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Welfare reform: the US experience

Robert Moffitt

With comments by

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Welfare reform: the US experience[°]

by

Robert Moffitt[*]

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Abstract

The reform of the cash-based welfare program for single mothers in the US which occurred in the 1990s was the most important since its inception in 1935. The reforms imposed credible and enforceable work requirements into the program for the first time, as well as establishing time limits on lifetime receipt. Research on the effects of the reform have shown it to have reduced the program caseload and governmental expenditures on the program. In addition, the reform has had generally positive average effects on employment, earnings, and income, and generally negative effects on poverty rates, although the gains are not evenly distributed across groups. A fraction of the affected group appears to have been made worse off by the reform.

Keywords: Welfare reform, Poverty, Single mothers
JEL-codes: I3

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The most well-known transfer program for the poor in the United States is that which provides low-income families with children, mostly headed by a single mother, with cash support. Denoted by the Aid to Families with Dependent Children (AFDC) program prior to 1996 and by the Temporary Assistance to Needy Families (TANF) program thereafter, it underwent a major structural reform in that year. This unprecedented reform imposed credible and enforceable work requirements for the first time in the history of the program, requirements which were extended to a large fraction of the caseload and were enforced by the use of sanctions that reduced or eliminated benefits for noncompliance. The reform also imposed lifetime time limits on the receipt of benefits.

Following the reform, the caseload in the program fell dramatically and several other indices changed as well: employment rates of single mothers rose, as did average earnings and family income among the single mother population. Poverty rates of single mothers fell. The often dire warnings of large-scale deprivation which were made at the time of the reform did not materialize, although there is some evidence that a small fraction of the single mother population was made worse off by the reform.

This paper will review the US experience and assess the causes and effects of the 1996 reform. The first section of the paper puts the AFDC-TANF program in perspective relative to the larger US system of transfers to the poor. The second section reviews the elements of the 1996 reform and how they altered the program that existed previously, and discusses the rationales for the reform. A review of the research literature on the effects of the reform is presented in the third section, followed by a review of some of the issues currently under discussion in the US on what to do next.

1 Context: The US system of means-tested transfers

The TANF program is only a small component in the larger system of means-tested transfer programs in the US today. *Table 1* shows the expenditures and caseloads for the nine largest such programs in 2004. The largest by far is the Medicaid program, which provides health care to low-income families (it is separate from the Medicare program, the social insurance program that provides medical care to the elderly regardless of income level). The Medicaid program provides medical care not only to poor families, including those single mothers who are on TANF, but also to the poor elderly and the disabled, who account for a much larger fraction of program expenditures than single mothers. The Supplemental Security Income program, which provides cash benefits to the low-income aged, blind, and disabled adults and children, is much smaller but still quite sizable in terms of expenditure. The Earned Income Tax Credit (EITC) program, an earning subsidy program which provides tax credits to families with earnings and which is discussed by Meyer (2007) is third largest. The Food Stamp program, which provides food coupons to the poor, and programs for subsidized housing for the poor are fourth and fifth, respectively. The TANF program is, as the table shows, only the sixth largest program in the US in terms of expenditure, and only half as much is spent on it as the next largest program. Its caseload is also small, although because it provides a cash benefit for all needs and not just a supplemental payment like Food Stamps and the EITC, its expenditure per recipient is larger than those of those two programs.

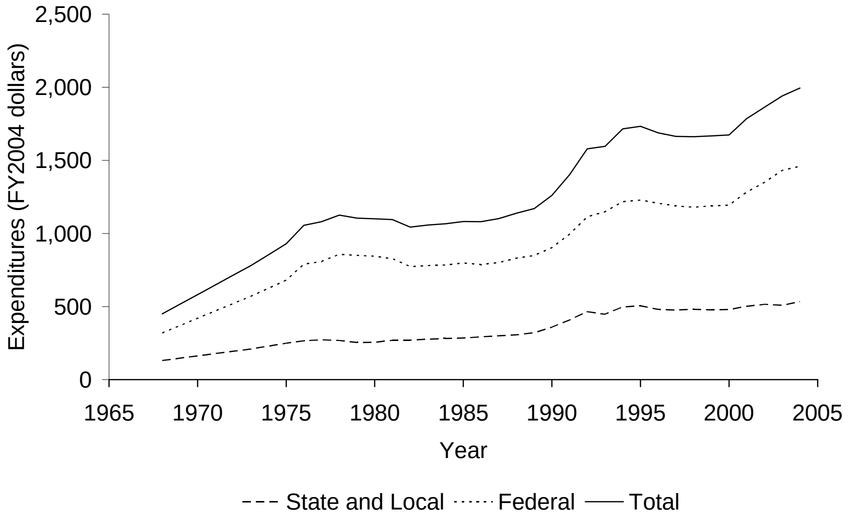
As will be discussed below, the welfare reforms of the 1990s in the US reduced expenditures and caseloads in the AFDC and TANF programs. However, many of the other programs listed in *Table 1* have grown. *Figure 1* shows trends in real total expenditure since 1968 in the eighty largest means-tested programs in the US, revealing that per-capita expenditure in total is higher today than ever in its history. The spurt in real expenditure growth in the late 1960s and early 1970s was the result of growth in AFDC, Food Stamp, and Medicaid expenditures, but this was followed by a decade (approximately 1978-1988) of flat expenditure growth. However, the period of flat growth was followed by an explosion in expenditure that occurred more rapidly – in the space of 6 years, from 1990 to 1996 – and which was a result of large increases in expenditure on the EITC, SSI, and Medicaid. Expenditure rose again after 2001 as a result of growth in the Medicaid and Food Stamp programs. Thus the decline of the AFDC-TANF program is not representative of means-tested transfer growth in the society as a whole. But it does represent a shift in the groups to whom expenditure is directed and in the type of benefits provided. Specifically, expenditure growth has been directed more toward special groups of individuals (the aged, disabled workers) and toward specific needs (food, medical care, and housing) rather than general support.

Table 1 Annual expenditures and caseloads of nine large programs, FY 2004 (USD)

	Caseloads[a] (millions)	Expenditures (thousands)	Expenditure per recip.[b]
Medicaid	300,300	56,100	5,353
Supplemental Security Income (SSI)	39,839	7,139	5,581
Earned Income Tax Credit (EITC)	34,012[c]	19,163[d]	1,775
Food stamps	30,993	24,900	1,245
Subsidized housing[e]	29,844	4,576[f]	6,522
Temporary Assistance to Needy Families (TANF)	14,067	4,746	2,964
Child care	11,854[g]	1,743[h]	6,801
Head start	8,469	906	9,348
Jobs and training	7,007	1,175[i]	6,645[i]

Notes: Federal and state and local spending combined unless otherwise noted. a) Number of individual recipients unless otherwise noted; b) Ratio of first column to second column, multiplied by 1000; c) Refundable portion only; d) Number of tax units; e) Section 8 and public housing. Federal only; f) Number of dwelling units; g) Child care and development block grant (CCDBG) and TANF child care; h) CCDBG only; i) FY 2002.
Source: Spar (2006, *Table 14*).

Figure 1 Real per capita expenditures on means-tested transfers (1968-2004)



Sources: Spar (2006, *Tables 3* and *4*), US Department of Commerce (2006, *Table 2*, Population).

It may fairly be asked why the TANF program continues to receive so much attention given its current minor status. Several reasons account for this level of attention. First, it remains the only general-purpose cash transfer program in the US and thus mostly closely fits the public image of “welfare” as well as the policy and academic notion of a negative income tax. Second, reforms in the TANF program have been the most prominent in reflecting US society's increasing emphasis on work, and it therefore has considerable symbolic value. Third, it is still an important program for a particular population group – low-income single mothers who have difficulty working.

This description of transfer-program receipt in the US shows many differences with most countries in Europe. In Europe, food subsidy programs are small if they exist at all, and medical care is generally made a part of national health insurance systems. Earnings subsidies of the scale of the US EITC have not yet been introduced in Europe with the possible exception of the Working Families Tax Credit in the UK. On the other hand, many programs in Europe are present in much stronger form than the US. Two of the most prominent are those providing unemployment benefits and sick and disability pay. In the US, most low-income single mothers do not receive unemployment insurance (UI) because a significant employment and earnings history is necessary for eligibility, and few single mothers meet the qualifications. The SSI program in the US provides some benefits to the disabled, but eligibility requirements are stringent and the program does not compare in size to the sickness and disability programs in many European countries. Finally, child care subsidies, which are small in the US, are very generous in many European countries, including Sweden.

