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## Editors

# WELFARE REFORM IN THE UNITED STATES. A DESCRIPTIVE POLICY ANALYSIS.*

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Abstract
Poverty alleviation is an important objective of European countries and of the United States. If these 'rich' states offer elaborate systems of income maintenance, why is there still a considerable amount of poverty? And why are anti-poverty outcomes so different in the United States compared to European countries?
This paper completes a trilogy of cross-country research papers on anti-poverty policy. Two former papers analyzed the effects of social transfers on both poverty levels and poverty alleviation through tax and social transfer systems. These papers marked the United States as an outlier: high poverty rates, low public social spending but high private social expenditures, a rather strong belief that people are poor because of laziness or lack of will, and remarkable differences across the Federal States caused by state discretion. Therefore, this paper analyzes U.S. welfare in more detail; we focus on part of the major welfare reform in 1996.
The 1996 welfare reform emphasizes an American preference for work. Indeed, the welfare reform increased work, although the earnings of most individuals who left welfare were still below the poverty line, even many years after their exit. A drawback of this work-first approach is the termination of cash assistance after 5 years, especially for vulnerable groups with low skills. Recent economic recession can cause severe troubles; one could - for example – argue that recipients who reach time limits without meeting work requirements should be offered a chance to work in community service jobs in return for cash assistance. We found huge variation of welfare eligibility rights across states, depending on ability to pay and preferences to meet a certain level of social standard and other (social) objectives such as child care, work support and employment programs.

JEL-codes: H53, H55, I32
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* This is a cross-Atlantic coproduction. Both authors studied welfare regimes in the U.S. and in the European Union on both sides of the Ocean in 2009. Martin was visiting Leiden Law School of Leiden University from National Poverty Centre of the University of Michigan, while Caminada was a Visiting Honorary Fellow at the Institute of Research on Poverty of the University of Wisconsin-Madison. This paper completes a trilogy of cross-country working papers on anti-poverty policy. The statistical information of sections 1-3 draws heavily on joint work of one of us (KC) with Kees Goudswaard. This study is part of the research program 'Reforming Social Security': www.hsz.leidenuniv.nl. Financial support of Stichting Instituut GAK is gratefully acknowledged.

*"No one who works full-time and has children at home should be poor anymore. No one who can work should be able to stay on welfare forever."*
(Presidential candidate Clinton, 1992 campaign speech)

*"In the absences of a renewed antipoverty effort, many households will continue to be unable to afford adequate food, housing, and shelter. Our high poverty rate contributes to an erosion of social cohesion, a waste of the human capital of a portion of our citizenry, and the moral discomfort of condoning poverty amidst affluence."*
(Scholz, Moffit and Cowan, 2008, p. 31)

## 1. INTRODUCTION

Poverty alleviation is an important objective of the European Union. The poverty problem is also striking in other highly-developed welfare states, such as the United States. Industrialized countries spend a large share of their budget on income maintenance, but poverty has not been eradicated. A sizable proportion of the population lives in economic poverty in all industrial welfare states. According to the most common standards used in international poverty analyses, on average roughly one in ten households live in relative poverty in OECD countries (OECD, 2008). The persistence of poverty in industrial welfare states calls for an explanation. If these welfare states offer elaborate systems of income maintenance, why is there still a considerable amount of poverty? And why are anti-poverty outcomes so different in the United States compared to European countries?
This paper is part of a trilogy of cross-country research papers on anti-poverty policy. Two former analyses report some profound differences between EU15 and non-EU15 countries; the United States is a special case (Caminada and Goudswaard, 2009 and 2010). Both analyses took into account 28 OECD countries and distinguished between EU15 countries and non-EU15 countries to investigate if both groups of countries generate (dis)similar anti-poverty effects with their systems of income transfers. The overall result of both quantitative studies seems to be that there is negative correlation between poverty respectively, poverty reduction, and social expenditures across countries over the last 25 years, although this result depends on the social spending indicator used. The effect of tax and transfer policies in reducing poverty is analyzed by comparing poverty rates at the level of market and disposable income, that is before and after social transfers, i.e. to determine the target efficiency of social transfers across countries. This kind of comparison may guide us to cross-country differences on poverty alleviation.
It appears that the United States is an outlier in several respects (cf. Smeeding, 2005a, 2005b and 2006). Government policies and social spending have lesser effects in the United States than in any other rich nation, and both low spending and low wages have a great impact on the final income distribution, especially among the non-elderly (Smeeding, 2005a, p. 955). Smeeding's analysis points to American institutions and lack of spending effort on behalf of low-income working families. Indeed, the United States stands out in the relative position of those at the bottom of the income distribution. Moreover, Smeedings' thorough analysis shows that countries with higher levels of government spending (as in Scandinavia and northern Europe) and more careful targeting of government transfers at the poor (as in Canada, Sweden, and Finland) produce lower poverty rates. Smeeding finds that the effects of the income package accounted for over 90 percent of the differences in income inequality

across nations. He claims that the U.S. redistributive package is the prime explainer of the differences. Therefore, this paper analyzes U.S. welfare in more detail; we focus on a part of the U.S.'s major welfare reform in 1996.

This paper completes our trilogy of cross-country research on anti-poverty policy. We first highlight why the United States is an outlier among 'rich' countries: high poverty rates, low public social spending but high private social expenditures, a rather strong belief that people are poor because of laziness or lack of will, and remarkable differences across the Federal States caused by state discretion. Next, this paper analyzes U.S. welfare in more detail. The paper is organized as follows. Section 2 presents some background of the combat against poverty in Europe and in the United States. Section 3 gives a descriptive overview of the U.S. safety net. Next, we investigate welfare reform in the United States in more detail in section 4. Our reading of the literature presents an overview of the effects of welfare reform in the United States in section 5. Section 6 concludes.

## 2. POVERTY IN THE EUROPEAN UNION AND IN THE UNITED STATES - IS THE U.S. DIFFERENT?

### *2.1 A world of difference*

This section highlights some of the differences with regard to social spending and poverty reduction between the U.S. and the other OECD countries. Clearly, national preferences play a role in explaining the differences in social spending across countries, but there may be other factors as well, such as the structure of the labor market, the level of fractionalization (race), country size, and so on. In their timely study of the different approaches of America and Europe to the problems of domestic inequality and poverty, Alesina and Glaeser (2004) describe just how different America and Europe are in the level of State engagement in the redistribution of income. They discuss various possible economic explanations for the difference, including different levels of pre-tax income, openness of the economy, and social mobility. Moreover, they survey politico-historical differences such as the varying physical size of nations, their electoral and legal systems, and the character of their political parties, as well as their experiences of war. Finally, they examine sociological explanations which include different attitudes to the poor and notions of social responsibility, as well as, most importantly, attitudes to race. Alesina and Glaeser (2004) conclude that the reasons why Americans and Europeans differ on their choices over welfare state and redistribution run very deep into their different history and culture. No simple economic theory provides a one-line answer. Instead, ethnic heterogeneity and political institutions seem to explain most of the differences. Especially the importance of ethnic fractionalization is emphasized by Alesina and Glaeser. Compared to Europe, the U.S. is a highly heterogeneous society that is particularly distinguished by overrepresentation among the poor of the most visible and socially distinct minorities. As such, it has always been easy for opponents of welfare to use racial and ethnic divisions to attack redistribution (p. 181). Estimates of Alesina and Glaeser (2004) show that racial fractionalization can explain approximately one-half of the differences in the degree of redistribution between the U.S. and Europe (p. 13).

### *2.2 Poverty rates*

In the European Union people are said to be at risk of income poverty if their incomes are below 60 percent of the median disposable income of households in their country, after adjusting for household size (equivalence scales). For comparison, the official United States poverty line was just about 30 percent of median United States disposable post-tax household income in 2007.[1] Based on the EU-agreed definition, the proportion of the EU15-population

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1 U.S. Census Bureau's Current Population Survey reports for 2007 a poverty threshold for a 4-persons family (weighted average) of $21,203; median disposable income for 4-persons families amounts $69,654.

who was at risk of poverty in 2007 is 17 percent. The comparable figure for the United States is higher: 24 percent.
The U.S. poverty threshold is based on an absolute poverty standard, which remains fixed over time in real terms. According to U.S. poverty definition, 12.5 percent of the population was living in poverty in 2007. The U.S. official measure of poverty is typically in the form of the cost of a basket of goods and services required to assure minimum living conditions and indexed for price changes over time. While the threshold is adjusted annually based on inflation using the Consumer Price Index (CPI-U), the measure is absolute and has been essentially unchanged since it was developed by Mollie Orshansky at the United States Social Security Administration in 1964 (National Poverty Center, University of Michigan). The poverty threshold estimates the rate of poverty in the United States by determining the number of households whose annual income is below the set threshold for the household's size. The determination of poverty is made based solely on income and cash benefits. Noncash benefits, such as food stamps and housing subsidies, are not included in the determination of a household's poverty (U.S. Census Bureau, 2007).
Reports on *relative* poverty profiles for OECD countries for the latest data year available consistently show – in general - Scandinavian and Benelux countries have the lowest poverty rates, followed by continental European countries. Anglo Saxon welfare states have relatively higher poverty rates. Among them, the level of poverty is highest in the United States.[2]
Using the official *absolute* poverty measurement from the U.S. (Orshansky-poverty) alters the picture to some extent. Notten and De Neubourg (2007) estimate that according to the Orshansky-methodology for years 1996 and 2000, that while U.S. has a high poverty rate, it is not significantly different from the rate established in most European countries using the Orshansky measure, while Greece, Spain and Portugal have figures four times higher than the United States. It should however be noted that their result is rather sensitive for the purchasing power parity rates used to convert the U.S. poverty lines to country specific thresholds of EU15.
In spite of differences in the measurement of poverty, most studies have consistently found that there is a large difference in poverty rates between (most) European countries and the United States.

### *2.3 Anti-poverty policy*

Poverty alleviation has been a European objective since the Treaty of Rome in 1957. In 2000 the European Council adopted the goal that in addition to economic growth, social cohesion should be strengthened in the EU (the Lisbon Agenda). The open method of coordination was introduced as the means of spreading best practices and achieving greater convergence towards the main EU-goals. Social indicators were developed to monitor the improvements with respect to social cohesion. The Lisbon Agenda has renewed the interest in poverty alleviation across member states. However, there is still a sizable proportion of the EU15 population living in poverty (17 percent), although both poverty structure and poverty rates vary across countries from 10 percent in the Netherlands to about 20 percent in Greece, Italy and Spain. Moreover, the average at-risk-of-poverty rates – an official EU social cohesion indicator – have risen since the adoption of the Lisbon Agenda.
The income poverty reduction goal for the United States was officially declared by President Johnson in 1964: "We cannot and need not wait for the gradual growth of the economy to lift this forgotten fifth of our Nation above the poverty line" (Danziger, 2007, p. 3). President Johnson's 1964 State of the Union speech emphasized structural factors as primary causes of poverty, including, "...our failure to give our fellow citizens a fair chance to develop their own capacities, in a lack of education and training, in a lack of medical care and housing, in a lack of decent communities in which to live....". The prevailing view at that time was that the poor

2 See Caminada and Goudswaard (2009 and 2010) for details. Data and analyses on poverty rates and poverty alleviation among OECD countries are available from Caminada's webpage: http://www.law.leiden.edu/organisation/taxlawandeconomics/economics/staff/caminada.html.

did not work because of excessive unemployment or, if they did work, they earned an insufficient amount in less-skilled jobs. In spite of the pronounced "War on Poverty", income poverty was not eliminated by 1980, as planned. Even today, the U.S. is far from fulfilling the vision of the "War on Poverty" declared by President Johnson. What went wrong? Broadly speaking, most social scientists point at three 'causes'. (1) Critics have blamed the growth of antipoverty programs themselves. Especially the Reagan-administration which criticized the adverse incentives for welfare recipients to accept (low-) paid jobs. (2) Other critics argued that eliminating income poverty was not as important a goal as changing the personal behaviors of the poor. (3) Several macro-economic circumstances (oil shocks) failed to deliver the benefits of economic growth among U.S. society equally.

