

## **Discussion Comments on Rebecca Blank, “What Did the 1990s Welfare Reform Accomplish?”**

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Becky Blank’s paper is a sweeping, comprehensive, and balanced review and assessment of what social scientists and policy analysts have learned about the effects of the landmark U. S. national welfare reform legislation of 1996. The policy shift embodied in this legislation (and the responses of each of 50 states to it) is the largest policy change affecting the potential welfare population since the start of national assistance to single parent families in the 1930s. As Blank puts it, the reform “fundamentally altered the ways in which we provide assistance to low-income families in the United States.”

Blank begins her paper with a succinct description of the ‘welfare to work’ reform legislation, state responses to it, and the interaction of welfare reform with related changes in EITC, Food Stamp, childcare, and public health insurance policies. “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.”

### What Have We Learned about the Effects of Welfare Reform?

After this description, Blank assesses what we have learned about the national effect of the reform on caseloads, and the levels of employment, earnings, income, and poverty rates of single 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.” “Between 1995 and 2002, single mothers ...[experienced] ...a significant increase in income, with a \$168 increase in average monthly income despite the \$100 decline in welfare benefits over these years. ... At worst, it appears that a small share of less-skilled women might have experienced income losses.”

This conclusion rests on the contributions from the two primary empirical approaches to studying the impacts of welfare reform—the several ‘leavers’ studies and time series-cross section regression studies using national data. She finds the first of these approaches—analyses of the work/welfare/wellbeing outcomes of those who left welfare after the reform (primarily based on longitudinal administrative data)—to be “useful,” but largely “largely descriptive” (the killer term).

She prefers the alternative approach, as it is able to reflect the effect of the reform on entries to as well as exits from welfare, at least in principle. However, Bland finds this approach to also be problematic, noting the difficulty of identifying policy effects from tenuous and small variations in timing, the absence of good data on entry and exits from

cash assistance, and the obstacles to clearly distinguishing post-reform program differences among states. She concludes that the tools available for untangling a variety of events that occurred everywhere, and almost simultaneous with implementation of the policy, are lacking in this research approach, and offers us a less-than-enthusiastic assessment of the inconsistent and fragile findings of this work: “These studies suggest that both the economy and policy have played an important role in the caseload reductions and the employment increases in recent years.” It appears that such research efforts have failed to bring us much further than the earliest crude regression analysis by the Council of Economic Advisors in 1999. Although these studies may be more methodologically complex and clever than the more ‘descriptive’ leavers studies, I fail to find them more informative or useful in assessing the effects of welfare reform.

Given the difficulty of sorting out the causal employment and caseload effects of welfare reform and macroeconomic performance, Blank offers a set of conjectures about other factors that may account for these patterns. Among her candidates are strong synergies between policy and the economy and the internalizing of ‘changing the culture of poverty’ message. She also conjectures about the “mystery” of apparently persistent employment and earnings gains in the face of a recession: perhaps these less-skilled women are better employees than anybody thought, maybe the recession was mild for the sectors in which these women work, or maybe the data is not good enough to pick up potentially adverse effects. Given the magnitude of the policy change at issue, it is unfortunate that the research/analytic community can do no more than offer such hunches.

What are we to make of this assessment of the state of knowledge regarding the effects of this massive social policy intervention? There is evidence that welfare reform has reduced dependence and increased work and earnings. Evidence on the impact of the reform on the income and overall wellbeing of affected families is mixed and difficult to interpret. We know very little of the effects of the reform on the children living in families most impacted by it, on living arrangement responses by those required to cope with work requirement, and potential adverse effects on employment and earnings of low skill workers not directly affected by the reform. Overall, our state of understanding pales relative to the magnitude of the policy measures enacted.

### Some Concerns Regarding the Interpretation of Results

While Blank has effectively summarized what we have learned regarding the effects of the reform, I find a couple of her most visible quantitative conclusions somewhat less convincing than she suggests.

Consider her finding that between 1995 and 2002 single mothers experienced a net income increase (the increase in earnings and other income less the loss in welfare benefits) of about \$2000 per year (see above). The first thing to note about this conclusion is that it is based on aggregate data for all single mothers, whether or not they have ever received cash assistance, or are potentially eligible for it, or are inclined to

apply for help if eligible. Many single mothers—for example, those with the most human capital and earnings growth—are unlikely to be affected by welfare reform.

A number of studies that have focused on single mothers likely to be directly affected by the reform have found different results. For example, consider the mothers in Wisconsin who were on welfare in the last quarter of 1995, and who left welfare during the subsequent year. Mean earnings (over all of these mothers) one year after leaving welfare increased by about \$2500 (from \$4700 to \$7200). However, over the same year their welfare benefits fell by about \$3500. When changes in EITC benefits, Food Stamps, and the earnings of others in the household are taken into account, the mean level of ‘total’ income of these families fell from about \$12,200 to about \$10,200 during the first year after leaving welfare, a reduction of about \$2000. (A similar comparison for women who left welfare in 1997, well after the reform induced change in policy, indicated a reduction in income of about \$1300.) For both cohorts of Wisconsin leavers, about 60 percent are worse off than before they left welfare, while only about 30 percent are better off.<sup>1</sup>

To be sure, this income decrease reflects only the first year’s experience of these women. While the earnings of the 1995 cohort of Wisconsin leavers increased after the first year after exit, the earnings gains that occurred would fail to turn the net income loss into an income gain, as suggested by Blank.<sup>2</sup> Moreover, there is no evidence from studies of the experiences of other states that such income gains in years subsequent to leaving welfare are sufficiently large to indicate large overall income gains for families most directly affected by welfare reform.<sup>3</sup> And, it is unlikely that a definition of the reform-affected population that is broader than ‘leavers’ would lead to the optimistic result that Blank leaves us with.

