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Welfare - Council of Economic Advisors White Paper

WR - CEA report

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To: Bruce N. Reed, Elena Kagan, Cynthia A. Rice

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SEconomy, welfare changes shrink welfare rolls

WASHINGTON (AP) The booming economy is responsible for almost half a dramatic drop in welfare numbers nationwide, a White House report concludes. It poses the obvious question: What happens when the economy inevitably slows?

The report released Friday by the Council of Economic Advisers also credits states that experiment most boldly with welfare changes, particularly those that punish recipients who don't participate in work requirements.

``This study is further proof that welfare reform works,'' said Bruce Reed, President Clinton's chief domestic policy adviser. ``It isn't just `the economy, stupid.' It's welfare reform as well.''

But the economy is responsible for 44 percent of caseload drops, according to the analysis of unemployment rates, welfare policies and caseload changes. It concluded that policy changes enacted by states under federal waivers account for 31 percent of the decline.

The other 25 percent was unaccounted for, although administration officials credited policies such as expansion of a tax credit for the working poor.

Low unemployment means more job chances for people leaving welfare, and the current economic expansion is already the third longest in history.

Welfare rolls jumped during the 1990-91 recession and began to fall as the economy strengthened in 1993 and 1994. So what happens if the economy turns down?

``We did not pretend when the president signed the bill that there were enough protections in an economic downturn,'' said Donna Shalala, the secretary of Health and Human Services.

But she pointed out that federal payments to states are based on caseloads at their peaks, meaning states will have more money per welfare recipient than ever before. Many states are saving that money for an economic rainy day, she said.

The report comes as states, freed from all but a few federal restrictions, take responsibility for creating welfare programs. The six-decade federal guarantee of aid for the poorest Americans disappeared when Clinton signed the welfare law last summer.

States begin the task a step ahead. The number of people on welfare has fallen dramatically since peaking in 1994 20 percent nationwide and more than 40 percent in states such as Wisconsin and Oregon.

But no one knows how long that will last or what has happened to people who leave the rolls.

``The key question is, are we pushing more people into poverty? We don't know,'' Shalala said.

The report notes the relationship between economic conditions and welfare is not perfect. For instance, welfare rolls in Virginia dropped 20 percent although unemployment was above average between 1993 and 1996.

Robert Rector, who analyzes welfare for the conservative Heritage Foundation, argues there is ``virtually no relationship'' between the economy and caseloads. In the booming 1960s, caseloads rose as welfare was expanded, and in the early 1980s, caseloads remained steady during a recession because eligibility standards were tightened.

``Over the long term, anybody who knows anything about this can see the welfare policies are much more important than the economy in terms of reducing caseloads,'' Rector said.

The study also credits welfare policies including the effects of state experiments. By 1996, 35 states operated under major statewide waivers.

Analyzing six popular policies, the report concludes only one had a significant effect: punishing people who won't participate in work programs. That often means reducing benefits, or sometimes removing people from rolls. The policy is estimated to reduce caseloads by nearly 10 percent.

But states often began a variety of changes at once, making it difficult to determine the effect of each. Further, severity and frequency of sanctions vary by state.

While administration officials welcome the declines, they acknowledge they don't know how much further they can fall before the most employable people are in jobs, and only people with the toughest problems remain.

``One of the things that we don't know ... is whether the drop continues, or whether you get to a point where it's a much tougher population to move from welfare to work,'' Shalala said.

Rector counters that many never thought caseloads would decline this far.

``We've been waiting for the bottom of the barrel,'' he said. ``The bottom of the barrel is far, far lower down than anyone imagined.''

APNP-05-09-97 1719EDT

DRAFT FILE WR-CEA Report HHS Paper - Still being revised - may drop

State Welfare Demonstrations Approved By The Clinton Administration: Contributing To Welfare Caseload Decline Ohio in favor in Illinois

Today the Council of Economic Advisors (CEA) issued a report to explain some of the reasons for the dramatic decline in the welfare caseload during the last four years. The CEA's analysis shows that the recent welfare reform waivers granted to states to test innovative programs to move people from welfare to work have contributed significantly to the declining welfare rolls.

Beginning The Move Toward A New Welfare System

Since taking office, the Clinton Administration has approved 80 welfare-to-work programs in 43 states – more than all previous Administrations combined. In an average month, these welfare demonstrations cover more than 10 million people, approximately 75 percent of all welfare recipients. drop date VS CEA

Even before the President signed the new welfare law in August, with the Clinton Administration's support, states were already reforming welfare by requiring work, time-limiting assistance, making work pay, improving child support enforcement, and encouraging parental responsibility. For example: 6 counties CEA is 92??

Oregon: Oregon received waivers from the Clinton Administration in September 1994 and March 1996 to test an employment-focused approach to moving people from welfare to work, by involving people in job-related activities, providing supports for employment such as child care and transportation. Oregon also provides subsidized public or private employment by combining AFDC grants and cashed-out Food Stamp allotments. And Oregon's new plan mirrors its "Oregon Option" demonstration project approved in March 1996. From January 1993 to January 1997, Oregon's welfare caseload has declined by 43 percent.

CEA only 3/96 check if major - leave

Ohio: Ohio received three waivers from the Clinton Administration in March and September 1995 and March, 1996. In addition to time-limiting cash assistance and creating partnerships with the private sector to create job opportunities for welfare recipients, Ohio has focused on encouraging teen parents to take responsibility, stay in school and prepare for work. The State requires AFDC recipients, who are either pregnant or parents under the age of 20, to attend school or a program leading to a high school diploma or equivalent and provides a financial reward for compliance. Ohio's new welfare plan builds on their waiver demonstration projects. From January 1993 to January 1997, Ohio's welfare caseload has declined by 28 percent.

NJ? VT Illinois (MI, WI)

Building on State Demonstration Projects

On August 22, the President signed historic welfare reform legislation, embodying the principles of work and responsibility and building on the successes of state demonstrations. Under the welfare reform bill passed by Congress, states with waivers that were approved prior to the law's enactment generally may continue their waivers even when they conflict with the legislation. So far roughly 85 percent of states with welfare plans already certified complete, have chosen to continue or build on their welfare demonstration project approved by the Clinton Administration.

waiver

Background

Since President Clinton took office, welfare rolls have decreased by nearly 2.8 million people or 20 percent. Forty-six out of fifty states and the District of Columbia have seen their caseloads decline, many by more than 20 percent. According to the CEA's report released today, 44 percent of the reduction in the welfare rolls can be attributed to the strong economic growth during the Clinton Administration, 31 percent can be attributed to waivers granted to states to test innovative strategies to move people from welfare to work, and 25 percent is attributed to other unidentified factors.

better? EITC ? + CC

Under section 1115 of the Social Security Act, HHS is authorized to grant states waivers of current laws governing the AFDC and Medicaid programs. This authority is intended to give states the flexibility to demonstrate alternatives that better match their residents' needs.

Since January 1993, HHS has approved eighty welfare demonstration projects in the following states and the District of Columbia: Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

Prior to Welfare Law, More Than Half the Nation Enacted Welfare Reform Under Clinton Administration

Today the Council of Economic Advisors releases a report showing that the recent welfare reform waivers granted to states to test innovative programs to move people from welfare to work have contributed significantly to the declining welfare rolls. Since January 1993, the Clinton Administration has approved 80 welfare reform demonstrations in 43 states and the District of Columbia -- more than all previous Administrations combined. In an average month, the demonstrations cover over 10 million people -- approximately 75 percent of all recipients. Even before the President signed the new welfare law in August, with the Clinton Administration's support, states were already reforming welfare by requiring work, time-limiting assistance, making work pay, improving child support enforcement, and encouraging parental responsibility:

PRINCIPLE	DESCRIPTION	STATES APPROVED
Work	*Thirty-Six states* are helping people move from welfare to work, from receiving welfare checks to earning paychecks, by increasing education and training opportunities and creating public/private sector partnerships.	*36* - Arizona, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Maryland, Massachusetts, Maine, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, West Virginia, Wisconsin, Wyoming
Time Limited Cash Assistance	*Thirty-One states* are making welfare a transitional support system, rather than a way of life, by providing opportunity, but demanding responsibility in return.	*31* - Arizona, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Louisiana, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Vermont, Washington, Wisconsin
Child Support Enforcement	*Twenty-Seven states* are strengthening child support enforcement and sending a clear message that both parents must be responsible for their children.	*27* - Arizona, Connecticut, Delaware, Georgia, Hawaii, Illinois, Indiana, Kansas, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oregon, South Carolina, Tennessee, Texas, Vermont, Virginia, Wisconsin
Making Work Pay	*Forty-One states* are providing incentives and encouraging families to work not stay on welfare, so they can achieve and maintain economic self-sufficiency.	*41* - Arizona, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Maryland, Massachusetts, Maine, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming
Parental Responsibility	*Thirty-Nine states* are promoting parental responsibility by encouraging education, or limiting benefits for families who have another child while on AFDC.	*39* - Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Montana, Nebraska, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Wisconsin, Wyoming

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Examples Of State Welfare Demonstrations Approved By The Clinton Administration -

Oregon: Oregon received waivers from the Clinton Administration in September 1994 and March 1996 to test an employment-focused approach to moving people from welfare to work, by involving people in job-related activities, providing supports for employment such as child care and transportation. Oregon also provides subsidized public or private employment by combining AFDC grants and cashed-out Food Stamp allotments. And Oregon's new plan mirrors its "Oregon Option" demonstration project approved in March 1996. From January 1993 to January 1997, Oregon's welfare caseload has declined by 43 percent.