It should be mentioned that the European Union has emphasized the multidimensional nature of deprivation, and have developed supplementary indicators of poverty based on social indicators and the broad concept of social exclusion. The European Union has defined common objectives on social indicators - based on Atkinson et al (2002) - to be benchmarked by the streamlined Open Method of Coordination. Both data and measurement techniques have been developed in order to capture a variety of dimensions of deprivation beyond money income (poverty). On the contrary, the United States solely focus on the income dimension of poverty, although influential scientists argue that moving towards broader measures of poverty that take into consideration indicators of material deprivation and social exclusion has a number of advantages (e.g. Haveman, 2008).

*2.4 Social spending and anti-poverty effects*

Table 1 provides a picture of poverty rates and several social expenditure ratios for EU15 countries and the United States. Poverty rates are from the Luxembourg Income Study (2009) and from OECD (2008). Three *relative* poverty lines are applied, and income is adjusted using equivalence scales. The figures show that the U.S. combines relatively high poverty rates with rather low social spending, albeit depending on the social spending indictor used.

Table 1: Poverty rates and social spending in EU15 countries and in the United States

| | Poverty total population | | | | | | Social expenditure in % GDP, 2005 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | LIS (around 2001) | | | OECD (2003-2005) | | | Gross public | Gross public and private | Idem, excluding Health | Net public and private |
| | PL40 | PL50 | PL60 | PL40 | PL50 | PL60 | | | | |
| *EU15* | 4.6 | 9.4 | 16.0 | 4.7 | 9.4 | 16.4 | 24.1 | 26.9 | 19.6 | 23.0 |
| Austria | 3.6 | 7.7 | 13.4 | 3.4 | 6.6 | 13.4 | 27.2 | 29.1 | 21.8 | 23.5 |
| Belgium | 3.7 | 8.1 | 16.1 | 3.1 | 8.8 | 16.2 | 26.4 | 30.9 | 23.1 | 26.8 |
| Denmark | 2.3 | 5.6 | 13.2 | 2.1 | 5.3 | 12.3 | 26.9 | 29.5 | 23.5 | 21.6 |
| Finland | 2.5 | 6.5 | 13.5 | 2.8 | 7.3 | 14.8 | 24.0 | 25.1 | 18.7 | 19.5 |
| France | 2.8 | 7.3 | 13.7 | 2.8 | 7.1 | 14.1 | 29.2 | 32.2 | 23.0 | 29.0 |
| Germany | 4.6 | 8.4 | 13.4 | 6.3 | 11.0 | 17.2 | 26.7 | 29.7 | 21.0 | 27.0 |
| Greece | 8.6 | 14.3 | 21.4 | 7.0 | 12.6 | 19.6 | 20.5 | 22.2 | 16.6 | n.a. |
| Ireland | 7.4 | 16.2 | 22.5 | 7.0 | 14.8 | 23.3 | 16.7 | 18.1 | 11.0 | 16.1 |
| Italy | 7.4 | 12.8 | 20.0 | 6.6 | 11.4 | 19.7 | 25.0 | 27.0 | 20.1 | 23.1 |
| Luxembourg | 3.2 | 8.8 | 13.7 | 3.1 | 8.1 | 13.2 | 23.2 | 24.3 | 17.1 | 20.3 |
| Netherlands | 2.5 | 4.9 | 11.1 | 4.0 | 7.7 | 14.4 | 20.9 | 29.2 | 21.4 | 23.3 |
| Portugal | n.a. | n.a. | n.a. | 7.4 | 12.9 | 20.7 | 22.9 | 23.8 | 16.2 | 21.4 |
| Spain | 7.6 | 14.2 | 20.8 | 8.1 | 14.1 | 21.0 | 21.2 | 21.7 | 15.4 | 19.1 |
| Sweden | 2.6 | 5.6 | 12.0 | 2.5 | 5.3 | 11.4 | 29.4 | 32.2 | 25.4 | 24.8 |
| United Kingdom | 5.4 | 11.6 | 19.2 | 3.7 | 8.3 | 15.5 | 21.3 | 28.4 | 20.4 | 25.9 |
| United States | 11.4 | 17.3 | 24.1 | 11.4 | 17.1 | 23.9 | 15.9 | 26.0 | 13.2 | 25.3 |

Source: LIS (2009), OECD (2008), SOCX (2008)

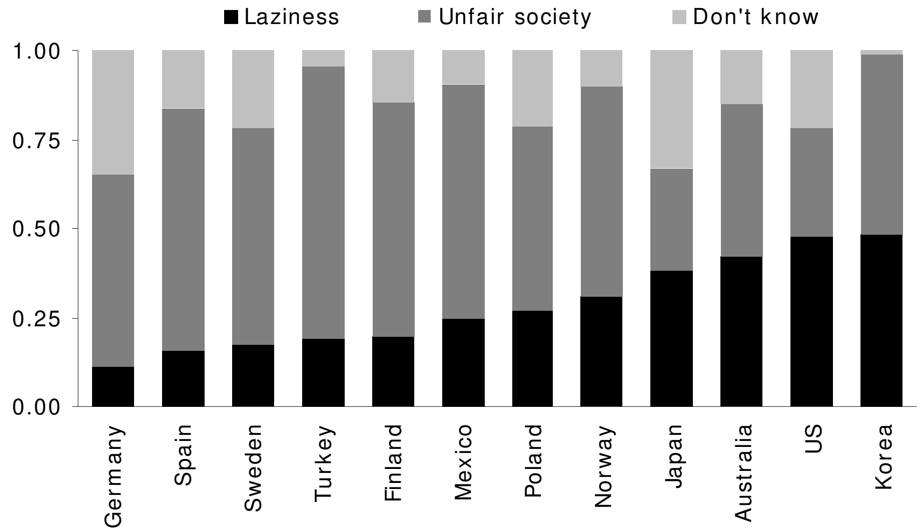
In all OECD countries, public cash benefits and taxes significantly reduce poverty. As reported by OECD (2008, p. 291-292), most of the redistribution towards people at the bottom of the income scale is generally achieved through public cash benefits – with the main exception being the United States, where a large part of the support provided to low-income families is administered through the income tax system (EITC). These cross-country differences in the scale of redistribution partly reflect differences in the size and structure of social spending. OECD countries redistribute in a variety of ways – some through universal benefits, others with more targeted programs, some primarily relying on transfers, others primarily granting tax rebates to low-income families.
Caminada and Goudswaard (2009) calculate the reduction of poverty rates of market income and disposable income across 25 OECD countries. They show that EU15 countries generate an antipoverty effect of 19.0 percentage points on average, while non-EU15-countries produce on average a lower antipoverty effect of 14.7 percentage points among their population. On the bottom of the country rankings we find Korea and the United States with antipoverty effects of less than 10 percentage points.
Each percentage point of total social expenditure alleviates poverty in EU15 by .7 percentage points on average. A much lower score is found for the United States (.35). The targeted effectiveness of the United States is remarkably low, and lies just below half of the average of all countries. Two specific factors seem to be of importance. First, a threshold of 50 percent of median income is applied, while U.S. social policies target lower levels of income to lift people out of poverty. Second, the United States devotes the smallest share of its resources to *public* antipoverty income transfer programs across the countries examined (cf. Smeeding, 2005). However, when *private* social expenditures are also taken into account, this picture changes. In that case, the United States ranks fifth when all 25 countries are ordered on the basis of their level of *total* social expenditures. Therefore, public versus private social expenditures may have opposite antipoverty effects (cf. Caminada and Goudswaard, 2005). In any case, the large cross-country differences in the antipoverty effect of social transfers and taxes – with exceptionally low scores for the U.S. - call for further investigation.

*2.5 National preferences for social spending*

National preferences for social protection differ substantially across countries. Anglo-Saxon countries do not seem to be prepared to sustain the high protection levels prevailing in other countries with the same levels of income. Swabish et al (2006) assembled data to examine the cross-national effects of income inequality and trust on social expenditures. Their results suggest that as the 'rich' become more distant from the middle and lower classes; they find it easier to opt out of public programs and to buy substitutes for social insurance in the private market. These cultural differences within the group of OECD countries could point to variance in the antipoverty nature of social systems as well. Anglo-Saxon welfare states (especially the United States) rely more heavily on private social arrangements as far as pensions, health care and other programs are concerned (Super, 2008). However, private social programs may generate a more limited redistribution of resources than public ones, and tax advantages towards private pension and health plans are more likely to benefit the rich. Moreover, the burden of poverty on individuals and families depends not just on its size but also on how others in society view its nature, in particular whether poverty is perceived as the result of individual attitudes or of the way society is organized (OECD, 2008, p. 131). Figure 1 shows the share of respondents who believe that people are poor because of laziness or lack of will, on one side, or because society is unfair, on the other. In general, the share of respondents who believe that poverty reflects laziness is greater in the United States than in the Nordic and Continental European countries.[3]

3 See for more details on why Americans hate welfare the thoroughly analysis of Gilens (1999). Gilens reviews survey data to suggest that Americans supported the welfare retrenchment of 1996 based on the mistaken assumption that most welfare recipients were not trying to achieve personal responsibility in regards to work and family. Moreover, Gilens's work punctures myths and misconceptions about welfare policy, public opinion, and the role of the media in both. The public's views on welfare seems to be a

Figure 1: Subjective attitudes to poverty - share of respondents attributing poverty to different reasons




Source: OECD (2008, p. 131)

*2.6 Policy Coordination Mechanism to Combat Poverty*

In December 2000, the Nice European Council launched the open method of coordination on social inclusion (soft law). This governance methodology was modeled on the treaty-based European Employment Strategy and includes agreement on common EU objectives and (income poverty) indicators, the adoption of National Action Plans on Inclusion, and periodic monitoring and peer review. It should be noted that 'coordination' is a mercurial term in the context of OMC (Armstrong, 2006); however, policy competence remains with the member states.

In the United States, responsibility for antipoverty policy has shifted since 1996 from the antipoverty agencies of the federal government to the individual U.S. states and to the tax code (EITC). The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provides block grants to states with few restrictions. States were required to spend at least 75 percent of their previous level of welfare spending, and states had to meet targets for moving recipients into work activities. Thus, the European Union employs "soft law" as a policy coordination mechanism, while in the U.S. "hard law" is applied. Furthermore, while the majority of welfare funding is provided by the federal government in the United States, an above-state budget for poverty alleviation is lacking in Europe, based on the principle of subsidiarity. Finally, policy goals for reducing poverty rates are rather vague and do not aspire to a specified target on either side of the Atlantic.

## 3. U.S. SAFETY NET

*3.1 Mean-tested benefits*[4]

Just as a primer, this section highlights the U.S. safety net. We focus solely on the main mean-tested benefits, because these programs have explicit antipoverty goals. Means-tested programs are financed by general tax revenues; all restrict benefits to those whose incomes and or assets fall below an established threshold. Some are entitlements - all who satisfy the stipulated eligibility requirements get benefits, regardless of the total budgetary cost (e.g.

complex mixture of cynicism and compassion; misinformed and racially charged, they nevertheless reflect both a distrust of welfare recipients and a desire to do more to help the "deserving" poor.

4 This section summarizes a comprehensive study of Scholz et al (2008) on trends in income support in the United States.

Food Stamps). Other means-tested programs provide benefits only until the funds Congress or a state has allocated are spent even if some eligible participants are not served (e.g. TANF).

Table 2 summarizes the evolution of means-tested (antipoverty) spending.[5] Note that there has been a sharp reduction in cash entitlements for poor families in past decades in the United States. The nature of programs has changed as well. Cash welfare benefits, for example, have been tied to work requirements, partly in response to evolving views about the nature of the poverty problem. Responsibility for antipoverty policy has broadened from the antipoverty agencies of the federal government to those in the U.S. states and to the tax code, as evidenced by the Earned Income Tax Credit (EITC).