2 The AFDC program and the 1996 welfare reform

2.1 Early reforms

The AFDC program was created by the Social Security Act of 1935 along with the Old-Age Social Security and Unemployment Insurance programs.[1] AFDC provided cash financial support to low-income families with "dependent" children, defined as those who were deprived of the support or care of one natural (i.e., biological) parent by reason of death, disability, or absence from the home, and who were under the care of

[1] A more detailed discussion of the history of the AFDC program can be found in Moffitt (2003), upon which this section partly draws.

the other parent or another relative. In practice, the vast majority of such families were those with a single mother and her children. In 1935, most such families were widowed, and the program was intended to allow mothers to stay at home with their children rather than be forced to work. In keeping with the “federal” system in the US, the program was created as a shared federal-state responsibility, with the federal government subsidizing state payments and setting certain restrictions on eligibility requirements and benefit determination, but leaving states with a large degree of latitude in both of these areas. One consequence is that different states set very different benefit levels, for example. However, most states set a “100 percent” benefit reduction rate – benefits were reduced dollar-for-dollar for every extra dollar of earnings, providing little or no incentive to work.

Several reforms occurred in the program prior to the 1990s, as shown in *Table 2*. In 1961, two-parent families were made eligible for the program if the primary earner was unemployed, at state option. However, asset and income limits for eligibility were not adjusted upward and, consequently, few two-parent families have ever been part of the program. Financial work incentives were attempted in 1967 when the benefit-reduction rate was lowered from 100 percent to 67 percent, an idea popular from the ‘negative income tax’ discussions at the time. This reform appeared to have little effect on the AFDC caseload, however, which continued to rise after the reform (see below). The benefit-reduction rate was increased back to 100 percent in 1981. In 1988, the federal government shifted toward a job-search and job-training strategy to increase employability and work instead of just using financial incentives. However, neither the level of work among recipients nor the caseload itself were much affected by the 1988 reform as well.

Table 2 Major legislation in the AFDC and TANF programs

Date	Title of legislation	Main provisions
1935	Social Security Act	Created the AFDC program for low-income children deprived of support of one parent
1961	Amendments to the Social Security Act	Created AFDC-UP program for children in two-parent families where primary earner is unemployed
1967	Amendments to the Social Security Act	Lowered the benefit reduction rate to 2/3; created the Work Incentive (WIN) program
1981	Omnibus Budget Reconciliation Act of 1981	Increased the benefit reduction rate to 1; imposed a gross income limit; counted income of stepparents; allowed waiver authority
1988	Family Support Act of 1988	Created the JOBS program for education, skills training, job search assistance, and other work activities; created transitional child care and Medicaid programs; mandated AFDC-UP in all states
1996	Personal Responsibility and Work Reconciliation Act	Abolished the AFDC program and created the TANF program

These reforms illustrate the increasing emphasis on work in the program, starting in the 1960s and increasing over time. This emphasis has often been ascribed to the increasing labor force participation rate of women, which has occurred in other countries as well. This change altered the old view that mothers should stay at home with their children to a new view that work, even by mothers of young children, was natural and even expected. Of course, this emphasis raises many issues concerning its possible effects on children themselves as well as adequacy of child care, but the change in the views of the public and of policy-makers was unmistakable.

Another shift revealed by these developments was a change from financial incentives to more direct inducements to work. The 1967 reforms failed to have an impact on caseloads and expenditures, and financial incentives were rarely considered as a main tool thereafter. In fact, however, even the 1967 legislation created a small work program which mandated that women whose youngest child was older than six enroll in a work-related program, usually some type of job placement program. However, the rule was rarely enforced and few women were enrolled. In the 1970s, the federal government considered other work programs but these never passed Congress. After the 1981 legislation, however, a number of states began, on their own, experimenting with small-scale work programs, often voluntary, offering job-search, work experience, or basic skills training programs to certain categories of recipients. The results of these experiments were fairly positive and contributed to the 1988 legislation. However, that legislation, which mandated work for many recipients and set “participation” requirements for the states, proved to be very difficult to administer. States found the creation of the fairly complex jobs programs required by the law to be difficult and, moreover, found that the program creation required was fairly expensive. As a result, full implementation of the law, which was never achieved, was realized to require much larger expenditures on the program than had been anticipated, and was unlikely, at least in the short run, to reduce caseloads and expenditures. The 1988 legislation was widely regarded as a failure.

The course of program expenditures and caseloads up to the early 1990s is illustrated in *Figure 2* and *Figure 3*. Both expenditures and caseloads rose sharply in the early 1970s for a variety of reasons, including an increase in take-up among eligibles as welfare stigma fell, as well as the superior access to Food Stamp and Medicaid benefits for women on AFDC. Thus the 1967 legislation giving increased work incentives did not lower the caseload and expenditures, or at least not enough to counteract other forces. The 1981 legislation likewise had no discernible impact. Both caseloads and expenditures rose sharply in the late 1980s, an event mostly the result of a recession but which surely made implementation and the success of the 1988 legislation more difficult. Thus, by 1990, policy-makers felt as though a number of reform efforts had been attempted over the previous two decades, both financial incentives and more direct work programs, with little success in reducing caseloads or expenditures. Nor did the evaluation literature indicate that the incomes or employment rates of low-income single mothers were much increased by the reforms.

Figure 2 Real 2004 per capita expenditure on AFDC/TANF (1970-2004)

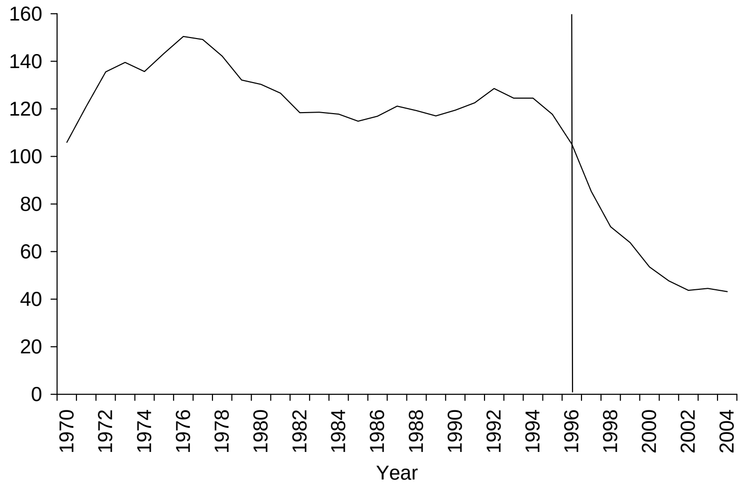
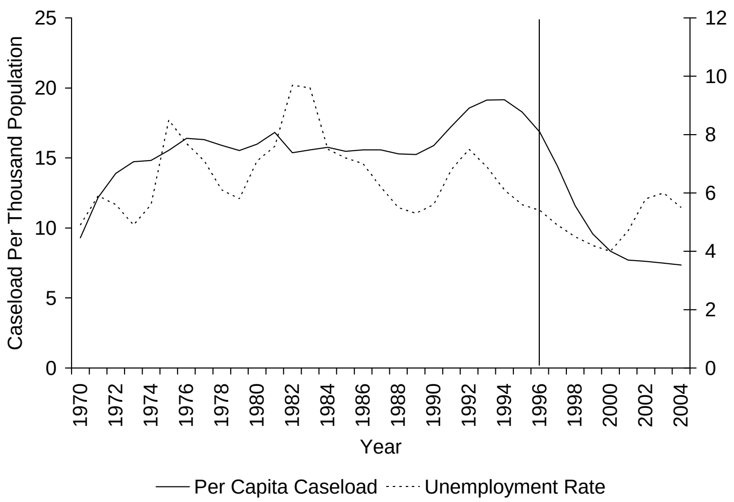


Figure 3 Per capita AFDC-TANF caseload (1970-2004)



2.2 The 1990s and TANF

Early in the 1990s, in response to this lack of effectiveness of prior reforms, individual US states began experimenting with quite different types of reforms. An increased emphasis on work requirements was the most important single new element. Education and training were generally ruled ineligible to meet the requirements, with an emphasis instead on work per se. Government jobs were also generally not provided – the rules stipulated that work in a private sector job was necessary. Often an initial period of job search was allowed but that was then required to be followed by actual work. To enforce these requirements, states also began imposing "sanctions" – defined as temporary or permanent withdrawal of benefits – on recipients for failure to comply with work and other requirements. Although such sanctions had been present in some form previously in the AFDC program, they had never been as aggressively enforced.