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+ 4/96?

Iowa: Iowa's "Family Investment Plan" which was approved by the Clinton Administration in August 1993, focuses on individual barriers to self sufficiency. The State requires every welfare recipient to enter into a personal contract outlining activities and time frames during which the client is expected to become self-sufficient, and after which AFDC benefits will be terminated.

23 % decline

Indiana: The Indiana Manpower Placement and Comprehensive Training Program (IMPACT), which was approved by the Clinton Administration in December 1994 and August 1996, limits benefits to two years; requires recipients to enter into self-sufficiency agreements; requires work and makes work pay by giving subsidies to employers who hire welfare recipients, registers recipients for work at local employment and training offices; limits exemptions; imposes a family cap; and strengthens child support enforcement. With this comprehensive approach, Indiana has decreased it's welfare rolls by 42 percent from January 1993 to January 1997. Indiana's new welfare plan builds on this statewide demonstration project.

OK

more?

getting more details

CEA document WR-CEA Report

Q & A'S FOR WELFARE CASELOAD PAPER

1) Can other factors explain the relationship between waivers and welfare receipt?

It's possible, but unlikely. One set of reasons why welfare receipt may have fallen is that other policy changes were occurring at the same time. For instance, the EITC was broadened in 1990 and 1993. Those changes increased the returns to work and could have provided an incentive for some to get a job and leave the welfare rolls. Our results are based on different patterns across states, not national changes, so any policy change that affects all states cannot explain our results. To the extent that states introduced other policies that may have altered people's decision to collect welfare benefits (like additional spending on child care or training programs) at about the same time as they received waivers, it is possible that we are inadvertently attributing the reduction to waivers. We know of no such changes.

2) How have the changes in demographic characteristics contributed to the caseload decline?

Changes in household composition clearly have taken place over the past few decades as out-of-wedlock births, divorce, and female-headed households have become more prevalent. Because the main cash transfer program largely targets single mothers with children, we should expect to see an increase in the welfare caseload, not a decline.

3) Has the increase in income inequality contributed to changes in the welfare caseload?

Our nation's poorest households have done worse over time. Because welfare is means-tested, this should increase the size of the welfare caseload, not decrease it.

4) Did those who left the welfare rolls get jobs?

Actually, we really do not know the answer to this question. This research has focused specifically on the effects of waivers on the number of people collecting welfare benefits and not on their outcomes if they left the rolls. In fact, determining the effect of waivers on employment outcomes for former welfare recipients is a very important question and one that deserves further attention.

5) Could your results be explained by welfare recipients moving out of a state that received a waiver into a different state that was more hospitable to welfare recipients?

It is possible, but I believe it is unlikely. This question has often been asked regarding differences in welfare generosity that exist across states. Some states offer much larger benefits than other states and that might induce people to migrate in search of larger checks. The academic literature on this topic provides little evidence that this sort of behavior occurs. If it does not happen in response to differences in benefit levels, it seems unlikely that it would happen in response to a waiver.

6) In a state like Wisconsin, that has been very aggressive in implementing reforms, we know that the response in places like Milwaukee has been less encouraging than in rural areas. Does your analysis take into account changes in welfare receipt that might be occurring within a state?

No. It certainly is possible that some welfare recipients in inner cities may respond differently to a waiver than others. Our analysis is conducted only at the state level, however, so what we have identified is the average of the effect of waivers in inner cities than in outlying areas.

7) Your analysis considers six different types of waivers, but only sanctions seem to matter. Does this mean that the other policies should not be introduced?

Sanctions were the only specific policy that we were able to identify that reduced welfare caseloads. This does not mean that the other policies had no effect. First, many states received waivers that included several of the different provisions and picking out the effect of any one of them is difficult. Second, we found that a state that introduced a major, statewide waiver, regardless of whether or not it included sanctions, experienced a reduction in the caseload in advance of the actual waiver approval. This indicates that the act of requesting a waiver may have changed the culture of welfare receipt in a state in a way that led people to alter their behavior and find an alternative to welfare.

8) An article in the Wall Street Journal indicated that Oklahoma has found that their caseload has dropped significantly in response to more harsh treatment by welfare caseworkers. How do those sorts of policies relate to what you are finding here?

It is possible that a waiver request is associated with the way that welfare recipients are treated in a state. If so, the approach we have used would not be able to differentiate which change, the waiver or the treatment of recipients, led to the decline.

9) One of your figures shows that the rate of welfare receipt increased a lot between 1989 and 1993. What was going on then?

That is something of a mystery actually. The economy did go into a recession in 1990 that was followed by a slow recovery through 1993. The recession was relatively mild, however, and cannot explain the magnitude of the increase. We find that only about 1/3 of the increase can be attributed to deteriorating economic conditions. Other people (Becky Blank) have also been looking into the increase and have been unsuccessful in explaining much of it. Actually, one possible explanation for what has been going on over the past few years is just the "return to normal" after a mysterious rise. That is probably not the case, however, because states that experienced the largest increases between 1989-93 were no more likely to see a large decline between 1993-96.

10) Do you expect the welfare caseload to continue to fall?

Our results indicate that experimental welfare policies do significantly reduce the welfare caseload. Under welfare reform, states will continue to introduce these innovative policies and, as long as the economy continues to expand, these policies may be expected to reduce the caseload further.

WR-CEA Report

Draft Statement
Janet Yellen

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996

May 8, 1997

The Council of Economic Advisers is releasing today a study that examines the causes of the substantial decline in the welfare rolls that has taken place over the past four years. Between January of 1993 and January of 1997, the number of individuals receiving welfare benefits fell by 20 percent, or 2.75 million recipients — the largest decline ~~since the federal welfare system began in the 1930s~~ in over 50 years.

In this study, we describe three potential explanations for the decline. First, we look at the strength of the economy: the labor market has been quite robust, creating almost 12 million new jobs between January 1993 to January 1997, making it easier for potential welfare recipients to find jobs and leave the welfare rolls. Second, we look at the role of federal welfare waivers: over this 4 year period, the federal government has granted to states a vareity of waivers to experiment with innovative approaches to ending welfare dependence. The Clinton Administration granted waivers to 43 states between 1993 and 1996 that included provisions which may require work and/or training, sanctions for those who do not comply with these requirements, and limits on the duration of benefit receipt, among other things. Third, other policies like the 1990 and 1993 expansions of the Earned Income Tax Credit (EITC) and the recent rise in federal and state spending on child care made it easier to enter the labor market and increased the rewards to work for individuals that might have otherwise chosen welfare.

Determining the causes of this decline is particularly important in light of recently enacted welfare reform legislation that completely overhauls the system of providing aid to the poor. If economic growth was the major contributor to the decline, then continued growth is essential for

further progress in moving people from welfare to work. On the other hand, if federal policies played a significant role, then continued efforts along these lines are likely to lead to additional reductions.

The CEA's research examines the recent decline in receipt of welfare benefits and provides estimates of the contribution made by economic growth and one particular federal policy, welfare waivers. We used data on the size of the welfare rolls in each state between 1976 and 1996 in our analysis. The results indicate that over 40 percent of the decline can be attributed to economic growth and that almost one-third is related to waivers, particularly those that sanction recipients who do not comply with work requirements. Other factors, which might include additional policy initiatives, like expansion of the earned income tax credit, account for the remainder.

These findings suggest that we may expect to see a continued decline in the welfare rolls in the coming years. The current health and strength of the economy will make it easier for welfare recipients to find jobs and move off welfare. But, significantly, the CEA findings suggest that it is not the strength of the economy alone that has been responsible for declining welfare caseloads. Based on past experience, state experiments designed to move recipients off the welfare rolls are likely to continue to have some success.

Thank you. I would be happy to answer any questions that you have about the CEA analysis.