Table 2: Total means-tested benefits by program, 1970-2007

| | AFDC / TANF | EITC | Food Stamps | Housing Aid | School Food Programs | WIC | Head Start |
|---|---|---|---|---|---|---|---|
| | *Constant 2007 dollars, billions* | | | | | | |
| 1970 | 26.5 | | 3.0 | 2.7 | 3.6 | | 1.7 |
| 1975 | 36.6 | 4.8 | 16.9 | 8.2 | 7.4 | 0.3 | 1.6 |
| 1980 | 33.8 | 5.0 | 21.9 | 13.8 | 9.1 | 1.8 | 1.8 |
| 1985 | 31.5 | 4.0 | 20.7 | 22.0 | 7.3 | 2.9 | 2.1 |
| 1990 | 34.9 | 12.0 | 22.4 | 24.6 | 7.1 | 3.4 | 2.5 |
| 1995 | 40.9 | 35.3 | 31.0 | 37.3 | 8.5 | 4.7 | 4.8 |
| 2000 | 27.2 | 38.9 | 18.0 | 34.7 | 9.1 | 4.8 | 6.3 |
| 2005 | 22.0 | 45.0 | 30.3 | 40.0 | 10.6 | 5.3 | 7.3 |
| 2006 | 21.1 | | 31.0 | 39.1 | 10.5 | 5.2 | 7.0 |
| 2007 | | | 30.3 | 39.4 | 10.9 | 5.5 | |
| | *Index: 1980 = 100* | | | | | | |
| 1970 | 78 | | 14 | 20 | 40 | | 94 |
| 1975 | 108 | 96 | 77 | 59 | 81 | 17 | 89 |
| 1980 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| 1985 | 93 | 80 | 95 | 159 | 80 | 161 | 117 |
| 1990 | 103 | 240 | 102 | 178 | 78 | 189 | 139 |
| 1995 | 121 | 706 | 142 | 270 | 93 | 261 | 267 |
| 2000 | 80 | 778 | 82 | 251 | 100 | 267 | 350 |
| 2005 | 65 | 900 | 138 | 290 | 116 | 294 | 406 |
| 2006 | 62 | | 142 | 283 | 115 | 289 | 389 |
| 2007 | | | 138 | 286 | 120 | 306 | |

Abbreviations:
AFDC = Aid to Families with Dependent Children
TANF = Temporary Assistance for Needy Families
EITC = Earned Income Tax Credit
WIC = supplemental nutrition program for women, infants and children

Source: Scholz et al (2008, pp. 48-49)

Aid to Families with Dependent Children (AFDC) was the central safety net program for poor families with children from 1936 to 1996. This program was directed primarily at single-parent families, though some two-parent families with an unemployed parent received benefits. In 1996 the Temporary Assistance for Needy Families Block Grant (TANF) was created. A 5-year lifetime limit was imposed on receipt cash assistance (some hardship exemptions were allowed), and states had to meet targets for moving recipients into work activities. Note - for now - that benefits for ADFC/TANF declined from a peak of about $40 billion in 1995 to about $21 billion in 2006.

In contrast, expenditures on the earned income tax credit (EITC) have grown sharply from $5 billion in 1975 to $45 billion in 2005. No other federal antipoverty program has grown so rapidly. The EITC is now US's largest cash antipoverty program. The incentives embedded in

5 Annex A presents figures for means-tested Medicaid and Supplemental Security Income as well.

the EITC differ from those in AFDC/TANF. AFDC recipients with no earnings received the largest welfare payments. In contrast, the EITC encourages low-skilled workers to enter the labor market, since non-earners do not receive the credit and the EITC amount rises with earnings up to about the poverty line.

The safety net for low-income families includes in-kind benefit programs, the largest of which are food stamps, housing assistance, Head Start, school nutrition programs and the special supplemental nutrition program for women, infants and children (WIC).

Food stamps are designed to enable low-income households to purchase a nutritionally adequate low-cost diet. Between 1994 and 2000, real food stamp expenditures fell to $18 billion from $32 billion, even though only modest changes to food stamp program rules were made by the 1996 welfare reform. Food stamp participation and spending increased sharply between 2000 and 2005. Factors affecting these developments include increases in the number of poor people over this period, and the use of food stamps as federal disaster aid for Hurricanes Katrina, Rita, and Wilma as well as other natural disasters.

The safety net housing assistance programs assist aid in two principal forms: project-based aid, where subsidies are tied to units constructed for low-income households, and household-based subsidies, where renters choose housing units in the existing private housing stock.

The school lunch and breakfast programs provide federal support for meals served by public and private nonprofit elementary and secondary schools and residential child care institutions that enroll and offer free or reduced-price meals to low-income children. The special supplemental nutrition program for women, infants and children (WIC) provides vouchers for food purchase, supplemental food, and nutrition risk screening and related nutrition oriented services to low-income pregnant women and low-income women and their children (up to age 5).

Head Start is an early childhood education program to improve social competence, learning skills, health and the nutrition status of low-income children so that they can begin school on an equal basis with their more advantaged peers.

### *3.2 Case loads and poverty effect*

The U.S. safety net has changed in striking ways for the nonelderly; Table 2 showed the reduction in AFDC/TANF expenditures, which historically went to non-workers, and the increase in EITC benefits, which go overwhelmingly to low-income workers with children. The welfare reform of 1996 encouraged welfare recipients of the former ADFC to enter the labor market. The tighter eligibility rules of TANF and policy orientated increases of the EITC – in combination with rapid economic growth - 'caused' a sharp decrease in the number of welfare recipients since 1996. However, the decline of the number of welfare recipients (AFDC/TANF) from 12.3 million to 4.5 million in the period 1996-2005 (63 percent) didn't change unemployment that much during this period; see Figure 2.

Welfare-dependency fell sharply over 50 percent in a few years, while the EITC accounted for an increase of low-skilled jobs; see Figure 2.[6] Studies have shown that the EITC has encouraged large numbers of single parents to leave welfare and enter into work. The Committee for Economic Development, an organization of 250 corporate executives and university presidents, concluded in 2000 that "[t]he EITC has become a powerful force in

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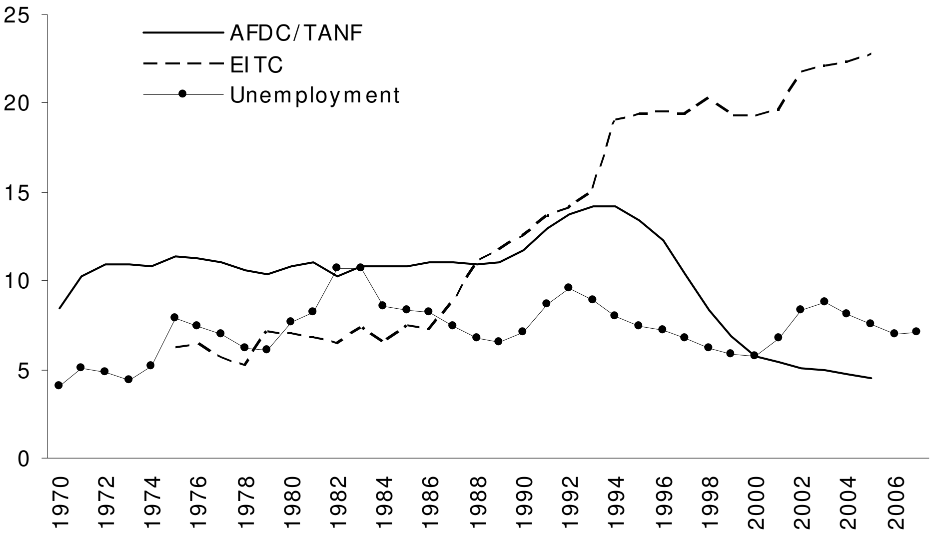
6 The Earned Income Tax Credit (EITC) is a tax benefit for low- and moderate-income workers that helps to offset their payroll and income taxes. Very low-wage workers can also receive an income supplement through the EITC: if the size of the credit exceeds the amount of tax owed, an individual will receive the difference (in the form of a refund check). Twenty-four States have established their own EITCs to supplement the federal EITC. Working families with children that have annual incomes below about $34,000 to $41,000 (depending on marital status and the number of children in the family) generally are eligible for the EITC. Also, poor workers without children that have incomes below about $13,000 ($16,000 for a married couple) can receive a very small EITC (Center on Budget and Policy Priorities, 2008).
In the 2005 tax year, some 26.5 million working families and individuals received the EITC. Among families with children, the average EITC was $2,375. For some workers, the EITC can represent up to a 40 percent pay increase. Research indicates that families use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employability and earning power (Center on Budget and Policy Priorities, 2008).

dramatically raising the employment of low-income women in recent years." In 2005, the EITC lifted 5.0 million people out of poverty, including 2.6 million children. Without the EITC, the poverty rate among children would have been nearly one-fourth higher. The EITC lifts more children out of poverty than any other single program or category of programs (Center on Budget and Policy Priorities, 2008).

Figure 2: Number of recipients AFDC/TANF and EITC, and Unemployment, 1970-2007 (millions)




Source: Scholz et al (2008, pp. 50-51); see Annex B for details.

A recent evaluation by Danziger (2009) suggests that, in its first few years, the 1996 welfare reform was more successful in some dimensions (notably, reducing caseloads) than in others (raising disposable income). The dramatic caseload decline has not caused the surge in poverty or homelessness that many critics of the 1996 Act predicted, because most former recipients are finding jobs. Even though many welfare leavers are not working full-time, full-year, and many are working at low-wage jobs, a significant number are earning at least as much as they had received in cash welfare benefits and some now have higher net income. However, despite the large caseload reduction, the U.S. poverty rate has fallen rather little. Many who have left welfare for work remain poor and continue to depend on Food Stamps, Medicaid, and other government assistance; others have left welfare and remain poor but do not receive the Food Stamp or Medicaid benefits to which they remain entitled. The extent of economic hardship remains high because, many former and current welfare recipients have limited earnings prospects in a labor market that increasingly demands higher skills. For example, the end of entitlement has meant that some single mothers, with poor labor market prospects and no other means of support, have not received the benefits they would have under the pre-1996 welfare system. For single mothers with a high school degree or less, despite their increased work hours and earnings over the last decade, about 43 percent remain poor by the official definition (Danziger, 2007, p. 9).

*3.3 Social spending*

Between 1975, the first year the EITC existed, and 2005, total spending on all means-tested cash and in-kind transfers in Table 2 averaged 2.0 percent of GDP, ranging between 1.8 and 2.5 percent. In 2005, it was 1.8 percent of GDP, near its 31-year low. These patterns are driven by substantial changes in the antipoverty policy mix. Why has U.S. anti-poverty spending been low and relatively stable given its persistent and high poverty rates?

The contrast in levels in social expenditures between the U.S. and other OECD countries is striking. Smeeding (2008) calculates a consistent set of social expenditures (including cash, near-cash, and housing expenditures) as a percentage of GDP for five groups of counties – Scandinavia; Northern Continental Europe; Central and Southern Europe; “Anglo” (Australia, Canada, and the U.K.); and the United States – between 1980 and 1999. Spending ranges between 2.7 to 3.6 percent of GDP in the U.S., a far lower level than every other country group. The other Anglo countries averaged between 4.8 and 7.8 percent of GDP, similar to the Central and Southern European counties. Northern Europe and the Scandinavian countries averaged between 8.1 and 15.3 percent of GDP. The trends across country groups vary, though most country groups increased expenditures as a share of GDP between 1980 and 1999. The U.S. did not.

*3.4 Personal Responsibility and Work Opportunity Reconciliation Act*

From 1935 until 1996 the centerpiece of the United States Federal Government (U.S.F.G.) welfare policy was a program entitled Aid to Families with Dependent Children (AFDC) whose principal benefit was the provision of cash assistance to needy families. In 1996, however, the U.S.F.G. dramatically shifted its poverty reduction strategies by implementing large-scale social welfare reform aimed at making ‘welfare a transition to work’ by officially becoming a temporary assistance program (U.S. Department of Health and Human Services, 1996).[7] The legislative basis for the reform was the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).[8] The PRWORA terminated the AFDC program.[9] In place of AFDC, PRWORA introduced a new program known as Block Grants for Temporary Assistance for Needy Families (TANF).

There are significant differences between TANF and the AFDC program that it supplanted in 1996. TANF marked a break from the policy objectives, eligibility rules, funding, time limitations and work requirements under AFDC. The changes have had serious implications for the families who continue to receive benefits under TANF as well as for those families who no longer participate. In the United States today, 13 years after the PRWORA was passed and TANF replaced AFDC, it is not clear that the reform has achieved the intended results (Danziger, 2009).

The remainder of this working paper details the most significant differences between AFDC and TANF. We begin by examining the underlying tenants and policy objectives of the two programs including the impact that increased U.S. State discretion has had on welfare in the United States. Following the policy overview, the paper surveys the literature evaluating the successes and failures of welfare reform. Finally, the paper considers some of welfare reform’s unintended consequences and the overall impact of welfare reform on the U.S.’s neediest families.

