

DECLINING CASELOADS/ INCREASED WORK: WHAT CAN WE CONCLUDE ABOUT THE EFFECTS OF WELFARE REFORM?

I. THREE SIMULTANEOUS EVENTS

In 1996, Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act, or PRWORA, which substantially restructured public assistance programs. PRWORA gave states almost entire discretion to design and operate cash assistance programs for families with children, reducing the role of the federal government in program operation and regulation. The federal government did continue to help states fund these programs through the newly created Temporary Assistance for Needy Families (TANF) block grant. In addition, the federal government required states to move an increasing share of their caseloads into work and also, for the first time in history, implemented time limits on how long most families could receive TANF-funded assistance.

As a result of this legislation, states have made major changes to the structure of their family assistance programs. States have increased the incentives for public assistance recipients to move into work by reducing the rate at which benefits fall as earnings rise, by implementing more extensive job placement welfare-to-work programs, and by reinforcing the message of time limits that cash assistance will come to an end. States have also increased the penalties and sanctions for those who do not comply with work efforts, and have begun serious “diversion” programs aimed at diverting applicants from public assistance in the first place. Different states have

chosen different “packages” of these policies, so that one must understand the entire mix of policies in order to characterize the welfare programs in any state.¹ For instance, states with low benefit-reduction rates—a more generous policy that allows clients to keep a higher share of benefits as they go to work—may offset this generosity with very strict sanction policies for those who do not participate in welfare-to-work programs. States with strong diversion programs may reinforce this “discouraging” effect on caseloads by also implementing short time limits. States with generous welfare benefit levels may run more intensive welfare-to-work efforts in an attempt to move people into work faster.

These major policy changes in public assistance programs did not occur in a vacuum, but coincided with two other important changes in the economic environment in the mid-1990s. First, the U.S. economy entered a period of strong and sustained growth. Unemployment rates fell to their lowest levels in thirty years, employment grew rapidly, and inflation remained relatively restrained. These economic changes disproportionately helped less skilled workers, cutting unemployment rates among high-school dropouts by more than half. By the late 1990s, unemployment rates among black and Hispanic workers were at all-time lows.

As part of this boom, starting in the mid-1990s, wages among less skilled workers also began to rise for the first time in two decades. Average real weekly earnings among full-time

Rebecca M. Blank is the Dean of the University of Michigan's Gerald R. Ford School of Public Policy and the Henry Carter Adams Collegiate Professor of Public Policy.
<blank@umich.edu>

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male workers who did not have a high-school degree rose 5 percent between 1995 and 1999, while they rose 4 percent among full-time female workers.² This combination of rising wages and rising job availability greatly strengthened the incentive to work.

The last major change that occurred in the 1990s was the implementation of a series of policy changes focused on increasing the returns to work among less skilled and low-wage individuals. The minimum wage rose from \$3.35 at the beginning of 1990 to \$5.15 by 1997. Equally important, a series of expansions in the earned income tax credit (EITC) greatly increased the subsidies received by low-wage workers through the tax system. By 1999, a mother with two children working full-time in a minimum-wage job could receive over \$3,500 in a refundable tax credit, a substantial addition to her income. A key design issue in the EITC is that one must work in order to receive any EITC benefits and—at least for low-wage labor market participants in low-income families—EITC benefits rise as work increases. As noted in Blank and Schmidt (2001), the combination of the EITC and the minimum-wage changes substantially increased after-tax wages among minimum-wage workers with children. By the late 1990s, a full-time minimum-wage worker with two children had an income above the poverty line.³

Any of these three events—the enactment of major welfare reform, the economic expansion, and the expansion in work support programs—should have affected the behavior of less skilled workers and encouraged greater labor force participation. As it happens, all three of these occurred at about the same time, serendipitously producing a very large change in the rewards from, and incentives to, work, particularly among less skilled women.

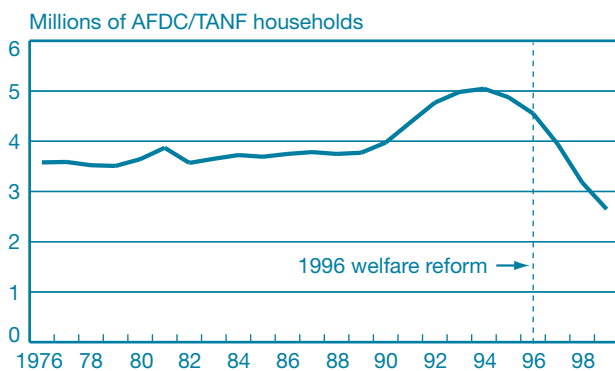
Regardless of cause, the behavioral changes over the 1990s among welfare recipients have been amazingly large. Public assistance caseloads have declined by half since their peak in 1994. (Even the strongest supporters of the 1996 legislation did not dare predict a change this large.) Chart 1 shows the magnitude of change in caseloads over the 1990s, with a sharp increase in the early 1990s followed by an even greater decline in the late 1990s.