PRESIDENT CLINTON'S ECONOMIC REPORT CARD:

MAY 7, 1997

	Clinton Administration	*Best Since*	*Related Facts*
✓ **Unemployment and Inflation**	Combined rate: 8.7 percent	Lowest average since Johnson	Unemployment fell from 7.5 percent in 1992 to 4.9 percent in April 1997 -- the lowest in 24 years -- and has remained under 6 percent for 32 months.
✓ **Inflation**	2.8 percent per year	Lowest average since Kennedy	Underlying inflation -- excluding volatile food and energy components -- was lowest since the Kennedy Administration.
✓ **Employment**	12.1 million new jobs	Only Administration to exceed 11 million	93 percent of the net new jobs were in the private sector. Over two-thirds of recent employment growth has been in industry/occupation groups paying above-median wages.
✓ **Construction Jobs**	1.1 million new jobs	Fastest growth since Truman	Real construction output has grown 5.7 percent per year -- the fastest rate since the Kennedy Administration.
✓ **Consumer Sentiment**	Increased 14 percent from January 1993 to April 1997	Highest average since Eisenhower	Reached its highest level in over 30 years.
✓ **Deficit Reduction**	From 4.7 percent of GDP in 1992 to 1.4 in 1996. Expected to be under 1 percent in 1997	Largest fall since Truman	Deficit narrowed for four years in a row under one President for the first time since before the Civil War.
✓ **Business Investment**	Grew 10.5 percent per year	Fastest growth since Kennedy	Business investment averaged 7.7 percent of GDP -- the highest share for any Administration since World War II.
✓ **Homeownership**	Rose from 63.7 to 65.4 percent of households	Largest increase on record	Reached its highest level in 15 years.
✓ **Stock Market**	The Dow Jones rose from 3242 on 1/20/93 to 6844 on 1/20/97	Fastest growth since World War II	The real growth rate was higher than for any Administration since World War II.
✓ **Poverty Rate**	Declined from 15.1 in 1993 to 13.8 in 1995	Largest drop since Johnson	Real income for the bottom 20 percent of households has grown 6.8 percent between 1993 and 1995 -- after declining by 7.7 percent between 1979 and 1993.
✓ **Median Family Income**	Up $1,600 between 1993 and 1995	Fastest growth since Johnson	Real net worth per household grew 3.2 percent per year after falling over the previous 4 years.

Economic Data

WR - CEA Report

TECHNICAL REPORT:

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996

May 9, 1997

A Report by the
Council of Economic Advisers

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996[1]

During the first 4 years of the Clinton Administration, from January 1993 to January of 1997, the number of individuals receiving welfare benefits fell by 20 percent, or 2.75 million recipients — the largest decline in over 50 years.[2] Three potential factors that may have contributed to the dramatic decline in the welfare rolls over the period are economic growth, federal welfare waivers, and other policies affecting work-related incentives. First, the recession of 1990-1991 may have hindered the efforts of welfare recipients who were seeking work; as the labor market subsequently became more robust, creating almost 12 million new jobs from January 1993 to January 1997, these individuals may have found jobs more easily and left the welfare rolls. Second, over this period federal waivers granted to states to experiment with innovative approaches to ending welfare dependence may have also played a role. The Clinton Administration granted waivers to 43 states between 1993 and 1996 that included provisions which may require work and/or training, sanctions for those who do not comply with these requirements, and limits on the duration of benefit receipt, among other things. Third, other policies like the 1990 and 1993 expansions of the Earned Income Tax Credit (EITC) and the recent rise in federal and state spending on child care made it easier to enter the labor market and increased the rewards to work for individuals that might have otherwise chosen welfare.

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[1]We are grateful to the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation for providing technical assistance in preparing this report.

[2]The statistical analysis presented here uses data on the average monthly share of the population receiving welfare in a fiscal year. Between the 1993 and 1996 fiscal years (October 1, 1992 to September 30, 1996), the average monthly share of the population receiving welfare fell from 5.4 percent to 4.7 percent.

It is particularly important to determine the causes of this decline in light of recently enacted welfare reform legislation that completely overhauls the system of providing aid to the poor. If economic growth was the major contributor to the decline, then continued growth is essential for further progress in moving people from welfare to work. On the other hand, if federal policies played a significant role, then continued efforts along these lines are likely to lead to additional reductions.

This paper will examine the recent decline in receipt of welfare benefits and provide estimates of the contribution made by economic growth and one particular federal policy, welfare waivers. State-level data from 1976-1996 are used in the analysis. The statistical methodology employed controls for differences in the rate of welfare receipt across states that are roughly constant over time, differences over time that are constant across states, and trends over time that may differ between states. This approach allows us to isolate the effects of economic growth and waivers on welfare receipt assuming that none of these other factors had changed. The results indicate that over 40 percent of the decline can be attributed to economic growth and that almost one-third is related to waivers, particularly those that sanction recipients who do not comply with work requirements. Other factors, which might include additional policy initiatives (like the EITC), account for the remainder.

WELFARE RECEIPT AND THE BUSINESS CYCLE

Figure 1 displays the trend in the unemployment rate and the share of the population receiving welfare benefits between 1976 and 1996. The expansion of the late 1970s is reflected in a declining share of the population receiving welfare over that period. As the economy fell into a recession in

1980-81, welfare rolls began to increase. However, the massive recession of 1981-82 actually coincided with a decline in the rate of welfare recipiency. The explanation for this paradox is the Omnibus Budget Reconciliation Act of 1981 (OBRA 1981), which reduced AFDC eligibility at exactly the time when one might have expected to see a large increase in AFDC receipt. The extended recovery of 1983-1989 apparently had little effect on the welfare rolls, perhaps because those who otherwise would have entered the welfare rolls were prevented from doing so in that recession.

The recession of 1990-91 had a dramatic impact on the rate of welfare receipt; the share of the population receiving welfare rose 25 percent between 1989 and 1993 to its highest level ever. Given the large increase during that recession, the decline in the rate of benefit receipt between 1993 and 1996 might have reflected a return to work of welfare recipients who were unable to find jobs during bad times. But the 1990-91 recession was relatively mild, with a peak unemployment rate of 7.8 percent in June 1992, much lower than the peak rates in the 1974-75 and 1981-82 recessions. It seems improbable that a moderate recession would lead to such severe swings in the rate of welfare receipt.

Moreover, geographic variation in changes in the unemployment rate and the rate of welfare recipiency indicates that factors other than economic growth also contributed to the fall in the rolls. Figure 2 displays the change in the share of the population receiving AFDC and the change in the unemployment rate in each state between 1993 and 1996. The correlation between changes in unemployment and welfare receipt is not perfect. For instance, between fiscal years 1993 and 1996, the unemployment rate in Pennsylvania fell by more than the national average of 1.6 percent, yet the decline in the share of the state's population receiving welfare was smaller

than the average. Virginia, by contrast, experienced almost a 20 percent drop in welfare receipt over the period even though it experienced a below average decline in its unemployment rate.

OTHER FACTORS THAT AFFECT WELFARE RECEIPT

Factors besides economic conditions might be related to the rate of welfare receipt and could explain recent trends. These factors include federal waivers awarded to states to introduce new welfare policies, other changes in federal policy that alter the environment for low-income households, and changes in demographic composition that may alter the share of the population eligible for welfare.

WAIVERS

The most recent policy change directly linked to welfare receipt, and the focus of much of the remainder of this analysis, is the substantial increase in federal waivers granted to states to implement new and innovative welfare policies. The AFDC program was administered by States, but was subject to federal requirements. Since 1962, the Secretary of Health and Human Services had the ability to waive some of these requirements for states proposing experimental or pilot programmatic changes that furthered the goals of the AFDC system. The Reagan Administration made some use of this authority, granting a limited number of waivers that either affected a very small share of a state's caseload or were superseded by national legislative changes.[3] The Bush Administration granted more waivers, affecting larger numbers of individuals

[3]Because of this, the analysis that follows only examines the effect of waivers approved during the Bush and Clinton Administrations.

within a state, particularly in its last year or so. Since 1993, however, the Clinton Administration has used waiver authority extensively allowing 43 states to experiment in some way with their welfare programs.

This analysis examines the effects of implementing six important waiver provisions in most, if not all, of a state (major, state-wide waivers). Waivers that only applied to pilot sites, such as a few counties, are not examined here because the magnitude of any effect on the state's caseload will be too small to detect.[4] Many state waivers also include a multitude of provisions that affect few individuals and are unlikely to have a substantial impact on the overall rate of welfare receipt in the state. Thus, we focus on the following six types of waivers: termination and work-requirement time limits, reduced JOBS (Job Opportunities and Basic Skills) exemptions, increased JOBS sanctions, family caps, and increased earnings disregards. The data appendix describes each type of waiver and identifies the dates that each statewide waiver was approved.

Figure 3 displays the number of major, statewide waivers in effect in fiscal 1993 and 1996. By the end of the 1993 fiscal year, seven such waivers had been approved; the most common form was an increase in the earnings disregard. If this type of waiver has any effect on the welfare rolls in the short-run, it would increase welfare recipiency because it increases the number of low-earnings workers eligible for benefits. By fiscal 1996, however, 35 states were granted major, statewide waivers.[5] Sanctions imposed upon workers who did not live up to their work or job search requirements are the most common. Because these and most of the other types of major waivers

[4]Results of preliminary analysis indicated that pilot programs had no discernible effect on the size of a state's welfare rolls.

[5]Since 1993, 43 states have received waivers, but some of them applied to a small share of the state.

would be predicted to reduce the likelihood of benefit receipt, their expansion over the 1993-1996 period may have helped reduce the welfare rolls beyond that brought about by economic growth.[6]

The map in Figure 2 also shows the states that have implemented major, statewide waivers. Some states that have experienced large drops in their welfare rolls without large drops in unemployment, like Virginia, have also received waivers. In contrast, other states in which unemployment has fallen considerably, but in which large drops in welfare rolls have not occurred, like Pennsylvania, have not received any major statewide waiver. A systematic analysis that separately identifies the effects of waivers and economic conditions is reported below.

