Committee on Ways and Means

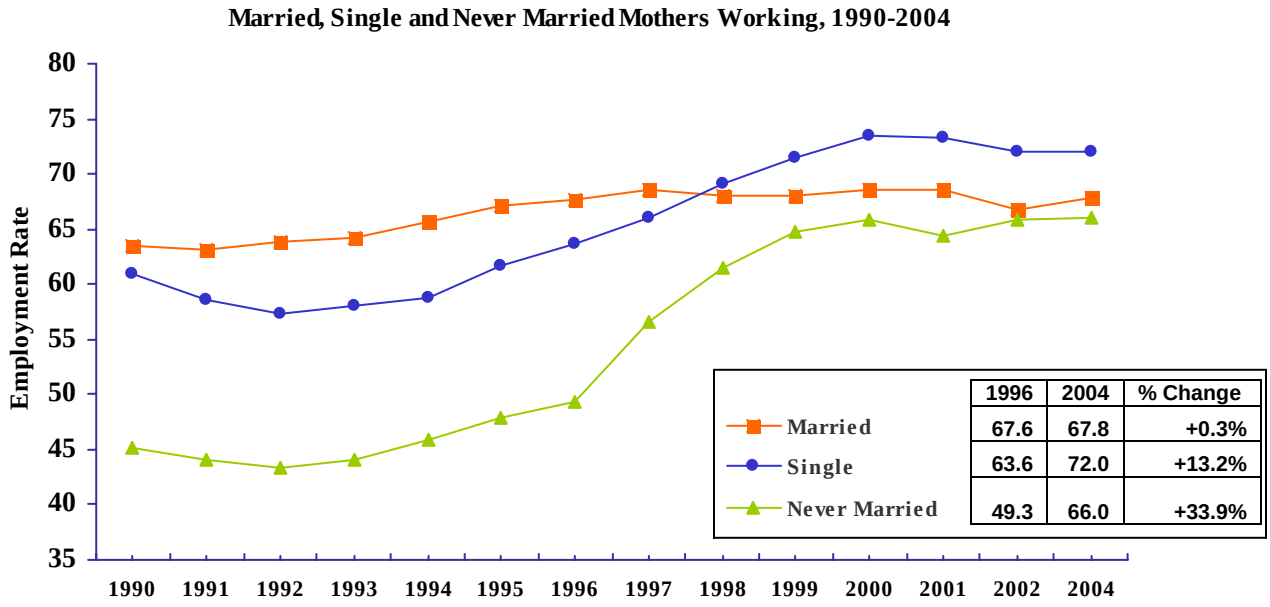
Subcommittee on Human Resources Report

A Decade Since Welfare Reform:
1996 Welfare Reforms Increase Work and Earnings

Key Facts

- **Work Has Increased Among Parents on Welfare, But More Effort Is Needed**
  - Following the 1996 welfare reforms, the share of adults on welfare who work more than doubled, albeit from only 11 percent in 1996 to 23 percent in 2004.[1]
  - The welfare policy in the *Deficit Reduction Act of 2005* (P.L. 109-171) expects more parents on welfare to work.

- **More Broadly, Work Has Increased Among Low-Income Parents**
  - Work among never-married mothers – the group most likely to receive welfare – has surged.



	1996	2004	% Change
Married	67.6	67.8	+0.3%
Single	63.6	72.0	+13.2%
Never Married	49.3	66.0	+33.9%

Source: Gary Burtless, the Brookings Institution, 2002 and Bureau of Labor Statistics

- **Increased Work Has Meant Higher Wages and Incomes**
  - Less-educated single mothers experienced the fastest employment and wage gains between 1994 and 2001, the period when pro-work state and federal welfare reforms were implemented.[2]

- **Work and Wage Gains Endured Despite the 2001 Recession**

  Even though the national unemployment rate was higher in June 2003 when compared to August 1996, the proportion of single mothers holding jobs was 70 percent in June 2003 in comparison to 64 percent in August 1996.[3]

Additional Background

A key purpose of the 1996 welfare reform law was to reduce welfare dependence by promoting job preparation and work. The post-1996 record shows significant progress in promoting more work and higher wages among low-income families. More work and earnings contributed to declines in child poverty rates since 1996. Child poverty fell 13 percent, including a decrease of 16 percent for African American children and a decrease of 28 percent for Hispanic children. Additional welfare reforms included in the *Deficit Reduction Act of 2005* are designed to promote and support even more work among low-income families in the coming years.

This post 1996-reform progress is especially noteworthy in comparison with the failures of the prior Aid to Families with Dependent Children (AFDC) program.