Workforce participation has increased at the same time. In March 1994, 23 percent of those receiving welfare in 1993 were observed at work. By March 1999, 40 percent of welfare recipients from 1998 were working.⁴ Labor market participation among single mothers with young children—the group historically most likely to rely on welfare—soared during this time period. Chart 2 plots the labor force participation rates among women by marital status and children from 1989 to 1999. Unmarried women with children under age eighteen have experienced more than a ten-point increase in labor force participation over the 1990s.

At the same time, average incomes among less skilled single mothers have increased while poverty among single mothers has reached an historic low (Haskins 2001). Despite substantial declines in public assistance income, earnings have risen to offset the loss of welfare benefits, and income among less skilled mothers has not fallen. While there is evidence of economic stagnation among some of the more economically disadvantaged over the past several years, the majority of less skilled women appear to have higher incomes by the late 1990s.⁵

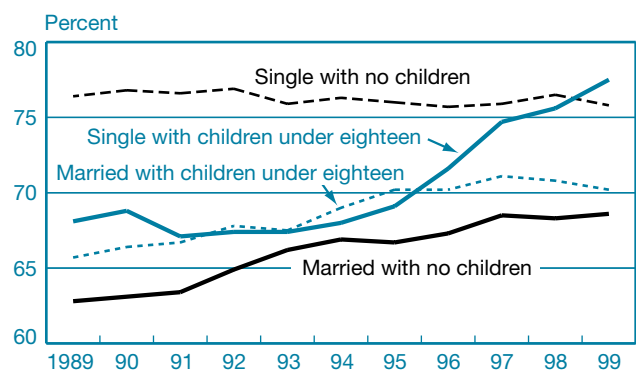
The record since the mid-1990s is quite incredible: there have been large and fast reductions in caseloads, increases in work, and overall declines in poverty. The speed and

CHART 1
Total AFDC/TANF Caseloads



Source: Department of Health and Human Services Administration for Children and Families. <<http://www.acf.dhhs.gov/news/stats/3697.htm>>
Note: AFDC is Aid to Families with Dependent Children.

CHART 2
Labor Force Participation Rates for Women by Marital Status and Number of Children
Women Ages Twenty to Sixty-Five



Source: Author's tabulations of March Current Population Survey data.

magnitude of these changes have driven researchers to try and understand their underlying causes, focusing on the factors discussed above.

II. EVALUATING THE EFFECTS OF WELFARE REFORM

Those who study welfare reform are particularly interested in disentangling the effect of the 1996 legislation from other changes. This is an extremely difficult analysis to undertake, for at least three reasons. First, as noted above, the timing of welfare reform coincides almost perfectly with the last round of minimum-wage and EITC expansions. The mid-1990s was also a period when the economic expansion became more vigorous and wages among less skilled workers started to rise. Whenever such major events occur at about the same time, it is difficult to identify their effects separately.

Second, the economic and the policy changes were not just simultaneous, they were also endogenous and intercausal. For instance, a variety of states enacted precursor programs to federal welfare reform under a program that granted states waivers to experiment with stronger work enforcement among public assistance recipients. The states that enacted these programs had higher average unemployment rates than the states that chose not to enact them.⁶ This strongly suggests that the types of policies adopted following the 1996 legislation are also likely to be differentially chosen in states with different economic environments. Conversely, states that chose to adopt stronger measures that pushed welfare recipients into work faster after 1996 might have affected the wage and employment opportunities for less skilled workers in their labor markets.⁷ All of this suggests that it will be quite difficult to identify separately the economic versus policy effects.

Third, there are likely to be a substantial number of indirect effects arising from economic growth that are hard to measure separately. Not only will the economic expansion increase job availability and earnings among current and past welfare recipients, but it will also increase earnings among their friends and relatives. Boyfriends and family may be more willing to share housing or to share income in good economic times, making it easier for women to leave welfare even if they themselves are not working more or earning more. In addition, the ready availability of jobs almost surely affected the speed and the nature of state design and implementation of welfare programs after 1996. Precisely because they did not have to focus on job availability, states were able to devote more time and attention to new program design and to focus on implementation of these programs. This suggests that the

strong economy might have allowed states to move both further and faster as they redesigned their welfare programs.