I conclude that welfare reform’s overall effects on the income of those single mothers most likely to have been affected by the reform are not yet known with any reliability. I suspect that Blank’s conclusion is overoptimistic and perhaps misleading, due in part to her reliance on the larger population of single mothers, many of whom are little affected by reforms to the nation’s welfare system.

A similar concern applies to Blank’s conclusion regarding the increases in employment in the post-reform era; she reports that the employment of “single mothers without a high school degree rose from 42 percent in 1993 to 65 percent in 2000.” The relatively high overall levels of employment, and the 23 percentage point increase in employment fails to reflect the prevalence of part-time and part-year employment among this population.

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<sup>1</sup> See Cancian, Haveman, Meyer, and Wolfe (2003).

<sup>2</sup> For the 1995 cohort of leavers, mean annual earnings of all leavers rose from \$7,200 in the first year after exit to \$8,500 three years after exit, or by 18 percent. 35 percent of the leavers had less income (after-tax earnings plus public assistance) one year after exit than they did during the last year they were on welfare; 40 percent had less income three years after leaving than during the last year on welfare. See Cancian, Haveman, Meyer, and Wolfe (2000).

<sup>3</sup> See Acs and Loprest (2001), Brauner and Loprest (1999), and Issacs and Lyon (2000).

A superior approach would compare the actual earnings of reform-affected people with the level of their potential earnings (the amount that could be earned if people worked full time-full year), a sort of “human capital utilization rate.” Such a ratio reflects the full range of part-time, part-year, and full-time, full year employment, and hence is a superior measure of labor market attainments than just job-holding at some time during a year. For young, low-skilled welfare-eligible mothers,<sup>4</sup> the 1993 utilization rate stood at about 21 percent, or one-half of the employment rate cited by Blank. By 2000, the utilization rate increased to about 37 percent—an increase of about 16 percentage points.<sup>5</sup> This comparison gives a somewhat different impression of the potential effects of welfare reform over this period. While the 16 percentage point increase is impressive, it is lower than that suggested by Blank. Moreover, the low level of the capacity utilization rate of this group—21 percent in 1993, and 37 percent in 2000—presents a picture of how much remains to be done that is camouflaged in the employment rate.<sup>6</sup>

### Why Have We Not Learned More about the Effects of Welfare Reform?

Why has learning about the effects of this intervention has been so difficult? As Blank has emphasized, a policy change designed to substitute work and earnings for cash assistance was implemented at about the same time as another exogenous ‘intervention’—a remarkable run of years with rapid growth, expanding labor demand, and full (overfull, by conventional economic standards of that time) employment. However, other factors also contributed. While the legislation was national, it transferred policy initiative to the 50 states; hence, the impacts of fifty different policy changes needed to be studied. Unfortunately, the Congress failed to provide either the resources for a national evaluation of the intervention, nor state mandates to undertake rigorous analysis and evaluation of impacts. While private foundations stepped in to partially fill this gap<sup>7</sup>, the absence of an overall federal commitment to learn about the effects of this massive policy shift imposed on the low-income population is telling. On their own, states were, by and large, unwilling to spend their own resources to generate reliable—often meaning random experimental—analyses of effects. In addition, the obstacles to performing rigorous evaluation studies for even a single state were daunting—impacts in any given state spill over to neighbors, migration of recipients requires costly tracking efforts, and establishing a reliable counterfactual is difficult. The problem is not due to any lack of a pool of talented researchers and analysts armed with formidable evaluation skills honed from several decades of efforts to assess the effects of social interventions, and anxious to apply them to this intervention.

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<sup>4</sup> Single women with less than a high school degree, and children aged 18-24 years.

<sup>5</sup> See Haveman, Bershadker and Schwabish (2003).

<sup>6</sup> In 2000, the overall national capacity utilization rate was over 72 percent, about twice that of this group of welfare-eligible women.

<sup>7</sup> The National Survey of America’s Families, part of the Urban Institute’s Assessing the New Federalism program, is probably the primary example.

### Some Additional Research Questions

In her final section, Blank offers a set of topics as grist for future researchers. These include continued efforts to separate the effects of reform and the economy on outcomes of interest, to understand the process whereby some single mothers are able to avoid welfare and experience wage/earnings growth and self-sufficiency over time, and to explore the role of welfare reform in altering cohabitation/marriage or other related choices, especially for women without welfare or labor market income. To these, I would add a few additional topics that seem both important and feasible.

Evidence from a variety of sources suggests that earnings and income inequality (and inequality in other outcomes) among the population of low-skill single mothers most likely to be affected by welfare reform has increased because of this policy intervention; if so, by how much has inequality increased; has severe poverty become more prevalent; what are the characteristics of those in the lower tail of the outcome distribution?

The persistence of labor market success for the welfare-eligible population as the economy has entered the recession of 2001-02 continues to be a puzzle; what explains the continued success of this low-skilled population, many of whom have severe barriers to work? The Census Bureau's new American Community Survey<sup>8</sup> is both sufficiently large and comprehensive to enable a successful exploration of this question.

From evidence cited by Blank and others, the post-reform poverty rates of the target population remain exceedingly high. Given this, what are the next steps for antipoverty policy when 'work alone is not enough'<sup>9</sup>; what are the costs of the available policy options, and their likely efficiency and equity effects.

Finally, the experience of single mother welfare families to the five year time limit imposed by the 1996 legislation is now open to careful exploration; has this limit led to increased work or growing hardship among those affected?

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<sup>8</sup> See <http://www.census.gov/acs/www/>

<sup>9</sup> See Haveman (2003).

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