues are necessary. One alternative is to look at consumption rather than income data, since consumption should reflect all of the concerns mentioned above. Meyer and Sullivan (2001) find that total consumption of single mothers increased in the

mid-1990s, both in absolute terms and relative to women without children or to married mothers.

Overall, the changes of the late 1990s were very dramatic for single mother families. There were dramatic declines in caseloads, dramatic increases in work, and (measured with less certainty) moderate increases in overall economic well-being. It is striking that these gains do not appear to have been entirely eroded (based on data available in early 2004) despite a mild recession and an extended period of low growth and higher unemployment. Indeed, unemployment rates among less-skilled women have remained low, relative to their past historical levels. In 1994, at the end of the 1990s recession, unemployment among women without a high school degree was 16 percent. This fell to 11 percent by 2000 and was at 12.5 percent in 2002.<sup>15</sup>

*Did Some Groups Gain More than Others?* An important question is whether the average numbers for single mothers hide a great deal of variation in the experiences of specific groups. In this section, I disaggregate some of these results by race and ethnicity and by education level of the mother, and by children's ages in the household. Table 2 provides comparisons among different groups of single mothers between 1995 and 2002.

The first part of Table 2 compares changes in earnings as a share of family income with changes in public assistance as a share of family income, asking whether some groups are better able to offset changes in public assistance with increases in work. As indicated in column 1 of Table 2, different groups were substantially more reliant on earnings in 1995. Single mothers with infants received only 45 percent of their income from earnings, while single mothers with no preschoolers received over 60 percent of

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<sup>15</sup> Author's tabulations of the Current Population Survey; this includes all less skilled women ages 16 to 64. The equivalent unemployment rates for single mothers with less than a high school degree are 29 percent in 1994, 16 percent in 2000, and 18 percent in 2002.

their income from earnings. Reliance on public assistance as a share of family income in 1995 (column 3) is the reverse of earnings reliance; groups with high earnings shares have low public assistance shares and vice versa. Not surprisingly, it is those with high public assistance shares who experience the greatest declines in public assistance between 1995 and 2002 (column 4), and these are also the groups who gain the most in terms of earnings shares (column 2).

The final column (column 5) shows the ratio of changes in earnings shares to changes in public assistance shares. Because earnings increase while public assistance declines, all of these ratios are negative. These ratios range between -0.71 and -1.01. Women with younger children and less education have slightly lower earnings gains relative to their loss of public assistance. It is surprising, however, how similar the ratios in column 5 appear. Despite very different starting levels of earnings reliance and public assistance usage, the ratio of welfare declines to work increases among groups is quite similar. (Realize that the fact that these ratios are largely just below one does NOT imply that public assistance losses were greater than earnings gains. This is because income levels were rising at the same time. If you look at Table 1, you can see how rising incomes mean that greater share declines in public assistance are more than offset by smaller share increases in earnings.)

A striking result in Part 1 of Table 2 is the large gains in earnings shares among women who have relatively low earnings shares in 1995. Single mothers without high school degrees increase their earning share by 17 percentage points, those with infants by 16 percentage points, and black and Hispanic single mothers increase their earnings shares by 15 to 18 percentage points. The result is a convergence over the late 1990s in

income sources (as well as in work and welfare behavior, seen in Part 2) among all these groups of single mothers.

The second part of Table 2 compares changes in the percent working to changes in the percent on welfare, essentially looking at participation effects rather than income share effects. Again, there are substantial differences in the percent working, ranging from 49 percent of those without a high school diploma to 85 percent of those with more than a high school diploma. Those groups with a high percent working have a low percent on welfare. As before, the groups that are more welfare-using in 1995 are likely to experience greater welfare declines and bigger employment increases. Again, column 5 shows the ratio of changes in the percent working to changes in the percent on welfare. This column indicates whether some groups were less able to find jobs relative to their rate of welfare leaving. More disadvantaged women -- the less-skilled (no high school diploma), black and Hispanic mothers, and mothers with small children, clearly make greater employment gains (relative to their movement out of welfare) than do other groups. Some of this is because more advantaged groups of single mothers are already working at high levels (above 80 percent) in 1995. Even though these more advantaged women significantly decrease their welfare usage (almost all of those on welfare go off, according to these data), they may simply be constrained by how much more they can move into work. Many of these more advantaged women who were on welfare may have already been working in 1995.

Finally, the third part of Table 2 compares changes in poverty rates to changes in work. Here the question is whether increases in work are mirrored by comparable declines in the poverty rate for all of these groups. Among all single mothers there is

almost a one-for-one relationship between increases in work and declines in the poverty rate. This varies significantly across groups, however, with more disadvantaged groups being less able to translate work increases into poverty declines. For instance, among those with no high school diploma, the percent working rises by 16 percentage points, but their poverty rate declines by only 10 percentage points. In contrast, among those with exactly a high school degree, the increase in work is almost exactly matched by the decline in poverty. Similar patterns exist by age of the youngest child, with single mothers with preschoolers less able to escape poverty as their work increases, relative to single mothers with older children. Among different ethnic groups, there are fewer differences in the changes in work versus changes in poverty.

The results in Table 2 suggest that there is little evidence that single mothers who were more disadvantaged in the labor market (i.e., lower skill, ethnic or racial minority, or with smaller children) had greater difficulty finding work. It is striking how much public assistance usage and income shares converged across these different groups. In fact, these more disadvantaged groups seemed better able to increase their work share relative to their declines in welfare participation than other groups. These women did, however, have greater difficulty translating their employment increases into poverty declines, perhaps because they were further below the poverty line to start with and hence needed greater gains before they could escape poverty.

## VI. Interpreting These Results

A small industry has sprung up around estimating the impact of welfare reform in the late 1990s. This work is well-summarized in several other places.<sup>16</sup> Here I simply highlight some of the main points of this literature.

*Welfare Leavers Studies.* One body of research has concentrated on following individuals over time after they leave welfare to see how they are faring. This research is interesting, because it often involved collecting new data, by locating women who were identified as being on welfare at some point in the past. Many studies like this were done within the states in the late 1990s, often with quite small samples and limited follow-up.

Several of these surveys have been much more extensive and useful, however. Because these researchers actually fielded a new survey, it allowed these studies to collect some information not typically available in our larger national datasets. For instance, the National Survey of America's Families (NSAF), has collected three waves (1997, 1999, and 2002) of national survey data on about 40,000 households, with a focus on changes affecting the low-income population. These data have provided us with detailed information on the experience and well-being of low-income and welfare-leaver families.<sup>17</sup> In comparison, a very different snapshot is provided by the Women's Employment Survey (WES), which has followed about 700 single mothers in an urban Michigan county who were all on welfare in February 1997. The survey is just now in its fifth wave, and has very detailed information on these women's lives, with particularly good information on mental health issues.<sup>18</sup>

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<sup>16</sup> See Blank (2002), Grogger, Karoly, and Klerman (2002).

<sup>17</sup> For more information about the NSAF, see [www.urban.org/Content/Research/NewFederalism/NSAF/Overview/NSAFOverview.htm](http://www.urban.org/Content/Research/NewFederalism/NSAF/Overview/NSAFOverview.htm).

<sup>18</sup> For more information about the WES, see [www.fordschool.umich.edu/poverty/wes/index.htm](http://www.fordschool.umich.edu/poverty/wes/index.htm).

These leavers studies are quite useful in providing information about the women most directly affected by welfare reform, namely, those on welfare in the mid-1990s. They provide clear evidence about work behavior, welfare recidivism, and income changes within this population. For instance, the WES data suggest that close to 80 percent of their sample are working in August 2001 (the last available survey point), although slightly less than 50 percent continue to receive some welfare-related assistance. The NSAF indicates that point-in-time employment among welfare leavers in the late 1990s was around 50 percent, while welfare leavers in the early 2000s only had a 42 percent employment rate in 2002.