OTHER WORK-RELATED INCENTIVES

Several other federal policies introduced over the past several years also may have contributed to changes in the rate of welfare receipt. For instance, the EITC was significantly expanded in 1990 and 1993. This tax credit, available for low-wage workers, increased from 14 percent in 1990 to 40 percent in 1996 and may have made work a better alternative than welfare, leading to a decline in the welfare rolls. Since 1993, enhanced efforts to collect more child support raised the incomes of some mothers, and may have reduced their reliance on welfare. Additional state and Federal spending on day care may have also made it easier for single mothers to work.

Changes in Medicaid eligibility over the past decade or so also may have affected the size of the welfare rolls. Since 1986 the link between AFDC and Medicaid eligibility has been broken and over time the number of poor children eligible for Medicaid has risen dramatically. The fact

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[6]Moffitt (1996) has argued that the JOBS program (and, by implication, an extension of the JOBS program) may provide incentives for some to participate in welfare programs so that they can receive the potential benefits of these policies and could lead to an increase in the caseload.

that some low-income individuals can now work without losing Medicaid benefits for their children may reduce the rate of welfare receipt.[7] In fact, Yelowitz (1996) finds that changes in Medicaid eligibility through 1991 led to a moderate reduction. Although eligibility has continued to expand since then, the expansions have been smaller than those that took place in the late 1980s and are unlikely to account for a substantial share of the reduction in welfare receipt.[8]

DEMOGRAPHIC CHANGE

The AFDC program was largely targeted to single mothers with children and this demographic group has grown over time. The share of families headed by women rose from 10 percent to 18 percent between 1970 and 1995, which fully explains the increase in child poverty over the period. Out-of-wedlock birth rates have also been on the rise. The relationship between these factors and AFDC eligibility suggests that the welfare rolls should have increased over time. In fact, Gabe (1992) argues that the growth in never-married female-headed families was largely responsible for the increase in welfare caseloads between 1987 and 1991. These factors actually suggest that we should have expected to see a continued expansion in the rate of welfare receipt; the observed decline between 1993 and 1996 means that other offsetting factors were more important in determining recent trends.

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[7]It is also possible that expanded Medicaid eligibility may have increased AFDC participation. As more people come into contact with the social welfare system through Medicaid, they may find that they are eligible for AFDC benefits as well.

[8]This analysis does control for some of the recent changes in Medicaid eligibility that have occured at the national level even though their effects cannot be separately identified from other factors that affect all states in a given year.

DATA AND DESCRIPTIVE STATISTICS

This analysis employs state-level data between the 1976 and 1996 fiscal years. Descriptive statistics for 1993 and 1996 are reported in Table 1, separately for those states with and without approved waivers.[9] Columns 1 and 2 indicate that the share of the population receiving AFDC in "nonwaiver states" fell 0.6 percentage points, from 5.3 to 4.7 percent. The fall in AFDC recipiency was larger in "waiver states"; the share fell 0.8 percentage points, from 5.5 to 4.7 percent in these states.[10] The unemployment rate in the two sets of states is virtually identical in these years, indicating that the larger fall in the welfare rolls in waiver states cannot be attributed to better economic conditions.[11] Although AFDC benefits are more generous in nonwaiver states, real benefits have declined at roughly the same rate in both sets of states over the time span.

Other factors besides unemployment and benefit generosity may be related to differences in the relative size of the welfare rolls across states. In particular, the categorical nature of the AFDC

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[9]All AFDC recipients are counted here, including those in two-parent families who receive AFDC-UP. Those in the latter category are probably more responsive to business cycle conditions because constraints facing single-parents, like finding affordable day care for their children while they work, are smaller in two-parent families. Therefore, they are more able to work when jobs are available. Still, AFDC-UP families represent a very small part of the total AFDC caseload and including them in this analysis should have minimal effects on the estimated parameters.

[10]The difference in the average reduction across waiver and nonwaiver states is not statistically significant. The power of this test, however, is very weak in that waiver states may have had a waiver in effect for a very small part of this three year period. In addition, the normal variation across states in the share of the population receiving welfare swamps any variation across the groups of states over time. The regression analysis reported below adjusts for these problems and results from model specifications that mimic this simple "difference-in-difference" test statistic indicate that the reduction in waiver states is significantly larger than that in nonwaiver states.

[11]This analysis uses the unemployment rate in each state and fiscal year. Because state level unemployment data have only been available since 1976, the 1976 fiscal year unemployment rate is measured just for the last three quarters (January through September) of that fiscal year. Other measures of unemployment may be more appropriate for this analysis. For instance, a measure of unemployment for younger women may better represent the labor market opportunities of potential welfare recipients. This measure may be somewhat endogenous, however, because changes that affect the labor supply of welfare recipients will to some extent, also affect the unemployment rate of younger women. Therefore, one might want to use the prime-age male unemployment rate because it does not suffer from this sort of endogeneity. Unfortunately, neither of these alternative measures is available on a state/year basis.

program that mainly provided benefits to low-income unmarried mothers and their children suggests that the extent of poverty and the share of households headed by women may also matter. Unfortunately, obtaining reliable estimates of these measures by state is hampered by small sample sizes in the main source of household data, the Current Population Survey. Research concerned with trends across states in variables such as these generally rely on Census data that are only available every 10 years.

The lower block of Table 1 presents poverty rates and the share of households headed by women from the 1980 and 1990 Censuses by waiver status in 1996. These statistics can highlight whether any long-term trends across states could influence a statistical analysis of welfare receipt. In both types of states, both measures have been increasing over time, but increases were larger in nonwaiver states. For instance, the share of female-headed households increased by 2.0 and 2.5 percentage points in waiver states and nonwaiver states, respectively. If these differential trends continued through the 1990s, then one would expect the welfare rolls to fall in waiver states relative to nonwaiver states because a smaller relative share of the population would be categorically eligible for benefits. These trends would bias an analysis of the effects of waivers on welfare receipt towards the finding that waivers matter. Controls for these trends were included in the statistical analysis to help remove this form of bias (as discussed below).

METHODOLOGY

The statistical approach employed in this analysis is designed to estimate the effects of economic conditions and federal waiver policy on the size of the welfare rolls, holding other factors that may affect the rate of welfare receipt constant. To that end, we estimated multivariate

models of the natural log of the share of the population receiving welfare in a state/year.[12] Specifically, we estimate OLS regression models of the following form:[13]

$$\ln R_{st} = U_{st}\beta_1 + W_{st}\beta_2 + \ln B_{st}\beta_3 + \gamma_s + \gamma_t + \epsilon_{st} \quad (1)$$

$$\ln R_{st} = U_{st}\beta_1 + W_{st}\beta_2 + \ln B_{st}\beta_3 + \gamma_s + \gamma_t + \text{trend}*\gamma_s + \epsilon_{st} \quad (2)$$

where R represents the share of the population receiving AFDC, U is the unemployment rate, W is an indicator variable for welfare waiver status, B represents real maximum AFDC benefits in 1996 dollars for a three-person family, s indexes states, t indexes time, γ_s and γ_t represent state and year fixed effects, and ϵ represents a residual. Year fixed effects capture time-varying factors that affect all states in a given year. Such factors might include changes in welfare policy (like OBRA 1981), other changes in policies targeted to low-income individuals (like the Earned Income Tax Credit), or changes in national attitudes regarding welfare receipt that may have been linked to the welfare reform debate.[14] This approach incorporates the contribution of factors like these, although we cannot specifically identify the effects of each one on the rate of welfare receipt. Similarly, state fixed effects control for time-invariant differences across states, such as

[12]Another measure of welfare receipt that could be used as the dependent variable for this analysis is the number of families, or cases, receiving benefits. Patterns in the welfare caseload over time may differ across states as the number of child-only cases has proliferated at differential rates. All of the models reported below have also been estimated using the log of the welfare caseload as the dependent variable and mainly find similar results. The main difference is that JOBS sanctions apparently have a larger effect on recipients than on cases. This is consistent with the fact that many of these waivers only sanction the parent and maintain benefits for the children so that the case remains open even though the number of recipients fell.

[13]These regressions are weighted by the state population in each year to yield parameter estimates that are representative of the entire country.

[14]Previous studies of the welfare caseload that use national time series data (CBO, 1993) have difficulty controlling for this type of pattern in the data. The results presented in Moffitt (1987) imply that it is important to control for such "structural shifts."

differences in industrial composition that may affect less-skilled workers or attitudes towards welfare recipients.

As shown earlier, it is also possible that changes may be occurring over time in otherwise unmeasured factors that differ across states, particularly demographic characteristics like the share of female-headed households. Unfortunately, published data on detailed demographic characteristics such as these are unavailable at the state level each year. Such differences could be fully accounted for by including the interaction of state and year fixed effects, but a model including these interactions is under-identified. As an alternative, we include a state-specific time trend. If the rate of increase in, say, female-headed households in a state is constant, this approach will control for these changes and provide an unbiased estimate of the effects of waivers and economic conditions on the welfare rolls.[15] The effects of such changes, however, cannot be separately identified.