## 4. POLICY OVERVIEW

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 was incredibly controversial. It was considered by many in the social policy and political communities to be too great a compromise with very conservative members of the United States Congress; even leading to the resignation of several presidential advisors and officials

7 Welfare reform included a series of policy changes, most notably the passage of the Personal Responsibility and Work Opportunity Act of 1996. For this paper, welfare reform refers to a component of that Act, Temporary Assistance for Needy Families, and its relationship to the prior law, Aid to Families with Dependent Children.

8 The Personal Responsibility and Work Opportunity Act of 1996, included the Temporary Assistance to Needy Families Block Grants as a component, which is the primary matter of discussion in this paper. However, the legislation’s passage also included almost 55 million dollars in cuts to low-income assistance programs including: food stamps, benefits to legal immigrants, and the SSI program for children with disabilities. PRWORA also included a child support enforcement system as well as provided mandatory funds ($50 million annually) in abstinence education funding.

9 TANF replaced not only AFDC, but also two accompanying programs, the Emergency Assistance Program and the Job Opportunities and Basic Skills Program.

at the United States Department of Health and Human Services. One such advisor, former assistant secretary of children and families, Mary Jo Bane, in an article titled "Welfare as We Might Know It," in *The American Prospect* (January/February 1997), stated, "The public, rightly, wanted welfare reform that expected work and parental responsibility. The political rhetoric supporting the new law, unfortunately, made the concept of a federal entitlement synonymous with irresponsibility and lifelong dependency, and the replacement of the entitlement with block grants synonymous with work requirements. This rhetoric was misleading but powerfully effective." (Cabe, 2002).

*4.1 Policy objectives*

The underlying purpose of U.S.F.G. welfare policy has always been to reduce poverty by providing assistance to the country's neediest families. While this fundamental mission remained unchanged following the welfare reform of 1996, the policy tools used to achieve that mission, and the programs implemented, changed significantly with the passage of the PRWORA. The replacement of the country's primary cash assistance program, from AFDC to TANF, represented not only a change in name, but a serious policy shift that revised poverty reduction strategies throughout the United States.

AFDC was established through the Social Security Act of 1935. The policy's objective was to reduce poverty through the provision of cash welfare to needy children suffering from lack of parental support due to their mother or father being incapacitated, deceased, absent from the home or unemployed (U.S. Department of Health and Human Services, 2004). AFDC was accompanied by employment training and education program called the Job Opportunities and Basic Skills Program (JOBS) and an emergency cash assistance program called Emergency Assistance (EA).[10] Although the funding for these programs was separate from AFDC funding, individuals could participate in the JOBS program only if they also participated in AFDC (U.S. Department of Health and Human Services, 1996).

AFDC was administered and supervised by U.S. States but was strongly regulated according to guidelines issued by the U.S.F.G. The U.S.F.G. established eligibility rules for the AFDC program, while the individual U.S. States set their own benefit levels and established income and resource limits (U.S. Department of Health and Human Services, 2004). AFDC benefit levels established by U.S. States were required to be uniformly applied to all families with similar circumstances within the State (U.S. Department of Health and Human Services, 1996).

In 1996, under the Clinton Administration, the passage of the PRWORA came with the promise to "change welfare as we know it" (The Urban Institute, 2006). The principal vehicle for achieving this change was the introduction of TANF to replace AFDC. TANF terminated open-ended welfare funding and instituted a block grant program providing each U.S. State meeting certain criteria with a fixed sum and increased flexibility in policy choice. AFDC was considered open-ended because U.S. States were entitled to reimbursement from the U.S.F.G. without a funding cap (U.S. Department of Health and Human Services, 2004). In contrast, TANF is administered as a block grant program in which U.S. States are provided with a determined amount of Federal funding but allowed greater discretion over the way the funding is spent. As an ideological matter, whereas AFDC focused primarily on providing families with the means to survive, TANF emphasizes employment and makes welfare temporary in nearly all cases (Golden, 2005).

Through TANF U.S. States use U.S.F.G. block grants to operate their own programs. States can use TANF dollars in ways designed to meet any of the four policy objectives set out in the Federal law (Covin, 2005), which are to: (1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies and

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10 The Emergency Assistance Program provided short-term emergency assistance to needy families. This assistance was not dependent upon participation in AFDC.

establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) encourage the formation and maintenance of two-parent families.

The shift from AFDC to TANF marked more than a move from an open-ended cash-assistance program to a temporary-assistance program. TANF also introduced the practice of allowing welfare funding for programs aimed at influencing the family structure, including family planning and two-parent-family maintenance programs. This change reflects a shift in poverty reduction strategies in the United States. Whereas AFDC was designed to provide needy families with cash transfers that would supplement or replace employment income, TANF focused on the importance of work as well as attempting to foster nuclear families as a way to provide family economic stability.

*4.2 The role of state discretion*

PRWORA provided U.S. States with unprecedented discretion over welfare programming and funding. Under TANF, there are no Federal rules that determine the amount of TANF cash benefits that must be paid to a participating family. Additionally, there are no Federal rules that require U.S. States to use TANF to pay families cash benefits at all, however, all States do (Falk, 2007). Benefit amounts are determined solely by the U.S. States. The discretion provided to States through TANF has allowed for a great diversity in the way that welfare programs are funded and administered across the country. Each U.S. State has different initial eligibility thresholds, benefit payment amounts, and fund allocations.[11]

According to Falk of the Congressional Research Service (2007), in January of 2005, for the average cash welfare family (a family of three), the maximum monthly benefit in the median state was $389, with a range from $923 in Alaska to $170 in Mississippi (Falk, 2007). The maximum monthly cash benefit is usually paid to a family that receives no other income (no earned or unearned income) and who complies with program rules. Families with income other than TANF are often paid a reduced benefit amount. The diversity in program administration also extends to the initial eligibility threshold. Initial eligibility thresholds for families of three range from $1,641 in Hawaii to $269 in Alabama (Welfare Rules Database, 2006).

State discretion has also created significant diversity in the way that TANF dollars are spent across the U.S. States particularly with reference to the level of cash benefits provided. The variation in the use of TANF funding spent on cash assistance ranges from 64 percent in Maine to only 12 percent in Illinois (Falk, 2007). Similarly, while several U.S. States decline to spend any of their TANF dollars on Family Formation programs such as encouraging two-parent families and decreasing out-of-wedlock births, New Jersey allocates 34.8 percent of its TANF dollars on Family Formation expenditures (Falk, 2007).

The discretion provided to U.S. States through the passage of the 1996 welfare law allowed for a huge amount of variety in program and funds administration, with very few Federal guidelines. Subsequently, there are different welfare programs being administered in every U.S. State. These programs are having mixed results in aiding the families who, currently or formerly, receive assistance through TANF and make it difficult to evaluate welfare reforms success as a whole.

Several commentators feared that TANF might set off a “race to the bottom,” where states, fearful of attracting low-income families from other states, might lower benefits, which in turn would cause others states to lower theirs. In fact, total AFDC/TANF spending on cash benefits declined from a peak of about $40 billion in 1995 to about $21 billion in 2006 (Table 2), but this reduction is roughly proportional to the welfare caseload reduction (Scholz et al, 2008, p. 10).

11 A State's initial eligibility threshold considers all the State's financial eligibility rules regarding applicants, the limitations placed on gross income, the rules for deductions from gross income in determining net income, and any limitations placed on net income (The Urban Institute, 2004). Initial eligibility thresholds vary considerably across U.S. States.

*4.3 Funding*

Under TANF, the funding relationship between the U.S.F.G. and the individual U.S. States changed. The drastically increased level of State discretion over Federally granted funds changed the ways in which States governments were spending welfare dollars and the degree to which the U.S.F.G was providing funding to the states. By allocating block grant funding to U.S. States, TANF removed almost all Federal eligibility and payment rules and provided U.S. States with wide discretion over programming, as well as the right to deny benefits to families (Blank, 2002).

Under AFDC, U.S States were entitled to unlimited Federal funds. The Federal government provided reimbursement of benefit payments at "matching" rates that were inversely related to a U.S. State's per capita income (U.S. Department of Health and Human Services, 2004). U.S. States were required to provide aid to all persons who were eligible under the Federal law and whose income and resources were within the state-set limits (U.S. Department of Health and Human Services, 1996).

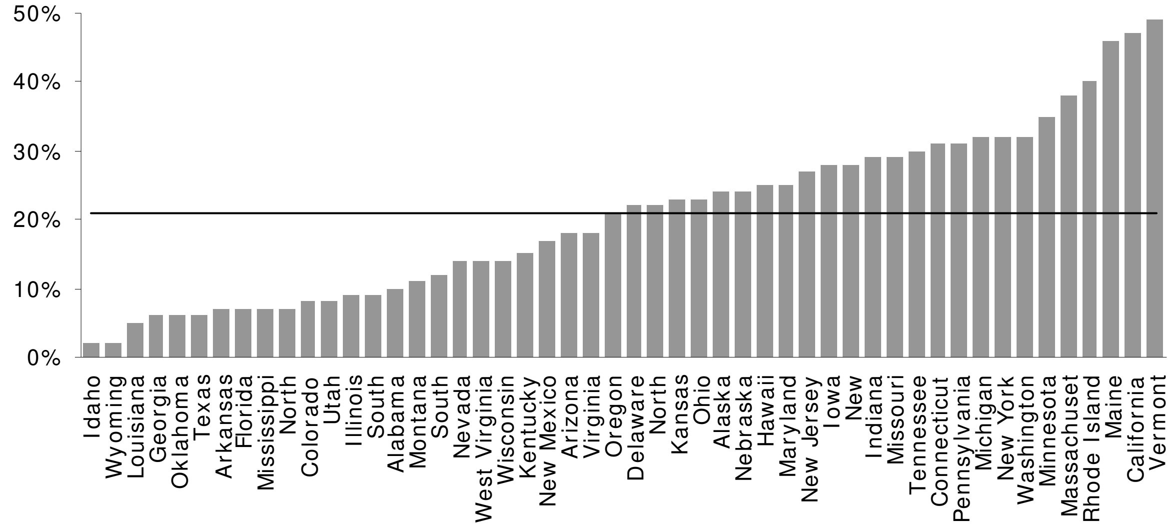
Under TANF, however, there is no guarantee of benefit provision. PRWORA simply mandated a fixed budget amount that the U.S.F.G would grant to the U.S. States each year (the base amount of the yearly block grant has been $16.5 billion since 1996) (Congressional Budget Office, 1996). U.S. States are required to contribute, from their own funds, at least $10.4 billion in total under what is known as a “maintenance-of-effort” (MOE) requirement. The 1996 law also created supplemental grants for certain States with high population growth or low block grant allocations relative to their needy population, as well as a contingency fund to help States during a recession (Center on Budget and Policy Priorities, 2009). U.S. States that need or use more than the amount that has been granted for a particular year are not entitled to Federal reimbursement for excess expenditures. Conversely, States that do not use all of their annual funding are allowed to carry over unused dollars from one fiscal year to the next (U.S. Department of Health and Human Services, 1996).

The AFDC program was funded specifically and solely to provide cash assistance to needy families. The corresponding JOBS and EA programs supplemented AFDC by providing vocational training and short term-emergency program funding, respectively (U.S. Department of Health and Human Services, 1996). Under TANF, however, States may direct Federal funding toward any program that is within TANF's objectives, including programming that would have formerly been funded through the JOBS or EA programs. In the absence of Federally mandated cash assistance requirements, many U.S. States have opted to spend less on cash assistance and more on the other programming that falls under the provisions of TANF such as childcare, or work support programs. Thus, with the transition from AFDC to TANF the number of families receiving income assistance fell sharply. In 2003, most TANF funds, more than 60 percent, were spent on areas other than income assistance (Center on Budget and Policy Priorities, 2009). In fiscal year 2007 the U.S. spent 30 billion dollars on TANF. (This number includes both the federal expenditure and the Maintenance of Effort (MOE) funding). Only 30.2 percent of TANF dollars went toward providing families with cash assistance (28.4 percent to other services; 19.1 percent to child care; 12.4 percent to other work support and employment programs; 8.3 percent to systems and administration; and 1.6 percent to transportation) (Center on Budget and Policy Priorities, 2009).

