Stephen V. Cameron, Robert A. Moffitt, and Carol Rapaport

Summary of Observations and Recommendations

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act in an effort to "end the dependence of needy parents on government benefits by promoting job preparedness, work, and marriage." The welfare reform embodied by this legislation shifted the responsibility for policymaking to the states while imposing new federal mandates, such as time limits on receipt of welfare funds paid by the government and stricter work requirements and sanction policies. As part of this reform, the major cash assistance program for poor families became known as Temporary Assistance for Needy Families, reflecting the goal that such government aid should not be received on a long-term basis.

The potential effects of welfare reform on low-income families have since become an issue of debate. Critics argue that although families have always left the welfare rolls voluntarily, the new legislation greatly increases the number who are being forced to depart. As evidence of these concerns about family well-being, the critics point to the steep national decline in the welfare caseload. Meanwhile, proponents of welfare reform contend that the caseload decline is an indicator of the success of the measures, rather than a cause for concern.

To help put these issues in perspective, the Federal Reserve Bank of New York hosted the conference "Welfare Reform Four Years Later: Progress and Prospects." The sessions, held in November 2000, focused on several key questions: What types of individuals have left the welfare rolls, and how have they fared since leaving? How much of the decline in the welfare caseload is attributable to a strong economy and how much is due to reform per se? How is welfare policy being implemented in New York and the nation? Finally, what new avenues are available to policymakers to encourage welfare recipients to find steady employment? More than 100 academic researchers, government officials, practitioners, and advocates for the poor participated in the day's discussions.

How Have Welfare Leavers Fared?

A central concern of policymakers and welfare researchers is how people fare after departing the welfare rolls. Conventional wisdom holds that those women who initially left welfare after passage of the 1996 reform act were likely the most work-ready and should have done comparatively well. Conversely, those women remaining on the rolls and who might leave in the future probably have fewer job skills, less work experience, and a more dire prognosis for economic self-sufficiency.

In the day's first session, Pamela Loprest drew on the National Survey of America's Families, a representative survey of U.S. households conducted in 1997 and 1999 that focuses on low-income families and the impact of welfare reform. Loprest compared individuals who left the welfare rolls in 1995-97 with those who left in 1997-99. Contrary to expectations, she found

Stephen V. Cameron is an associate professor of economics and public affairs at Columbia University; Robert A. Moffitt is a professor of economics at Johns Hopkins University; Carol Rapaport is an economist at the Federal Reserve Bank of New York.

that the 1997-99 leavers worked about the same, earned a bit more, and stayed with their employers significantly longer than the 1995-97 leavers did. After excluding Medicaid, food stamps, and money received by way of the earned income tax credit (EITC), Loprest found that median monthly family income, in inflation-adjusted 1999 dollars, was $1,306 among the later leavers and $1,204 among the earlier leavers after one year off welfare. However, many former recipients in both groups were found to have experienced economic difficulty: 40 percent of the earlier leavers and 50 percent of the later leavers reported problems paying mortgage, rent, or utility bills.

Effects of the Economy versus Those of Welfare Reform

The second session examined the relative influences of the business cycle and welfare reform. One could argue that a strong economy should be expected, by itself, to reduce the welfare caseload by removing the most job-ready families from the rolls and leaving behind those with fewer skills. Welfare reform should also be expected to reduce the caseload, but whether it pulls or pushes off the rolls the more skilled or less skilled individuals is an issue requiring further examination. Other forces—such as an increase in the generosity of the EITC and a rise in the minimum wage—could also be responsible for changes in the caseload and characteristics of those remaining on welfare.

One study, by Rebecca Blank, separated the effects of the business cycle and welfare reform on the decline in the caseload, while another, by Robert Moffitt and David Stevens, examined how these forces affected the types of women who remained on the rolls. Blank found that changes in both macroeconomic factors and welfare policy were important contributors to the 50 percent decrease in the caseload. Positive macroeconomic forces, according to the author, explained between 25 and 50 percent of the caseload change in the early and mid-1990s. Moreover, the effects of welfare policy were fundamental in explaining the shrinking caseload in the post-reform period. Blank noted as well that a 1 percent rise in the national unemployment rate historically has increased the caseload by 6 percent. Looking ahead, she expected that women who had relied on public assistance during periods of joblessness would now have to depend on unemployment insurance and other sources of aid.