Figure 4 presents a comparison of Florida and Georgia that is intended to provide some intuition for the statistical methodology and the manner in which the effects of economic activity are estimated separately from other potential confounding factors. It should not be considered a rigorous test. The figure plots the difference between the two states in unemployment rates between 1984 and 1996 and in the share of the population receiving AFDC over the same period. Taking the difference between the two states in each year controls for any differences that affect

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[15]If differences across states over time are nonlinear they will not be captured by these trends and, if these differences are correlated with waiver awards, the estimated effect of waivers on the rate of welfare receipt will be biased. Although few candidates for such changes are readily apparent, one possibility may be the growth in income inequality since the late 1970s, documented in the Economic Report of the President (1997). Blank and Card (1993) show that the rate of growth in inequality has not been constant and has varied across regions of the country; if these differences occur across states and are correlated with waiver policies they may introduce a bias in the results reported here. Future research should investigate this possibility in more detail.

both states simultaneously. Because neither state received a waiver until late in the 1996 fiscal year, the difference in trends through virtually all of this time period are unaffected by differences in waiver provisions or their effectiveness.

Throughout most of the expansion of the middle to late 1980s, unemployment in Georgia had been somewhat higher than in Florida. Over this period, a steady difference in the rate of AFDC recipiency is also apparent. This difference may be attributed to differences in the two states' welfare systems that do not change over time, attitudes towards welfare receipt and the like that are controlled for in the analysis conducted here. When the 1990-91 recession hit, unemployment in Florida rose considerably relative to that in Georgia, and the difference has been slow to recede. Subsequently, AFDC receipt shows an increase in Florida relative to Georgia. It is important to note that a delay in this response is apparent as Florida's AFDC caseload did not begin to rise relative to Georgia's until 1991 or 1992. This timing of the response in the rate of AFDC receipt to changes in unemployment (and waivers) will be examined more carefully in the empirical analysis below.

RESULTS

Table 2 presents estimates from different statistical specifications based on the regression models represented by equations (1) and (2). In column 1, the model does not include state-specific linear time trends and provides a baseline set of estimates to identify the effect of including these trends. In this model, the unemployment rate is shown to have a substantial effect on the rate of welfare receipt; a one percentage point increase in the unemployment rate increases

the rate of welfare receipt by almost 5 percent.[16] States that were granted any major, statewide waiver had almost a 10 percent fall in the share of the population receiving welfare, based on estimates in this model. Finally, benefit generosity is shown to be significantly positively related to AFDC receipt; the share of the population receiving benefits increases by 3.2 percent for every 10 percent increase in maximum monthly benefit payments.

Column 2 presents estimates of the same specification except that state-specific linear trends are included. Omitting these trends will introduce bias if they are correlated with the rate of welfare recipiency and any of the other explanatory variables. Estimates presented here indicate that these conditions are present. As illustrated in Table 1, trends in factors like female-headed households and poverty rates across states are correlated with waiver status, and ignoring these trends biases the estimated effect of waivers upwards. The estimated effect of introducing a major, statewide waiver falls from 9.4 percent in column 1 to 5.8 percent in column 2. The estimated responsiveness of welfare receipt to unemployment is also smaller in this specification.

One surprising finding in this specification is that more generous benefits are estimated to reduce the welfare rolls, although this effect is not significantly different from zero.[17] This finding is counterintuitive and is the result of the statistical procedure that has absorbed a significant share of the variability in the data. In a model with state and year fixed effects and state-specific linear trends, the only type of variation that can provide statistical identification are

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[16]Additional measures of cyclical activity besides the unemployment rate may have a significant effect on welfare receipt. Preliminary estimates using the rate of employment growth within states over time, however, added no additional explanatory power in models that also included lags of the unemployment rate.

[17]It is possible that this result is driven by a sort of policy endogeneity where sharp changes cuts in benefit levels occur in response to swelling welfare rolls, providing a negative relationship between these variables. Benefit cuts in California in the early 1990s that occurred as caseloads were rising in that state may be an example of this endogeneity.

those resulting from sharp changes within a state over time in the respective variables. Changes like this are exactly what are observed in variables like unemployment and, particularly, in indicator variables like those representing waiver status. AFDC benefits generally exhibit little of this sort of behavior; typically benefit increases are small and benefit cuts largely occur as inflation slowly erodes the purchasing power of the benefit. Therefore, with little variation left to identify the effect of changes in AFDC benefits, the estimated effect becomes less robust. This becomes clear in the subsequent model specifications reported in this table where an increase in AFDC benefits is estimated to increase welfare receipt, although some of these effects are only marginally statistically significant. In essence, these results indicate that the methodology employed here is not a particularly powerful one to determine the effects of the generosity of AFDC benefits on the level of welfare receipt.

Estimates in column 3 are obtained from a model that includes a one-year lagged measure of the unemployment rate within a state, providing a more flexible specification of the timing of the response in welfare receipt to economic conditions. Lagged unemployment may be related to welfare receipt if, for instance, the onset of a recession leads those low-income workers who lose their jobs to spend some time looking for a new one while drawing down their limited assets before applying for welfare. As a recession ends, these typically less-skilled workers may be the last ones hired. Evidence appears to support this intuition, as lagged unemployment is strongly related to the share of the population receiving welfare. To interpret these findings, consider a 1 percentage point increase in the unemployment rate that lasts for two years. In the second year, the share of the population receiving welfare will be 4 percent larger (because the coefficients on

the two unemployment measures are summed). States awarded a major statewide waiver are estimated to experience a 5.2 percent decline in welfare recipiency in this model.

So far, waivers have been aggregated into a simple indicator variable that measures whether any waiver had been approved. Column 4 presents estimates of the effects of each of the six major types of waivers studied in this analysis on the rate of welfare receipt. In this model, the only type of waiver that significantly affects the extent of welfare receipt is JOBS sanctions.[18] This type of waiver is estimated to reduce the share of the population receiving welfare benefits by almost 10 percent.[19] Disaggregation of the waiver categories did not substantially change the estimated impact of an increase in unemployment.

One potential shortcoming of the model presented in column 4 is that many waivers include several of the different types all at once, limiting the ability of the statistical analysis to separately identify their effects. Column 5 presents estimates of a more parsimonious model that includes whether the state received any major statewide waiver and whether that waiver included JOBS sanctions. In this specification as well, no other type of waiver is shown to have a significant effect on welfare receipt besides JOBS sanctions. Again, the responsiveness of the welfare rolls to the business cycle is relatively unaffected by the changes in waiver specification. The analysis reported so far has restricted the effect of waivers to be observed no sooner than the time the waiver was approved. This restriction does not allow for the possibility that the waiver application process, the publicity surrounding it, and potential changes in case workers' behavior and attitudes may

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[18]This finding is consistent with Pavetti and Duke (1995).

[19]Termination time limit waivers are also estimated to reduce the rate of welfare receipt, but the estimated effect is only statistically significant at the 10 percent level.

provide a signal to potential recipients that the environment in which the welfare system operates is about to change. It may lead some individuals contemplating applying for benefits to find other sources of income support, whether from work or elsewhere. This possibility is considered in column 6, where the presence of any statewide waiver and those including a sanction provision are included in the model at the time the waiver was approved and, in separate variables, a year before the waiver was approved (a "lead").

Estimates of models including leads of the waiver measures are reported in Column 6 of Table 2. The "threat effect" of applying for a waiver does appear to reduce the number of individuals who receive benefits the year before the waiver is approved; the share of the population receiving welfare is estimated to fall by 6.3 percent in that year. In the following year no additional reduction is observed. On the other hand, the effect of waivers that include JOBS sanctions is not observed until the year such a waiver is approved.

One alternative to a causal interpretation of these findings is that those states which implemented waivers were among the ones that experienced the most dramatic run-up in their welfare rolls in the late 1980s and early 1990s. This trend may have inspired the waiver request and mean reversion may be responsible for the subsequent decline in the rate of welfare receipt relative to other states. Tests of this hypothesis, however, indicate that waiver states did not experience a larger-than-average increase in their welfare rolls between 1989 and 1993. In fact, little relationship across states is apparent between the 1989-1993 increase and the 1993-96 decline.

The results reported in Table 2 can be used to estimate the share of the reduction in welfare receipt between 1993 and 1996 that can be attributed to economic growth and federal welfare waivers granted to states. The product of the estimated parameters for, say, unemployment and its

lag and the respective changes in unemployment in each state between 1993 and 1996 provides an estimate of the predicted change in welfare recipiency over the period based solely on changes in unemployment. The ratio of the predicted change to the actual change indicates the share of the reduction attributed to unemployment. An analogous exercise can be conducted to estimate the extent to which waivers contributed to the decline in the welfare rolls. Other unidentified factors would be responsible for the difference remaining after accounting for these two effects.[20]

Table 3 presents the results of this exercise for several of the statistical specifications reported in Table 2. The results indicate that the decline in unemployment that continued through the economic expansion contributed about 44 percent towards the decline in welfare recipiency in models that included both contemporaneous and lagged unemployment.[21] Waivers accounted for roughly 15 to 20 percent of the decline in models that ignore the potential effects of an impending waiver grant. Once these effects are included (Column 6 of Table 2), estimates indicate that waivers can explain 31 percent of the decline in the share of the population receiving welfare. In this model, other unidentified factors explain an additional 25 percent.

