Joel F. Handler

on welfare reform's hollow victory

Almost a decade has passed since President Clinton fulfilled his pledge to "end welfare as we know it" by signing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). PRWORA, commonly known as 'welfare reform,' replaced Aid to Families with Dependent Children (AFDC), a government cash-aid program that primarily supported single mothers and their children, with Temporary Aid for Needy Families (TANF), a block-grant program that increased state discretion substantially.

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The goal of the reform was to promote work in the paid labor force among welfare recipients. Within five years, 80 percent of the states' caseloads had to be working or searching for jobs. And for the first time in welfare history, strict time limits were imposed on individual aid: a two-year limit on continuous aid and a cumulative lifetime limit of five years.

Most states adopted a 'work first' strategy – recipients had to take any job, even a low-wage, entry-level one – rather than providing recipients opportunities for education and training first. The assumption was that working would improve the economic and social outcomes of poor families: even workers who started at low-wage jobs would be able to work their way up the economic ladder. Policymakers believed that these mandatory requirements were necessary to move recipients off the rolls. Furthermore, they thought that the children of welfare recipients would gain a sense of pride and direction from seeing their parents working.

Everyone has declared the reform a success. Caseloads have declined from 12.2 million to 5.3 million recipients. Labor-force participation has increased 15 to 20 percentage points among single mothers with children under the age of five – the population most likely to be welfare recipients. Welfare reform, a burning political issue since the 1970s, has disappeared from the radar screen for almost a decade.

But this reform has actually resulted in a hollow victory. While caseloads have declined and work participation has increased, most families are still living in poverty and enduring significant hardship.

Studies of 'leavers,' recipients who have left welfare, have shown that between half and two-thirds of leavers find jobs shortly after leaving the rolls, primarily in sales, food preparation, clerical support, and other service-sector jobs. Their wages range from $5.67 to $8.42 per hour, though, leaving many full-time working families impoverished. Benefit loss is also a significant problem. Although leavers still qualify for other government programs, including food stamps and Medicaid, they have to go to separate offices and make separate appointments (often available only during working hours) to obtain them. Thus, the majority who are eligible are not enrolled.

As a result, leavers, despite earnings, are not better off than when they were on welfare. Evaluations of eleven state welfare-to-work programs have demonstrated that the net income of recipients remained the same or decreased despite the fact that employment increased. Few of the eleven programs generated substantial gains in incomes or declines in poverty.

Besides the loss in benefits, working also creates costs such as childcare and transportation. Perhaps the most significant is childcare. A survey of childcare centers in forty-seven urban areas revealed that in over half of the areas surveyed, childcare cost an average of $6,000 annually. Thus, a two-parent family in which both parents earn the minimum wage spends "one-quarter or more of their income to afford average-priced care for an infant in 37 out of 47 urban areas surveyed," according to a 2003 report of the Children's Defense Fund. During the 1990s, state budget surpluses ensured that a substantial amount was spent on child-care subsidy programs and other supports for the working poor. But even now, more than one-third of states have long waiting lists for these programs – over two hundred thousand in California, forty-eight thousand in Florida, twenty-two thousand in Georgia, and thirty-eight thousand in New York City. Subsequently, most low-wage working families rely on informal childcare – relatives and friends who often also have jobs – creating an unending scramble to find childcare in a world of shifting schedules and flexible, temporary jobs. Many children are even left alone or in the care of older, but still young, children.

While the government has helped alleviate poverty for low-wage workers by considerably expanding the Earned Income Tax Credit (EITC) in the 1990s (federal spending on EITC is almost three times that of TANF and more than that of food stamps), the working poor still face tremendous challenges. With an average wage of about $8 per hour, even working thirty hours per week for a full year grosses only $12,000, and federal and state income payroll taxes offset a sizable amount. Although families may earn more income by working rather than relying on cash aid, their reduced receipt of other government benefits and increased work-related expenses mean that these families are not necessarily better off.

This discussion has focused thus far on employed leavers. However, more than one-third of leavers are unemployed. Sarah Brauner and Pamela Loprest have found that approximately 6 percent of unemployed leavers are disabled, sick, or otherwise unable to work. Approximately 69 percent of those without disabilities are looking for work. And 14 percent of unemployed leavers rely on the earnings of a spouse or partner as income. Like employed leavers, very few of them utilize other government benefits, including unemployment, food stamps, and Medicaid. In any case, a high proportion of leavers, regardless of employment status, reported suffering: 33 percent cut down on or skip meals; 39 percent are unable to meet rent, mortgage, or utility payments; and 7 percent end up moving in with others.

