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HOW PUBLIC POLICY CAN BEST HELP AMELIORATE POVERTY

KIRK A. JOHNSON, PH.D.

Debates currently rage in Washington, D.C. and in state capitals nationwide on ways public policy can best ameliorate poverty in America. The U.S. Congress is deliberating over how the nation's welfare law should be reauthorized, and states are grappling with how they should tailor welfare to meet the particular needs of their people.

Anti-poverty programs first began as national policy when the Social Security Act of 1935 authorized cash payments to support needy children whose parents could not support them because of desertion, death, incapacitation, or unemployment. Those support programs were expanded in the "Great Society" era of the 1960s, after which they remained systematically unchanged until the 1990s.

In 1996, federal welfare programs were massively overhauled when President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act. Beginning in the 1990s, states were first allowed to design and implement different welfare and income support programs for their low-income residents, via a federal waiver plan. Such experimentation allowed differing programs and policy prescriptions to be tested and evaluated. From those new experiments and research conducted during the pre-welfare reform period, policy analysts and researchers have become keenly aware of the incentives and outcomes of various programs. That body of evidence suggests four broad conclusions about public welfare programs:

PROGRAMS LIKE AFDC PROMOTED DEPENDENCY

"Great Society" programs, specifically the Aid to Families with Dependent Children (AFDC) program, were designed to alleviate poverty in America. Some may argue that the programs had some initial benefits, but it cannot be argued that the poverty rate nationwide oscillated somewhat but did not change substantially in the 30 years between 1965 to 1995.

Why did the national poverty rate not change over three decades, despite all of the federal money? The nature of AFDC was such that a recipient, even if able-bodied and capable of entering the labor force, could remain on welfare for years. In fact, before the 1996 welfare reform law, many beneficiaries did just that. Under AFDC, about half of all welfare recipients had been on the program for five years or more.[1] AFDC had the deleterious effect of promoting dependency among many in America. Welfare caseloads exploded between 1965 and 1995, both in terms of the number of individuals on the program and in terms of the percentage of the U.S. population.

1. LaDonna A. Pavetti, "Time on Welfare and Welfare Dependency" Statement to the House Ways and Means Committee, Human Resources Subcommittee, May 23, 1996.

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(240) 686-3510 Fax: (240) 686-3511 *www.mdpolicy.org*

There is also some evidence that a growing segment of the AFDC welfare population was composed of the children of long-term welfare recipients.[2] Dependency in those cases was intergenerational in nature, passing from parent to child. One researcher in a 2002 study concluded, "Women who experienced a spell of welfare receipt during childhood are almost three times as likely to become welfare participants as adults as are women whose parents did not receive welfare."[3]

The 1996 welfare reform law changed the incentives of the system. Under the new Temporary Assistance to Needy Families (TANF) program, there is a five year lifetime limit to receiving benefits, and work requirements were integrated into the law such that it made it less likely that an individual would continue to be on the program for years on end.