Several other features were often introduced into the state reforms: (1) a negative-income-tax-like reduction of marginal tax rates on earnings to provide financial incentives to work; (2) time limits on benefits, stipulating that recipients could not receive benefits for more than a certain number of years (2 to 5, for example), at least within a given calendar period; and (3) the imposition of family caps, which specified that AFDC recipients would not receive higher benefits if they had additional children while on AFDC.

Table 3 Comparison of the AFDC and TANF programs

Item	AFDC	TANF
Financing	Matching grant	Block grant
Eligibility	Children deprived of support of one parent or children in low-income two-parent families (AFDC-UP)	Children in low-income families as designated by state; AFDC-UP abolished. Minor mothers must live with parents; minor mothers must also attend school
Immigrants	Illegal aliens ineligible	Aliens ineligible for five years after entry and longer at state option
Form of aid	Almost exclusively cash payment	States free to use funds for services and non-cash benefits
Benefit levels	At state option	Same
Entitlement status	Federal government required to pay matched share of all recipients	No individual entitlement
Income limits	Family income cannot exceed gross income limits	No provision
Asset limits	Federal limits	No provision
Treatment of earnings disregards	After 4 months of work, only a lump sum USD 90 deduction plus child care expenses; and nothing after 12 months	No provision

Table 3 Continued….

Item	AFDC	TANF
Time limits	None	Federal funds cannot be used for payments to adults for more than 60 months lifetime (20 percent of caseload exempt)
JOBS program	States must offer a program that meets federal law	JOBS program abolished
Work requirements	Parents without a child under 3 required to participate in JOBS	Exemptions from work requirements are narrowed and types of qualified activities are narrowed and prespecified (generally excludes education and classroom training) and must be 20 hours/week rising to 30/week for single mothers
Work requirement participation requirements	JOBS participation requirements	Participation for work requirements rise to 50 percent by FY 2002
Child care	Guaranteed for all JOBS participants	No guarantee but states are given increased child care funds
Sanctions	General provisions	Specific provisions mandating sanctions for failure to comply with work requirements, child support enforcement, schooling attendance, and other activities
Child support	States required to allow first USD 50 of child support received by mother to not reduce benefit	No provision

Note: "No Provision" means that the law had no requirement of the type (e.g., no income limits and no asset limits).
Source: Burke (1996).

Congress subsequently took action in 1996 by enacting the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which simultaneously reduced federal authority over the program but also mandated many (but not all) of the popular state-level waiver features. *Table 3* summarizes the differences between AFDC and TANF. The PRWORA legislation converted the previous matching grant to a block grant and removed much of the federal regulatory authority over the design of the program. Thus states were free to set their benefit levels, as before, but also the tax rate, income limits, asset requirements, and even the form of assistance (cash or in-kind services). The last provision is important because it allows states to use TANF dollars to support child care, job search support, social services, and other types of expenditure; there are no requirements on how much or little must be spent on cash aid directly. In addition, no federal definition of who is to be included in the assistance unit was imposed; the AFDC-UP program was abolished and states were able to cover two-parent families at their discretion. In addition, and importantly, the entitlement nature of the program was abolished and states were not required to serve all eligibles.

At the same time, however, the law imposed new federal authority in a few specified areas. Federal funds were not to be used to pay adults for more than 60 months of TANF benefits over their lifetimes, although states were allowed an exemption from this requirement for 20 percent of their caseloads. Minors who had dependent children were required to stay in school and live with their parents in order to receive federal TANF dollars. In addition, while the 1988 JOBS program was abolished, new work requirements were imposed that required that states enroll significantly greater fractions of the caseload in them (as many as 50 percent of single mother recipients and 90 percent of two-parent families were to comply) and which narrowed the list of exemptions from the requirements. Recipients involved in general education and training could not be counted toward these participation requirements, as in many of the prior state reforms. The hours of work per week required were also greatly increased – up to 30 hours/week for single mothers and more for two-parent families.[2]

The most dramatic departures from the AFDC program were the time limit and work requirement provisions. Lifetime time limits were a new concept in US transfer programs and were based on a quite different philosophy of the aims of public assistance than had been the case theretofore. States were allowed certain types of exemptions from the time limits and were also allowed to grant temporary extensions to individual families, so long as the total number did not exceed 20 percent of the caseload. The work requirements in the new legislation were much stronger than in

[2] The law imposed specific penalties on the states for not complying with these mandated provisions. These penalties took the form of percentage reductions in the block grant allocation for each type of violation. The work participation requirements were considerably ameliorated by another provision of the law which reduced those requirements in proportion to the amount of caseload reduction a state experienced. Because caseloads fell dramatically after the reform, the participation requirements were greatly reduced as well.

previous law and changed the orientation from education and training to work per se. The law also allowed states to impose sanctions on recipients for failure to comply with the work requirements, sanctions which were much stronger than in past law and which were rigorously enforced. The work emphasis of the law was further reinforced by an increase in the funds made available for child care.[3]

After the 1996 legislation, states moved forward vigorously to design TANF programs along the lines indicated by the law and, in many cases, went beyond the minimum required. For example, many states imposed time limits shorter than the five year maximum required by the federal law. Other states imposed much stronger sanctions on recipients than required by the law. The states also embraced work requirements and sanctions vigorously. The most notable movement was toward a “Work First” approach in which recipients and new applicants for benefits were moved as quickly as possible into work of any kind, with a de-emphasis on education and training. Again, many states imposed strong sanctions for failure to comply with these requirements, usually beginning with an initial partial sanction at first noncompliance and then graduating to a more severe, full sanction at subsequent noncompliance. The work requirements were also often strengthened by frequent requirements for job search and work registration at the point of application for TANF benefits that must be complied with before benefit receipt could begin. In addition, the majority of states lowered their benefit-reduction rates, usually to approximately 50 percent.

The PRWORA legislation represented more than simply a redirection of the employment goal and an increased emphasis on work. A new goal appeared which was to reduce “dependency,” a term much used in public discussions, which is more or less defined as long-term receipt of welfare benefits. Such dependency was presumed by the PRWORA legislation to have deleterious effects on adults and children, and its reduction became a goal in and of itself. Another new goal of welfare reform in the 1990s was to reduce the rate of nonmarital childbearing and to encourage marriage. This

[3] However, the guarantee of child care for working recipients which existed under AFDC was abolished. That guarantee was widely seen by states as a constraint on their ability to increase employment because it meant that states could not force women to work without first providing sufficient child care slots.

goal was explicitly stated in the preamble to the PRWORA legislation but the law itself had very few provisions directly relating to it.

3 Effects of the reform

3.1 Four types of studies

There was a large effort by the research community to evaluate the effects of the welfare reform in the few years following 1996. This proved to be quite difficult because no evaluation plan was built into the legislation and its provisions were not tested prior to passage of the law (see Moffitt and Ver Ploeg 2001; and Blank 2002, for extensive discussions of the nature of the evaluation difficulties). A wide variety of evaluation methodologies were consequently used. Without going into a detailed discussion of those methodologies, suffice it to say that there were four basic types.[4] First, analysts examined simple time trends in the outcomes of interest from before 1996 to after 1996, to determine if a break in the trend occurred (e.g., Murray and Primus 2005). This method is complicated by the fact that other things may have been changing at the same time (e.g., the economy). Second, a variation on this method compared changes in outcomes over time for the groups most heavily affected by the reform – for example, less educated or low income single mothers – to those for groups not so affected by the reform but similar in some other respects – such as more educated or higher income single mothers, married women, or women without children (e.g., Ellwood 2000). This method requires that the outcomes for the different groups would have moved along the same trend-line in the absence of welfare reform, which is tantamount to saying that there could not have been other factors occurring which affected them differently. Third, many studies made use of the fact that different states enacted different programs prior to 1996 at different times, allowing a comparison of outcomes for women in different states as a measure of the effects of reform and allowing a control for the state of the local economy (e.g., Levine and Whitmore 1998). Relatedly, a few states implemented the PRWORA legislation later than others,

[4] See Moffitt and Ver Ploeg (2001) for a detailed discussion.

providing a short window for a comparison of outcomes during the period when some states had implemented the law and others had not. These methods are complicated by the fact that states differ in many other respects as well that are often difficult to control for and by the short windows of time allowed for the evaluation. Fourth, there were a series of randomized experiments in the US, all begun prior to 1996, which tested elements of the PRWORA legislation by a rigorous experimental-control methodology (e.g., Miller *et al* 2000). A drawback to this method is that the programs were not designed to replicate the features of PRWORA and hence differed from them significantly in most cases (e.g., most did not have time limits), and another limitation is that experiments, at least those tested on welfare recipients, will always miss "entry" effects (see below).