Our Annex C shows this variety among U.S. States in using TANF dollars. As a result, government aid across the nation varies remarkable; see Annex D. As millions of people seek aid, they are finding a complex system that reaches some and rejects others for ‘unpredictable’ reasons. For example, the share of poor children and parents (below 100 percent of the poverty line) that receive cash welfare ranges from 2 percent in Idaho and Wyoming to over 45 percent in Main, California and Vermont – U.S. average amounts 21 percent. See Figure 3.

To conclude, the increased discretion of U.S. States over the use of their Federal welfare dollars has decreased the provision of cash assistance to needy families. U.S. States are opting to utilize Federal funding to provide assistance to needy families through means other than direct cash transfers.

Figure 3: Share of poor children and parents that receive cash welfare, 2009




Source: Deparle and Ericson (2009)

### *4.4 Eligibility*

The 1996 welfare reform also had a significant impact on eligibility for assistance. Under AFDC, the U.S.F.G. provided cash assistance along with education and training programming indefinitely so long as a family qualified under the eligibility criteria. One of the most striking ways that TANF limited eligibility was through the implementation of time limits, this aspect of eligibility is discussed in section 4.5. In addition to establishing time limits, PRWORA tightened eligibility requirements both by providing U.S. States with the discretion to deny benefits and by reducing the base population who were eligible to receive Federal assistance.

Prior to welfare reform, persons meeting financial eligibility requirements under AFDC were provided cash benefits from the government. AFDC did not include restrictions based on marital status or citizenship. Minor, unwed mothers as well as persons convicted of drug-related crimes were provided unrestricted benefits under the former welfare program. Legally residing immigrants were also eligible for benefits under AFDC. There were no limits on the size of a family that could be eligible for AFDC benefits, therefore, when an additional child was born, families were provided with additional benefits.

PRWORA imposed new conditions and restrictions to program participation. Since the passage of welfare reform, persons who have been convicted of a drug-related crime are prohibited for life from receiving benefits under TANF. Unmarried minor parents are provided benefits only if living with an adult or if in an adult-supervised setting and participating in education and training programs (U.S. Department of Health and Human Services, 1996). U.S. States were given the discretion to exclude both legal immigrants who were new applicants to welfare as well as the right to exclude even those legal immigrants already receiving assistance under the prior welfare program (U.S. Department of Health and Human Services, 1996). While the Federal guidelines under TANF do not limit eligibility based on family size, the policy does provide individual U.S. States with that discretion (U.S. Department of Health and Human Services, 2004).

### *4.5 Time limits*

The most notable eligibility change through the passage of PRWORA might be the implementation of time limits in establishing the duration for which a family can qualify for benefits. Under TANF, families who have received Federally-funded assistance for five cumulative years are ineligible for additional Federal cash assistance. This means that even if employment adequate to provide family stability is not found, at the end of five cumulative years, families are removed from the program and can never again participate.

AFDC's designation as an entitlement program ensured that U.S. States would receive funding from the U.S.F.G. as long as the States adhered to the Federal requirements. Benefits were then guaranteed to eligible participants in the AFDC program (U.S. Department of Health and Human Services, 1996) Moreover, under AFDC, program participants remained eligible as long as they met the program's established rules. Because there were no time restrictions to participation in AFDC, families remained eligible for cash assistance as long as they were below the initial eligibility threshold established by each individual U.S. State and continued to meet the program requirements issued by the U.S.F.G. and the U.S. State of residence.

The establishment of time limits is one of the most consequential changes affecting families on welfare in the United States. The U.S. minimum wage plays a role in the ability of less-skilled workers to earn adequate incomes even if fully employed.[12] The inability to find employment at a living wage and maintain it while addressing health issues and child care have caused barriers for families in establishing financial security, particularly single-mother-headed-households (Primus et al, 1999). In spite of these difficulties, welfare does not provide Federal benefits to participants once the time limit has expired.[13] TANF does not ensure that after the program eligibility time limit is tolled, that participating families have secured work that will enable them to provide basic necessities or even offset the cost of childcare or transportation that work requires.

Moreover, recipients who reach the time limits or who are sanctioned for not finding a job are being denied cash assistance even though they are willing to work, simply because they cannot find any employer to hire them. This labor demand problem will increase during recessions and will remain even in good economic times because employer demands for a skilled work force continue to escalate. Note that the "time limit and out" system differs markedly from a "time limit followed by a work-for-welfare opportunity of last resort" initially proposed by President Clinton's advisors, but rejected by Congress (Danziger, 2002a).

### *4.6 Work requirements and activities*

Although education, work participation and financial security were objectives of U.S. welfare policy both before and after welfare reform, the 1996 welfare reform placed greater responsibility on the families receiving program benefits to find stable and sufficiently paying work. To enable families to achieve this goal TANF provided additional support targeted at finding and maintaining employment.

Directly following welfare reform, U.S. States drastically altered their welfare programming to assist families in establishing employment (Golden, 2005). One such change made by U.S. States was a shift toward "work-first" welfare systems that reduced skills development and education programs while emphasizing job-readiness and employment search training (Golden, 2005). U.S. States also moved toward "making work pay" through incentivizing work participation by raising eligibility thresholds or adding earned income tax credits. Additionally, U.S. States toughened sanctions and time limits to enforce the message that welfare would provide only temporary assistance (Golden, 2005).

Under AFDC, in fiscal year 1994, 40 percent of two-parent households receiving benefits were required to participate in 16 hours of work activity per week in order to continue participation in AFDC's cash assistance program. Before the passage of PRWORA, the percentage of households required to meet the 16 hour work requirement was scheduled to increase to 75 percent in fiscal year 1997 (U.S. Department of Health and Human Services, 1996). In addition to the 16 hour requirement imposed on some participants, all AFDC recipients were

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12 According to the U.S. Department of Labor, the Federal minimum wage is $6.55 per hour effective July 24, 2008. The Federal minimum wage provisions are contained in the Fair Labor Standards Act. Many U.S. States also have minimum wage laws. In cases where an employee is subject to both the State and Federal minimum wage laws, the employee is entitled to the higher of the two minimum wages.

13 States are allowed to exempt a minority of people from time limits and are allowed to continue paying benefits through State funds.

required to participate in JOBS unless they were exempt from the program. A recipient would be exempt from JOBS participation if he or she either worked for 30 hours or more per week; attended school full-time; cared for a very young child or elderly family member; or were under age 16 (U.S. Department of Health and Human Services, 1996).

In contrast, under TANF, work participation standards require that the head of household in a single parent family work at least 20 hours per week and in the case of two parent families, parents are required to work 30 hours per week in order to remain eligible for cash assistance. Eligible work includes: subsidized or unsubsidized employment, on-the-job training, education programs, and community service. Hours spent in vocational education can count towards the weekly work requirement but only in a minority of U.S. States and only for a total of 12 months. (U.S. Department of Health and Human Services, 1996).

However, States are provided some flexibility in meeting their work requirements. The TANF statute requires U.S. States to have 50 percent of their caseload meet the established work participation standards. In addition to the aforementioned standards, there is a separate participation standard that applies to two-parent families, requiring 90 percent of the State's two-parent family participants to meet work participation standards (Falk, 2007). States that fail the TANF work participation standards are penalized by a reduction in their Federal block grant amounts. However, the statutory work participation standards are reduced by a "caseload reduction credit".[14] The caseload reduction credit reduces the participation standard one percentage point for each percent decline in the caseload (Falk, 2007).

Welfare reform and the implementation of TANF centered on the importance of work in providing families with economic stability. The policy intended to provide support through programming for five years, while participants were able to gain employment and economic security. The programs established to assist poor families with job preparation and work-force engagement have been the source of a significant amount of welfare reform's praise. However, because programs vary from one U.S. State to the next, the degree to which the work related programs assist families is also varied.

## 5. EVALUATING WELFARE REFORM

Following the passage of PRWORA U.S. social policy analysts and economists have surveyed the impact of welfare reform on helping needy families in the U.S. move out of poverty. This is a difficult task, due to the discretion provided to U.S. States through TANF and the resulting diversity in programming and implementation. There have been varied opinions about TANF's success in assisting the nation's poorest families. Research institutions and universities have developed new and diverse proxies for examining the extent to which welfare reform has been successful in meeting the needs of low-income families in the United States as well as for identifying the reform's failures.

Often the reduced number of families receiving cash assistance through TANF is cited as evidence of the success of the 1996 welfare reform. Other frequently cited indications of success include the increase in employment rates and the decrease in child poverty that took place during the 1990's (Parrott and Sherman, 2006). However, this analysis only provides part of the information needed to evaluate the success of welfare reform in the United States. The following sections provide a review of data and literature evaluating welfare reform's success in supporting families moving from welfare and into work, and ensuring employment and financial security for poor families in the United States.

14 Though less than half of federal and state expenditures are associated with cash welfare, the "TANF caseload" number is the number of families and recipients receiving cash welfare. Information is not available on families and individuals who receive TANF benefits and services other than cash welfare. In September 2006, 1.9 million families, consisting of 4.6 million recipients, received TANF- or MOE-funded cash welfare (Falk, 2007).

*5.1 Employment trends*

Some of the employment trends observed after welfare reform are positive. More welfare recipients are employed while receiving welfare benefits than they were in the past; increasing from 22 percent in 1997 to 33 percent in 1999. While these numbers have fallen in recent years, they have still not dropped to the levels that they were before welfare reform (Golden, 2005). However, a number of studies have found that even with increased work participation rates that welfare and former welfare recipients are struggling to establish financial security.

One of the primary goals of welfare reform was for participants to establish "stable, long-term work patterns", under the assumption that regular involvement in work will improve their well-being. The justification for establishing only temporary assistance is that this approach provides support and impetus for families to become stably employed which will be in the best interest of the participating families. Indeed, studies indicate that employment among former welfare recipients has actually increased since welfare reform was enacted, and that when recipients leave the TANF program their employment rate is 5 to 10 percent higher than when they left AFDC (Danziger et al, 2000).

In the late 1990's, when families left the welfare system, they were more likely to have at least one working adult than they were prior to the implementation of TANF (Golden, 2005). However, in the tougher labor market of 2002 and 2003, the proportion of former welfare recipients in the workforce fell from 63 percent in 1999 to 57 percent in 2002 (Golden, 2005). Evaluations of welfare-to-work typically report that while most participants are able to secure initial employment, a large proportion, often a majority, lose those jobs within a year (Danziger et al, 2000). Additionally, low wages among welfare recipients remain a concern. While recent research suggests that wages of former welfare recipients grow over time, this phenomenon occurs among only the minority of former recipients who are able to establish regular, stable full-time work patterns (Danziger et al, 2000).

A study conducted by Danziger et al (2000) found that the former welfare recipients with the most work participation and experience have higher levels of financial success and subjective well-being than those without employment. However, they also found that there were a large number of respondents who suffered from financial hardship regardless of their level of work involvement. The study concluded that employment is associated with "reductions in, but not the elimination of, economic vulnerability and material hardships" for welfare and former welfare recipients in the United States.

*5.2 The effect of the economy*

The fact that PRWORA was passed during a time of rapid and sustained economic growth complicates efforts to determine the extent to which certain phenomena such as increased employment and decreased poverty levels can properly be attributed to welfare policy reform. In the United States between 1992 and 2000 the labor market increased by 20 million jobs (Blank, 2000). The U.S. unemployment rate fell to 5 percent in early 1997, and remained at or below that level until October of 2001 (Blank, 2002). Many businesses experienced worker shortages in the years following the passage of the 1996 legislation, making employers increasingly open to hiring ex-welfare recipients. Additionally, wages among less skilled and less educated workers started to rise in 1995, for the first time since the late 1970s.

During this time, less-educated, single mothers increasingly joined the workforce; whereas 62 percent of this population was employed in 1995, by 2000, 73 percent were working (Kaushal et al, 2006). While this is impressive growth, the extent to which it can be attributed to welfare reform remains ambiguous. Welfare reform policies might have increased the number of women in the workforce through job training and work incentives, but it is unclear to what degree the increase was a result of policy, and to what degree it was the result of a strong economy (Blank, 2000).