The AFDC program undermined work in three key ways. First, the entitlement to welfare checks under AFDC encouraged parents to substitute welfare checks for paychecks. Under AFDC, states could do little to require parents on welfare to work, finish high school, or even avoid drug use. Before 1996, this self-destructive cycle trapped millions of families on welfare for an average of 13 years during their lifetime. Second, AFDC rewarded states with open-ended federal funds if more parents became dependent on welfare. Not surprisingly, welfare rolls grew in good times and bad. Welfare advocates argued more spending meant more compassion, but greater dependence and spending became increasingly obvious measures of AFDC's failure to help parents work and be self-sufficient. Third, accountability measures in the failed AFDC program only cared whether states paid beneficiaries the right amount of welfare benefits. As AFDC mushroomed into a check-paying operation covering five million families including one in seven children in the U.S. by 1994, the system failed to focus on what low-income families really needed - help preparing for, finding and keeping a job.

In place of these failed program features, the new Temporary Assistance for Needy Families (TANF) program, created in the 1996 law, included three key reforms:

(1) End the individual entitlement to welfare checks, promoting work and reinforcing that welfare was temporary assistance.

The first key pro-work reform was ending the individual entitlement to welfare checks. This allowed states to impose meaningful requirements on adults who received welfare checks. These include real work and job training requirements, and financial penalties for failure to engage in work or work preparation activities. The new welfare law also limited the length of time adults could collect federal welfare checks to no more than five years, reinforcing that welfare was temporary assistance leading to work, not a path to lifetime dependence on government aid.

Some reform opponents argued expecting low-income families to engage in work or work-related activities would lead to disaster. For example, on August 1, 1996, as the Senate debated what became the 1996 welfare reform law, former Senator Carol Moseley-Braun (D-IL) wondered, “If the work requirements are not met, and that means the people do not have jobs and families then get cut off because of the time limits in the bill, then what happens? What do these people do with their children? Do we put them on trains and send them out West? Do we scoop them out of alleys and auction them off?”

On the contrary, ending the welfare entitlement increased work and incomes among low-income families: "Total household income (including non-cash benefits) increased significantly among those mothers who left welfare since 1996. Before leaving welfare, the average incomes of these women ranged from about 10% to 40% above the poverty level. By the end of the second year after leaving welfare their incomes were 50% to 70% above poverty."[4]

Further, recipients in states with the strongest work requirements, including the toughest penalties for not working or engaging in job preparation activities, fared the best when it came to earnings from work: "The income gains for children whose families live in states with strong work incentives lie everywhere above the income gains among children in other states, even for children above the poverty line…. This is perhaps surprising, since many have predicted that strong penalties would lead to greater impoverishment among those who lose their eligibility for welfare but are unable to replace benefits with earnings. Instead, it is the more lenient states with softer penalties where children's income seems to have grown the least."[5]

(2) Replace AFDC with the TANF block grant to stop rewarding states that keep more families on welfare.

The second key pro-work reform in the 1996 law was creating the new $17 billion TANF block grant, assuring states record-high federal welfare funds even if welfare rolls dropped. States continue to receive full federal TANF funds today even though today's welfare caseloads have dropped 60 percent since 1996. Under the *Deficit Reduction Act of 2005* they will be paid this same level of federal welfare funds through 2010, even though caseloads may drop in the years ahead. Coupled with record-high federal resources for child care, fixed funding and sharp caseload declines have meant annual taxpayer resources per family on welfare more than doubled -- from about $7,000 in 1996 to around $16,000 today.

(3) Hold states accountable for success in engaging recipients in work.

The third key pro-work change in the 1996 reforms was to require states to satisfy new work requirements to receive full federal funding. States needed to operate programs that engaged a rising share of adults on welfare in work or job preparation activities, or help more families avoid or leave welfare altogether. States that failed to satisfy these goals would lose federal funds. Coupled with the pro-work incentives inherent in the new block grant, this new performance-based system spurred states to change the welfare culture to promote work.

---

[1] Congressional Research Service tabulations based on U.S. Department of Health and Human Services data.
[2] Urban Institute, "Less Educated Single Mothers Achieved High Wage and Employment Gains in the Mid 1990s," October 26, 2001, <http://www.urban.org/UploadedPDF/410350_SPEM_2.pdf> (March 22, 2006).
[3] Urban Institute, "How Did the 2001 Recession Affect Single Mothers?," January 2005, <http://www.urban.org/UploadedPDF/311128_single_mothers.pdf> (March 22, 2006).
[4] June O'Neill and M. Anne Hill, "Gaining Ground, Moving Up: The Change in the Economic Status of Single Mothers Under Welfare Reform," March 2003, <http://www.manhattan-institute.org/html/cr_35.htm> (March 22, 2006).
[5] Rebecca M. Blank and Robert F. Schoeni, "Changes in the Distribution of Children's Family Income over the 1990's," January 2003, <http://www-personal.umich.edu/~bschoeni/blankschoeni%20pp.pdf> (March 22, 2006). Other reports link work-based reforms with reduced parental substance abuse and child poverty. See <http://www.affiliatedsystems.com/newest.htm> and <http://www.manhattan-institute.org/html/cr_44.htm>.