Another pertinent set of issues related to whether the goal of assessing the effects of reform was to estimate the cumulative effect of all provisions of the law, equal to the combined effect of all components of the program together (work requirements, sanctions, time limits, etc.) – what may be termed the "overall" effect – or whether the goal was to assess the effects of each of the components separately, as if each had been introduced while the others had not. The evaluation methodologies just discussed are most effective for the first of these goals – examining the total, cumulative effect of all provisions and components. It has proven difficult to evaluate the effects of different components separately because, at least after 1996, all states implemented some form of the major components (work requirements, sanctions, time limits); thus no one of them was introduced while the others were not. Much of the knowledge of the effects of individual components arises from the period prior to 1996, when different states adopted different policies, but the problem with this type of analysis is that many of the policies were quite different than those later implemented in the TANF program. In principle, the fourth methodology – randomized experiments – could be used to assess the incremental effect of a given component holding the others fixed. Most of the evidence on the effects of individual components arises from experimental studies, as discussed below, but the experiments did not test many of the important components of the TANF legislation and did not always isolate the effects of others.

Finally, there are a number of issues concerning the outcomes of interest. A major set of outcomes of interest to policy-makers and the public relate to the effect of the reform on individual levels of employment and earnings, and on total family income and rates of poverty. Another set of outcomes of interest to some groups were the effects of the reform on child-bearing and marriage, while another set focuses on children – the effects on child development, behavior, educational levels, and so on (Waldfogel 2007). However, it should also be noted that many policy-makers regarded a reduction in the welfare caseload, and in welfare expenditures, as an outcome of interest in its own right. In this view, even if employment, earnings, income, and the other outcomes were unaffected by the law, it could still be regarded as successful if it reduced the caseload because "dependency" had been reduced.

3.2 Findings on the overall effect of reform

There have been a number of reviews of the research literature on the effects of 1990s welfare reform in the US (Blank 2002; Moffitt 2003; Grogger and Karoly 2005; Blank 2007b). Here a relatively short summary of the findings will be provided.

The simplest method of assessing the effects of the reform is by examining time-series trends in the outcomes of interest. *Figure 2* and*Figure* **3** show trends in AFDC-TANF expenditures and caseloads, for example. These figures show a dramatic reduction in both over the relevant period, with the caseload dropping to levels in 2004 below even those in the first year shown, 1970. This historically unprecedented decline is one of the strongest pieces of evidence in support of a welfare reform effect. Two complicating factors must be stated, however. One is that the unemployment rate (also shown in the figure) was falling at the same time and, indeed, it fell to historically low levels as well; this could have reduced the welfare caseload by itself. Further evidence on this issue will be mentioned below, but one piece of evidence suggesting that the unemployment rate per se was not the whole story is simply the fact that the unemployment rate rose in 2001 because of a recession beginning that year, returning to levels obtaining in the early 1990s and early 1970s, yet the welfare caseload remained low. The other complicating factor is that the decline in the caseload began somewhat prior to 1996. Most analysts believe that this was partly the result of the state-level welfare reforms that began in the early 1990s, but contributing factors could have been, again, the state of the economy but also concomitant expansions in the Earned Income Tax Credit.

Figure 4 Employment-population ratio for single-mothers, by education level (1986-2005)

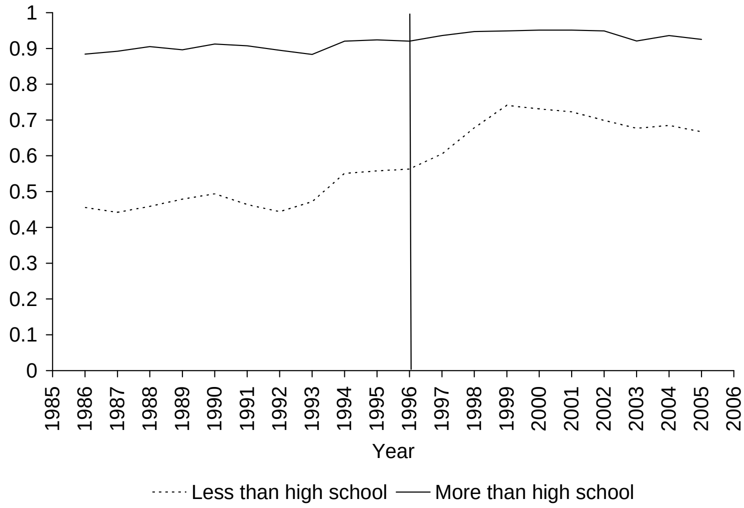


Figure 4 shows trends in the employment-to-population ratio, a common measure of labor force activity, and shows it for two different groups of women – single-mother families with less than a high school education and those with more than a high school education. This illustrates the second methodology mentioned above, inasmuch as women with more than a high school education should have been affected much less by the reform than those with lower levels of education. The figure shows that the employment-population ratio for the less-educated mothers (the lower line in the figure) started rising in 1993, about the time of the expansion of the EITC and the beginning of state-level welfare reform, then took a major, historically large jump after 1996. The employment rates for more educated mothers rose only slightly over the same period. This suggests that welfare reform had a significant positive impact on employment, and one that was not the result of the unemployment rate, which could be argued to have had similar effects on the two groups (although this could be called into question). It should be noted, however, that the employment rate fell a bit more after 1999 for the lesser educated mothers compared to those who were more educated, a sign either that

the gains from welfare reform were lost to some extent in the medium run, or that other forces were at work farther along in time.

Figure 5 Poverty rate 1985-2005, by family type (percent)

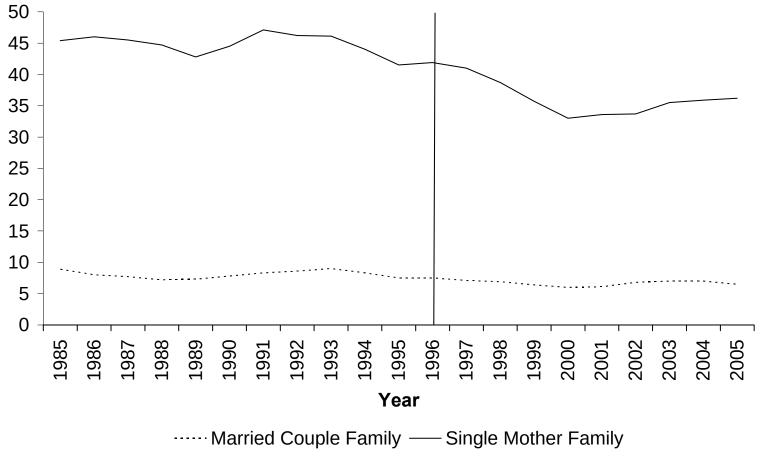


Figure 5 shows trends in the poverty rate of two types of families, those headed by a married couple and those headed by a single mother. Once again, the latter group was affected much more by welfare reform than the former group. The figure shows a steep decline in the poverty rate of single mother families immediately after 1996 but only a slight decline in that of married couples. Further, while the poverty rates of both groups have risen since 2001, the poverty rate of single mother families has remained far below what it was prior to 1996.

These simple figures provide strong prima facie evidence that the reform had effects on caseloads, program expenditures, employment (albeit possibly only in the short run), and poverty rates. However, this evidence needs to be backed up by more formal statistical analyses using these same methodologies in a more careful way, and by using the other methodologies discussed above. The reviews of the literature mentioned above have assessed that evidence.

Table 4 shows a summary of the findings from these reviews. The statistical studies of the effect of welfare reform on caseloads and welfare use in general almost all show negative effects of reform. These studies control for the state of the economy and hence indicate that not the entire decline was a result of changing economic conditions (these studies were conducted prior to the recession of 2001+ as well). The central tendency of the findings suggests that caseloads were reduced by about 20 percent and employment was increased by about 4 percent as a result of welfare reform. The studies all show some contribution of the economy to the caseload decreases and employment increases as well, however, and many attempt to quantify the relative contributions of welfare reform and the economy to the decline in welfare use. The estimates range considerably but some assign at least half of the decline to the effects of an improved economy. Even if this is correct, it still implies a large effect of welfare reform.