All of these factors make it difficult to identify separately the effects of the 1996 welfare reform. But even if there had been no economic boom and no other policy changes, providing an evaluation of the 1996 welfare reform legislation would be difficult. The federal legislation was implemented at close to the same time in all states. Between September 1996 and July 1997, all fifty states switched to running new TANF-funded welfare plans, with most states inaugurating their new programs within a few months of each other. This makes it difficult to rely on differences in implementation dates across states to identify differential program impacts.

In addition, there are timing problems with current evaluations. We only have a few years of post-1996 data currently available. While states announced their new plans within a year of the 1996 legislation, in many of them implementation of these changes was much slower. Many state welfare programs were in flux for a year or two after the 1996 legislation was signed. Evaluating the effects of these programs using data from 1996, 1997, and even 1998 might be misleading, since many aspects of the programs were only partially implemented in these years.

An additional concern is that some program changes have not yet fully taken effect. This is most true of time limits. Only a very small number of welfare recipients have currently hit their time limits, but over the next several years many more persons may face them. This may change the behavior of those who are still recipients and will increase the share of involuntary leavers among ex-welfare recipients.⁸ This suggests that our current evaluations could seem quite inadequate in only a few years.

In short, evaluating the effect of welfare reform is inherently difficult by itself, and made even more difficult by the simultaneous occurrence of an economic boom and other policy changes. These caveats are important to keep in mind while reviewing the existing research on welfare reform. All of this research is subject to the problems discussed above.

III. THE EFFECTS OF ECONOMY VERSUS POLICY

One might validly ask, why try to disentangle these factors at all? If one's interest is in changes in the well-being of ex- or current welfare recipients, then simply looking at outcomes might be adequate. Indeed, a good deal of the evaluation literature on welfare reform takes this approach. The growing volume of "leaver studies"—studies of the personal and

economic circumstances of families who were previously welfare recipients—makes no attempt to separate out causal factors, but simply looks at the work status and income of families at some future point after they have left welfare.⁹

There are at least two primary reasons for separating economic and policy effects. First, those who are operating and designing policy may validly want to evaluate the direct effects of their efforts. Understanding the comparative effects of different state approaches to the design of welfare programs might provide knowledge that will be useful in the future as states continue to redesign and evaluate these programs. Second, there are very different future implications if the current changes in behavior are primarily due to policy or to economy. If it is structural program changes that have been effective in reducing caseloads, increasing work, and raising incomes, then these effects may be expected to persist in the future. If it is the current economic boom that is the primary cause of these changes, then they may be quite changeable and temporary.

For this reason, the question of what is driving caseload declines and work increases has deep political implications. Those who want to claim success for the 1996 legislation are more likely to favor policy-related explanations. Those who are critical of the legislation and concerned about its long-term impact are more likely to favor economy-related explanations.

The existing research literature that tries to disentangle policy and economic effects generally suggests that both factors are important, although the relative magnitude of effects varies depending upon the time period and estimation strategy chosen.

Table 1 presents the major empirical studies that attempt to separately assess the effects of policy and economy, utilizing data up to 1996. These studies are only indirectly relevant to the evaluation of the 1996 reforms—they focus on caseload changes in the earlier Aid to Families with Dependent Children (AFDC) program and do not go beyond the 1996 welfare reform in their analysis. The welfare reforms that they focus on are the waivers granted to states in the 1992-96 period, which allowed states to run welfare-to-work programs that were more strongly enforced and that covered a larger share of the welfare population. Table 2 summarizes the smaller group of studies that utilize data after 1996 and attempt to explicitly evaluate the 1996 legislation. Most of these studies focus solely on caseload changes, but a few investigate a broader range of outcomes.

The approach in most of these studies is to use panel data on state outcomes—typically state caseload numbers from administrative data—and estimate the impact of economic variables—typically state unemployment rates—and policy variables while controlling for state- and year-fixed effects. A number of studies also control for state-specific time trends, or use more complex first difference or lagged dependent variable

models. The hope is that these extensive controls for fixed and trend effects will substitute for the large number of omitted variables in these regressions, such as differences in political and population characteristics.

Among these omitted variables, I should note, is the effect of the labor market policies mentioned above. The federal minimum wage and the EITC changes are not explicitly controlled for in most of these regressions, but because these policies changed everywhere in the same year, they are assumed to be taken up in the year-fixed effects. This may not be fully adequate; for instance, changes in the minimum wage should have greater effects in low-wage states than in high-wage states. To the extent that the minimum-wage changes and the EITC changes are coterminous with welfare changes—and the welfare changes chosen in any state may partially reflect the presence of these policies—the estimated welfare effects may be biased upward due to these omitted variables.