These leaver studies are less useful in providing any sort of overall evaluation of welfare reform, since they provide no information on other populations that welfare reform should have effected. If more limited availability of cash assistance and stronger enforcement of work rules discouraged welfare entrants, or changed the behavior of non-welfare recipients, then leavers studies provide only a very partial answer to the question “what were the overall effects of welfare reform?”

Furthermore, the leavers’ studies do not make any effort to separate the effect of policy changes from other changes occurring at about the same time. Some welfare leavers would have left even in the absence of reform, particularly with the strong economy of the late 1990s. These papers provide no good way to separately estimate the behavioral changes due to policy versus those due to economic or other factors. In the end, the information they provide is largely descriptive (which does not mean it is not useful or interesting!)

*Regression Estimates on Existing National Data Samples.* An alternative approach has been to use large national databases (such as the Current Population Survey) to try and analyze the effects of welfare reform. The primary question in this research has been to identify the role that policy played in reducing caseloads and raising employment. Most papers explore this by looking at caseload and employment levels using state panel data over the 1980s and 1990s, and controlling for both state and year effects, as well as state unemployment rates and various demographic measures.<sup>19</sup> “Policy” is specified by a series of dummy variables, indicating when states enacted waivers or when TANF plans were implemented. Identification of the policy effect depends upon variation in the timing of state enactment of reforms. (Blank (2002) and Grogger, Karoly and Klerman (2002) provide a much more detailed discussion of these studies and their contribution.) Essentially, these studies use regression techniques to do (in a more sophisticated way) exactly what Figure 2 does, that is, to measure caseload change following a major policy change.

This estimation strategy creates some problems. The impact of waivers on caseloads is relatively well-determined since different states implemented waivers between 1992 and 1996, providing quite a bit of variation in timing. But TANF plans are all implemented between September 1996 and the end 1997. Hence, the identification of TANF policy effects depends upon small variations in the timing of enactment. Not surprisingly, TANF effects have been harder to identify.

The studies that rely upon these sort of estimations have somewhat varying results. Most of them tend to indicate a significant role for both the policy changes as

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<sup>19</sup> For example, see Council of Economic Advisers (1999), Wallace and Blank (1999), Figlio and Ziliak (1999), Moffitt (1999), or Schoeni and Blank (2000).

well as economic trends over the 1990s. But several papers show little effect on policy (Figlio and Ziliak, 1999; Ziliak, et. al., 2000). These papers tend to use somewhat shorter data periods for estimation, and more complex specifications with multiple lagged variables.

Two alternative approaches are perhaps slightly more persuasive. Schoeni and Blank (2000) look not just at the variation over time, but also compare the differential effects among more and less educated women.<sup>20</sup> Their results show larger caseload and employment effects among the least-skilled, consistent with the expected effect of welfare reform. Like other results, however, these studies have more difficulty identifying the effects of TANF than of waivers.

An even better approach is to move from estimating levels to estimating changes in the flows into and off welfare. Klerman and Haider (2001) indicate that the papers with data on caseload levels are incorrectly specified, if one believes that the flows in and out of welfare are the appropriate thing to model. Unfortunately, good data on entries and exits from welfare are hard to come by. While states were required to report the number of persons entering and leaving welfare in each month for AFDC, it is clear that states defined these flows in different ways and the data across states is noncomparable. Klerman and Haider have data for the state of California and estimate their model for that state. Grogger (2003b) uses multiple waves of the Survey of Income and Program Participation to look at entry and exit data. Both of these papers find that both policy and economy matter in explaining caseload changes.

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<sup>20</sup> Kaushel and Kaestner (2001) use a similar method, but focus on the effects of individual policy changes rather than overall TANF implementation.

While it is very difficult to evaluate the effects of TANF policy implementation because TANF was implemented in most states at about the same time, one might note that “TANF” means something very different in different states. Hence there should be ways to evaluate the effects of welfare reform components, based on the variation across states in the types of reforms that different states enacted. While this is a theoretically promising approach, it has proven hard to implement in a regression framework.

Several papers have included a series of variables that describe the type of policy components enacted as part of welfare reform (earnings disregards, time limit information, types of sanctions, etc) in lieu of a dummy variable indicating the overall implementation of welfare reform.<sup>21</sup> For such a strategy to be convincing, the researcher needs to be able to fully parameterize the set of welfare reform components, and this has proven difficult. For instance, while we have relatively good information on the earnings disregard rules across states, we have very limited information on the ways in which states are running their mandatory welfare-to-work programs and how many people are being assigned into such programs. Because there appear to be correlations in the types of welfare reforms that states are enacting, if we only include information on the earnings disregards without including information on the stringency of welfare-to-work mandates, the earnings disregard coefficient may be biased if states with high earnings disregards also happen to be states with more stringent work enforcement.<sup>22</sup> In short, it’s hard to draw policy conclusions about the included policy components in the absence of a full set of components. In addition, the number of states that have implemented specific policies

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<sup>21</sup> For example, see Council of Economic Advisers (1999), Moffitt (1999), or Ziliak, et. al, (2000).

<sup>22</sup> For example, Kaushal and Kaester (2001) control only for the implementation of time limits and family caps (a policy that limits cash payments to mothers who have additional non-marital births). Since other changes were implemented at the same time, this almost surely attributes some of the effects of these other changes to the two included policies.

are limited, and many policies have been implemented simultaneously, so that there are serious problems identifying the effects of different policy components. Perhaps for this reason, many of the papers that try to estimate the effects of policy components often find perverse results on at least some of the coefficients.

One way around this problem is to search for some sort of natural experiment that allows one to investigate the effect of a single policy component. Grogger (2003a) has been successful in doing this to analyze the effects of time limits. Grogger notes that families with younger children are more likely to hit future time limits than are families with older children (whose welfare eligibility is likely to end even without an impending time limit as the children age out of the household.) He compares the effects of time limits in families with younger and older children and finds much stronger effects on the behavior of families with younger children, as expected.

Despite their limitations, these regression results may be as close as we can come to estimating the overall impact of the 1996 legislation. In general, they suggest that both the economy and policy have played an important role in the caseload reductions and the employment increases of recent years. Even with relatively complete specifications, however, controlling for a large number of economic, demographic and policy-related changes, as well as a host of fixed effects, these models still do not explain the full magnitude of the behavioral changes among single mothers in the 1990s. For example, the Council of Economic Advisers (1999) estimates a range of models and computes the share of caseload change explained by these models. The models with the greatest explanatory power indicate that 36 percent of the caseload changes between 1993 and 1996 appear to be explained by economic factors, and 15 percent by policy changes;

between 1996 and 1998, 10 percent is explained by economic factors and 36 percent by the implementation of TANF. This is roughly similar to other estimates. A recent contribution to this field (Grogger, 2003b) finds that changes in TANF, the Earned Income Tax Credit, and a host of other economic variables explain only 31 percent of caseload changes between 1993 and 1999.

In the next section, I discuss possible hypotheses about why we have been so unsuccessful in fully explaining the caseload changes of the late 1990s in these econometric efforts. At a minimum, it is hard to evaluate the effects of policy and economic changes when they all occur essentially simultaneously. Between 1995 and 2000, we implemented TANF, raised the minimum wage, implemented major EITC expansions, and at the same time the economy went into one of its strongest periods of growth. We lack the tools to fully untangle these very closely-timed events that occurred everywhere almost simultaneously.