Figure 1: Dependency Increased Under AFDC and Decreased Under TANF

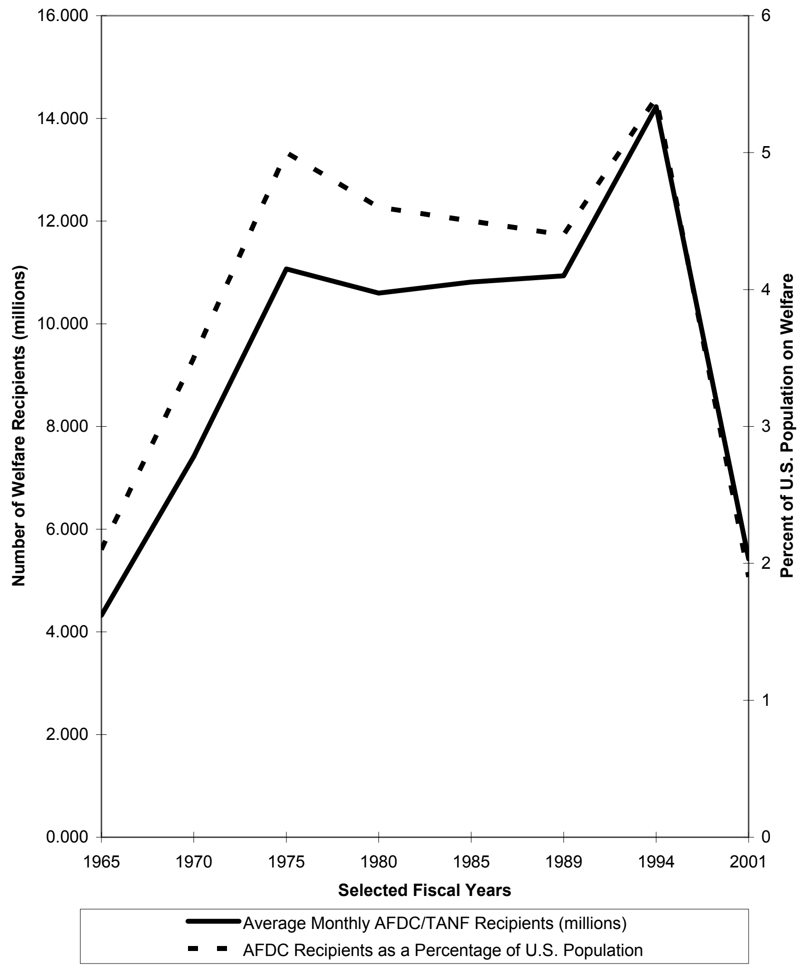


Figure 1 shows both trends; in the late 1960s and early 1970s, welfare caseloads increased substantially, from 4.3 million in 1965 to about 11 million in 1975. Caseload numbers remained largely constant throughout the 1980s, but spiked in 1994 to more than 14 million individuals, representing about 5.4 percent of the U.S. population. With the advent of TANF, caseloads began to drop substantially. In 2001, only about 5.5 million individuals were on welfare in the United States, representing less than 2 percent of the total population.

Maryland had a similar experience. The state's caseload peak was in May 1995, with nearly 82,000 families served.[4] Between May 1995 and September 2002, the total welfare caseload had dropped 68 percent in the state, a larger percentage drop than the 60 percent decrease experienced by the nation as a whole from the caseload peak of March 1994 to September 2002.[5]

2. There were a number of such studies, which have been cited recently by Marianne E. Page, "New Evidence on Intergenerational Correlations in Welfare Participation" Joint Center on Poverty Research, April 2002, pg. 2.
3. Marianne E. Page, "New Evidence on Intergenerational Correlations in Welfare Participation" Joint Center on Poverty Research, April 2002, pg. 15.
4. Note that this definition of caseloads, which is defined generally as families, differs somewhat from the total number of individuals on the program, which is what Figure 1 shows. Nationwide, there are about 2.8 individuals served in the typical welfare "family" case, an average that has not changed much either before or after reform.
5. U.S. Department of Health and Human Services, Assistant Secretary for Planning and Evaluation, *Indicators of Welfare Dependence: Annual Report to Congress, 2003*, Table 10.

WELFARE PROGRAMS SHOULD FOCUS ON GETTING PEOPLE BACK TO WORK

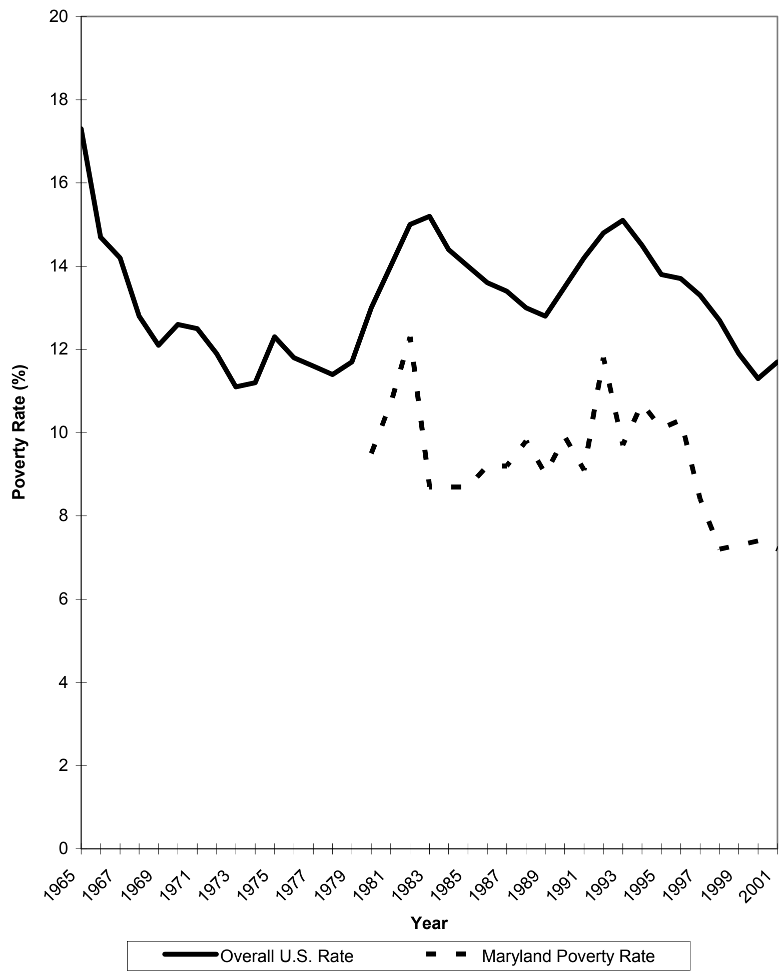
A large and vocal segment of the policy world continues to argue for extensive job training programs to lift the wages of low-income individuals. Those programs have a *prima facie* allure—after all, it would stand to reason that job training programs should boost the earnings of workers—but virtually all large-scale experimental studies have shown that such programs either are ineffective or are so marginally effective that the outcomes do not justify the price.