Recent evidence suggests that the economic expansion of the mid to late 1990s may account for a significant percentage of the positive trends observed among needy families during this time. While the booming economy of the 1990's correlated with a decrease in child poverty and an increase in low-educated single parents joining the workforce, those numbers have begun to drop in recent years following the recession in 2003 (Sherman et al, 2004). Moreover, attributing the successes of the mid-90's to the implementation of TANF is also improbable for the reason that to do so would suggest that the 1996 reform yielded almost immediate results. Kaushal et al (2006), suggest that given that some policies might have delayed results, it becomes even more difficult to attribute the success of the 1990's solely to welfare reform and the implementation of TANF.

*5.3 The very poor and single mother headed households*

While welfare reform, along with a robust and incredibly successful economy, may have initially decreased child poverty and increased some employment rates, the reform had an unintended and significant negative effect on the very poor. Haskins (2000) found that "there is a small to moderate-sized group of mother-headed families that are worse off than they were before welfare reform". Shortly after TANF was implemented, the nation's poorest families were not benefiting from the success of the economy or the policies of welfare reform. Primus et al (1999) found that from 1995 to 1997 disposable income for the poorest 20 percent of the population declined by 7.6 percent and the poorest 10 percent of the population experienced a 15.2 percent decline in discretionary income.

Following welfare reform, the number of single mothers in the United States who were receiving cash assistance through TANF fell by two million. However, employment among single mothers grew by only one million (Parrott and Sherman, 2006). Therefore, in the United States there were one million unemployed single mothers who were not receiving any cash assistance from the government. This number is almost double what it was before welfare reform (up from 6,000,000) (Parrott and Sherman, 2006). The size of this group grew from 9.8 percent of participants leaving the program in 1999 to 13.8 percent in 2002 (Golden, 2005). The population of single-mothers who are both disconnected from employment and government cash assistance is significantly more likely to be in poor physical and mental health as well as less-ready for employment than those who left welfare for job opportunities (Golden, 2005)

A qualitative study of conducted on TANF recipients in Maine analyzed the barriers to employment that prevented single mothers from being able to establish and maintain work. The study, by Butler (2008), looked at women who were participating in the TANF program but who were struggling to maintain stable employment. Butler's study identified several social and health issues that prevented the women in her study from achieving steady employment. The three most prevalent phenomena observed were domestic violence; raising children with disabilities; and long-term physical and mental health problems (the latter affecting 33-44 percent of TANF recipients nation-wide). Butler also found that not only are welfare recipients disproportionately affected by these issues, but often must cope with more than one simultaneously.

*5.4 Program participation*

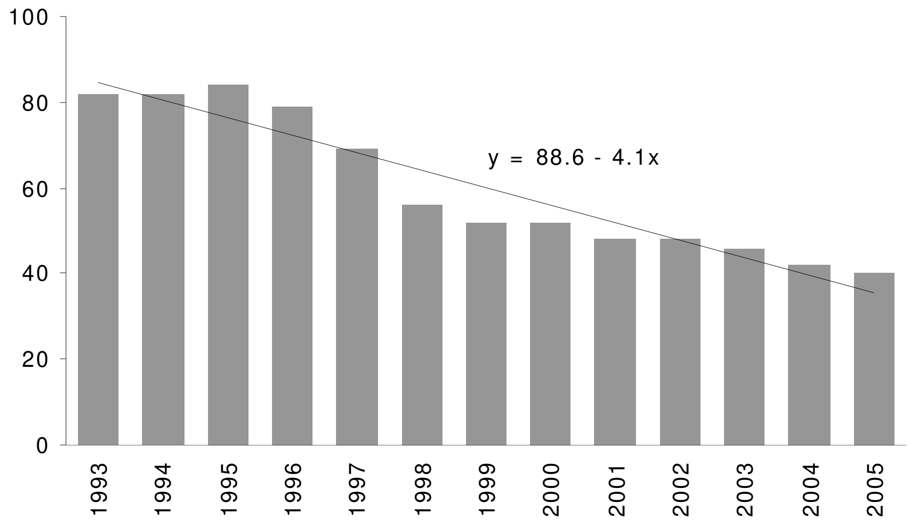
Reduced program participation is often presented as evidence that welfare reform is working to move people out of poverty. However, there are concerns with using reduced welfare caseloads as a proxy for welfare reform's success. While increased work involvement has certainly accounted for reduced participation in the TANF program, Parrott and Sherman (2006) point out that, despite the reduction in caseloads, in recent years the number of children living below half of the poverty line has grown significantly. While the number of families in this category has increased, the rate at which eligible families are receiving TANF benefits has declined. Even when considering non-cash benefits such as food assistance, the number of children in families living below half of the poverty line has grown significantly (Danziger, 2002b).

This increased deep poverty (people living below 50 percent of the poverty line) is a concerning trend. While child poverty remains below the levels that were seen in the years immediately preceding the welfare reform of 1996, the growing rates of intense poverty raise doubts about TANF's ability to reach the most impoverished families. Before the 1996 welfare reform, the AFDC program lifted 64 percent of otherwise deeply poor children out of deep poverty. Conversely, in 2005, the TANF program lifted just 23 percent of deeply poor children above 50 percent of the poverty line (Center on Budget and Policy Priorities, 2009). TANF programming does not seem to be addressing the needs of the poorest families in the United States, which is evidenced both through the increase in deep poverty and the rates at which this population is participating in TANF.

The Supplemental Nutrition Assistance Program[15] and the Medicaid Program, which provide food stamps and healthcare respectively, have continued to assist a growing number of low-income families, while TANF participation has continued to drop (Parrott and Sherman, 2006). The Congressional Budget Office (2005) reports that unlike the trends seen in program participation in TANF, the other four major poverty reduction initiatives have seen significant growth in participation over the last several years. Moreover, as of 2003, each of these programs served more low income families, than did TANF. In addition to serving more people than the major welfare legislation, the U.S.F.G also provides more funding for the other four major poverty reduction programs. In 2005, The federal government spent $22 billion on TANF, compared with $30 billion on Food Assistance, $39 billion on Supplemental Security Income benefits and $45 billion for the Earned Income Tax Credit; see Annex A.

The number of families who are eligible to participate in TANF, but who do not, is remarkably high not only with reference to participation in other poverty reduction programs, but also when compared with AFDC. According to the U.S. Department of Health and Human Services (2008) in 2005 only 40 percent of families who were eligible for TANF assistance participated in the program. This is a significant change. Prior to welfare reform, more than 80 percent of families that qualified for AFDC participated in the program. Moreover, a simple linear trend shows that participation of AFDC/TANF decreased over 4 points each year in the period 1993-2005. See Figure 4.

Figure 4: Rates of participation in AFDC and TANF by families that meet eligibility requirements




Source: U.S. Department of Health and Human Services (Indicators of Welfare Dependence), 2008

15 Commonly referred to as food stamps. Gross monthly income eligibility limits are set at 130 percent of the poverty level for the household size. Net monthly income limits are set at 100 percent of poverty (U.S. Department of Agriculture, Food and Nutrition Service, 2009). Participation in the food stamps program is not taken into account when measuring a household's poverty, as food stamps are not a cash benefit. Following the 1996 Welfare Reform, participation in this program includes a work requirement.

Thus, the decline in welfare caseloads, a figure frequently marshaled as proof of welfare reform's success, does not indicate that low-income families are better and more successful than they were before welfare reform, but rather, that poor families are simply not participating in the program. As stated by Parrott and Sherman (2006): "More than half - 57 percent- of the decline in TANF caseloads since 1996 is due to a decline in the extent to which TANF programs serve families that are poor enough to qualify, rather than to a reduction in the number of families who are poor enough to qualify for aid."

*5.5 TANF benefits and inflation*

There are also significant concerns about the degree of help that TANF is providing to the families who are participating in the program. The basic TANF block grant that the U.S.F.G. makes available has been set at $16.5 billion since it was established in 1996 (Falk, 2007). As a result, the real value of the block grant has already fallen by about 27 percent (Center for Budget and Policy Priorities, 2009). In addition, twenty three U.S. States have maintained the same benefit level since fiscal year 2000 without making adjustments for inflation.

Table 3: Basic TANF Block Grant in Constant FY1997 Dollars

| Fiscal Year | Value of the Block Grant in Billions of FY1997 Dollars | Cumulative Loss in Value (in percent) |
|---|---|---|
| 1997 | 16.5 | - |
| 1998 | 16.2 | -2 |
| 1999 | 15.9 | -3 |
| 2000 | 15.4 | -6 |
| 2001 | 14.9 | -9 |
| 2002 | 14.7 | -11 |
| 2003 | 14.4 | -13 |
| 2004 | 14.1 | -15 |
| 2005 | 13.6 | -17 |
| 2006 | 13.1 | -20 |
| 2007 | 12.9 | -22 |
| 2008 | 12.6 | -24 |
| 2009 | 12.3 | -25 |
| 2010 | 12.1 | -27 |

Note: Constant dollars were computed using the Consumer Price Index for all Urban Consumers (CPI-U). Actual inflation was used to compute constant dollars for FY1997-FY2006 using data from the U.S. Bureau of Labor Statistics. Constant dollars for FY2007 through FY2010 are based on the inflation assumptions of the U.S. Congressional Budget Office (CBO), published in January 2007.

Source: Falk Report for the Congressional Research Service (2007)

A study by Schott and Levinson (2008) found that TANF benefits have declined in real (inflation adjusted dollars) in nearly every U.S. State since the passage of PRWORA. The same study found that even those U.S. States that have adjusted benefit levels upwards under TANF have not kept pace with the increased costs of basic needs. When adjusting for inflation using the Consumer Price Index, 48 States have lower real dollar benefit levels now than they did in 1996 when TANF was enacted. In the 19 States where TANF benefits have remained the same since welfare reform, TANF benefits in 2009 are worth 25 percent less, in inflation-adjusted terms, than they were in 1996. In other words, TANF benefits do less to help families rise out of extreme poverty than they did in 1996. In 2008, 20 States had benefit levels below 25 percent of the Federal poverty line, which is nearly twice as many states as had benefits below 25 percent of the poverty line in 1996 when TANF replaced Aid to Families with Dependent Children (Schott and Levinson, 2008). The families who are participating in TANF are receiving benefits that do little to help them move out of poverty and the rate to which it is helping is decreasing.

## 6. CONCLUSION

Poverty alleviation is an important objective of European countries and of the United States. However, while these wealthy states have highlighted poverty as a serious problem, and while they have established varied systems in an attempt to address it, significant poverty remains. While poverty is witnessed in both the United States and in Europe, the United States remains an outlier; with high poverty rates and low social spending. The difference between the U.S. and Europe is both policy-based and ideological. In 1996, the U.S. moved further toward a system that values work participation and that limits federal assistance to those who will not or cannot establish employment. Throughout this paper we have attempted to offer a primer in the differences between poverty definitions and the subsequent poverty rates in the United States and Europe. We have looked at the United State's primary cash-transfer programs and their reform, and we have reviewed the literature regarding some of the outcomes of the U.S.'s 1996 welfare reform; namely the implementation of TANF.

When PRWORA was passed in 1996, it might have been the ideal time for welfare reform for political and pragmatic reasons. On the political side, there was a growing sentiment that AFDC was creating a population of welfare recipients that relied primarily on the government for financial support. With regard to the feasibility of reform, the economic climate at the time was such that there were more opportunities for less-skilled and low-income workers to secure employment at better wages than had been available in the past. Against this background, welfare caseloads fell dramatically after the mid-1990s. Some of this decline is undoubtedly due to welfare reform, some to the non-welfare policy changes, some to the booming economy, and some to the interactions among them. However, it is a difficult task to evaluate U.S. welfare reform, because with the passage of PRWORA and the increase in U.S. State discretion, there are different programs, eligibility requirements, and benefit amounts in every U.S. State. We found huge variation across U.S. states, depending on ability to pay and preferences to meet a certain level of social standard and other (social) objectives such as child care, work support and employment programs.

The 1996 welfare reform emphasizes American preference for work. PRWORA represented a shift in the way the United States attempts to address poverty, as well as a general change in the philosophy about how poverty reduction strategies should be implemented. Although the welfare reform increased work, earnings of most individuals who left welfare were still below the poverty line, even many years after their exit. Another drawback of this work-first approach is the termination of cash assistance after 5 years, especially for vulnerable groups with low skills. In the wake of the Deficit Reduction Act of 2005 (which altered spending on a number of social service programs) States are beginning to provide low-income families, even those families who have left the TANF program, with additional resources.[16] These resources are often designed to create incentives to work by providing supplemental payments to a families' employment-earned household income. Since the passage of the Deficit Reduction Act in 2005, one third of U.S. States have established supplemental support programs, with various eligibility rules and benefit amounts (Schott and Levinson, 2008).