*Experimental data.* No discussion of welfare reform evaluations is complete without a discussion of the experimental evaluations. These evaluations grew out of the federal requirement that states seeking to experiment with revised welfare plans in the early 1990s had to provide a serious evaluation of the impact of their program changes. The staff within DHHS, which oversaw these waivers, enforced this requirement in a rigorous way. Rather than allowing states to simply tabulate administrative data, in most cases they required randomized experiments. Their goal was to truly learn from these waivers, providing highly credible evidence of which state experiments were working more effectively than others. The result was a host of experiments across the states between 1992 and 1996, in which some group of AFDC recipients were allowed to

continue as before while another group was placed into a revised program with various provisions such as stronger work efforts, greater earnings disregards, strict enforcement of sanctions, etc.

All of these experiments were conducted on policy changes implemented through state waivers. Upon the passage of the 1996 legislation, states were mandated to implement a new TANF-funded plan. State had no requirements to evaluate the implementation of their TANF plans (nor much interest in doing so in most cases). Hence, our experimental evidence is from the waiver period, although states with waivers in place when PRWORA was passed were allowed to choose to continue the waiver for some time before they had to implement an explicit TANF plan. States with more extensive waivers typically chose this route, although many of them made other changes to their welfare programs as well.

The results of these experiments have been summarized elsewhere.<sup>23</sup> The waiver experiments (and a host of predecessor experimental evaluations of welfare-to-work programs in the 1980s) were quite important to the passage of PRWORA itself, since they showed that welfare-to-work efforts could increase employment, decrease AFDC participation, and could also save states money.

Because a wide variety of states ran experimental evaluations, we have evidence on quite different programs. MDRC, a research evaluation firm that implemented many of these evaluations, has worked to provide comparative information from across multiple evaluations. Some of the key findings from this comparative work are interesting.

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<sup>23</sup> See Blank (2002) and Grogger, Karoly, and Klerman (2002). See also Bloom and Michalopoulos (2001), Hamilton (2002), and Hamilton, et. al. (2001).

The research suggests that “work first programs” – that is, programs that place women directly into employment without regard to its wage or skill level – can be more effective than programs that provide job training. In part, of course, this is because women placed immediately into jobs increase their employment faster and use less public resources than women who spend a period of time in a training program before entering employment. Even 3 to 5 year follow-ups, however, suggest that the women in job training programs do not do better than the women in work-first programs (and the job training programs were much more expensive to operate).<sup>24</sup> Most interesting, these results suggest that “combined” programs – those that provide job training to a selected group of welfare recipients and place the others in work-first – are more effective than only work-first or only job training efforts. This result indicates the importance of labor market experience in helping less skilled women build employment and wage records. The human capital acquired through experience seems to be worth at least as much as the human capital acquired through more formal training.

Experimental evaluations focused on quite radically different programs than AFDC in a few cases. For instance, Minnesota’s Family Investment Program (MFIP) combined a strong work mandates program (enforced with sanctions) with a significantly lower earnings disregard. The results from MFIP suggested that this combination was particularly effective in both increasing employment and reducing poverty.<sup>25</sup> The employment increase was primarily due to the work mandates (which had little effect on income since public assistance declined as earnings increased), while the lower earnings

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<sup>24</sup> Hotz, Imbens, and Klerman (2000) indicate that the two groups tend to converge in a nine-year follow-up. But for much of this period the controlled experiment was no longer operating and the previous control group was encouraged to enter the new program; this may bias the results.

<sup>25</sup> For a full report on MFIP see Miller, et. al. (2000).

disregard helped reduce poverty (by providing an ongoing subsidy to very low-wage work.) A variety of researchers have written about the MFIP program and other so-called “financial incentive” programs that provide positive incentives to work as well as negative incentives through sanctions and time limits (Blank, Card, and Robins, 2000; Michalopolous and Berlin, 2001).

One of the most important results from these financial incentive programs is the fact that there are policies which can BOTH increase work and increase income. This is in stark contrast to the evaluations of the older Negative Income Tax programs, where there was a trade-off assumed between labor force involvement and income subsidization. With a combination of earnings subsidies and work mandates, these programs raise employment and reduce poverty at the same time (albeit often with somewhat higher costs.)<sup>26</sup>

Another contribution from the experiments has been the data that they provided on the link between work programs and child well-being. A variety of the experimental studies included special surveys designed to capture any changes in children’s school performance or behavioral outcomes as their mothers increased their work effort due to welfare reform programs.<sup>27</sup> Since we had virtually no prior information on the effects of work programs on the children in single-mother families, this research received a great deal of attention. The general results suggest relatively few effects on smaller children. Some positive effects on behavior and achievement are visible for those children who are placed in higher-quality child care settings. Among adolescents, the picture is more mixed, with some negative behavioral and achievement effects visible. This attention to

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<sup>26</sup> Blank (2002) discusses the evidence behind this conclusion in much greater detail.

<sup>27</sup> This literature is described and summarized in more detail in Morris, et.al. (2001) and Hamilton, et. al. (2000).

the effects of welfare policies on children has been a much-overdue addition to the research literature.

Overall, the experimental evaluations of welfare reform have added a great deal to our detailed knowledge of how these programs have worked in various states and what their overall effects have been. The experimental design gave credibility to their conclusions, and were important in convincing many skeptics that welfare-to-work programs could be implemented by states and could produce employment gains without major increases in economic need among mothers in the program.

The limitations of these experiments are also clear. They are expensive to run and are best at evaluating a relatively simple program change. When used to evaluate more complex programs, there is no easy way to distinguish the effects of different program components. Hence, although the experiments evaluated programs in a number of states that implemented time limits, we cannot use the experimental data to separate out the effects of time limits on employment from the effects of other policy changes in these states.

Experiments tend to be less than ideal for evaluating major national reforms. Even if there had been funding to evaluate the implementation of full TANF plans in the mid-1990s, it is not clear that experiment evaluations would have been useful. Experiments need credible counterfactuals. Those in the control group (i.e., remaining on AFDC) have to believe that this program is stable and unchanging, while those in the experimental group (i.e., the reform group) have to understand the new program and believe that it will continue for the near future. In a time of major debate about national welfare reform, the control group is likely to realize that the world is changing around

them and may adapt their behaviors even if they are not personally facing program changes.

Nonetheless, the welfare reform experiments of the past have been highly useful for our understanding of which changes work in which ways. It would be useful for federal and foundation funders to continue to invest in future experimental evaluations, particularly through demonstration projects.

## **VII. What Have We Learned from Welfare Reform?**

Despite limitations to all of our evaluation techniques, there are a number of important lessons to emerge from the last decade's efforts at welfare reform, some of which I've highlighted above. As with many research projects, however, the answers to the first round of questions leads to a second round of questions. In this section, I summarize both what we've learned in some key areas, and three of the major research issues that are now in front of us.

*Interpreting the Caseload Decline and Employment Increase.* Everyone was surprised by the magnitude of change in caseloads and employment in the mid-to-late 1990s. Caseloads declined further and employment increased more than anyone would have predicted...and I venture that this is true even if we had known in 1996 just how good the U.S. labor market would be in the late 1990s. One major lesson from the 1990s was the extent to which low-skilled single moms could enter employment. Even research that focused on measuring the barriers to employment found that 62 percent of welfare recipients with 2 to 3 barriers to employment entered the labor force after welfare reform (Danziger, et.al., 2000).