The studies in Table 1 identify the impact of welfare reform based on differential timing in the implementation of welfare waivers across states. Most of these studies use data similar to those of the Council of Economic Advisers (1997), or CEA, and reach similar conclusions. They find that economic factors explain somewhere between 25 to 50 percent of the observed change in caseloads. Welfare reform waivers typically explain a smaller share of the caseload change. Blank (2001) and Wallace and Blank (1999) are the only papers that differentiate between the periods of rising versus falling caseloads (that is, the period up to 1994 and the period from 1994 to 1996); other papers look at changes over a time period that spans both increases and declines in caseloads, typically 1993 to 1996.¹⁰ These first two papers find that waivers actually explain a negative share of caseload change between 1990 and 1994—that is, the number of caseloads was rising but the waivers should have caused it to fall. These papers suggest that waivers explain 13 to 31 percent of the decline in the 1994-96 period, when caseloads were falling.

Ziliak et al. (2000) and Figlio and Ziliak (1999) find stronger economic effects and weaker waiver effects than the other papers listed in Table 1. In part, this must be due to their focus on the 1993-96 time period. The Wallace and Blank results suggest that the impact of waivers over this longer period must be less than their effects over the 1994-96 period, when caseloads declined. Figlio and Ziliak present a series of estimates suggesting that their results are closely connected to their use of first difference and lagged dependent variable models, with extended lags in many of the independent variables. In many of these models, the implementation of waivers has only a one-time effect—in the period when the waiver is adopted—and it is perhaps not surprising that the resulting coefficients are not large.

TABLE 1

Major Research on Caseload Change Using Data prior to 1996 Welfare Reform

Study	Data	Dependent Variable	Included Variables	Results on Key Variables
Council of Economic Advisers (1997)	Annual panel of state administrative data, 1976-96	Log (AFDC caseloads) ÷ total population	Unemployment rates Waivers Benefit levels State effects Year effects State/year trends	<ul style="list-style-type: none"> Share of caseload change due to economic factors: 24% to 31% in 1989-93 31% to 45% in 1993-96 Share of caseload change due to waivers: 13% to 31% in 1993-96 3% to 5% estimated change in AFDC caseloads due to one-point increase in unemployment rate
Levine and Whitmore (1998)	Same as CEA	Same as CEA	Same as CEA, with more detailed data on waivers	<ul style="list-style-type: none"> Economic effects of same size as CEA Waiver states have almost twice the caseload reduction, but no difference in unemployment rate
Ziliak, Figlio, Davis, and Connelly (2000)	Monthly panel of state administrative data, 1987-96	Log (AFDC caseloads) ÷ female population (ages 15-44)	Unemployment rates Employment/population ratios Waivers Benefit levels State effects Time trends (t, t^2, t^3) Estimate first difference and lagged dependent variable models	<ul style="list-style-type: none"> No separate estimates of economic effects alone; 66% of change due to economic and seasonal factors in 1993-96 Share of caseload change due to waivers: -9% in 1993-96 2% estimated change in AFDC caseloads due to one-point increase in unemployment rate that lasts five months
Blank (2001)	Annual panel of state administrative data, 1977-96	Same as CEA (Also separates this into AFDC-child only, AFDC-UP, and core remaining caseloads)	Economic (including unemployment and wages) Program (including waivers and benefit levels) Demographic Political State effects Year effects	<ul style="list-style-type: none"> Share of caseload change due to economic factors: 29% in 1990-94 59% in 1994-96 Share of caseload change due to waivers:^a -22% in 1990-94 28% in 1994-96 5% estimated change in AFDC caseloads due to one-point increase in unemployment rate
Figlio and Ziliak (1999)	Annual panel of state administrative data, 1976-96	Same as CEA	Unemployment rates Waivers Benefit levels State effects Year effects State/year trends Dynamic models include first difference and lagged dependent variable models	<p>In static models:</p> <ul style="list-style-type: none"> Share of caseload change due to economic effects: -10% to 36% in 1993-96 Share of caseload change due to waivers: 0% to 24% in 1993-96 <p>In dynamic models:</p> <ul style="list-style-type: none"> Share of caseload change due to economic effects: 18% to 76% in 1993-96 Share of caseload change due to waivers: -7% to 1% in 1993-96 6% to 9% long-run rise in caseloads due to one-point rise in unemployment rate
Wallace and Blank (1999)	Annual panel of state administrative data, 1980-96	Same as CEA	Same as Blank	<ul style="list-style-type: none"> Share of caseload change due to economic effects: 50% for 1990-94 47% for 1994-96 Share of caseload change due to waivers: -13% for 1990-94 22% for 1994-96 5% to 6% rise in caseloads due to one-point rise in unemployment rate
Moffitt (1999)	Annual panel of state-level data based on March CPS, 1977-95 (Also aggregates data into education and age cells by state)	ln (AFDC participation) ÷ total female population ages 16-54	Unemployment rate Waivers Benefit levels State effects Year effects State/year trends	<ul style="list-style-type: none"> Reduction in participation due to waivers: -1.7 percentage points among women high-school dropouts, -0.8 to -1.0 percentage points among all women Among high-school dropouts, significant effects on weeks and hours of work; no significant effects on earnings or income 0 to 0.3 percentage point rise in participation due to one-point rise in unemployment rate