Still, 12.5 percent of U.S. population was living in poverty in 2007. Our interpretation of the literature is that welfare reform policies (TANF) had limited success in reducing poverty. With the troubled economy and shrinking job market nowadays, low-income families need significantly more support. Supplemental cash assistance programs and education and job training that aid less-skilled workers in both finding and sustaining employment, will be necessary for welfare reform in the United States to be successful in reducing poverty. If moving people from welfare to work is the goal of U.S. welfare policy, it is important to ensure that a living wage can be obtained through work, and that the costs of childcare and

16 The welfare reform law was reauthorized by the Deficit Reduction Act of 2005 and extended until 2010. The Deficit Reduction Act was intended to reduce mandatory (entitlement) Federal spending (Medicare, Medicaid, Food Stamps, farm subsidies, etc.) through changes in program requirements set by revised or new Federal laws. In some cases it allows for spending on new programming by providing more State discretion on programs and spending.

transportation do not exceed the income gained through employment. Moreover, one could argue that recipients who reach time limits without meeting work requirements should be offered a chance to work in community service jobs in return for cash assistance (cf. Danziger and Danziger, 2005, p. 10).

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Annex A: Total means-tested benefits by program, 1970-2007 (constant 2007 dollars, millions)

| | Medicaid | SSI | AFDC / TANF | EITC | Food Stamps | Housing Aid | School Food Programs | WIC | Head Start |
|---|---|---|---|---|---|---|---|---|---|
| 1970 | 28,264 | 15,706 | 26,522 | | 2,938 | 2,693 | 3,631 | | 1,740 |
| 1971 | 34,281 | 16,413 | 30,728 | | 7,796 | 3,922 | 4,711 | | 1,843 |
| 1972 | 41,235 | 16,825 | 35,337 | | 8,915 | 5,734 | 5,784 | | 1,867 |
| 1973 | 44,004 | 15,962 | 35,552 | | 9,953 | 7,710 | 6,251 | | 1,871 |
| 1974 | 46,574 | 22,063 | 34,113 | | 11,432 | 7,671 | 6,350 | 44 | 1,699 |
| 1975 | 51,820 | 22,653 | 36,589 | 4,817 | 16,901 | 8,197 | 7,405 | 344 | 1,557 |
| 1976 | 55,348 | 22,104 | 39,154 | 4,719 | 19,410 | 9,125 | 7,879 | 520 | 1,607 |
| 1977 | 59,753 | 21,576 | 39,569 | 3,856 | 17,337 | 10,288 | 8,245 | 876 | 1,625 |
| 1978 | 61,904 | 20,836 | 37,649 | 3,333 | 16,343 | 11,700 | 8,484 | 1,207 | 1,988 |
| 1979 | 63,779 | 20,206 | 34,640 | 5,860 | 18,507 | 12,292 | 8,834 | 1,501 | 1,942 |
| 1980 | 65,504 | 19,982 | 33,806 | 4,997 | 21,944 | 13,789 | 9,101 | 1,831 | 1,849 |
| 1981 | 69,132 | 19,601 | 33,058 | 4,361 | 24,247 | 15,650 | 8,459 | 1,988 | 1,867 |
| 1982 | 68,780 | 19,297 | 31,398 | 3,814 | 21,934 | 17,326 | 7,043 | 2,039 | 1,959 |
| 1983 | 73,413 | 19,577 | 32,136 | 3,737 | 23,216 | 19,670 | 7,419 | 2,344 | 1,899 |
| 1984 | 76,297 | 20,698 | 32,067 | 3,269 | 21,345 | 20,052 | 7,414 | 2,770 | 1,987 |
| 1985 | 78,884 | 21,312 | 31,523 | 4,024 | 20,703 | 21,971 | 7,274 | 2,870 | 2,072 |
| 1986 | 85,856 | 22,855 | 32,530 | 3,801 | 20,063 | 21,644 | 7,488 | 2,995 | 1,968 |
| 1987 | 91,878 | 23,638 | 33,686 | 6,189 | 19,165 | 20,585 | 7,570 | 3,066 | 2,063 |
| 1988 | 96,538 | 25,195 | 33,329 | 10,334 | 19,541 | 22,306 | 7,415 | 3,150 | 2,114 |
| 1989 | 103,592 | 24,592 | 32,869 | 11,028 | 19,513 | 23,374 | 7,192 | 3,195 | 2,065 |
| 1990 | 116,856 | 25,533 | 34,929 | 11,965 | 22,436 | 24,559 | 7,054 | 3,367 | 2,462 |
| 1991 | 141,898 | 27,370 | 36,739 | 16,906 | 26,360 | 25,816 | 7,503 | 3,503 | 2,971 |
| 1992 | 159,884 | 31,416 | 39,320 | 19,253 | 30,895 | 27,748 | 7,929 | 3,843 | 3,254 |
| 1993 | 175,594 | 34,686 | 38,795 | 22,294 | 31,576 | 30,702 | 8,089 | 4,059 | 3,984 |
| 1994 | 188,054 | 39,577 | 40,369 | 29,527 | 31,827 | 33,303 | 8,384 | 4,434 | 4,653 |
| 1995 | 197,086 | 38,263 | 40,939 | 35,313 | 30,971 | 37,330 | 8,469 | 4,675 | 4,808 |
| 1996 | 201,091 | 36,247 | 37,257 | 38,092 | 29,654 | 35,231 | 8,577 | 4,883 | 4,717 |
| 1997 | 204,730 | 38,911 | 29,944 | 39,258 | 25,254 | 35,775 | 8,766 | 4,966 | 5,142 |
| 1998 | 214,967 | 39,629 | 27,365 | 41,138 | 21,485 | 36,490 | 9,055 | 4,949 | 5,530 |
| 1999 | 229,230 | 40,016 | 27,042 | 39,702 | 19,626 | 34,406 | 9,187 | 4,901 | 5,797 |
| 2000 | 242,736 | 42,689 | 27,221 | 38,887 | 18,041 | 34,663 | 9,099 | 4,795 | 6,342 |
| 2001 | 263,782 | 36,856 | 28,284 | 39,075 | 18,202 | 35,201 | 9,297 | 4,863 | 7,259 |
| 2002 | 287,003 | 41,456 | 26,920 | 44,026 | 21,041 | 38,087 | 9,722 | 5,002 | 7,534 |
| 2003 | 306,092 | 39,094 | 25,756 | 43,561 | 24,120 | 39,785 | 9,979 | 5,098 | 7,513 |
| 2004 | 320,552 | 39,586 | 22,900 | 43,931 | 27,022 | 40,145 | 10,335 | 5,364 | 7,436 |
| 2005 | 332,818 | 39,532 | 21,972 | 45,025 | 30,329 | 40,035 | 10,589 | 5,301 | 7,265 |
| 2006 | 319,476 | 39,997 | 21,052 | | 31,047 | 39,084 | 10,542 | 5,217 | 6,979 |
| 2007 | | | | | 30,373 | 39,436 | 10,891 | 5,450 | |

Abbreviations:
Medicaid = medical assistance for aged, blind, disabled, certain pregnant women or dependent children
SSI = Supplemental Security Income (federally-administered cash assistance for aged, blind and disabled)
AFDC = Aid to Families with Dependent Children
TANF = Temporary Assistance for Needy Families
EITC = Earned Income Tax Credit
WIC = supplemental nutrition program for women, infants and children

Source: Scholz et al (2008, pp. 48-49)

Annex B: Number of recipients means-tested benefits by program, 1970-2007 (thousands)

| | Medicaid | SSI | AFDC / TANF | EITC | Food Stamps | Housing Aid | School Breakfast | School Lunch | WIC | Head Start |
|---|---|---|---|---|---|---|---|---|---|---|
| 1970 | | | 8,466 | | 4,340 | | 450 | 22,400 | | 477 |
| 1971 | | | 10,241 | | 9,368 | | 800 | 24,100 | | 398 |
| 1972 | 17,606 | | 10,947 | | 11,109 | | 1,040 | 24,400 | | 379 |
| 1973 | 19,622 | | 10,949 | | 12,166 | | 1,190 | 24,700 | | 379 |
| 1974 | 21,462 | 3,996 | 10,864 | | 12,862 | | 1,370 | 24,600 | 88 | 353 |
| 1975 | 22,007 | 4,314 | 11,346 | 6,215 | 17,064 | | 1,820 | 24,900 | 344 | 349 |
| 1976 | 22,815 | 4,236 | 11,304 | 6,473 | 18,549 | | 2,200 | 25,600 | 520 | 349 |
| 1977 | 22,832 | 4,238 | 11,050 | 5,627 | 17,077 | 2,398 | 2,490 | 26,200 | 848 | 333 |
| 1978 | 21,965 | 4,217 | 10,570 | 5,192 | 16,001 | 2,643 | 2,800 | 26,700 | 1,181 | 391 |
| 1979 | 21,520 | 4,150 | 10,312 | 7,135 | 17,653 | 2,842 | 3,320 | 27,000 | 1,483 | 388 |
| 1980 | 21,605 | 4,142 | 10,774 | 6,954 | 21,082 | 3,032 | 3,600 | 26,600 | 1,914 | 376 |
| 1981 | 21,980 | 4,019 | 11,079 | 6,717 | 22,430 | 3,431 | 3,810 | 25,800 | 2,119 | 387 |
| 1982 | 21,603 | 3,858 | 10,258 | 6,395 | 21,717 | 3,619 | 3,320 | 22,900 | 2,189 | 396 |
| 1983 | 21,554 | 3,901 | 10,761 | 7,368 | 21,625 | 3,857 | 3,360 | 23,000 | 2,537 | 415 |
| 1984 | 21,607 | 4,029 | 10,831 | 6,376 | 20,854 | 4,081 | 3,430 | 23,400 | 3,045 | 442 |
| 1985 | 21,814 | 4,138 | 10,855 | 7,432 | 19,899 | 4,225 | 3,440 | 23,600 | 3,138 | 452 |
| 1986 | 22,515 | 4,269 | 11,038 | 7,156 | 19,429 | 4,336 | 3,500 | 23,700 | 3,312 | 452 |
| 1987 | 23,109 | 4,385 | 11,027 | 8,738 | 19,113 | 4,461 | 3,610 | 23,900 | 3,429 | 447 |
| 1988 | 22,907 | 4,464 | 10,915 | 11,148 | 18,645 | 4,530 | 3,680 | 24,200 | 3,593 | 448 |
| 1989 | 23,511 | 4,593 | 10,993 | 11,696 | 18,806 | 4,632 | 3,810 | 24,200 | 4,119 | 451 |
| 1990 | 25,255 | 4,817 | 11,695 | 12,542 | 20,049 | 4,710 | 4,070 | 24,100 | 4,517 | 541 |
| 1991 | 28,280 | 5,118 | 12,930 | 13,665 | 22,625 | 4,786 | 4,440 | 24,200 | 4,893 | 583 |
| 1992 | 30,926 | 5,566 | 13,773 | 14,097 | 25,407 | 4,830 | 4,920 | 24,600 | 5,403 | 621 |
| 1993 | 33,432 | 5,984 | 14,205 | 15,117 | 26,987 | 4,959 | 5,360 | 24,900 | 5,921 | 714 |
| 1994 | 35,053 | 6,296 | 14,161 | 19,017 | 27,474 | 5,035 | 5,830 | 25,300 | 6,477 | 740 |
| 1995 | 36,282 | 6,514 | 13,418 | 19,334 | 26,619 | 5,130 | 6,320 | 25,700 | 6,894 | 751 |
| 1996 | 36,118 | 6,614 | 12,321 | 19,464 | 25,543 | 5,104 | 6,580 | 25,900 | 7,186 | 752 |
| 1997 | 34,872 | 6,495 | 10,376 | 19,391 | 22,858 | 5,132 | 6,920 | 26,300 | 7,407 | 794 |
| 1998 | 40,649 | 6,566 | 8,347 | 20,273 | 19,791 | 5,082 | 7,140 | 26,600 | 7,367 | 822 |
| 1999 | 40,300 | 6,557 | 6,824 | 19,259 | 18,183 | 5,154 | 7,370 | 27,000 | 7,311 | 826 |
| 2000 | 42,887 | 6,602 | 5,778 | 19,277 | 17,194 | 5,104 | 7,550 | 27,300 | 7,192 | 858 |
| 2001 | 46,164 | 6,688 | 5,359 | 19,593 | 17,318 | 5,123 | 7,790 | 27,500 | 7,306 | 905 |
| 2002 | 49,329 | 6,788 | 5,064 | 21,703 | 19,096 | 5,268 | 8,150 | 28,000 | 7,491 | 912 |
| 2003 | 51,971 | 6,902 | 4,929 | 22,024 | 21,259 | 5,231 | 8,430 | 28,400 | 7,631 | 910 |
| 2004 | 55,002 | 6,988 | 4,745 | 22,270 | 23,858 | 5,172 | 8,900 | 29,000 | 7,904 | 906 |
| 2005 | | 7,114 | 4,492 | 22,752 | 25,718 | 5,139 | 9,360 | 29,600 | 8,023 | 907 |
| 2006 | | 7,236 | | | 26,672 | 5,192 | 9,770 | 30,100 | 8,088 | 909 |
| 2007 | | | | | 26,466 | 5,108 | 10,160 | 30,600 | 8,285 | |