The evaluation literature suggests that policy alone was not the primary reason for this. The experimental studies from the early 1990s did not suggest that serious welfare-to-work efforts would produce caseload or employment changes as large as actually occurred in the late 1990s. And as noted above, the regression analyses suggest that policy explains only a part of the caseload decline. But the strong economy does not fully explain these changes either. For example, with a rich specification of state-level economic and policy variables, Grogger (2003b) concludes that these variables explained only 31 percent of the caseload change between 1993 and 1999.

This leaves us uncertain about what actually did cause these dramatic behavioral changes. At least two hypotheses have been advanced. The first is that the 1990s produced a moment of incredible synergy between economy and policy. All effects were driving in the same direction. The long and sustained economic boom increased jobs and wages. This interacted with the growing incentives for employment produced by expansions in the EITC/minimum wage, and with the increased program efforts to reduce welfare use among low-skilled women (sanctions, time limits, earnings disregards, verbal encouragement by caseworkers, etc.) The strong economy made it easier to implement work-oriented welfare reforms and created an optimism about employment opportunities. This led women to respond to the positive incentives more quickly and to the negative incentives with less resistance. In turn, the policies created greater incentives for this population to learn about labor market opportunities and take advantage of the rise in job availability. Our evaluation techniques are not well-designed to measure these interactive effects and are designed to estimate separate economy and policy effects, which may result in understating their full causal impact.

A second hypothesis focuses on the extent to which low-skilled women (particularly those on welfare) made a behavioral shift, as they internalized the strong anti-welfare message of the 1990s. This message – communicated implicitly and explicitly inside welfare offices and through the public media – told women that cash welfare was becoming increasingly limited and welfare usage was publicly disapproved. As we noted in Figure 2, caseloads fell even before reforms were enacted, consistent with some sort of “pre-announcement” response to the local publicity about welfare reform proposals designed to get women off welfare and into work.

Some of this response may be due to misinformation rather than a pro-active early response to expected changes. Hearing about time limits, many women may have assumed they were subject to them. Bloom and Michalopoulos (2001) note that in all the experiments some control group members thought they were facing time limits, even though they were not.

Many state and federal officials discussed the need to “change the culture of welfare.” The evidence on caseload and employment changes is at least consistent with the interpretation that they were successful. Furthermore, the fact that participation has remained low even in the more sluggish economy of the 2000s is also consistent with this behavioral shift story.

Dramatic behavioral shifts, such as we observed in the mid-1990s are relatively unique. Policy alone rarely produces such a response. The 1990s give us an opportunity to study exactly how and why such behavior changed. This is particularly crucial in understanding the persistence of these changes into the future, the subject to which I turn next.

*Understanding the Effects of an Economic Slowdown Under the new Policy Regime.* Those who were most critical of the welfare reforms predicted that these changes would have strong negative effects on the well-being of families as soon as jobs became less available. Welfare reform both pushed women into work (often with only limited assistance for child care or other work-related needs) and limited women's ability to return to cash assistance (due to time limits, diversion, sanctions, and greater state discretion). When jobs were readily available, it is not surprising that women's earnings rose. Low wage work has always been strongly cyclical, however, and moderate increases in overall unemployment typically translate into much larger unemployment increases among the less skilled. Thus, it is a puzzle that by 2002 there was not a greater return to welfare or a greater increase in economic need among women who became unemployed.

The effects of the economic slowdown continue to appear relatively limited among this population. While caseload declines have stopped, caseloads have risen little and remain far below where they were a decade ago. While employment among less-skilled single women has fallen, it still remains 4 to 5 points below where it was a decade ago. While poverty is up, poverty rates among single mothers, or among persons of color, are still very close to their historical lows and far below where they were a decade ago. At this point, the interpretation of these data are unclear. Three quite divergent hypotheses are possible.

First, there are those who claim this is exactly what welfare reform promised. Women have found jobs, built job experience, and have a strong incentive to stay employed; hence, they are retaining their jobs. Survey evidence from employers suggests

that they found ex-welfare recipients to be as good or better employees than other workers in similar low-skilled jobs (Holzer and Stoll, 2001). Perhaps less-skilled women have responded in exactly the right way to the changed public assistance system, which supports work more than it provides support to non-workers.

Second, some claim that the economic slowdown has been relatively mild – a short recession followed by low levels of growth. Unemployment among women has remained relatively low; the sectors with the greatest economic problems have been manufacturing and traded goods, not the retail and service sectors where women are disproportionately employed. Hence, perhaps it is not surprising that less-skilled women are retaining jobs. The current economy has not yet tested how well the new welfare programs work in a truly job-short economy.

Third, there are those who claim that the data on caseloads and employment hides economic pain that we are not measuring. The well-being of less-skilled women, forced to move in with boyfriends or family members in order to survive on low wages and unstable employment, may be poorly measured in our surveys. More crowded households may create personal stress, or parenting tension between multiple adults. It may mean increased domestic violence and abuse. Women may be taking multiple jobs (or working in the illegal economy), unwilling to see their children suffer from hunger, but meanwhile subjecting them to the stress of a too-often-absent parent and unreliable child care. We have few adequate or timely measures of many of these potential problems, which may mean that these effects are relatively invisible to the research community.

Closely related to the effects of the economic cycle on the behavior and well-being of low-income families, are the effects of state budget crises on the structure of state welfare programs. So far (as of the end of 2003) there is limited evidence of major restructuring of state welfare programs. Since most states claimed their revised welfare programs were major policy successes only a few years ago, there may be a reluctance to quickly revise them. As a larger share of state dollars to low-income families are spent on work support rather than cash assistance to non-workers, this may make these recipients appear more deserving, protecting them from cuts. Furthermore, the state dollars in welfare remain relatively small, compared to the dollars spent on Medicaid and other big budget categories. Nonetheless, many states are facing deficits that will require major cuts in virtually all budget categories and public assistance has long been a target of state cuts in times of tight budgets. It will be very interesting to see how this plays out in the years ahead.

While the economic slowdown of the early 1990s seems to have had relatively mild effects in the data on employment, caseloads and poverty that we have available so far, the detailed studies and data necessary to fully assess the effects of a slower economy on less skilled women are still unavailable. Whatever the final assessment, this particular period of slower growth has lessened but not undone the increases in work, declines in welfare participation, and declines in poverty that occurred over the late 1990s.

*The Relation of Public Assistance Programs to Family Composition and Fertility.*

Some of the supporters of welfare reform were more concerned with reducing non-marital fertility and increasing marriage than they were with work incentives. By making cash welfare less available to non-working single mothers and by promoting

work, welfare reform should have reduced the incentives to bear children as a single mother since children increase the difficulty and the expenses associated with finding and holding jobs.

There has long been a debate in the research literature about the extent to which AFDC encouraged out-of-wedlock births. Murray (1994) argues that the aggregate trend in out-of-wedlock births matches the aggregate trend in AFDC benefits (with a lag). More methodologically nuanced microdata analysis shows smaller and more mixed results. Hoynes (1997) claims there are no effects of AFDC benefit levels on fertility once state and individual effects are controlled for. Rosenzweig (1999) uses an alternative method to control for heterogeneity among welfare recipients and finds small positive effects. In summarizing the research literature on AFDC, Moffit (1998, p5) states "...if there were a sizable effect of welfare on demographic behavior it would probably be more evident with the available statistical methods than appears to be the case in the research literature."

Figure 5 shows the trend in birth rates among unmarried women, ages 15 to 44. The solid line indicates the overall trend. After many decades of a slowly increasing trend, nonmarital birth rates peaked around 1994 and appeared to level off. The steady nature of this trend made it hard to identify the effects of changing variables over this time period. Nonmarital births among black women have long been much higher, as Figure 5 shows. Birth rates among unmarried black women peaked in 1989 and have fallen substantially since then, so that white and black nonmarital birth rates are closer today than they have been for several decades.