A similar exercise could be conducted for the 1989-1993 period that saw a tremendous increase in the rate of welfare receipt. As discussed earlier, the magnitude of the increase is somewhat surprising given the relatively mild recession in the period. The estimates provided here reinforce the mystery; changes in unemployment can only explain about 30 percent of the rise in

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[20]Simply subtracting the sum of the two effects from 100 only indicates the contribution of other factors if no interaction between changes in unemployment and waiver policy on welfare receipt occurs. It may be the case, for example, that waiver policies are more effective in states with low unemployment rates. Models that incorporated this possibility were also estimated but the results indicated that the interaction between unemployment and waivers was not statistically significantly different from zero at conventional significance levels.

[21]Based on estimates from a model of the duration of welfare spells and permanent changes in labor market conditions, Hoynes (1996) estimates that a typical economic expansion would result in an 8 to 10 percent reduction in the welfare caseload. This estimate is somewhat higher than the findings presented here and the difference is consistent with the fact that the current expansion is ongoing and, therefore, does not represent a permanent change in labor market conditions.

welfare rolls. Waivers were relatively new by 1993 and are found to have very little impact on the share of the population receiving welfare; in fact, they are expected to lead to a small decline. That leaves roughly 70 percent of the rise unexplained by this statistical analysis. Other forces that are more difficult to quantify must have been changing over this period, contributing to the increase.

DISCUSSION

The findings presented in this paper indicate that a robust economy and federal waivers allowing states to experiment with new welfare policies have each made large contributions towards reducing the rate of welfare receipt. The estimates provided here suggest that over 40 percent of the decline in welfare receipt between 1993 and 1996 may be attributed to the falling unemployment rate and almost one-third can be attributed to the waivers. Other factors that are not identified in this analysis are responsible for the remainder.

The methodology employed in this analysis poses two problems in interpreting these results. First, it is possible that the estimated effect of waivers on AFDC receipt may be capturing the tendency for states with shrinking welfare rolls to be the ones most willing to experiment with waiver policies.[22] Another shortcoming of this research is that it cannot determine the outcomes for those individuals who otherwise would have collected benefits had waivers not been granted. Additional research that can determine how individuals fare under the alternative waiver provisions, rather than an aggregate analysis examining the share of the population receiving welfare, is clearly desirable to help address this issue.

[22]One might expect states with difficulties in holding down their welfare rolls to experiment with approaches to achieve that end. This sort of policy endogeneity would bias the results towards finding a positive relationship between waivers and the rate of welfare receipt.

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DATA APPENDIX: DEFINING AND CODING WELFARE WAIVERS

Most waivers awarded to states include a multitude of provisions that vary in the degree of their implications. Some affect the entire caseload while others affect a very small segment, like those that were introduced in pilot sites, such as a few counties. Some contain generally standard provisions while others are more complicated and require some judgement in categorizing them. In this paper, six major types of waivers that were implemented in most, if not all, of the state are considered. This appendix will provide some background regarding each of these different types of waivers, and how they have been coded for this analysis.

Termination and Work-Requirement Time Limits. Under AFDC, families were entitled to receive benefits as long as they met the eligibility requirements; states could only impose a time limit on the duration of benefit receipt if they were granted a waiver. Several states received such a waiver to implement to two main types of time limits. Termination time limits result in the loss of benefits for the entire family or just for the adult members, depending on the individual state's plan. While most states set a limit of 24 months or so for all recipients, other states had variable time limits. For example, Iowa's plan called for recipients to develop a self-sufficiency plan that included individually-based time limits, and Texas limited benefits to 12, 24, or 36 months depending on the recipient's education and work experience. Illinois provides an example of a state that contained this type of waiver provision but that is not coded as such here because it applied to a small fraction of the recipients (those with no children under age 13).

Work requirement time limit waivers continue to provide benefits to adult recipients who reach the time limit as long as they comply with mandatory work requirements. For example, Massachusetts requires recipients unemployed after 60 days of AFDC receipt to do community service and job search to earn a cash "subsidy." California requires individuals who received AFDC for 22 of the previous 24 months to participate in a community service program for 100 hours per month. New Hampshire alternates 26 weeks each of job search and work-related activities for recipients. West Virginia's plan only requires participation in its work experience program by one parent in two-parent AFDC-UP cases, which are a small share of the total caseload, so it is not coded as a work-requirement time limit.

Some time limit waivers contain more complicated provisions that make them difficult to code. For instance, Delaware requires "employable" adults to participate in a pay-for-performance work experience program after receiving benefits for 24 months; after 24 months of program participation, the family completely loses cash benefits. Time limits with provisions such as this have been coded as containing both termination and work requirement provisions. Washington's plan is a grant-reduction time limit, subtracting 10 percent of the benefit for those who have received benefits for 48 of 60 months, then 10 percent for every 12 months thereafter. Because the time frame before a significant reduction in benefits could occur is so long, no time limit is coded for Washington.

Family Caps. Under AFDC, a family's benefit level depended upon its size, so if a recipient had a baby the grant amount rose. Family cap waivers allowed states to eliminate or reduce the increase in benefits when an additional child was born. A few states, like South Carolina, provide vouchers for goods and services worth up to the amount of the denied benefit increase. Others allow child

support collected for the additional child to be excluded from AFDC income calculation. All family cap waivers except New Jersey's exempt children conceived as a result of rape or incest from the family cap. Several states, such as Wisconsin, Massachusetts and Illinois, specify that a child born or conceived after a family no longer receives AFDC can be denied benefits if the family returns to AFDC.

JOBS Exemptions. The Job Opportunities and Basic Skills Training Program (JOBS), part of the 1988 Family Support Act, provides education, training and work experience activities to AFDC recipients who did not fall into one of the exemption categories. The exemption categories were rather large, however. For instance, parents with children under age 3 were exempt and those with children under age 6 could only be required to participate if the state guaranteed child care. Some states requested a waiver to narrow the exemption criteria. The most commonly requested waiver required parents with young children (sometimes as young as 12 weeks) to participate in JOBS. Other waivers allowed teen parents attending school and people working 30 hours a week to be considered as JOBS participants. Hawaii had a JOBS waiver approved for a pilot site in Oahu, where a large share of the state's population lives, so it was coded as statewide.

JOBS Sanctions. Some states found that the sanctions for non-compliance with JOBS were not strong enough to motivate unwilling participants; they requested and were granted waivers to impose harsher sanctions. Twenty-two of the states were allowed to impose full-family sanctions (such as suspension of the entire family's AFDC grant) after a continued period of non-compliance. Other states requested tougher sanctions imposed upon the recipient only, leaving the children on the

welfare rolls regardless of the parent's behavior. An informal survey of state welfare agencies conducted by the Council of Economic Advisers indicates that the use of sanctions has varied considerably across states. Some states have been very aggressive, sanctioning large numbers of recipients while others have sanctioned few, if any. For example, over the 1996 fiscal year Missouri reported sanctioning an average of 3,100 people per month, including sanctions of different severity levels. Massachusetts terminated benefits for 1,200 families in 1996 for failure to comply with training/work requirements. On the other hand, Georgia sanctioned few recipients in 1996.

Earnings Disregard. Without a waiver, individuals are allowed to keep $30 plus one-third of all additional earnings for the first three months of benefit receipt (the "standard AFDC disregard"). After that almost every dollar of earnings results in a dollar reduction in benefits. Some states received statewide waivers to improve the economic incentives for recipients to work by increasing earned income disregards. The changes ranged from removing the time limit on the standard AFDC disregard to disregarding all earned income up to the poverty line.