In their study, Moffitt and Stevens concluded that the skill levels of individuals on welfare are affected by the business cycle. Movements in the wage rates of recipients are countercyclical, they observed, because women with the greatest earnings potential tend to leave the welfare rolls, or not enter them, during upturns. Thus, the caseload has tended to become more job-disadvantaged during a strong economy. Nevertheless, the authors argued that welfare reform itself has had little impact above and beyond the effects of the declining unemployment rate, suggesting that the measures have pulled more job-ready and less job-ready individuals off the rolls in equal numbers. Moffitt and Stevens' examination of trends in the types of individuals remaining on welfare in Maryland produced findings consistent with these national results. Their findings are also somewhat consistent with those of Loprest, who found that the types of individuals leaving the rolls had not changed much over time, although she did not separate the effects of the economy from those of welfare reform.

Administering Welfare Policy in New York and the Nation

Individual states and localities have a great deal of discretion in designing new public assistance programs. If variations in the individual programs do in fact lead to variations in outcomes, researchers can determine which programs are the most successful.

LaDonna Pavetti and her coauthors began the third session by examining the organizations that act as intermediaries between the welfare system and employers. The increased emphasis on moving families into the workforce has led many welfare administrators to contract out this responsibility to for-profit and not-for-profit intermediaries. Yet critics have expressed concern that the intermediaries strive to find employment for only the most job-ready women because the agencies are often presented with cash incentives for the number of clients placed. As the basis of their study, Pavetti et al. drew on a unique data set of 120 intermediaries as well as conducted on-site interviews with welfare administrators, intermediaries, and employers. They found no evidence of intermediaries systematically targeting the most employable women and placing them in jobs. Moreover, successful welfare administration can differ greatly by site: some welfare offices used a single intermediary while others used many, and the contracts between offices and intermediaries varied in many of their details. The authors concluded by stressing the importance of clear information channels between intermediaries and welfare offices in effectively linking recipients with jobs.

Next, Howard Chernick and Cordelia Reimers considered the consequences of welfare reform in New York City. They compared several thousand city households eligible for cash assistance, Medicaid, and food stamps in 1994 and 1995 with a post-reform group of welfare-eligible households in 1997 and 1998. Chernick and Reimers found a 33 percent drop in the cash assistance caseload between the two periods, as well as a modest decline in food stamp receipt, from 17 to 15 percent. In addition, Medicaid participation was found to be unchanged, as was the percentage of households using at least one of the three programs. Consequently, despite a strong economy and an administrative push to get people off public assistance, the authors concluded that there was no large drop in the number of New York City households receiving at least some benefit from social programs in the immediate aftermath of welfare reform.

New Policies

A primary goal of welfare reform is to move recipients into work and toward economic self-sufficiency. To fulfill that goal, policymakers have provided various incentives to promote paid employment, such as the imposition of sanctions and work requirements, the enforcement of lifetime eligibility limits, and the increased use of earnings disregards. An earnings disregard allows recipients to earn money without experiencing a complete reduction in benefits; Connecticut, for instance, disregards all earnings up to the poverty level. However, earnings disregards typically encourage more part-time work than full-time work. Another program, the EITC, has enabled individuals to work off the welfare rolls by supplementing their earnings. Yet the EITC is not restricted to full-time work, so it can also be used to subsidize part-time employment.

In the day's final session, Philip Robins and Charles Michalopoulos considered a program designed to encourage full-time work. Using data from three welfare-to-work demonstration projects, the authors predicted the effectiveness of a financial incentive program, similar to Canada's Self-Sufficiency Project, that would provide assistance only if an individual works at least thirty hours a week. Robins and Michalopoulos estimated that such a program would lead to a sizable increase in the number of welfare recipients working full-time, at only a modest cost to the government.

Future Directions

The conference offered a great deal of information on the effects of welfare reform. Women who have left the rolls since reform began, for example, have experienced fairly high employment rates, and the earnings obtained through this work essentially have replaced any lost welfare benefits. Moreover, although the incomes of these women generally have not been any higher than they were while on welfare, neither have they been any lower. In addition, the value of the earned income tax credit has become evident from the way in which the program's supplements have boosted the total income of ex-recipients. An important caveat to these findings, however, is that there is still a subgroup of disadvantaged women who experience significant hardship after departing the welfare rolls.

Accordingly, researchers and policymakers still face some important unresolved issues associated with welfare reform. For instance, how does one address the problems of those women who do not thrive off welfare? The effects of alternative sanction policies—which, as currently constituted, appear to affect mainly the most disadvantaged welfare recipients—would also benefit from additional review. Another key policy issue is how to increase the amount of full-time work through financial incentives while not withdrawing support for those who can only work part-time. Finally, consideration of the effects of future economic downturns must be high on the agenda. These and other issues will no doubt play a central role in the fiscal year 2002 congressional and public debates over the reauthorization of the Personal Responsibility and Work Opportunity Reconciliation Act.