One of the interesting findings from these studies is that much of the decline in welfare use and caseloads arose because of decreased entry instead of increased exit (Acs *et al* 2003; Grogger *et al* 2003; Mueser *et al* 2000). Although it is unquestionable that welfare reform induced more women who were initially on welfare to leave, both because of increased government subsidies to work off welfare (e.g., from the Earned Income Tax Credit) or because of the “push” of welfare work requirements, sanctions, and time limits, it is also the case that many women who would ordinarily have gone onto welfare when faced with a decline in income or earnings – possibly a temporary one – instead stayed off welfare after the reform. It would not be surprising if this were a result, as well, of the increased work requirements, sanctions, and time limits on welfare, which would naturally be thought to make welfare less attractive. The EITC and a strong labor market would presumably also allow families to stay off welfare. The motivations of this group have been difficult to document with the available evidence, but this interpretation of the reduced entry effect is the one given by most analysts.

Table 4 Results of research on the overall effects of US welfare reform

Outcome	Findings
Caseload	1. Most studies show negative effects, both pre-1996 and post-1996, although the improved economy explains a significant portion of the caseload decline as well 2. A large fraction, if not the majority, of the effect arose from decreased entry to the program rather than increased exit 3. Those leaving welfare did so partly because of sanctions; those sanctioned were sometimes the more disadvantaged families rather than the more advantaged 4. Those leaving welfare often lost access to other benefits and services
Employment	1. Most studies show positive net effects on employment rates 2. Women who left welfare had employment rates of approximately 60-70 percent 3. Employment rates of women on welfare rose from <10 percent to over 30 percent 4. Those who were not employed often had income from others in the family or from other transfer programs 5. A high fraction worked full time as well as part time
Earnings	1. Most studies show positive net effects on earnings 2. Women who left welfare also showed increased earnings from others in the household 3. Hourly wage rates are above the official minimum wage 4. Mixed evidence on whether wages grow with experience after leaving welfare
Family income and poverty	1. Most studies show increases in average family income and declines in poverty rates 2. Women who left welfare had, on average, only small increases in income and declines in poverty; those who did not enter welfare experienced strong increases in income and declines in poverty 3. The incomes of women who left welfare rose little because the loss of benefits almost cancelled out the increase in earnings and increase in other household members' income 4. Some early studies showed a decline in income and increase in poverty among very low-income single-mother families; this does not show up in consumption
Childbearing and marriage	Most studies show no discernible effect

Source: Blank (2002), Moffitt (2003), Grogger and Karoly (2005).

Another issue of interest is the extent to which those women who left welfare did so because of the stronger sanction policy. This is quite difficult to determine because some women leave welfare in anticipation of being sanctioned and therefore never actually experience a sanction; therefore, the number of women actually sanctioned is an underestimate of the number affected. For example, many of the women who left welfare did so merely by not showing up for work sessions or not showing up for eligibility redetermination meetings, or just not replying to letters and requests for information, meetings, or documentation. If some fraction of these recipients knew that sanctions would be imposed if they did not comply and decided simply to go off welfare in anticipation, this would be somewhat difficult to measure. Nevertheless, cross-state comparisons of states with differing strengths of sanction policies show that stronger sanctions result in lower welfare usage and caseloads (Levine and Whitmore 1998).

What is more easily measured is how many of the women who left welfare had, in fact, actually been sanctioned. Here the figures indicate that a large fraction were, possibly 10 or 20 percent. Indeed, sanctions were often imposed, even though some were “partial” sanctions and did not result in welfare termination: nationwide, about 5 percent of TANF recipients were sanctioned every month in the few years after the legislation.

The evidence on who was sanctioned and who was not is not solid, but several studies show, surprisingly, that sanctions were not always imposed on the more “job-ready” individuals (Pavetti *et al* 2003). If those who have the greatest labor market opportunities off welfare – the greatest levels of education, the greatest levels of past work experience, and so on – end up being sanctioned because they appear to be capable of work but refuse to do so, the framers of the legislation would see that as fulfilling the purpose of the sanctions. But if some of those sanctioned were the least job-ready and were drawn from the more disadvantaged portion of the caseload, policy-makers would be concerned. In this case, it is possible that families who are in turmoil or who cannot organize their lives sufficiently to comply with the rules are the same ones who are forced off welfare, and are likely to be worse off as a result.

The findings on employment and earnings reported in *Table 4* confirm the time-series evidence presented earlier, indicating consistently positive effects of welfare reform. About two-thirds of women who left welfare were employed in the immediate period following reform, and many more were employed at some point over a longer period of one or two years (Acs and Loprest 2004). This was one of the most surprising results of welfare reform, for historical employment rates of women on welfare had never exceeded 10 or 15 percent at most, and were usually less than 10 percent. The idea that two thirds of these women were capable of working, or even that a selected portion of recipients (the more job-ready) were capable of working at these levels, was a major surprise and resulted in a fundamental change in policy-makers' views of the work ability of women on welfare.

A high fraction of those who left worked full time (defined as 35 hours per week or more), and hourly wage rates of those who worked were reasonably high (Acs and Loprest 2004). Earnings increased for women who left welfare, although this is to be expected if employment increased to 60-70 percent relative to 10 percent or less when on welfare. Another outcome of interest is whether there were increased earnings from individuals in the household other than the welfare recipient herself – for example, older children, spouses or cohabitors, or other relatives. The evidence has indicated considerably greater increases in this form of earnings than expected (Bavier 2001). The general interpretation is that families that went off welfare increased employment from many family members in order to sustain their family incomes.

Another issue of interest is whether welfare reform affects wage growth. Conventional wisdom is that the age-earnings profiles of low-skilled workers are particularly flat, perhaps because the types of jobs that low-skilled workers hold have little human capital and training content that would lead to increased earnings. This would suggest that former welfare recipients would also have slow wage growth after leaving welfare, and a number of studies support this suggestion (Moffitt and Rangarajan 1989; Burtless 1995; Card *et al* 2001). This has generated a source of considerable policy concern because the more hoped-for outcome is that former recipients would gain experience in the labor market, leading to increased wages which would reduce the probability of coming back onto welfare in the future. However, the evidence is completely mixed on this issue, with a significant number of high-quality studies also showing that the returns to work experience are just as high among low-skilled workers and single mothers than among other types of workers (Gladden and Taber 2000; Grogger 2005; Connolly and Gottschalk 2006).

The evidence on the effects of welfare reform on total family income, and on poverty rates, is also very important. The general findings from the statistical studies support the poverty rate time trends mentioned earlier, showing that incomes of disadvantaged single-mother families rose and poverty rates fell, relative to various comparison groups, in the years following welfare reform (Blank 2002; Grogger and Karoly 2005). However, the studies have indicated that the large majority of these income gains occurred among women who did not enter welfare rather than among those who left welfare after reform. To some extent, this is not surprising because women initially off welfare have greater job skills and should have been better able to take advantage of the heightened job opportunities in the labor market. However, it does imply that the gains from welfare reform were not evenly spread, having their largest effects on those low-income families who already had some job skills rather than on the most disadvantaged. In addition, the fact that family incomes of those women who left welfare rose only modestly (on the order of 10 percent or so) indicates that the loss of welfare benefits prevented their incomes from rising very much. Indeed, most studies indicated that the increased earnings that women obtained after leaving welfare were either equal to the welfare benefits lost or a bit below it. The reason that family incomes rose modestly is because other family members increased their earnings and because the families were able to secure more benefits from welfare programs other than TANF. It is consequently unclear whether welfare reform worked because it "made work pay." If "making work pay" means ensuring that earnings of a woman are greater off welfare than her welfare benefits on welfare, the evidence does not indicate a very strong effect of that kind, if any.

It should be emphasized that these results are based on averages of all women leaving welfare, not just those who were employed. The fact that 60-70 percent of former welfare recipients worked after leaving welfare necessarily implies that 30-40 percent did not.[5] The latter group typically experienced a reduction in family income and, obviously, did not have earnings greater than their welfare benefits. Their reductions in income were lessened by increased other-family-member earnings and increased benefits from other programs, but these did not offset the loss of welfare benefits. For the former group, however – those who were employed after leaving welfare – earnings were generally somewhat greater than the welfare benefits lost, although these families also supplemented their incomes with other-family-member earnings. Thus, it may be that "work pays" if work can in fact be achieved, but that does not necessarily mean that going off welfare pays, in general.