Approval Dates of Major Statewide Welfare Waivers in the Bush and Clinton Administrations							
State	Any Major Statewide Waiver	term. time limit	work req. time limit	family cap	JOBS	Earnings Disregard	Sanctions
Alabama							
Alaska							
Arizona	5/22/95	5/22/95		5/22/95			5/22/95
Arkansas	4/5/94			4/5/94			
California	10/29/92, 9/11/95, 8/19/96		9/11/95	8/19/96		10/29/92	
Colorado							
Connecticut	8/29/94, 12/18/95	12/18/95		12/18/95	8/29/94, 12/18/95	8/29/94	8/29/94
Delaware	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95
DC							
Florida	6/26/96			6/26/96	6/26/96		
Georgia	11/1/93, 6/24/94			11/1/93		6/24/94	11/1/93
Hawaii	6/24/94, 8/16/96	8/16/96			6/24/94	8/16/96	
Idaho	8/19/96				8/19/96		8/19/96
Illinois	11/23/93, 9/30/95, 6/26/96			9/30/95	9/30/95	11/23/93	6/26/96
Indiana	12/15/94, 8/16/96	12/15/94		12/15/94	12/15/94		8/16/96
Iowa	8/13/93, 4/11/96	8/13/93			8/13/93, 4/11/96	8/13/93	8/13/93
Kansas							
Kentucky							
Louisiana							
Maine	6/10/96				6/10/96		
Maryland	8/14/95, 8/16/96			8/14/95	8/16/96	8/16/96	8/16/96
Massachusetts	8/4/95		8/4/95	8/4/95	8/4/95	8/4/95	8/4/95
Michigan	8/1/92, 10/6/94		8/1/92		10/6/94	8/1/92	10/6/94
Minnesota							

State	Any Major Statewide Waiver	term. time limit	work req. time limit	family cap	JOBS	Earnings Disregard	Sanctions
Mississippi	9/1/95			9/1/95			
Missouri	4/18/95		4/18/95				4/18/95
Montana	4/18/95		4/18/95			4/18/95	4/18/95
Nebraska	2/27/95	2/27/95		2/27/95	2/27/95	2/27/95	2/27/95
Nevada							
New Hampshire	6/18/96		6/18/96		6/18/96	6/18/96	6/18/96
New Jersey	7/1/92			7/1/92	7/1/92	7/1/92	7/1/92
New Mexico							
New York							
North Carolina	2/5/96	2/5/96		2/5/96	2/5/96		2/5/96
North Dakota							
Ohio	3/13/96	3/13/96				3/13/96	3/13/96
Oklahoma							
Oregon	7/15/92, 3/28/96	3/28/96			7/15/92, 3/28/96		3/28/96
Pennsylvania							
Rhode Island							
South Carolina	5/3/96	5/3/96		5/3/96	5/3/96		5/3/96
South Dakota	3/14/94		3/14/94				3/14/94
Tennessee	7/25/96	7/25/96		7/25/96	7/25/96	7/25/96	7/25/96
Texas	3/22/96	3/22/96			3/22/96		3/22/96
Utah	10/5/92				10/5/92	10/5/92	10/5/92
Vermont	4/12/93		4/12/93		4/12/93	4/12/93	4/12/93
Virginia	7/1/95	7/1/95		7/1/95	7/1/95	7/1/95	7/1/95
Washington	9/29/95						9/29/95
West Virginia	7/31/95						7/31/95
Wisconsin	6/24/94, 8/14/95			6/24/94	8/14/95		8/14/95
Wyoming							

Table 1: State Characteristics Over Time, by Welfare Waiver Status

	States without Major Statewide Waiver		States with Major Statewide Waiver	
	Short-Term Changes, 1993-1996			
Characteristic	(1) 1993	(2) 1996	(3) 1993	(4) 1996
% of population receiving AFDC	5.3	4.7	5.5	4.7
unemployment rate	7.1	5.5	7.1	5.4
max AFDC benefit (3 person family, 1996 dollars)	453	421	420	386
	Long-Term Changes, 1980-1990			
	1980	1990	1980	1990
Poverty Rate	13.1	14.0	12.3	12.9
% of Families Headed by Women	14.5	17.0	13.7	15.7

Table 2: Effect of Economic Activity and Federal Welfare Waivers on Rate of AFDC Recipiency
(coefficients multiplied by 100, standard errors in parentheses)

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)
log of maximum AFDC benefit	32.23 (5.10)	-5.91 (4.80)	7.93 (4.80)	11.03 (4.88)	9.99 (4.82)	8.61 (4.83)
unemployment rate	4.73 (0.35)	3.10 (0.26)	-0.90 (0.43)	-0.86 (0.43)	-0.91 (0.42)	-0.77 (0.42)
lagged unemployment rate			4.97 (0.42)	4.86 (0.42)	4.94 (0.41)	4.79 (0.41)
any statewide welfare waiver	-9.40 (2.26)	-5.78 (1.94)	-5.17 (1.74)		-1.64 (2.05)	2.26 (2.38)
JOBS sanctions				-9.69 (3.00)	-8.35 (2.59)	-6.96 (3.11)
JOBS exemptions				2.64 (3.09)		
termination time limits				-6.37 (3.74)		
work requirement time limits				2.86 (2.83)		
family cap				-0.49 (2.76)		
earnings disregard				0.11 (2.16)		
lead of any statewide waiver						-6.28 (2.21)
lead of JOBS sanction waiver						-1.50 (2.60)
state fixed effects	x	x	x	x	x	x
year fixed effects	x	x	x	x	x	x
state-specific trends		x	x	x	x	x

Note: The dependent variable is the share of the population receiving welfare, measured in natural logs.

Table 3: Percentage of Change in Welfare Recipients
Attributable to Different Factors
(Standard Errors in Parentheses)

	Based on Results in Table 2, Column: (2)	(3)	(5)	(6)
	1993-1996			
change in unemployment	31.3 (2.7)	44.7 (3.2)	44.4 (3.2)	44.1 (3.2)
welfare waiver approval	14.9 (5.0)	13.3 (4.5)	21.8 (6.2)	30.9 (9.2)
other	53.8	42.0	33.8	25.0
	1989-93			
change in unemployment	23.9 (2.0)	30.8 (2.7)	30.5 (2.7)	30.4 (2.7)
other	76.1	69.2	69.5	69.6

Table 4: Effect of Economic Activity and Federal Welfare Waivers on Other Outcomes
(coefficients multiplied by 100, standard errors in parentheses)

VARIABLE	Total Expenditures on AFDC (1)	Ratio of Child to Adult AFDC Recipients (2)
maximum AFDC benefit	11.55 (0.98)	-2.89 (0.98)
unemployment rate	0.95 (0.49)	0.87 (0.49)
lagged unemployment rate	3.01 (0.47)	-3.01 (0.47)
any statewide welfare waiver	0.69 (2.76)	-3.92 (2.77)
lead of any statewide waiver	-7.80 (2.56)	0.94 (2.56)
JOBS sanctions	-7.28 (3.60)	2.64 (3.60)
lead of JOBS sanction waiver	-1.82 (3.02)	11.69 (3.03)
state fixed effects	x	x
year fixed effects	x	x
state-specific trends	x	x

Note: Both specifications reported are analogous to that reported in Table 2, column 6.