One researcher recently reported on the most comprehensive long-term evaluations of two of the most popular job training programs in America: the Job Training Partnership Act and Job Corps.[6] He concluded first that program recipients who received job search and on-the-job training had earnings that were similar to those who received traditional classroom training and instruction under the two programs. Where there were differences in earnings, those differences tended to disappear after the first several months post-program.

Second, he concluded that the traditional job training programs tend to be ruinously expensive. An eight-month Job Corps program, for example, costs the taxpayers about $16,500 per program participant.

Lower cost job search assistance, which would include short-term training on work ethics (e.g. being on time to a job and groomed appropriately, along with employer-employee interpersonal skills development) tends to have good outcomes for program participants. Working on a job consistently over time is one way to assure upward wage mobility, even among low-income workers.

Figure 2: Poverty Declined Since 1996 Welfare Reform in Maryland and the U.S.



CONTINUING/RECIPROCAL SUPPORT IS IMPORTANT

The new TANF reforms included a promise to welfare recipients: reciprocal support. Federal and state governments pledged not to wrench welfare program benefits away from recipients immediately if recipients work. Even in the first handful of months that TANF recipients are in their new jobs, they will generally remain eligible for a range of welfare programs, including food stamps, housing assistance, child care help, transportation vouchers, and the like. In addition, the new workers, if they earn relatively low wages, will typically be eligible

6. David B. Muhlhausen, "Congress Spends Billions on Ineffective Job-Training Programs" Heritage Foundation *Backgrounder* No. 1597, October 1, 2002, at *http://www.heritage.org/Research/Labor/bg1597.cfm*.

for the federal Earned Income Tax Credit as well as other state-based programs.

In years past, welfare recipients who entered the work force typically lost their benefits shortly after being hired. Today, states have a great deal of flexibility as to how they distribute their TANF block grant. Since welfare caseloads have declined so precipitously in the past several years, many states have been able to offer more in-kind benefits to recipients, such as transportation, food stamps, and child care, so that the transition from welfare is less traumatic on the recipient and family.