Another piece of information relevant to changes in family income subsequent to welfare reform is how take-up rates of those eligible for TANF on a financial basis changed. If the reduction in the caseload was primarily a result of increased earnings and family income that lifted families above the income-eligibility cutoffs for TANF, that is different than reductions in the caseload arising from decreases in the fraction of families who receive TANF despite being financially eligible. In fact, a large part of the reduction in the caseload was a result of the latter effect. Participation rates among financial eligibles dropped from around 80 percent in the early 1990s to 69 percent in 1997, and further dropped to 42 percent by 2004 (US Department of Health and Human Services 2007, *Table 4a*). These reductions were no doubt a result of families who were sanctioned off welfare as well as eligible families who choose not to apply for the program because of the new work requirements, or attempted to apply and were rejected because of failure to meet those requirements.

Another set of findings in the research literature examined the distribution of income among low-income single-mother families and not just the average. Some of these studies have indicated that the family incomes of those in the bottom of the distribution (e.g., the lowest one-fifth or the lowest tenth) experienced declining incomes after welfare reform, and that the increase in average income and reduction in average poverty rates arose only because the majority of the distribution was better off (or, for the case of poverty rates, because those with incomes just below the poverty line were the primary gainers). An analysis of one experimental trial of a program that combined time limits with increased financial incentives yielded consistent findings, showing that welfare reform had no effect, if not a negative one, at the bottom of the earnings distribution but a positive effect in the middle of the distribution (but no effect at the upper portion as well) (Bitler *et al* 2006). This evidence is still being debated because direct information on consumption shows no such decline in the lower tail of the

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[5] Blank (2007a) estimates that 20-25 percent of all low income single mothers – whether former welfare recipients

distribution, leading to questions about data quality and other issues (Meyer and Sullivan 2007).

Some attention in the research on former welfare recipients examined which other government programs they availed themselves of after leaving welfare. Data on this question are available only for selected states, but indicate a rather sparse set of other government benefits were received (Acs and Loprest 2004, *Table 6.2*). The most commonly received form of benefit was Food Stamps, which was received by 33-74 percent of former recipient families. However, almost 100 percent of families received Food Stamps prior to leaving welfare because such benefits were automatically granted to AFDC recipients, so there was a significant reduction in receipt after leaving welfare.[6] Between 7 and 20 percent of families received Supplemental Security Income (SSI) benefits, which are made available to families with aged, blind, or disabled adults and children. Between 4 and 8 percent received some form of Social Security income, often from the Social Security Disability Insurance program. Virtually none of the families received Unemployment Insurance benefits because the US system requires a significant employment and earnings history to qualify, and almost no low-income single mothers have sufficient qualifications.

Finally, the evidence on the effects of welfare reform on family structure and marriage indicates weak effects, if any. The proponents of the 1996 legislation hoped that nonmarital fertility would fall and that marriage rates would rise as a result of the reform, for rising rates of nonmarital births and falling marriage rates have been a source of considerable policy concern. In principle, a welfare program which provides benefits to low-income families which are a positive function of the number of children provide an incentive for increased fertility, and a program which favors single-mother families over two-parent families should decrease marriage. Consequently, a reduction in the generosity of such a program should reduce fertility and increase marriage. However, the 1996 welfare reform had few provisions directly aimed at fertility and marriage, the main exception being optional state provisions for family caps mentioned

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are not – are neither on welfare or working, and have low incomes and high poverty rates.

previously. Moreover, it is also the case that increasing earnings among women could work to decrease marriage, inasmuch as it allows women to be more economically independent. In any case, the results from the three surveys mentioned above show, overwhelmingly, either insignificant effects of welfare reform overall or of individual components on either fertility and marriage, with rare exceptions (see Schoeni and Blank 2000, for an illustrative study), and even the specific studies of the effects of family caps show weak effects at best from the highest-quality studies. On the basis of these findings, it is generally agreed that if the government is to alter fertility and marriage patterns among the poor, some other types of policies will be necessary.

3.3 Findings on effect of components

The results summarized thus far pertain to the overall effect of welfare reform and not to the effects of specific components such as work requirements, sanctions, or time limits. As suggested earlier, it has been very difficult for analysts to separate the effects of each of these components from the others, given their simultaneous occurrence. Blank (2002, pp. 1137-38) notes that disentangling the effects of individual components in econometric studies face two problems, namely, that a full set of components is not always represented in the models and there is often insufficient cross-state variation in components to reliably estimate an effect. Blank concludes that "It is difficult to draw strong conclusions about the impact of specific policies from this literature" (pp. 1138). On the other hand, a large number of randomized experiments have been conducted in the US as well, many of which can be viewed as providing stronger evidence on the effects of components of welfare reform because they had fewer elements in the treatment. However, even the best of the experiments always bundled a number of different features into their treatments, also making it often difficult to draw conclusions about effects of the individual policies that were actually implemented by the states in their TANF programs.

From econometric studies, there is some evidence on at least two policy components, sanctions and time limits. There have been a few studies of the effects of sanctions,

[6] In the general population of all families, participation rates of families who were eligible for the Food Stamp program fell from 70 percent in 1994 to 48 percent in 2000, although they rose back to 55 percent by 2004 (US

showing them to have a negative effect on the caseload (Levine and Whitmore 1998). There have been more econometric studies of time limits, which have been shown to have a negative effect on the caseload and positive effect on employment rates (Grogger and Michalopoulos 2003; Grogger 2004; and Meyer and Rosenbaum 2001). The studies by Grogger and Michalopoulos, and by Grogger, provide estimates specifically for women with young children, finding that the effects on welfare use for that group are particularly strongly negative. These findings seem plausible and sensible even if their basis is not as strong as that for the overall effects.

There is more extensive evidence on individual policy components from randomized experiments. While none of the experiments tested the effects of sanctions in isolation, two experiments tested the effects of time limits, although in both cases bundled with a decrease in the benefit-reduction rate on earnings (Bloom *et al* 2000, 2002). The results indicated that time limits increased rates of welfare participation rates prior to the time limit but lowered them in the longer run, but the former result was probably the result of the decrease in the benefit-reduction rate. However, while the programs also increased employment, they had no significant effects on income because the gain in earnings and other forms of income arising from going off welfare were cancelled out by the loss in welfare benefits.

A larger number of experiments tested the effects of work requirements (also called "mandatory employment programs") or financial incentives (i.e., reductions in marginal tax rates or increases in earnings subsidy rates), or, sometimes, both combined. Experiments which imposed work requirements – backed up by sanctions – but without financial incentives showed reductions in welfare usage ranging from 3 percent to 12 percent, increases in employment rates ranging from essentially zero to 15 percent, but no effects on family income (see *Tables 5.1, 6.1,* and *7.1* in Grogger and Karoly 2005, for the results from 13 experiments of this type and Bloom and Michaelopoulos 2001, for a discussion of 11 experiments). Once again, the lack of effects on family income was a result of an equal sized increase in earnings and reduction in welfare benefits. There were also a much smaller number of experiments which tested financial

Department of Health and Human Services 2007, Figure 4).

incentives essentially alone – “essentially” because other reform components were also bundled into the treatments – the most well-known of which was the Minnesota Family Investment Program (Miller *et al* 2000). The “MFIP” program increased welfare usage by about 10 percent, had very little effect on employment rates, but increased family income. The positive effects on welfare usage rates arose because negative-income-tax decreases in a marginal tax rate always keep more families on welfare by allowing them to work at higher hours and earnings levels than before, and the small effects on employment arose because such a program always raises the breakeven level of earnings (that is, the maximum level of earnings at which benefits can be received) and hence reduce employment relative to families who leave welfare altogether. The positive effects on family income arise because higher benefits are paid to everyone – there is no benefit reduction for any family, in contrast to work requirement programs.

A few experiments tested combined work requirements with financial incentives, the most well-known again being the MFIP program, one variant of which required recipients to work (Miller *et al* 2000). Like the first MFIP program discussed above, this program increased welfare usage and family income but had significant positive effects on employment. This result shows that financial incentives can be helpful in increasing employment even when work requirements are the major policy reform; the “pull” of financial rewards is an important supplement to the “push” of mandatory work.