^aAuthor's calculations, not shown in paper.

I should note that more of the variation in these studies comes from explaining caseload increases rather than caseload declines, since caseloads rose sharply between 1990 and 1994. One of the striking aspects of these studies is that their combined estimates explain a very low share of the overall variation in caseloads during this time period once year, state, and seasonal effects are excluded. Blank (2001) investigates this at some length and focuses on the mix of programs that are included in the AFDC caseload numbers. She indicates that 57 percent of this caseload increase is due to increases in two-

parent welfare-recipient cases (the AFDC-UP program) and in child-only cases (welfare cases in which there is no adult recipient—a category that rose rapidly in the 1990s). These two programs are responsive to quite different factors and are in turn very different from the “core” AFDC program, that is, benefits paid to single mothers and their children.¹¹ Much of the large unexplained rise in caseloads in the 1990s is due to the growth in these two programs. As one might expect, waivers have stronger negative effects on core AFDC caseloads than they do on aggregate caseloads, which are the data used by most

TABLE 2
Major Research on Caseload Change Including Data after 1996 Welfare Reform

Study	Data	Dependent Variable	Included Variables	Results on Key Variables
Council of Economic Advisers (1999)	Annual panel of state administrative data, 1976-98	Log (AFDC caseloads) ÷ total population	Unemployment rate Waivers and TANF Benefit levels State effects Year effects State/year trends	<ul style="list-style-type: none"> • Share of caseload change due to economic factors: 26% to 36% in 1993-96 8% to 10% in 1996-98 • Share of caseload change due to waivers: 12% to 15% in 1993-96 • Share of caseload change due to TANF: 35% to 36% in 1996-98
Wallace and Blank (1999)	Monthly panel of state administrative data, 1980:1-1998:6	Same as CEA	Unemployment rate Waivers and TANF State-specific month effects Models estimated in first differences and with lagged dependent variables	<ul style="list-style-type: none"> • Estimated caseload change due to economic factors: 20% to 36% in 1990-94 8% to 12% in 1994-98 • Estimated caseload change due to waivers: -4% to -5% in 1990-94 26% to 31% in 1994-96 • Estimated caseload change due to TANF: 28% to 35% in 1997:1-1998:6
Grogger (2000)	Annual panel of March CPS data, 1979-99	AFDC/TANF participation	Unemployment rate Waivers and TANF Benefit levels Demographic State effects Year effects	<ul style="list-style-type: none"> • TANF and waivers have identical (negative) effects on participation, creating a 2.1 percentage point decline (exclusive of time limit effects) • Time limits have significant negative effect on participation in families with younger children
Schoeni and Blank (2000)	Annual panel of state-level data based on March CPS, 1977-99 (Aggregates data into education and age cells by state)	Multiple variables	Unemployment rate Waivers and TANF Benefit levels Demographic State effects Year effects State-specific time trends	<ul style="list-style-type: none"> • Waivers have a significant effect on AFDC participation, labor market participation, earnings, income, and poverty rates, as well as marital status • TANF has significant negative effects on welfare participation, larger than the effects of waivers • TANF has relatively small but significant effects on earnings, poverty rates, and household structure • Economic factors fully explain labor market changes in the TANF period
Hill and O'Neill (forthcoming)	Microdata from March CPS, 1983-2000	AFDC/TANF participation and employment last week	Unemployment rate Waivers and TANF Benefit levels Demographic State effects Time trend State-specific time trends	<ul style="list-style-type: none"> • Economic factors have significant effects on both welfare participation and employment in 1992-96 and 1996-99 • Waivers have significant effects on employment, but not on welfare participation • TANF has a significant effect on welfare participation and on employment • Stronger effects on more educated single mothers

other studies in Table 1. Indeed, the combination of economic, policy, demographic, and political variables in Blank's study (2001) comes close to explaining fully the caseload changes in the core AFDC program.