Trying to discern the relationship between these recent changes in fertility and the recent welfare reforms is as difficult as trying to discern the relationship between employment changes and recent welfare reforms. The timing of changes in non-marital birth rates among black women does not coincide with welfare reform efforts, although the decline in nonmarital births among white women starts just as waivers and welfare reform became major topics of public discussion. Horvath-Rose and Peters (2001) indicate waivers had negative effects on nonmarital births. In one of the few papers to use post-1996 data, however, Joyce, et. al. (2003) find that neither waivers nor TANF appear to have consistent effects on nonmarital births.<sup>28</sup>

Fertility is also closely linked to household composition, cohabitation, and marriage. Evidence on the effects of welfare reform on household composition is mixed and still quite limited. For instance, Fitzgerald and Ribar (2001) find waivers had few effects on female headship, while Schoeni and Blank (2000) find a negative effect. This issue is particularly important because of the emphasis of the Bush administration on marriage promotion policies. As of this writing, there is pending legislation (which most observers expect to pass) that will provide substantial funds to operate and evaluate demonstration projects designed to promote marriage and marital stability.

Our ability to link policy changes with family structure and fertility changes remains limited. In part this is because family structure choices are often affected by deeply-engrained community and family norms, and sexual or marriage behavior may respond much more slowly to policy changes than does employment behavior. In part, the data often lack the nuanced control variables (such as the availability or willingness

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<sup>28</sup> Both Blank (2002) and Grogger, Karoly and Klerman (2002) review this literature in more detail. Seefeldt and Smock (2004) provide a broad summary of the recent research literature on family behavior and composition post welfare reform.

of potential marriage partners) that allow us to control for an individual's expectations and environment and to specify full models of fertility and marriage behavior.

Furthermore, the data often include only small samples of women making fertility or family choices in any given year, making it hard to nail down affects within subpopulations of interest by age, race, or education level.

Interest is likely to remain high, both regarding the effects of policy changes as well as the potential effects of future policies designed to explicitly encourage marriage or discourage nonmarital fertility. Finding ways to credibly evaluate future pro-marriage policies is important, given the difficulty we've had in the past evaluating the impact of welfare policies on marriage or fertility. Experimental evaluations of demonstration projects are likely to be highly important.

### **VIII. Conclusions**

Welfare reform provides an interesting case study not just for those who want to understand the specific changes in behavior and well-being that it induced among low-income populations. It is also an example of major policy reform. Following the enactment of PRWORA, state public assistance programs changed fundamentally in a wide variety of ways. Combined with other policy changes enacted at about the same time, this nation transformed its assistance programs to poor families with children from cash-assistance oriented programs aimed at providing income support, to work-assistance programs aimed at encouraging and supporting work.

This transformation is hardly complete. Critics can argue that the changes have left us with an inadequate safety net, in which an increasing number of families will be

unable to return for assistance due to time limits, past sanctions, and limited state funds. Meanwhile, work requirements force women into unstable, difficult work situations with low wages and inadequate support for child care, health care or other family needs.

Supporters can argue that the system has now worked for seven years. Due to a mix of economic good fortune and well-designed policies, a substantial number of women who would previously have been receiving welfare are now in employment building a record of experience and demonstrating to their children the importance of work preparation. Dire predictions about deep poverty and greatly increased homelessness have not come to pass. Even if the work-support system is far from perfect, it may be preferable to the poorly-functioning AFDC welfare system of the past.

It is striking that these arguments are as unsettled now as in 1996. In part, this is because the five years after PRWORA was enacted were economically so unusual that it is difficult to know if the behavioral changes during that time period were unique and erodable or whether they signal a permanent change in the landscape of behavior and expectations among less-skilled families.

One message that everyone should draw from the last decade of welfare reform efforts is the importance of the economy to any discussion about low-skilled workers. The availability of jobs is a necessary precondition for less-skilled women or men to find work. Sustained high unemployment, such as we experienced in the late 1970s and early 1980s must necessarily erode the gains from the 1990s. Policy choices have clearly been very important over the past decade, and the major policy changes that were enacted appear to have been an important causal factor behind the behavioral change. But a very important tool of anti-poverty policy remains economic growth policies. The healthier

the overall U.S. economy, the lower the unemployment rate, and the greater the demand for less-skilled workers, the stronger will be the incentives for the less-skilled to find jobs and the easier it will be for our direct anti-poverty programs to support low-skilled families through work subsidies.

As I've highlighted at earlier places in this paper, there remain a number of unanswered questions regarding the impact of the policy changes in welfare in the mid-1990s. Let me underscore four particular areas for future research. First, it remains unclear whether we can separate the effects of welfare reform from other economic and policy changes in the mid-1990s. Over time, however, it may be increasingly possible to analyze the impact of specific policy components, such as time limits, benefit reduction rate changes, or particular work requirements. Indeed, some of the more interesting recent work has tried to do a better and more detailed job collecting specifics on policy components and estimating their particular effects.<sup>29</sup> Creative research efforts that push further along these lines can be important in allowing us to compare the impact of different state welfare program choices.

Second, having shown that it is possible to substantially increase women's labor market involvement (and decrease their welfare use), we now need to better understand the long-term implications of this greater reliance on labor market earnings. This includes studies of the stability of employment and earnings among these single mothers, as well as information on their opportunities for wage progression over time. A primary question is whether, having increased the share of working poor families, we might expect to see more of these families over time leave poverty. We should be particularly concerned with following those groups of relatively more disadvantaged women (as seen

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<sup>29</sup> For instance, see Grogger (2003a), Danielson and Klerman (2004), or Fang and Keane (2004).

in Table 2) whose earnings shares have increased substantially while their welfare usage has plummeted.

Third, all evidence continues to show that a substantial minority of single mothers are not on welfare and not reporting employment. We need to know more about how these women are managing to survive economically, and monitor broader measures of their and their children's well-being. This will almost surely require new research on income sharing and household composition choices.

Last, there remain a series of questions about the impact of these program changes, directed primarily at welfare and labor market behavior, on other aspects of women's lives and the lives of their children. Will these women work harder to retain jobs and remain off welfare? Will this affect their future fertility and marriage choices? Will their children be more likely to pursue labor market skills and future employment? Any long-term evaluation of the effectiveness of the welfare changes in the mid-1990s will require answers to these questions.

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**Table 1**  
**Single Mothers' Income Composition**

|      | Total Income<br>(in 2000 dollars) | Percent of Total Income |              |                |              |
|------|-----------------------------------|-------------------------|--------------|----------------|--------------|
|      |                                   | Public<br>Assistance    | Own Earnings | Other Earnings | Other Income |
| 1985 | \$20,417                          | 23.82%                  | 49.03%       | 5.49%          | 21.66%       |
| 1986 | 19,842                            | 24.96                   | 49.58        | 5.44           | 20.02        |
| 1987 | 18,445                            | 23.55                   | 51.94        | 3.86           | 20.65        |
| 1988 | 18,301                            | 23.24                   | 52.95        | 3.98           | 19.83        |
| 1989 | 19,090                            | 20.72                   | 54.78        | 3.92           | 20.58        |
| 1990 | 18,412                            | 22.63                   | 53.32        | 4.15           | 19.90        |
| 1991 | 18,442                            | 23.81                   | 53.22        | 3.37           | 19.60        |
| 1992 | 17,878                            | 22.79                   | 52.82        | 3.14           | 21.25        |
| 1993 | 18,155                            | 22.70                   | 52.07        | 2.97           | 22.26        |
| 1994 | 19,222                            | 19.47                   | 54.82        | 3.52           | 22.20        |
| 1995 | 20,026                            | 16.46                   | 56.52        | 3.63           | 23.39        |
| 1996 | 19,832                            | 14.85                   | 58.09        | 3.75           | 23.31        |
| 1997 | 20,593                            | 12.13                   | 61.32        | 3.68           | 22.87        |
| 1998 | 21,765                            | 8.63                    | 65.31        | 4.18           | 21.89        |
| 1999 | 22,953                            | 7.10                    | 66.21        | 4.50           | 22.19        |
| 2000 | 23,654                            | 5.27                    | 68.77        | 4.19           | 21.77        |
| 2001 | 23,741                            | 4.71                    | 67.56        | 4.29           | 23.45        |
| 2002 | 23,805                            | 4.45                    | 67.18        | 3.98           | 24.40        |

Note: Total income is the mean dollar value (in 2000 dollars) before taxes. Public Assistance is composed primarily of AFDC and TANF benefits. These calculations are pre-tax and do not include the imputed value of any in-kind benefits.