There were also two well-known experimental trials of financial incentives in the form of earnings subsidies, both of which paid low-income families additional funds if they worked a minimum 30 hours per week. The SSP program (Michalopoulos *et al* 2002) and the New Hope program (Bos *et al* 1999) did not have mandatory work requirements, and were both operated outside the regular welfare system, so that those who received payments were regarded as ‘not on welfare.’ The results of the experiments showed negative effects on welfare usage, positive effects on employment, and positive effects on family income, thus yielding favorable results on all three outcomes.[7] Further, the magnitudes of the effects were far larger than the other work

[7] The New Hope results differed somewhat for those who chose to work 30 hours or more. See the references.

requirement or financial incentive reforms already discussed. However, these results are somewhat misleading. The negative effects on welfare usage arose only because "welfare" was defined as the regular program, even though the families that took up the earnings subsidies were receiving government payments and should, by any usual term, be regarded as welfare recipients. Further, the primary reason the magnitudes of the effects were larger than in the other programs was that the payments were extremely generous, far largerthan in any TANF program in any state in the US. Benefits of the size tested in these programs are probably beyond the budgetary capability of the governments in the US.

Understanding these results requires making distinctions between decreases in the benefit-reduction rate, of the type associated with a negative income tax, and earnings subsidies, assuming both are unrestricted (that is, without minimum hours requirements). Unrestricted reductions in the benefit-reduction rate, which is what most US states have implemented after welfare reform, generate subsidies which decrease with earnings and therefore are generally believed to have their major positive effect on work at the bottom of the earnings distribution; higher up in the earnings distribution, benefit supplements are quite small. Unrestricted earnings subsidies, on the other hand, increase with earnings and therefore have more effects higher up the earnings distribution (although they must eventually be phased out as well, leading to negative-income-tax effects where the subsidy must decline with earnings); in fact, the amount of the subsidy for very low earnings families can be quite small. But if one compares a negative income rate benefit-rate reduction to earnings subsidies with minimum hours restrictions of, say, 30 hours/per week, there is much less difference between the two if they pay the same benefit at the 30 hours point, for the only difference between them is in the shape of the subsidy above that hours point. The major effect of a hours-restricted subsidy of either type is on the choice to work or not to work 30 hours.[8]

Another component issue that has been examined by the randomized experiments is whether work-requirements that attempt to move welfare recipients into employment as quickly as possible (so-called "Work First" or "rapid employment" programs, see, e.g., Danziger and Seefeldt 2000) have greater or smaller effects than programs which attempt some form of human-capital investment through increased education or training rather than immediate employment. The evidence in the studies that have been conducted on this question indicates that the human-capital investment approach does not dominate and, in fact, is often inferior to the Work First approach (Bloom and Michaelopoulos 2001). Rapid-employment programs increase employment and reduce welfare usage quickly, whereas human-capital development programs, which cost much more, have no greater employment effects three years after the initiation of the reform. However, Hotz *et al* (2006) argue that greater employment gains from the human capital approach appear if a longer-term follow-up is conducted. In any case, Bloom and Michaelopoulos argue that the best approach is neither rapid-employment nor human capital for everyone, but rather a more nuanced approach which separates the caseload according to their needs, requiring rapid-employment for those with significant preexisting job skills and a human-capital strategy for those with greater needs for skill improvement.

4 Remaining and future issues in the US

There are many remaining and future issues currently under discussion in the US, although most have to do with fine-tuning and modifications in the current reform rather than wholesale change. That the 1996 welfare reform was a success, in overall terms and on average, is almost universally accepted by policy analysts and researchers.

One set of general issues revolves around whom the TANF program is intended to serve and who it is not intended to serve, and the related issue of work requirements on TANF. The evidence presented in the previous section suggests that the large majority of the increased employment and earnings that resulted from welfare reform occurred by women either leaving, or not coming onto, welfare, and not from increased work among those remaining on welfare. While the latter has risen as well, it has not been the major source of the effect. Whether work should be substantially increased among

[8] A related issue with minimum-hours restricted programs is whether some subsidy should also be provided to women who only can, or are willing, to work part-time. These programs provide no work incentives for that group.

women remaining on welfare, or whether the remaining caseload should be thought of as predominantly composed of women who have great difficulties with working because of a variety of health, education, and family problems, has not been resolved in any clear way. While the success of the reform could suggest that it should be carried even further and deeper into the caseload, it may also be the case that the most job-ready women have already left welfare and that the majority of the remaining caseload have problems that should be addressed by other services than simple work requirements.

While this issue relates to how to serve the population of women remaining on welfare, other issues relate to women who have left welfare or who have chosen not to come onto welfare. As noted above, about 40 percent of former welfare recipients are not working and about 20 percent of all low income single mothers are not working and not on welfare, and this group has low income and high poverty rates. In addition, even those who are working have low earnings and hourly wage rates and are often struggling to maintain steady employment and earnings. There is widespread sentiment that increased assistance of two types is needed for these families. One is increased work supports in the form of better child care and increased assistance in finding jobs, for example. There is also some sentiment that increased earnings of the workers in this group would benefit from a return to some type of human-capital strategy that would help their earnings to grow over time, thereby reducing their long-term need for assistance. Efforts to stabilize employment among welfare-leavers by assisting them to stay on their current jobs or to leave only for better jobs are also underway. A second type of assistance is increased support of non-employment-related services to address the needs of this population in regards to health, substance abuse, and family and child problems. Because families who have left welfare are often outside the government transfer-program system, the government has difficulty identifying those with problems and with delivering services to those most in need. Blank (2007a) has proposed that states set up new programs which are designed specifically for those who have special difficulties with finding employment and that a variety of both employment-related and non-employment-related services be provided for such families.

The concern with providing further assistance to those off welfare who have either employment or non-employment-related problems goes to the heart of the 1996 welfare reform. That reform could be viewed as having removed the “safety net” for most families by no longer guaranteeing them financial support should their incomes fall below stipulated levels. While the removal of this safety net appears to have had positive effects on many single mothers by inducing them to work and providing support to their families without the help of welfare, some have not been so successful and are in need of continued assistance. Because they are off welfare, however, providing this assistance is difficult.

It should be noted that an issue which is no longer debated in the US is whether work programs and work requirements should be mandatory or voluntary. The consensus is that they must be mandatory, and that voluntary programs have much smaller positive effects. While a strong labor market, strong wage growth in the economy, and earnings supplements for low-skilled workers off welfare are very important in encouraging individuals to leave welfare or to stay off in the first place, they are by themselves insufficient to make a major impact on the welfare caseload. Mandatory work programs, which force women to take actions to change their situation, are necessary.

An issue which is still remaining is the effect of time limits. Evidence to date suggests that approximately twenty-five thousand families hit a time limit by early 2002, approximately five years after welfare reform, and since then about 3,000 families have hit their limits each year (Farrell and Rich 2007). These are relatively small numbers compared to the size of the caseload, at least since 2002. As a consequence, most analysts believe that time limits have had much less effect than anticipated (although it should be reemphasized that many more women may have left welfare in anticipation of hitting the limit). Indeed, there is little policy discussion of reforms in time limits at the present time. In part, the small number of terminated cases arose because so many women left welfare and hence stopped accumulating years of welfare on their record. In addition, states often made use of their exemptions to allow some fraction of those who hit the time limit to continue on. A few other states picked up the cost of women hitting the time limit with state funds, thus essentially removing the time limit (sometimes doing so only for the children).

Finally, another overarching issue in the US is the relative lack of programs and services made available to unskilled prime age males, both married and unmarried. Most transfer programs exclude them, with the exception of the EITC for those with dependents, and Food Stamps is a major exception that provides universal support. But Medicaid, SSI, housing, and child care are not well targeted on this group, and TANF provides little support to low income married men. Training programs, while important, are too small in scale to make much of a difference. This is a group which many believe is largely neglected by the current system, yet which has major employment problems which are not being adequately addressed.

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Comment by Knut Røed[*]

Much of what we know regarding the impact of welfare reforms on economic behavior comes from the US. There are at least three reasons for that. First, the US experience has been characterized by *early* and *extensive* social security reforms. Second, variation in social security arrangements – and in the *timing* of social security reforms – across otherwise similar states has to some extent facilitated identification of the *causal impacts* of institutional features and reforms. And third, in the US, there has been a scientific culture for genuine *experiments* based on random assignment.

Examining the impact of reforms and experiments may be interesting in its own right – and policy makers may learn directly from the successes as well as the failures of initiatives taken in other countries. In addition, reforms and experiments may contribute to the identification of the impact of deeper structural parameters on economic behavior and thus, facilitate the evaluation of policies that have never really been attempted in practice. However, there are also some grounds for caution. The impact of particular institutional features and reforms may heavily depend on the broader institutional context in which they are planted. Hence, research findings of this kind are not always easily transferable across time and space.