Table 2 summarizes the studies that include data from the post-1996 period and that try to estimate the effects of both waivers and the 1996 TANF block grant. Of these, the Council of Economic Advisers study (1999) is most comparable to the earlier work. This study essentially updates the 1997 CEA publication, including data from 1996-98. The results indicate that in this post-PRWORA period, the labor market has a smaller effect on caseloads (explaining 8 to 10 percent of the caseload decline), while welfare reform has a larger effect (explaining about 35 percent of the caseload decline). Wallace and Blank (1999), using monthly data and more dynamic specifications, estimate quite similar effects due to TANF over the 1997-98 period.

Schoeni and Blank (2000) analyze the impact of the 1996 welfare reforms on a much wider range of variables beyond caseloads, including workforce participation, weeks and hours of work, earnings, income, and poverty rates. They calculate these data by age and education cells within each state and year, aggregating data from the Current Population Survey. They show that the welfare reform effects that they estimate—both for waivers and for the implementation of TANF—are strongest among the least skilled; they argue that this supports their claim that they are measuring the actual effects of policy changes. Schoeni and Blank include an extensive discussion of the problems of estimating the impact of the 1996 legislation in the existing data, and they try several different estimation procedures.

Their results suggest that welfare reform in the post-1996 period had a larger negative effect on caseloads than did the earlier state waivers. In contrast, their labor force participation variables are positively affected by waivers, but appear to be largely unaffected by the 1996 reforms. Increases in work appear to be explained entirely by the strong economy after 1996. This is consistent with the idea that the 1996 legislation focused much more on getting people off of welfare—through sanctions, time limits, and diversion activities—while the waivers focused more on running strong welfare-to-work programs.

Hill and O'Neill (forthcoming) investigate the determinants of welfare participation and employment using data on single mothers only from the Current Population Surveys. Unlike other research, their study does not aggregate observations by state, but uses the individual microdata, which make it difficult to compare its results with other research. Since the key variables of interest—unemployment rates and policy changes—are state-level variables, using individual-level data is likely to produce much smaller standard errors than in the state

panel data analysis of other papers. They also do not include year-fixed effects (they only include time trends), which makes it more likely that changes in minimum wages and in the EITC might be contaminating their other state-level variables. Nonetheless, their results on welfare participation are similar to those of the other papers, indicating that TANF had a larger effect in reducing caseloads than did waivers. Hill and O'Neill also find strong effects of TANF on employment increases after 1996—a very different result than Schoeni and Blank produce.

Schoeni and Blank go beyond caseloads and labor force participation to also look at earnings and income effects. They find sizable, positive, but poorly determined effects of the 1996 changes on family income among less skilled women, and significant negative effects of the legislation on poverty rates. Similar to tabulations of income data by Primus et al. (1999), Schoeni and Blank find some evidence that among all female high-school dropouts, those in the bottom part of the income distribution of this very disadvantaged group are not experiencing the same increases as those in the middle and top of the distribution.

While Schoeni and Blank probably provide the most extensive evaluation of the 1996 welfare reform legislation to date, they are clear about the limitations of their study. It remains hard to identify an independent effect of the 1996 welfare reform act, given its rapid national implementation. The ongoing changes in these programs throughout the 1996-98 period also mean that any estimated effects may not reflect the impact of the more mature programs that were emerging by 1999. The authors choose not to decompose overall caseload or work behavior changes into the share due to policy effects versus economic effects, as the earlier literature did frequently, out of a concern that these two effects are quite simultaneously determined and the coefficients on the economic variables reflect far more than the direct effect of these variables on jobs or income.

Summarizing the results in Tables 1 and 2, I would identify four major conclusions from these studies to date:

1. Most of the evidence suggests that both economy and policy have mattered; the exact nature of those effects varies across studies and time periods. More dynamic models appear to produce weaker policy effects, a fact that is likely to be related to the specifications used in those models.
2. The caseload increases in the early 1990s were due to a wide variety of factors, including growth in child-only payments and the mandatory implementation of AFDC among two-parent families in all states. As a result, explaining much of the aggregate caseload rise with simple econometric specifications is a difficult task. Waiver effects appear stronger when focusing only on caseloads among single mothers with children.