PERSONAL/FAMILY EMPOWERMENT IS KEY

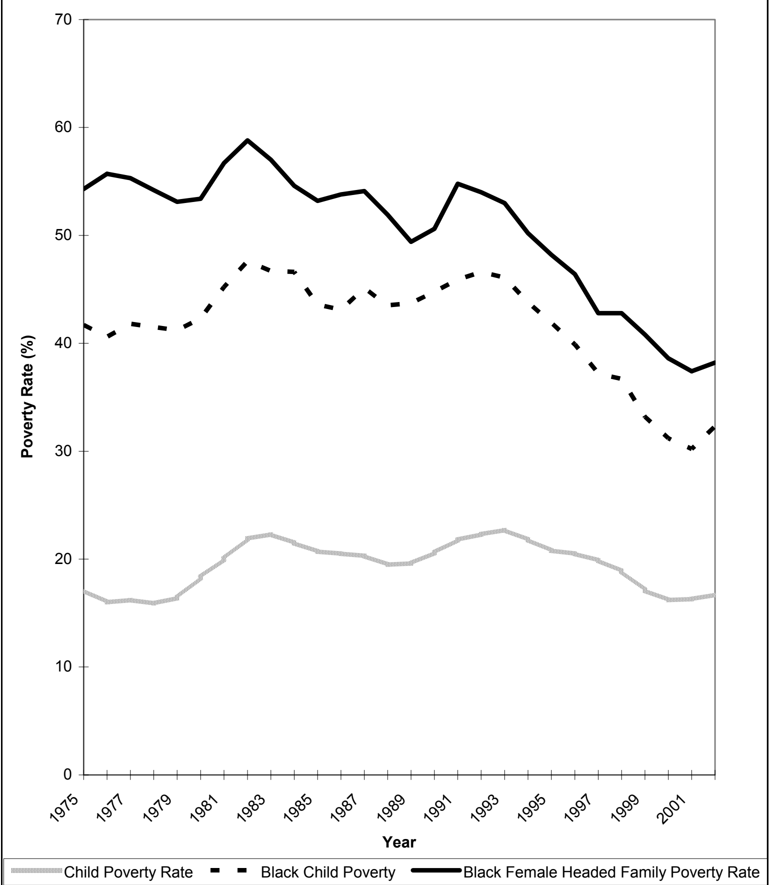
The public policy shift from AFDC to TANF was a step away from dependency and a stride toward personal and family empowerment. While AFDC rewarded idleness, TANF rewards productive effort towards self-sufficiency. With TANF, cycles of long-term poverty and dependency were finally stunted after decades of policies that reinforced such negative outcomes.

The data bear this out. In a study of welfare recipients in Baltimore,[7] before the 1996 reform law some 46 percent of young female AFDC program participants (defined as being between the ages of 19 and 26) were on the program for at least 21 months. Between 1996 and 2000, that rate had dropped to just 15 percent.

Policies that promote empowerment instead of dependency have been the most effective in raising individuals and families out of poverty. It is one of the primary reasons for the decline in the poverty rate over the past several years. Figure 2 shows the overall poverty rate for the nation between 1966 and 2002. It also shows that Maryland, a state that has always had a poverty rate lower than the nation as a whole, has also seen its poverty rate drop to the lowest level since such data were collected by state.

Figure 3 shows the positive effects of welfare reform on families that have typically been the most endangered by poverty—families with African-American children and black female-headed single-parent families. Black female single-parent families had a poverty rate of 50 percent or higher in most years before the 1996 welfare reform.[8] Since then, the poverty rate dropped more than 25 percent from the mid-1970s. Clearly, the policies of personal and family empowerment have been successful in raising children and their families out of poverty.

Figure 3: Poverty in Black Families Decreased Substantially after the 1996 Welfare Reform



SUMMARY

Both liberals and conservatives have increasingly come to the conclusion that the 1996 welfare reform law has been particularly effective in

7. Robert A. Moffit and David W. Stevens, "Changing Caseloads: Macro Influences and Micro Composition," *Economic Policy Review*, September 2001.

8. In fact, if Figure 3 included those years, the Black female-headed single-parent family poverty rate was just over 60 percent in the mid-1960s, according to data from the U.S. Census Bureau.

improving the economic situation of the needy in the United States.

Wendell Primus, for example, resigned his position as deputy assistant secretary for human services policy in 1996 to protest President Clinton's signing of the welfare reform bill. Just five years later, while director of income security for the left-leaning Center for Budget and Policy Priorities, he was praising the law. "In many ways, welfare reform is working better than I thought it would. The sky isn't falling anymore. Whatever we have been doing over the last five years, we ought to keep going."[9]

He's right. In the process of reform and program experimentation, we now have a good sense of what are the most effective ways of providing assistance to the poor and needy in America. Programs should encourage empowerment, not dependence; should focus on work, not idleness; and should demand something from the recipients in return for the program's support. Implementing the simple lessons listed above is a way to assure that the social safety net is strong and does not allow needy families to fall into the impoverishing trap of dependence.

—Kirk A. Johnson is a senior policy analyst in the Center for Data Analysis at the Heritage Foundation. His research focuses on welfare, family issues, education, and consumer finance.[10]

9. Blaine Harden, "Two Parent Families Rise After Change in Welfare Laws," *New York Times*, August 12, 2001, pg. 1.
10. This paper was presented at the 2004 Harry and Jeanette Weinberg Fellows Program panel discussion "What Is The Most Effective Way to Lend a Helping Hand?"