Unfortunately, the pressure to meet the new requirements has also exacerbated welfare agencies' use of sanctions and diversions to discourage existing and potential welfare recipients. Sanction rates in various programs now range from 20 percent to over 60 percent of the caseload. Reports reveal that clients have been sanctioned for minor errors: a missed appointment, a failure to file a form, or a lapse in administrative procedures. In a California study, recipients either didn't know that they had been sanctioned (since grants often fluctuate) or why. Moreover, many states have failed to accept applicants. Cook County, Illinois, for example, only accepted 19 percent of applicants. In several states, caseworkers used informal tactics to discourage applications, such as requiring applicants to engage in multiple job searches or to go on multiple interviews before even considering their applications.

The addition of work requirements has undoubtedly complicated an already overworked, undertrained bureaucracy. PRWORA assumed that with the new work requirements, increased state flexibility, and block grants, welfare agencies would turn into employment agencies offering individualized services. This has not happened. Instead, the work programs have been a mostly unwelcome addition. For most agencies, whether public or private, their main task is still accuracy and timeliness in determining eligibility and distributing payments. Though the titles, rules, and programs of the offices and its workers have changed, most employees say that their jobs have remained basically the same. They have received little training in the new rules and programs.

Further, contracting with private agencies (nonprofit and for profit), touted as a cure for the problems of welfare administration, has not helped. Advocates claimed that, with competition, services would be delivered more efficiently, quality improved, and government made more flexible. Thus, in 2001, over $1.5 billion of TANF and state funds went to private contractors, according to 2002 GAO estimates. But contracting has given birth to its own problems: contractual incompleteness, asymmetry of information, difficulty of government monitoring, lack of competition, dependence of government on contractors, and opportunistic behavior, among others.

In fact, because of the difficulty of calculating the cost of services, various pay-for-performance, cost-reimbursement, and fixed-price contracts are used. Thus, contractors have more incentive to reduce caseloads, rapidly move clients into the job market, and prevent their return. Outcome measures, particularly of the quality of service, are especially problematic. Evidence now shows that contractors are not more efficient than public agencies. Indeed, evaluations have revealed the limited qualifications and poor training of staff in these agencies; the poor quality of services; a high use of sanctions; a diversion of funds for corporate promotion; and a lack of improvement in client earnings. Yet public officials have had to justify the existing contracts because contractors have become a powerful interest group.

Instead of declaring victory, it's time to recognize the severity of poverty and hardship in the United States. Despite having one of the highest average incomes, the United States has the astonishing distinction of having one of the highest rates of poverty in the industrialized world. More ominously, it also has the highest child-poverty rate compared to fourteen Western European countries and Canada. Our problem is the assumption that once a family crosses the 'poverty line,' everything is all right.

However, the poverty line is seriously out of date. In 2000, Jared Bernstein and his colleagues constructed a budget just to meet "basic needs and achieve a safe and decent standard of living." This budget included food, housing, health care, transportation, childcare, and other necessary expenses (e.g., telephone, clothing, personal care, household items, school supplies, television, etc.). It did not include restaurant meals (including fast food); vacations; movies; and saving for education, retirement, and emergencies. They found that in nineteen different locations, this budget ran well above the poverty line. In Baltimore, for example, a family of four would have to have an annual income of $34,732 just for basic needs – twice the amount necessary to cross the poverty threshold. A single-parent family, with the parent working full-time, a seven-year-old, and a three-year-old, would need $30,000 to live – again twice the poverty line. And the National Low Income Housing Coalition recently reported that a one-bedroom apartment at average market rates anywhere in the country was not affordable for a full-time minimum-wage worker.

The poor are 'playing by the rules,' but not enough full-time jobs paying decent wages and benefits are available. To raise a family of four even above just the poverty line, one would have to earn $9.36 per hour, working full-time (thirty-five hours per week for fifty-two weeks). Yet nearly one-third of heads of households earn less than $10 per hour. The state of poverty in low-wage America – with millions of children lacking quality childcare, health care, and education – is not only unjust but national suicide. Welfare reform is not the answer. Adequate income support for all families and decent jobs for the vast majority of parents who want to work are the preferred solutions. Instead, TANF has been reauthorized, increasing the mandatory work requirements for two-parent families.