Robert Moffitt's article summarizes the impressive volume of research-based evidence that has accumulated in relation to reforms of the cash-based welfare program for single mothers. A particularly far-reaching reform was implemented in 1996, when the Personal Responsibility and Work Opportunity Act (PRWORA) was passed, replacing Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF). The reform imposed credible work-requirements, backed up by sanctions, and established time limits on lifetime receipts. There was an increase in the funding of childcare. In many states, work-incentives were also improved by lowering the benefit-reduction rates. The key message coming out of the evaluation literature is that this radical reform was a success; it reduced the program caseload and government expenditures, it increased employment propensity and earnings, and it reduced poverty rates. However, there is also some empirical evidence indicating that

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families at the very bottom of the income distribution were made worse off by the reform.

But how sure can we be regarding the actual impacts of the reform and the *interpretation* of those impacts? The cash-based welfare program for single mothers happened to be reformed in a very fortunate business cycle environment, and the program caseload was declining even before the implementation of the reform. Cyclical fluctuations clearly have independent effects on all outcomes of interest; hence it is difficult to separate the reform effects from the business cycle effects. Moffitt explains how different researchers have approached this problem, e.g., by exploiting small variations across states in the timing of implementation and by using individuals who were unaffected by the reform (e.g., married women) as “controls”. The bottom line is that although cyclical fluctuations were indeed responsible for some of the improvements in outcomes that were observed after the 1996 reform, they cannot explain the entire shift in the outcome distribution. With respect to caseload, the sheer magnitude of the decline after 1996 – together with its failure to rise again as cyclical conditions deteriorated after 2000 – provides compelling evidence in favor of a significant reform effect. However, for the other success criteria, such as employment and earnings, the evidence is perhaps slightly less conclusive. Although assumptions that cyclical conditions had similar effects on employment rates for “treatments” and “controls” may seem reasonable, they can hardly be backed up by undisputed empirical evidence. Moreover, work incentives for low-wage earners improved significantly during the 1990’s as a result of other institutional changes as well, such as the increases in minimum wages and the expansions of the Earned Income Tax Credit (EITC).

Cyclical fluctuations also interfere with evaluation studies in a more subtle way: They *affect the effects* of welfare reform. Indeed, it seems plausible that work-requirements have more clout when jobs are plentiful than when they are scarce. In the words of Blank (2003), “it’s very useful to have a strong macroeconomy if you want to implement work-oriented welfare reform”. This implies that even if it is possible to verify a reform-impact over and beyond what can be attributed to cyclical conditions and other structural changes, it is not necessarily the case that a similar effect would have been obtained under alternative cyclical circumstances. Therefore, one needs to be careful in assessing the policy implications of reform or experiment based evidence – the identified causal effects may not carry over to other economic environments. It is of course also politically easier to implement radical welfare reforms when job availability is not a big issue.

A particular concern that arises when partial welfare reforms are implemented in a European "welfare state" context is that of *benefit substitution*. Welfare states are characterized by multiple layers in their social security safety nets, and tightening the rules in one part of the system may simply pass the costs on to other parts. This is sometimes referred to as the "squeezed sausage effect", and may be particularly relevant with respect to the impact of sanctions and time limits, since the possibility of shifting to another type of benefit undermines the "threat-effect" of these measures. The findings reported by Moffitt indicate that this is not a major concern in the US context (although data on benefit claims from other government programs are only available for selected states). It may be more important for the extent to which similar reforms are implemented in Europe. The phenomenon of benefit substitution also implies that developments in the caseload or expenditures of a given program may not be the appropriate success indicator to look at; what we really would like to measure is the overall rate of welfare dependency, not its composition in terms of different programs.

In order to assess the generality of the lessons from the US reform, we do not only need to examine its overall quantitative impacts, we also need to understand *which aspects* of the reform that actually delivered the results. Moffitt discusses the attempts that have been made by the research community to identify the roles played by the different *reform elements*, i.e., work-requirement, improved work incentives, sanctions and time limits. A number of randomized experiments actually turn out to shed some light on this issue. The results are not crystal-clear, however. For example, experiments imposing work requirements – backed up by sanctions, but without improvements in work incentives – have shown increases in employment rates ranging from zero to 15 percent. A more unanimous finding, however, seems to be that family income is more or less unaffected by such reforms, implying that any earnings gains that might occur are typically offset by welfare benefit cuts. A few experiments have also tested the combination of work requirements and improved financial incentives. These experiments indicate significant favorable effects on employment, suggesting (in Moffitt's words) that "the 'pull' of financial rewards is an important supplement to the 'push' of mandatory work". Access to child care is clearly also crucial for mobilizing the labor supply of lone parents. And child care dollars available to low-income families in the US increased sharply during the 1990's.

A particularly interesting feature of the US experience is that a relatively large fraction of the caseload effect came through reduced entry rather than increased exit. As pointed out by Moffitt, it seems plausible that the decline in entry somehow resulted from the lower attractiveness of welfare caused by increased work-requirements, sanctions and time limits. However, virtually all experimental studies that have been carried out in the US have exclusively focused on families receiving or applying for welfare; hence, there is little robust evidence regarding the empirical relevance of the various reform-components with respect to the entry effect. Given the apparent magnitude of entry-responses, Grogger *et al* (2003, p. 291) argue that there is "an imbalance in the nation's research agenda" at this point.

One of the major concerns regarding the introduction of TANF was its consequences for individuals hitting the time limit. Little evidence has so far been offered on this issue, partly because relatively few individuals have exhausted their entitlements. According to the regulations, federal funds cannot pay adults more than 5 years of TANF benefits over their lifetimes. However, states were allowed an exemption from this requirement for 20 percent of their caseloads. And some states also used state funds to pick up the cost of supporting women hitting the time limit, essentially removing the limit completely. Even though relatively few individuals actually hit the time limit, it cannot be ruled out that the time limit accounts for an essential part of the overall impacts of the reform; see, e.g., Grogger (2004). Its existence may have affected the claimants' behavior early on in their benefit spells. While a flexible exemption practice may imply that the most adverse consequences of the reform – in terms of increased poverty – are avoided, it may also undermine the viability of the reform's apparent success, since it makes the "threat" embedded in the time limit less credible.

A key lesson for Scandinavian countries is probably that push and pull forces seem to reinforce each other, and that the current macroeconomic situation is almost ideal for implementing work-oriented reforms. The scope for improving work-incentives in typical welfare state economies may be limited, however. A general reduction in the welfare benefit level is typically not considered desirable, since it could work against the aim of poverty prevention among individuals who face serious external employment barriers. And making low-wage work pay significantly more is typically considered too expensive from a fiscal point of view. Given the relatively compressed wage distribution prevailing in Scandinavian countries – with high wage floors, rigid relative wages, and relatively strong employment protection for "insiders" – lack of work incentives may after all not be the most important barrier towards re-integrating welfare recipients into the labor market. An even more serious problem may be that it is too costly or too risky for employers to employ them. Hence, the Scandinavian welfare reform must address the issue of employability and combine activity requirements with policies aimed at improving the firms' incentives to hire "marginal" low-wage workers; e.g., through wage subsidies or educational programs.

It is perhaps typical for the Scandinavian approach that when Norway implemented its big reform of the welfare support system for single mothers in 1998, activity-oriented measures – such as work or education requirements and time limits – were balanced by a rise in the benefit level. The reform nevertheless worked; earnings rose (along with benefits) and poverty rates fell (Mogstad and Pronzato, 2007). It is also interesting to note that while the employment impacts of the reform were strongest in regions with low unemployment, the education impacts were strongest in regions with high unemployment. Hence, the impacts of general *activity* requirements – in terms of getting people off welfare – may be more stable over the business cycle than pure *work* requirements.

Activity requirements in various forms (work, education, program participation) as well as time limits are high on the political agenda in the Scandinavian countries. And recent empirical evidence suggests that they have the intended effect of increasing ordinary employment, even when the time constraints are "soft" (with generous exemption rules and/or follow-on benefits) and the sanctions associated with non-compliance are "mild" (e.g., in the form of a few weeks benefit termination); see Røed and Westlie (2007). This suggests that many of the desired effects of work-oriented reforms can be obtained without the side-effect of increased poverty among individuals with insurmountable employment barriers.

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