

## WELFARE REFORM



The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) dramatically changed the Nation’s cash welfare system. PRWORA, also known as the Welfare Reform Act, eliminated the entitlement program Aid to Families with Dependent Children (AFDC) and replaced it with Temporary Assistance for Needy Families (TANF), which is funded through block grants to States. Designed to reduce long-term welfare dependency by increasing self-sufficiency, PRWORA emphasized a “welfare to work” concept, imposing time limits and work requirements as a condition of TANF assistance, and gave States greater flexibility in designing their welfare policies.

PRWORA also included major reforms to the Food Stamp Program. The act reduced benefits, eliminated benefits for most groups of legal immigrants, and tightened work requirements for able-bodied adults without dependents (ABAWDS) age 18 to 50. The act also increased State flexibility in running the Food Stamp Program. For example, it allowed States to establish a “simplified food stamp program” to help align Food Stamp Program rules with TANF rules. Although PRWORA reduced food stamp benefits per person and introduced certain restrictions in eligibility, reductions to AFDC/TANF left the Food Stamp Program as one of the only remaining entitlement programs available to most low-income households, thereby increasing its importance in the social safety net.

## Research Highlights

### ***Effect of Welfare Reform on Food Stamp Caseloads***

In the years immediately following PRWORA, food stamp caseloads dropped dramatically (for example, between fiscal years 1995 and 2000, food stamp caseloads declined by 35 percent). At the same time, the U.S. economy was expanding, making it difficult to separate the effects of policy changes from effects due to the economy. FANRP funded several studies to examine the relative effects of welfare reform and the strong economy on the drop in caseloads.

### ***The expanding economy was a major factor explaining the decline in food stamp caseloads***

Results from a number of FANRP studies indicate that welfare reform was of lesser importance in explaining the decline in food stamp caseloads than was the expansion of the U.S. economy. For example, a study by Figlio et al. (2000) suggests that macroeconomic conditions, as well as political factors, played a large role in explaining state-to-state differences in food stamp caseload changes but changes in welfare policies had only a small influence on changes in food stamp caseloads. Ziliak et al. (2003) showed that the macroeconomy had a substantial effect on food stamp caseloads: a 1-percentage point increase in the unemployment rate led to a 2.3-percent increase in food stamp caseloads after 1 year. In terms of welfare policy, a 10-percentage-point increase in the share of a State's population waived from rules limiting food stamp receipt among able-bodied adults without dependents resulted in only a 0.5-percent increase in caseloads. Jacobson et al. (2001), using microsimulation to examine the reductions in food stamp caseloads and costs between December 1992 and

## Research Summary

FANRP research was instrumental in promoting understanding of how welfare reform affected Food Stamp Program operations, the well-being of participants, and eligible nonparticipants. Although food stamp caseloads dropped dramatically following welfare reform, several FANRP-funded studies attributed most of the decrease to the strong economy with PRWORA having a much smaller effect. Studies conducted in four States found that large percentages of ABAWDs who left the Food Stamp Program after welfare reform experienced economic difficulties including low incomes and high poverty rates. Among families who left the TANF program, those who were better off were less likely to participate in the Food Stamp Program. An unintended consequence of the welfare-to-work system of public assistance was to put downward pressure on wages for low-skill occupations.

December 1998, found that about one-third of the simulated reductions in caseloads and costs could be attributed to specific changes in State cash welfare and child care policies and about two-thirds could be attributed to changes in State unemployment rates (about half of the change could not be simulated). Gleason et al. (2001) found that specific policies central to the early welfare reform effort, such as work requirements and time limits for cash assistance, did not strongly influence the food stamp caseload. Restricted eligibility for food stamps for aliens and ABAWDs showed some negative impacts, but their influence was small in comparison with that of economic expansion.

### ***Welfare offices' practices discouraged some eligible families from participating in food stamps***

To look at how specific policies and practices of welfare reform might be affecting Food Stamp Program access, FANRP partnered with the U.S. Department of Health and Human Services in supporting a number of cases studies. A study by Quint and Widom (2001) of welfare offices in four urban areas found that welfare staff members did not routinely inform newly employed welfare recipients of their likely eligibility for continued food stamps. Furthermore, when recip-

ients failed to attend an eligibility redetermination appointment (which may be especially inconvenient for recipients who are working), both cash assistance and their food stamps were terminated without notice. These results suggests that many of the working recipients who failed to attend redetermination meetings were unaware of differences in TANF and food stamp eligibility rules and that they could receive food stamps.

### ***Effects on Individuals***

#### ***Food stamp leavers experience difficult transition to self-sufficiency***

Strong economic conditions along with welfare reform led to dramatic reductions in food stamp caseloads during the mid- to late 1990s. However, it was unclear if those leaving the program were making ends meet. To learn more about how those who leave the Food Stamp Program fare, FANRP funded four State studies (Arizona, Illinois, Iowa, and South Carolina) that examined the well-being of those who left the Food Stamp Program in the post-welfare era (Mills and Kornfeld, 2000; Rangarajan and Gleason, 2001; Jensen et al., 2002; and Richardson et al., 2003). A summary of the four studies that focused on ABAWDs concluded that although ABAWD leavers tended

to have high employment rates, earnings and incomes were low (Dagata, 2002). High poverty rates for ABAWD leavers' households underscored the difficulty that many in this group faced trying to make ends meet. For example, between 17 and 34 percent of the ABAWD leavers reported what is now referred to as very low food security, and about another 20 percent reported the less severe category of food insecurity. Large percentages of ABAWD leavers also reported facing additional economic difficulties including housing problems and problems paying for utilities.