Source: Author's tabulations of the March Current Population Survey

**Table 2**  
**Changes Among Single Mothers: 1995 to 2002**

|                                     | Earnings as a<br>share of Family<br>Income (1995) | Change from<br>1995 to 2002 | Public Assistance<br>as a share of Family<br>Income (1995) | Change from<br>1995 to 2002 | Ratio of<br>Column (2) to<br>Column (4) |
|-------------------------------------|---|-----------------------------|--|-----------------------------|---|
| <b>Part 1.</b>                      | (1)   | (2)                         | (3)  | (4)                         | (5)                                     |
| <b>All</b>                          | 0.531   | 0.091                       | 0.018  | -0.128                      | -0.711                                  |
| <b>By Education</b>                 |   |                             |  |                             |   |
| No High School Diploma              | 0.366   | 0.169                       | 0.342  | -0.213                      | -0.793                                  |
| Only High School Diploma            | 0.582   | 0.098                       | 0.173  | -0.131                      | -0.748                                  |
| More than High School Diploma       | 0.648   | 0.069                       | 0.084  | -0.065                      | -1.062                                  |
| <b>By Race</b>                      |   |                             |  |                             |   |
| White (non-Hispanic)                | 0.613   | 0.064                       | 0.105  | -0.076                      | -0.842                                  |
| Black (non-Hispanic)                | 0.529   | 0.151                       | 0.232  | -0.179                      | -0.844                                  |
| Hispanic                            | 0.479   | 0.176                       | 0.284  | -0.197                      | -0.893                                  |
| <b>By Age of the Youngest Child</b> |   |                             |  |                             |   |
| No Preschooler                      | 0.605   | 0.075                       | 0.100  | -0.074                      | -1.014                                  |
| Preschooler(s) (less than 6)        | 0.510   | 0.150                       | 0.265  | -0.187                      | -0.802                                  |
| Infant(s) (less than 2)             | 0.451   | 0.162                       | 0.331  | -0.225                      | -0.720                                  |
|                                     | Percent Working<br>(1995)                         | Change from<br>1995 to 2002 | Percent on Welfare<br>(1995)                               | Change from<br>1995 to 2002 | Ratio of<br>Column (2) to<br>Column (4) |
| <b>Part 2.</b>                      | (1)   | (2)                         | (3)  | (4)                         | (5)                                     |
| <b>All</b>                          | 0.735   | 0.065                       | 0.274  | -0.182                      | -0.357                                  |
| <b>By Education</b>                 |   |                             |  |                             |   |
| No High School Diploma              | 0.487   | 0.127                       | 0.465  | -0.274                      | -0.464                                  |
| Only High School Diploma            | 0.752   | 0.058                       | 0.272  | -0.183                      | -0.317                                  |
| More than High School Diploma       | 0.854   | 0.032                       | 0.173  | -0.118                      | -0.271                                  |
| <b>By Race</b>                      |   |                             |  |                             |   |
| White (non-Hispanic)                | 0.818   | 0.024                       | 0.197  | -0.129                      | -0.186                                  |
| Black (non-Hispanic)                | 0.671   | 0.125                       | 0.356  | -0.249                      | -0.502                                  |
| Hispanic                            | 0.599   | 0.147                       | 0.369  | -0.240                      | -0.613                                  |
| <b>By Age of the Youngest Child</b> |   |                             |  |                             |   |
| No Preschooler                      | 0.808   | 0.037                       | 0.188  | -0.126                      | -0.294                                  |
| Preschooler(s) (less than 6)        | 0.646   | 0.110                       | 0.381  | -0.245                      | -0.449                                  |
| Infant(s) (less than 2)             | 0.560   | 0.114                       | 0.425  | -0.245                      | -0.465                                  |
|                                     | Percent Below<br>Poverty Line<br>(1995)           | Change from<br>1995 to 2002 | Percent Working<br>(1995)                                  | Change from<br>1995 to 2002 | Ratio of<br>Column (2) to<br>Column (4) |
| <b>Part 3.</b>                      | (1)   | (2)                         | (3)  | (4)                         | (5)                                     |
| <b>All</b>                          | 0.402   | -0.075                      | 0.735  | 0.065                       | -1.154                                  |
| <b>By Education</b>                 |   |                             |  |                             |   |
| No High School Diploma              | 0.682   | -0.109                      | 0.487  | 0.127                       | -0.858                                  |
| Only High School Diploma            | 0.413   | -0.057                      | 0.752  | 0.058                       | -0.983                                  |
| More than High School Diploma       | 0.241   | -0.051                      | 0.854  | 0.032                       | -1.594                                  |
| <b>By Race</b>                      |   |                             |  |                             |   |
| White (non-Hispanic)                | 0.291   | -0.039                      | 0.818  | 0.024                       | -1.625                                  |
| Black (non-Hispanic)                | 0.510   | -0.117                      | 0.671  | 0.125                       | -0.936                                  |
| Hispanic                            | 0.566   | -0.168                      | 0.599  | 0.147                       | -1.143                                  |
| <b>By Age of the Youngest Child</b> |   |                             |  |                             |   |
| No Preschooler                      | 0.305   | -0.052                      | 0.808  | 0.037                       | -1.405                                  |
| Preschooler(s) (less than 6)        | 0.522   | -0.104                      | 0.646  | 0.110                       | -0.945                                  |
| Infant(s) (less than 2)             | 0.584   | -0.093                      | 0.560  | 0.114                       | -0.816                                  |