3. The economy seems to have mattered less in the post-1996 period and welfare policy has mattered more in reducing caseloads than it did in the earlier period. This is entirely consistent with the fact that the state TANF-funded programs were typically more focused on sanctions, diversion, and time limits than were the waiver programs of the early 1990s. Both the economy and waivers appear to have raised employment in the early 1990s; studies that look at the effect of TANF on employment in the late 1990s show more mixed results.
4. While there is a serious need for more evidence on outcomes other than caseload declines, the existing evidence suggests that both waivers and the 1996 legislation might have had positive effects on income and negative effects on poverty. On average, less skilled female-headed families appear to be better off, and the 1996 legislation seems to be an important causal factor in this, even after controlling for economic effects. Among a group of the most disadvantaged, less skilled female family heads, there is some evidence that incomes have not risen and some evidence that poverty has become worse. At least one study suggests that the 1996 legislation has not had the same effects on this bottom group as on less skilled women as a whole (Schoeni and Blank 2000).

IV. FUTURE RESEARCH ISSUES

For those who want to understand further the relationship between economy, policy, and observed behavioral changes in the 1990s, several future research projects recommend themselves. First, there may be ways to evaluate the impact of the 1996 policy changes by looking in a more disaggregate way at the policies that different states have implemented. A number of organizations are now regularly collecting and publishing information on state-specific program parameters, and the research community needs to experiment with various ways of describing these very different programs in a quantitative and comparable form. Some of the studies listed in Tables 1 and 2 have tried to estimate separately the effect of different types of program changes, such as time limits or work exemptions, as well as look at the overall effects of implementing welfare reform. Because data on any particular type of program are limited—implemented in only some states and over only limited time periods—many of these estimates are poorly determined. But as we acquire a growing amount of information on changes within states over time, it should be possible to do more to tease out the impact of specific types of policy changes.

Second, the most obvious way to study the differential effects of policy and economy is to wait for the next economic

slowdown and see what changes. I am doubtful we will be able to say anything very conclusive about how much the economy has influenced the changes in the late 1990s until we collect some observations in a world with less robust economic growth and higher unemployment.

Third, it is important to note the need for more studies that focus on overall measures of well-being. Too much of the existing work looks just at caseloads, a very limited measure that provides little information about how the less skilled population is faring. Declining caseloads are generally viewed as a good thing, but say nothing about work or income among those leaving public assistance. Increases in workforce participation are generally viewed as a good thing, but these data need to be balanced with information on overall disposable income as families face greater work-related and child-care expenses and lose welfare benefits.

It will also be important to explore how unique our current set of results is to the current time period. This is not only a question of separating out the impact of the current economic boom, but also relates to some of the implementation questions raised above. As a growing share of the caseload hits time limits, some state programs may begin to operate differently. More and more states are proclaiming that they have “changed the culture” of their welfare offices, through retraining front-line workers. Most states are still working to better integrate their job placement and training efforts with their welfare efforts. As all of these changes occur, the long-run nature of TANF-funded welfare programs may be different from their operations in the immediate post-1996 period.

Whether the long-term effects of welfare reform will be greater or smaller than the short-term effects is hard to predict. Some arguments suggest that the long-term effects may be larger: once recipients begin to hit time limits, there may be bigger effects; if recent state changes induce cross-state migration over time, there may be bigger effects; if states are successful in changing the culture of their welfare offices to make them more employment-oriented, that may result in bigger long-term effects. But the economic arguments suggest that the long-term effects of welfare reform will be smaller: a more typical economy will force states to expend more resources on finding jobs or creating public sector employment, which will take resources out of new programs; women will be less willing to be diverted or to avoid welfare in a higher unemployment economy, and states will again see increases in caseloads. In a slower growth economy, states will feel more economic budget pressure and will be less willing to focus as much time and money on welfare programs.

At present, I think it is fundamentally unknowable what the long-term effects of the 1996 law are likely to be. We have seen enormous behavioral changes, including faster exit from and reduced entry onto public assistance; big increases in work; and

reductions in take-up rates even among the eligible population. We have also seen enormous program changes as states have greatly modified their old AFDC programs. In the presence of this much program and behavioral change, it is simply hard to know what is permanent and what may change in the next round of program reform or during the next economic slowdown.

V. SOME BIG REMAINING QUESTIONS

I close this paper with a few of the many unanswered questions about future program and behavioral issues that I think will be important in the years ahead. First, assuming that the rapid decline in caseloads is somewhat permanent, this means that the remaining caseloads are more disadvantaged than the AFDC caseloads of ten years ago. For instance, Allen and Kirby (2000) find that a growing share of the caseload is composed of women of color living in center cities, who are more likely to face a host of barriers to finding permanent employment. How will this change the politics of welfare? Will this make voters and politicians even less sympathetic to welfare recipients and lead to harsher measures designed to move these women off of public support? Or will this generate greater sympathy for welfare recipients, as voters realize that those who remain on welfare do face multiple barriers to work?