### **Eligible nonparticipants are disproportionately better off than participants**

Another FANRP study examined who among those who left cash assistance do not participate in the Food Stamp Program when eligible to do so (Goerge et al., 2004). Results showed that the unmarried, those with long histories of TANF receipt, those with poor work histories, and African-Americans were more likely to participate in the Food Stamp Program after

leaving TANF. As had been noted in earlier studies, this indicates that among those eligible for food stamps, it is disproportionately those who are better off who choose not to participate. The study found significant variation in food stamp participation rates among district offices, suggesting considerable variation in the efficacy of implementing program objectives. This points to the importance of the district office in facilitating food stamp participation and disseminating information.

### **Spending on food stamp employment and training increased**

Welfare reform limited ABAWDs to 3 months of food stamps out of each 3-year period, except in those months that they are meeting work requirements. The Balanced Budget Act of 1997 more than doubled the funding available to States for the Food Stamp Employment and Training (E&T) Program and mandated that States spend at least 80 percent of the funding on services that help ABAWDs comply with work requirements. The Act also mandated that

USDA examine and report to Congress on how States use the new funds to create work opportunities for ABAWDs and whether this was done in an efficient and effective manner. The resulting Report to Congress showed that total E&T program spending increased, though States used less of their Federal grant allocations and more of State matching funds (Botsko et al., 2001). Most States also changed the focus of their E&T program services to target ABAWDs. Nationwide participation in the E&T program dropped sharply after the Balanced Budget Act, with variations among States and among E&T component types. The decline in E&T participation was attributed in part to the decline in total food stamp caseload, especially among ABAWDs, over the same period.

### **Other Studies**

#### **States re-engineered their Food Stamp Programs as a result of welfare reform**

Along with mandatory changes in food stamp eligibility, PRWORA gave States greater flexibility to administer their programs to meet their unique needs. While States had begun changing the way program services were delivered before passage of welfare reform legislation, PRWORA provided additional opportunities for them to "re-engineer" their Food Stamp Programs in their State to meet their unique needs. Bell et al. (2002) examined State-level administrative changes to the Food Stamp Programs as a result of PRWORA. All 49 States and the District of Columbia participating in the study undertook at least one "re-engineering" activity in their states' Food Stamp Programs, as a result of PRWORA. In addition, 35 States implemented changes in 3 or more re-engineering categories. A significant effort was focused on improving access to the Food Stamp



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Program: 39 States implemented changes to improve program accessibility. Thirty-four States took steps to conform TANF and Food Stamp Program rules, and 24 States implemented increased program monitoring and evaluation. This FANRP study highlights how the flexibility created by PRWORA has significantly altered how the Food Stamp Program is administered across the country.

**Welfare reform affects urban and rural areas differently**

Compared with urban areas, rural areas have higher poverty rates, lower population densities, fewer job options, and greater distances to jobs. A FANRP report that provided the first comprehensive analysis of the spatial dimensions of PRWORA concluded that the overall effects of welfare reform on caseloads, employment, and poverty have been positive in both rural and urban areas (Whitener et al., 2002). Yet, several

studies of individual State welfare programs and specific policy provisions have found smaller welfare reform effects on caseloads, employment, earnings, and poverty in rural areas than in urban areas. These differences in outcomes are due in part to variation in State welfare programs. State programs differ, for example, on the amounts and types of assets used to determine eligibility and benefits, the time period for work requirements, and the design of child care and transportation assistance programs. At the same time, rural areas are diverse and welfare recipients in some areas are harder to serve than in others. National-level analyses using a simple metro-nonmetro dichotomy can mask rural variation in welfare program operation, structure of opportunities at the local level, and program outcomes. Several studies show that State welfare programs and policy provisions have had less effect on employment and earnings in rural

areas than in urban areas. Residents of sparsely settled rural areas face unique challenges to working, including long distances to jobs and limited options for services, such as health and child care.

**Welfare-to-work provision increased labor supply but reduced wage growth**

Using a computer simulation model, Hanson and Hamrick (2004) examined some of the labor market impacts of the “welfare-to-work” provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. From 1996 to 2000, the influx of public assistance recipients into the labor force resulted in an increase in the workforce of about 2.4 million persons. This influx accounted for 18 percent of the labor force growth during this time period and 1 percentage point of real gross domestic product (GDP) growth. The finding that the increase in labor supply from the movement of public assistance recipients into the workforce contributed to economic growth is an economic benefit from welfare reform. However, a “spillover effect,” or unintended consequence, of the welfare-to-work system of public assistance was to put downward pressure on wage growth for low-skill occupations. Wage growth was reduced by 2.5 percentage points to 4.4 percent, versus 6.9 percent that the authors estimated would have occurred without the influx of new workers.