Source: Author's tabulation of the March Current Population Survey

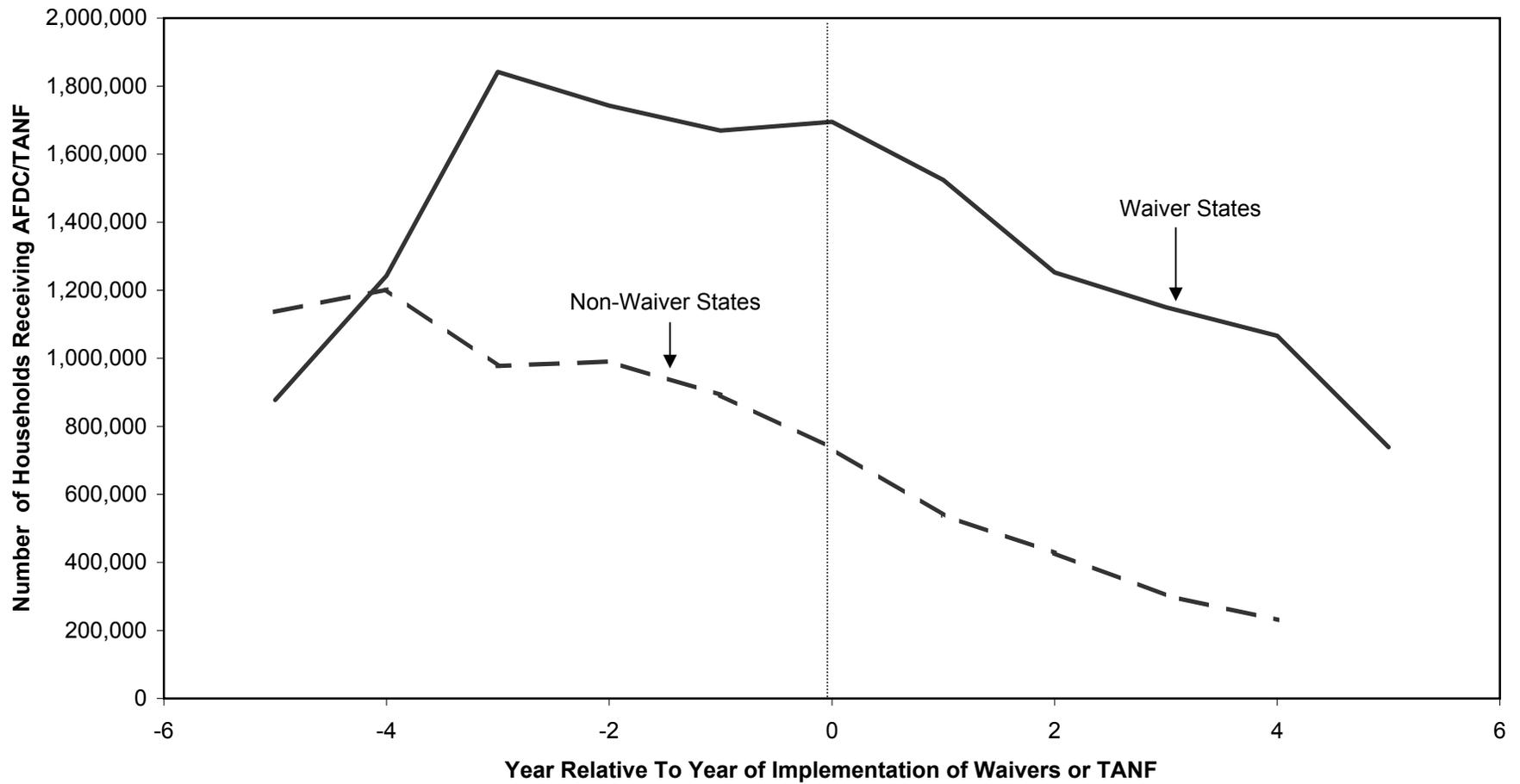
Figure 1  
**Total AFDC/TANF Caseloads**



Note: 2003 data is through June of 2003.

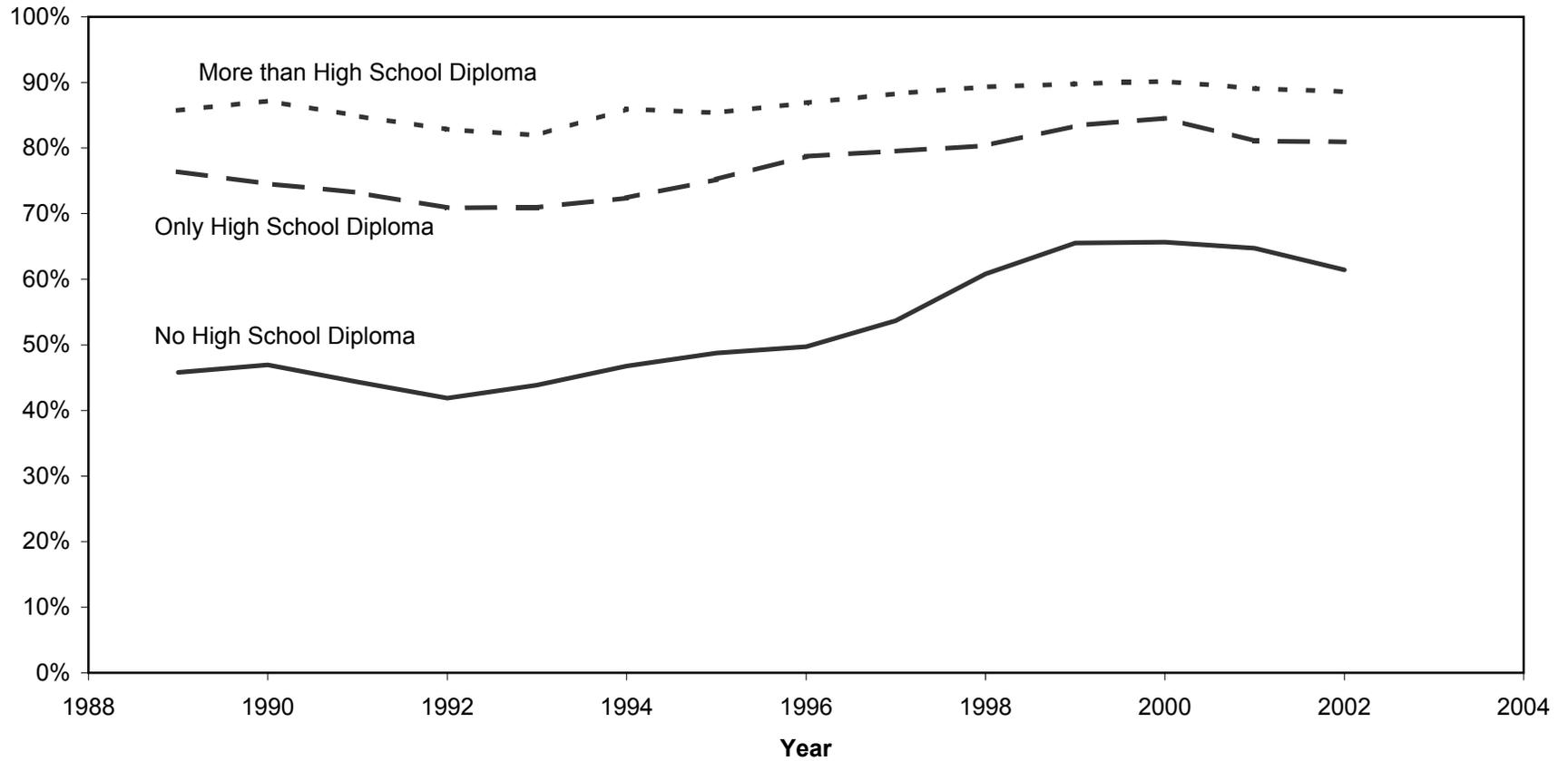
Source: Website for Agency for Children and Families, Department of Health and Human Services (<http://www.acf.dhhs.gov>)