Second, the changes in welfare program design have almost surely made less skilled women—and particularly single mothers—more vulnerable to the economy. As these women rely on earnings for an increasing share of their income, and as they face tighter restrictions on their access to public assistance, they will be more subject to the vagaries of the labor market. It may be that single mothers will become as responsive to the labor market as two-parent families have been in the past. For instance, Blank (2001) suggests that a one-point rise in unemployment raised AFDC caseloads by 6 percent among single mothers, but raised AFDC-UP (the program for married couples) caseloads by 9 to 17 percent. Women may cycle more frequently on and off of welfare, responding to changes in job availability in the private sector. A key question is whether these women will be able to access the unemployment insurance (UI) system during times of joblessness. Policy

changes to UI could make it easier for part-time and short-term workers to access benefits; this may be an alternative way to support work-eligible single mothers when they become jobless.

Third, the current economy has allowed a large number of less skilled women (and men) to work more continuously than in previous decades. How will this help these women? Will their growth in labor market experience lead to significant wage growth?¹² Will they be able to make contacts and create labor market networks for themselves that make it easier to find jobs in the future if they leave or lose employment? In short, will this extended labor market boom help provide a larger pool of workers who are willing and able to work? This is the positive version of the “hysteresis hypothesis” much discussed in Europe over the past decade, in which extended periods of high unemployment appear to result in more workers permanently disconnected from the labor market. The 1990s economic boom, providing a long-run decline in unemployment rates and time spent out of the labor market, may more permanently connect a group of disadvantaged workers to the labor market.

Finally, there are a host of questions about the impact of these program and economic changes on family fertility and formation patterns. Some existing evidence suggests that recent welfare reforms can have an effect on marriage.¹³ Of course, a stronger economy might also have this effect, as less skilled men appear to be better marriage prospects. We need to move beyond a focus solely on income, labor market, and caseload changes among single mothers to observe how these program and economic changes are related to family formation, to fertility, and to the educational plans of younger, less skilled men and women. A closely connected question is how these changes impact the children in families in which the sole parent is now working and earning more and receiving less public assistance. Preliminary evidence suggests that there may be child-related impacts that vary by age (Duncan and Chase-Lansdale 2001). In their evaluations of these programs, economists need to think broadly about program impacts and move beyond their usual set of income and earnings data.

The answers to all of these questions will become clearer as time passes and we accumulate additional observations on programs, economic forces, and individual behavior. As such, the results from current evaluations of the impact of the 1996 welfare reforms must be considered highly preliminary.

ENDNOTES

1. For a discussion of the changes occurring inside states, see Nathan and Gais (1999). For information on the nature of the new programs adopted by states, see the data and related descriptive papers provided by the Urban Institute's Assessing the New Federalism Project.
2. Data were tabulated by the author from the outgoing rotation groups of the Current Population Survey. While significant, these increases were not enough to overcome the previous fifteen years of wage declines. Full-time male high-school dropouts experienced an 18 percent decline in real wages over the entire 1979-99 period, despite rising wages in the late 1990s. Among full-time female workers without high-school degrees, real wages fell by a smaller amount (5 percent) over the entire 1979-99 period.
3. As part of the 1990s expansion in work support, one might also note the large increase in subsidies for child care over the 1990s. There was also a substantial expansion of Medicaid insurance in the late 1980s to cover all low-income children.
4. Data were tabulated by the author from the March Current Population Survey.
5. For a review of the evidence on changes in income since welfare reform, see Haskins (2001). For a review of the evidence on changes in work and labor market behavior, see Blank and Schmidt (2001).
6. See evidence in Schoeni and Blank (2000).
7. For a review of the evidence on this issue, see Bartik (2000).
8. For a discussion of the current evidence on the effects of time limits, see Bloom and Pavetti (2001).
9. A good review of studies of welfare leavers is provided by Brauner and Loprest (1999).
10. These papers appear to look at 1993-96 because the CEA report focuses on these years. However, the reason why the CEA report focuses on these years is purely political—the analysis starts in 1993 because this is the first year of the Clinton Administration.
11. All states were mandated to run an AFDC-UP program starting in 1990, and much of the increase in this program was due to new states beginning to serve the two-parent population. The rise in child-only cases is related to the growing use of sanctions (removing the adult from the payment unit), the rising number of immigrants (whose American-born children are eligible for assistance, but whose immigrant parents are not), changes in the structure and functioning of foster care programs, and a rising share of children living in households without a parent present.
12. Gladden and Taber (2000) indicate that wages grow with experience even among very unskilled women.
13. See Knox et al. (2000) or Schoeni and Blank (2000).

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