Abbreviations:
Medicaid = medical assistance for aged, blind, disabled, certain pregnant women or dependent children
SSI = Supplemental Security Income (federally-administered cash assistance for aged, blind and disabled)
AFDC = Aid to Families with Dependent Children
TANF = Temporary Assistance for Needy Families
EITC = Earned Income Tax Credit
WIC = supplemental nutrition program for women, infants and children

Source: Scholz et al (2008, pp. 50-51)

Annex C: U.S. State Use of TANF and MOE Funds as a Percent of Total Federal TANF and State MOE Funding, fiscal year 2005

| | Cash Assistance | Admin | Work Program | Child Care | Transfer to CCDF | Other Work Supports | Family Formation | Other | Transfer to SSBG |
|---|---|---|---|---|---|---|---|---|---|
| Alabama | 34 | 9 | 11 | 5 | 3 | 3 | 1 | 26 | 8 |
| Alaska | 44 | 6 | 13 | 14 | 16 | 1 | 1 | 2 | 3 |
| Arizona | 50 | 12 | 6 | 3 | 0 | 1 | 0 | 21 | 7 |
| Arkansas | 24 | 10 | 16 | 19 | 10 | 7 | 3 | 7 | 3 |
| California | 55 | 9 | 7 | 10 | 6 | 2 | 0 | 8 | 2 |
| Colorado | 33 | 9 | 1 | 1 | 1 | 4 | 0 | 46 | 7 |
| Connecticut | 26 | 6 | 5 | 3 | 0 | 4 | 15 | 36 | 6 |
| Delaware | 32 | 10 | 0 | 40 | -7 | 21 | 0 | 0 | 4 |
| Florida | 18 | 9 | 8 | 23 | 12 | 1 | 1 | 24 | 6 |
| Georgia | 22 | 4 | 16 | 4 | 0 | 3 | 6 | 43 | 3 |
| Hawaii | 55 | 10 | 14 | 7 | 7 | 1 | 0 | 0 | 7 |
| Idaho | 15 | 4 | 15 | 2 | 18 | 1 | 5 | 38 | 3 |
| Illinois | 12 | 2 | 8 | 41 | 0 | 2 | 0 | 33 | 2 |
| Indiana | 36 | 13 | 2 | 5 | 2 | 13 | 1 | 29 | 1 |
| Iowa | 38 | 7 | 9 | 3 | 13 | 2 | 4 | 18 | 6 |
| Kansas | 36 | 5 | 1 | 4 | 12 | 20 | 0 | 19 | 2 |
| Kentucky | 39 | 6 | 10 | 8 | 20 | 2 | 0 | 15 | 0 |
| Louisiana | 23 | 12 | 6 | 2 | 9 | 4 | 23 | 14 | 7 |
| Maine | 64 | 4 | 2 | 10 | 6 | 9 | 0 | 2 | 4 |
| Maryland | 33 | 10 | 8 | 8 | 0 | 27 | 6 | 2 | 6 |
| Massachusetts | 40 | 3 | 2 | 22 | 11 | 9 | 0 | 7 | 6 |
| Michigan | 31 | 7 | 6 | 17 | 10 | 0 | 8 | 19 | 3 |
| Minnesota | 33 | 11 | 17 | 10 | 6 | 14 | 0 | 10 | 0 |
| Mississippi | 25 | 5 | 14 | 5 | 18 | 12 | 7 | 6 | 9 |
| Missouri | 36 | 6 | 9 | 18 | 8 | 0 | 2 | 15 | 6 |
| Montana | 42 | 11 | 24 | 3 | 4 | 0 | 1 | 12 | 4 |
| Nebraska | 62 | 7 | 14 | 8 | 10 | 0 | 0 | 0 | 0 |
| Nevada | 47 | 23 | 2 | 6 | 0 | 8 | 1 | 13 | 2 |
| New Hampshire | 49 | 10 | 12 | 6 | 8 | 2 | 2 | 7 | 5 |
| New Jersey | 44 | 8 | 5 | 3 | 0 | 5 | 35 | 0 | 2 |
| New Mexico | 47 | 5 | 8 | 2 | 19 | 1 | 1 | 17 | 1 |
| New York | 39 | 9 | 5 | 2 | 9 | 17 | 1 | 16 | 3 |
| North Carolina | 20 | 7 | 12 | 22 | 16 | 1 | 0 | 21 | 1 |
| North Dakota | 33 | 10 | 8 | 7 | 0 | 4 | 7 | 31 | 0 |
| Ohio | 30 | 12 | 7 | 21 | 0 | 2 | 1 | 20 | 7 |
| Oklahoma | 15 | 7 | 0 | 28 | 14 | 12 | 2 | 15 | 7 |
| Oregon | 39 | 10 | 8 | 4 | 0 | 6 | 0 | 33 | 0 |
| Pennsylvania | 31 | 7 | 14 | 10 | 9 | 3 | 2 | 22 | 2 |
| Rhode Island | 41 | 8 | 4 | 29 | 5 | 0 | 0 | 13 | 1 |
| South Carolina | 29 | 8 | 22 | 2 | 1 | 3 | 3 | 24 | 8 |
| South Dakota | 36 | 9 | 11 | 3 | 0 | 0 | 2 | 34 | 7 |
| Tennessee | 40 | 10 | 9 | 10 | 19 | 2 | 0 | 7 | 3 |
| Texas | 20 | 13 | 9 | 3 | 0 | 0 | 1 | 47 | 7 |
| Utah | 41 | 18 | 28 | 9 | 0 | 1 | 0 | 1 | 3 |
| Vermont | 44 | 8 | 1 | 10 | 11 | 18 | 0 | 1 | 6 |
| Virginia | 47 | 15 | 17 | 7 | 1 | 2 | 0 | 6 | 5 |
| Washington | 41 | 7 | 15 | 11 | 16 | 1 | 0 | 8 | 1 |
| West Virginia | 32 | 19 | 2 | 15 | 0 | 7 | 11 | 6 | 8 |
| Wisconsin | 22 | 7 | 6 | 32 | 12 | 12 | 3 | 3 | 3 |
| Wyoming | 19 | 3 | 1 | 8 | 10 | 7 | 0 | 52 | 0 |
| U.S. (unweighted average States) | 35 | 9 | 9 | 11 | 7 | 6 | 3 | 17 | 4 |

Abbreviations: MOE = States are required to contribute, from their own funds, at least $10.4 billion in total under what is known as a "maintenance-of-effort" (MOE) requirement. Admin = Administrative Expenditures; CCFD = Child Care and Development Fund; SSBG = Social Service Block Grant

Source: Falk (2008). Congressional Research Service based on data from the U.S. Department of Health and Human Services.

Annex D: Variations in U.S. Government Aid Across the Nation, 2009

| | Share of poor children and parents that receive cash welfare [a] | Share of unemployed that receive benefits | Share of eligible households that receive housing benefits | Share of eligible people that receive food stamps | Share of uninsured poor adults covered by government programs [a] | Share of uninsured low-income children covered by government programs [b] |
|---|---|---|---|---|---|---|
| Alabama | 10 | 41 | 38 | 66 | 45 | 83 |
| Alaska | 24 | 51 | 26 | 63 | 36 | 81 |
| Arizona | 18 | 35 | 19 | 61 | 43 | 67 |
| Arkansas | 7 | 55 | 34 | 77 | 33 | 83 |
| California | 47 | 43 | 21 | 50 | 37 | 73 |
| Colorado | 8 | 26 | 23 | 54 | 30 | 57 |
| Connecticut | 31 | 51 | 34 | 65 | 54 | 78 |
| Delaware | 22 | 58 | 34 | 73 | 53 | 71 |
| Florida | 7 | 38 | 23 | 62 | 30 | 56 |
| Georgia | 6 | 36 | 33 | 68 | 36 | 73 |
| Hawaii | 25 | 50 | 26 | 72 | 49 | 83 |
| Idaho | 2 | 67 | 29 | 57 | 44 | 73 |
| Illinois | 9 | 43 | 30 | 79 | 38 | 77 |
| Indiana | 29 | 46 | 32 | 74 | 43 | 83 |
| Iowa | 28 | 49 | 35 | 71 | 48 | 86 |
| Kansas | 23 | 37 | 34 | 59 | 43 | 82 |
| Kentucky | 15 | 36 | 38 | 78 | 45 | 81 |
| Louisiana | 5 | 32 | 39 | 75 | 37 | 76 |
| Maine | 46 | 37 | 41 | 96 | 69 | 86 |
| Maryland | 25 | 45 | 32 | 60 | 37 | 69 |
| Massachusetts | 38 | 64 | 35 | 61 | 63 | 86 |
| Michigan | 32 | 46 | 31 | 80 | 50 | 86 |
| Minnesota | 35 | 42 | 37 | 69 | 54 | 75 |
| Mississippi | 7 | 32 | 42 | 63 | 39 | 72 |
| Missouri | 29 | 35 | 33 | 98 | 45 | 79 |
| Montana | 11 | 52 | 32 | 62 | 43 | 70 |
| Nebraska | 24 | 40 | 33 | 67 | 40 | 75 |
| Nevada | 14 | 49 | 17 | 54 | 25 | 51 |
| New Hampshire | 28 | 37 | 34 | 68 | 38 | 76 |
| New Jersey | 27 | 67 | 28 | 60 | 33 | 62 |
| New Mexico | 17 | 49 | 31 | 71 | 39 | 69 |
| New York | 32 | 48 | 32 | 63 | 55 | 81 |
| North Carolina | 7 | 46 | 29 | 67 | 42 | 73 |
| North Dakota | 22 | 33 | 37 | 57 | 43 | 70 |
| Ohio | 23 | 37 | 33 | 70 | 50 | 81 |
| Oklahoma | 6 | 29 | 32 | 69 | 31 | 77 |
| Oregon | 21 | 57 | 25 | 85 | 35 | 72 |
| Pennsylvania | 31 | 66 | 33 | 75 | 54 | 77 |
| Rhode Island | 40 | 43 | 39 | 55 | 57 | 85 |
| South Carolina | 9 | 44 | 33 | 74 | 45 | 76 |
| South Dakota | 12 | 19 | 45 | 58 | 42 | 79 |
| Tennessee | 30 | 33 | 35 | 91 | 49 | 83 |
| Texas | 6 | 25 | 28 | 63 | 27 | 61 |
| Utah | 8 | 35 | 28 | 56 | 32 | 64 |
| Vermont | 49 | 50 | 35 | 80 | 61 | 85 |
| Virginia | 18 | 29 | 31 | 69 | 34 | 71 |
| Washington | 32 | 40 | 24 | 75 | 47 | 82 |
| West Virginia | 14 | 45 | 42 | 83 | 47 | 89 |
| Wisconsin | 14 | 65 | 29 | 67 | 51 | 83 |
| Wyoming | 2 | 35 | 39 | 53 | 40 | 77 |
| U.S. average | 21 | 44 | 30 | 67 | 41 | 73 |

a Below 100 percent of the poverty line.
b Below 200 percent of the poverty line.

Source: Deparle and Ericson (2009)

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