Figure 2  
**Total Caseloads**



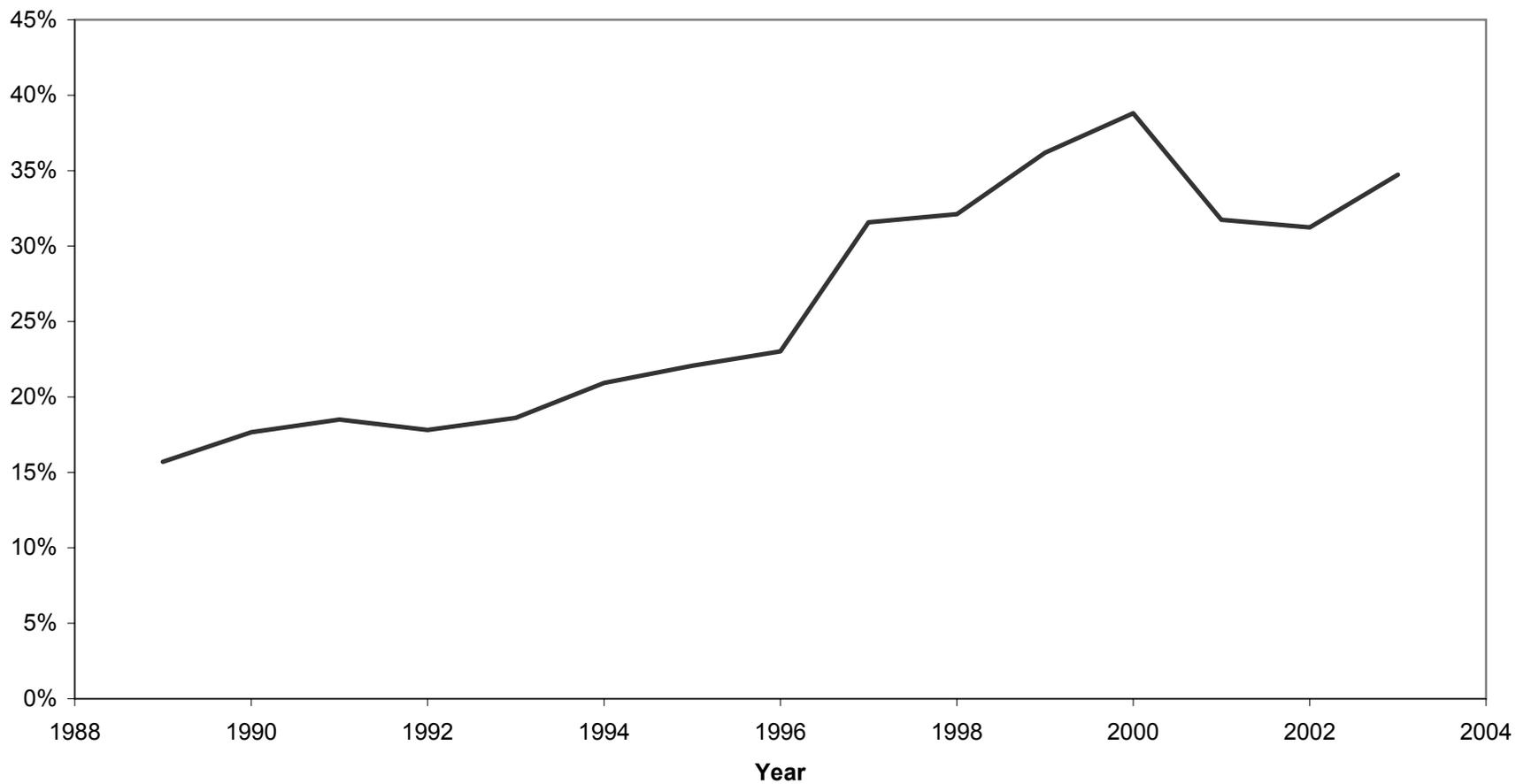
Source: March Current Population Survey. Information on waivers from Council of Economic Advisers (1999, Table A1).

Figure 3  
**Percent of Single Mothers Reporting Work During the Year**



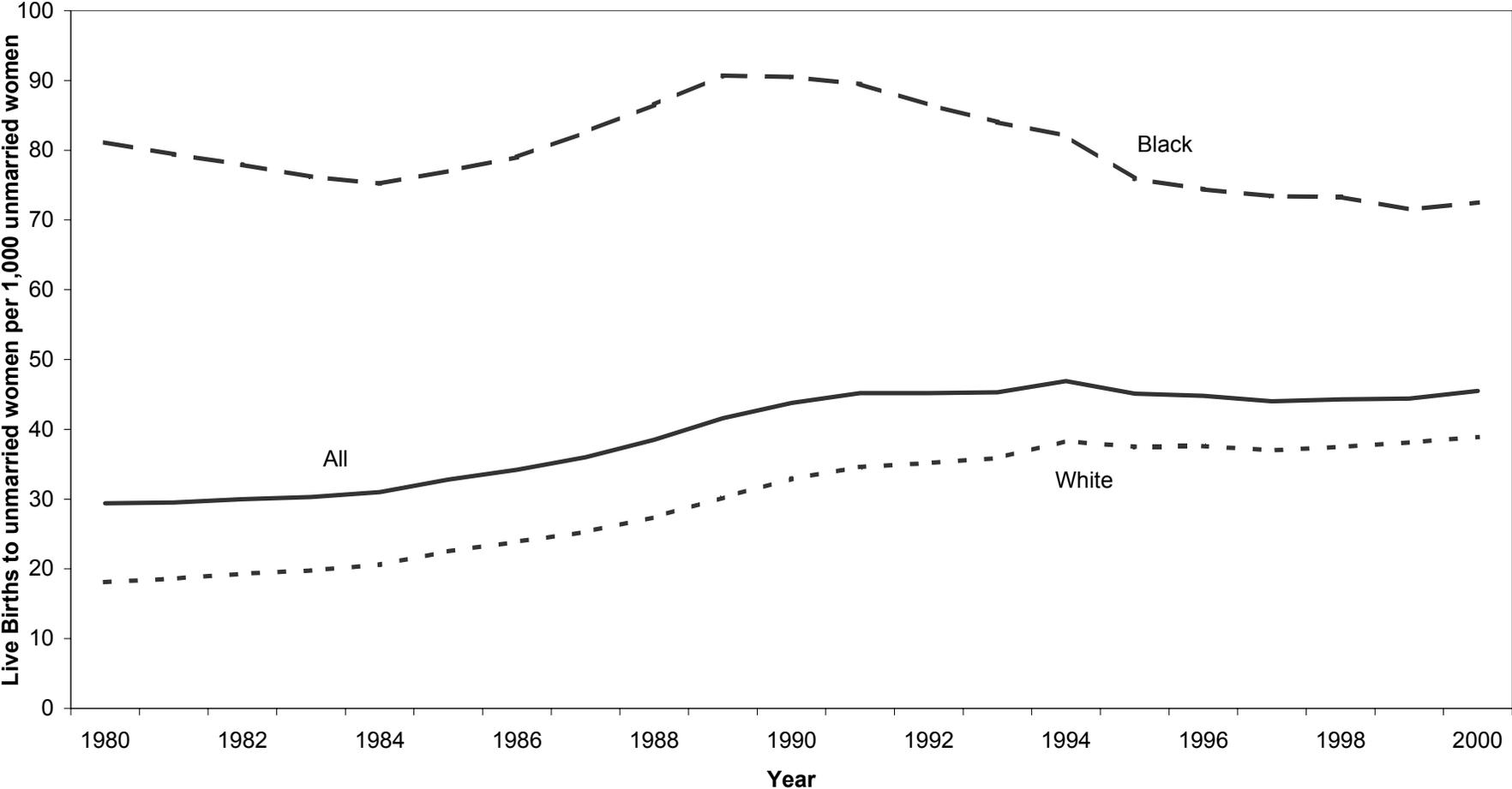
Source: Author's tabulations of the March Current Population Survey

Figure 4  
**Percentage of Single Mothers on Public Assistance in Previous Year  
Who Report Working in March**



Source: Author's tabulation of the March Current Population Survey

Figure 5  
**Birth Rates for Unmarried Women, Age 15-44**



Source: Centers for Disease Control and Prevention. (2002). Births: Final data for 2000 (Table 18). *National Vital Statistics Reports*, 50(5).