Figure 1

Unemployment Rate and Rate of Welfare Receipt

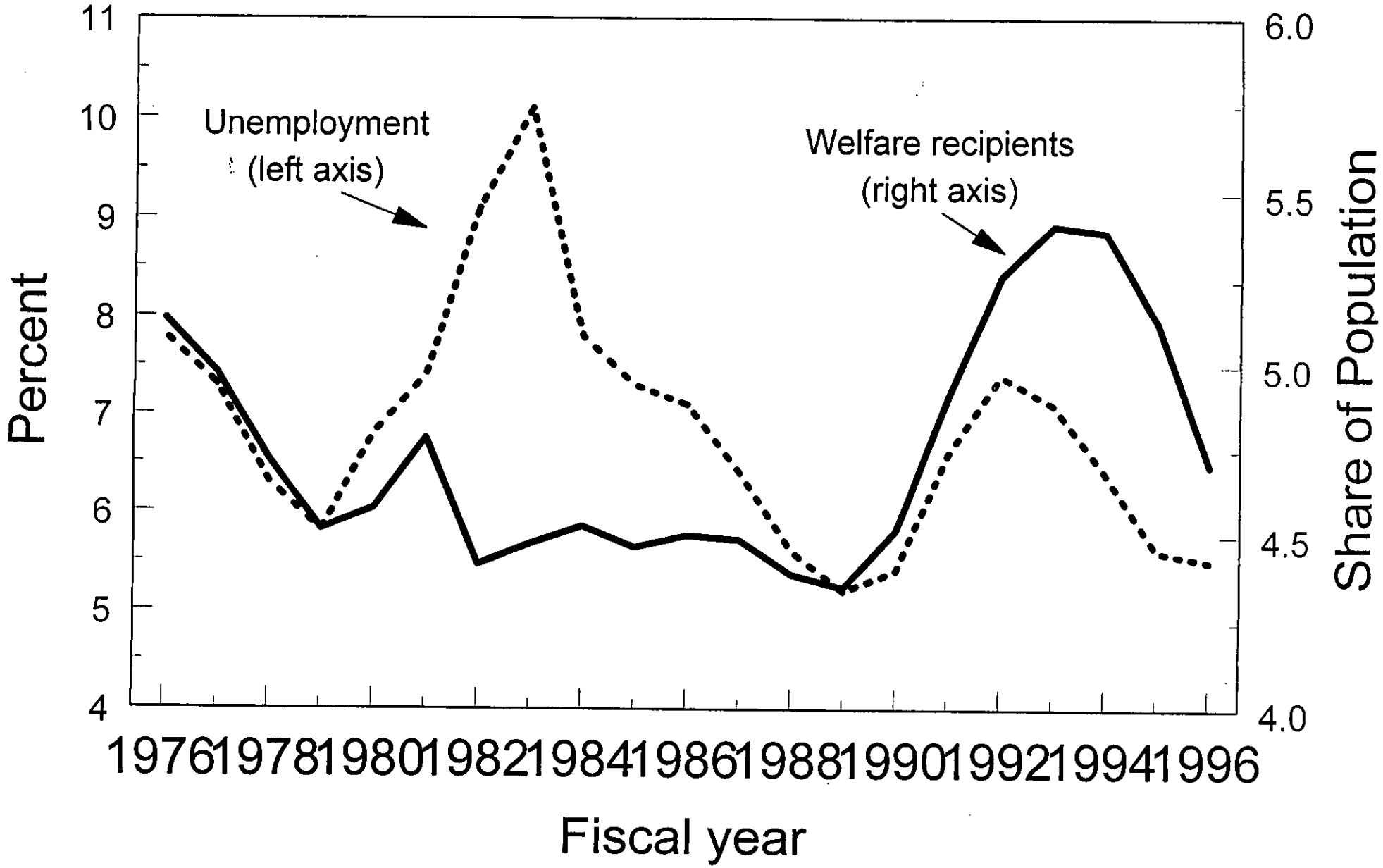
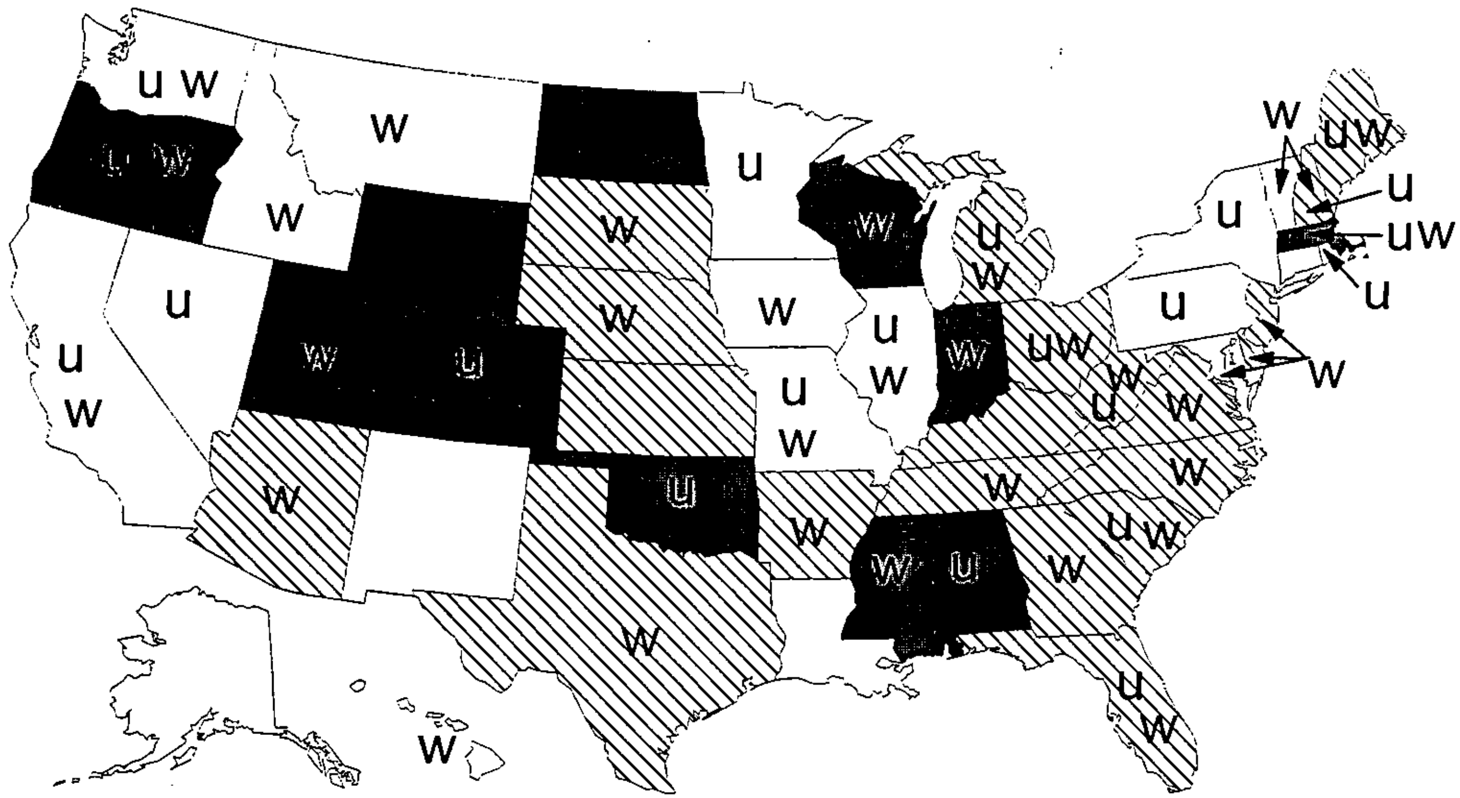


Figure 2

Reduction in Welfare Recipients and Unemployment Rate

1993 to 1996



Reduction in welfare recipients
(share of population):

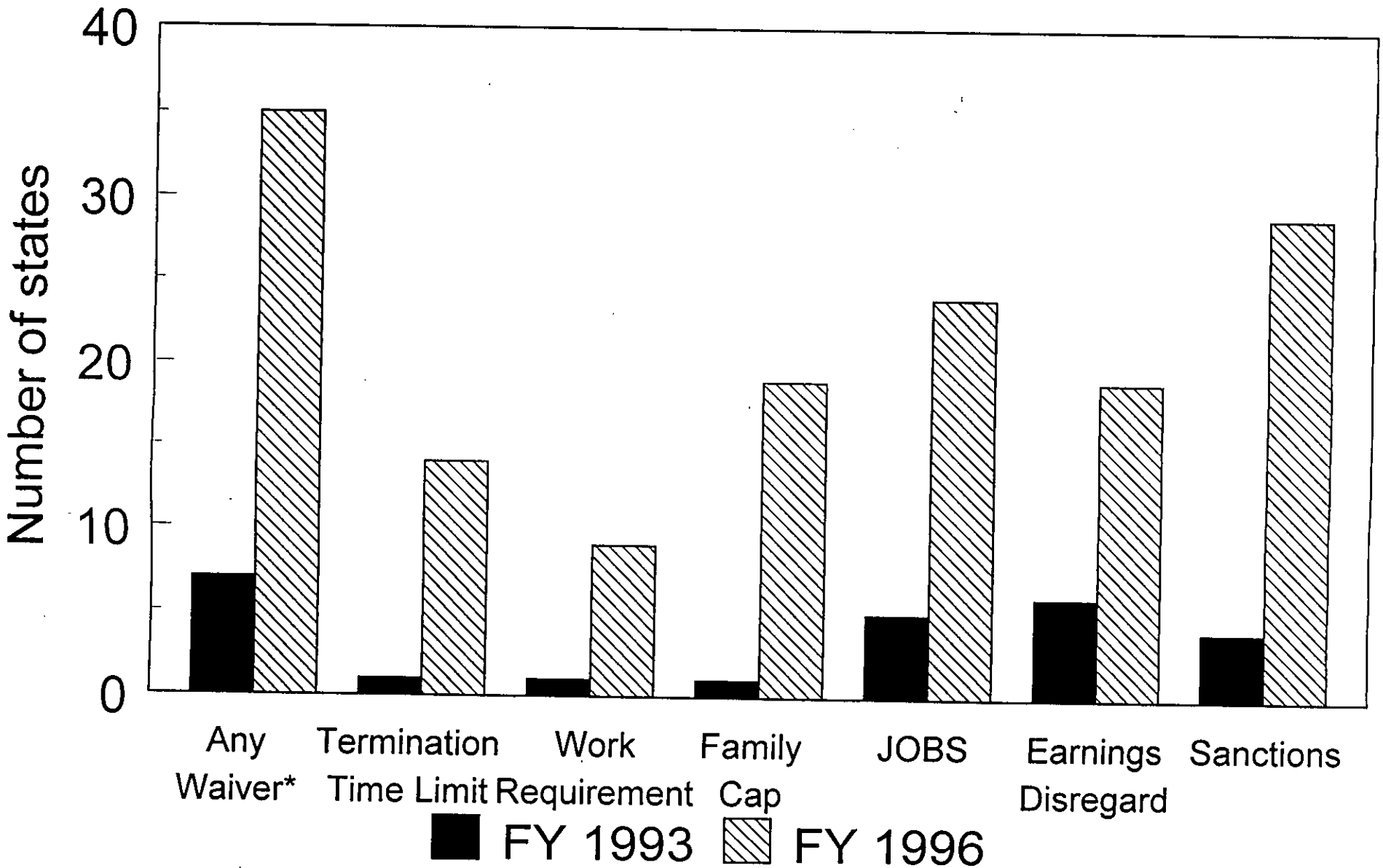
- Over 25 percent
- 15 - 25 percent
- Less than 15 percent

u 1.6 percentage points or more reduction in unemployment rate (larger than national average)

W Major statewide waiver approved

Figure 3

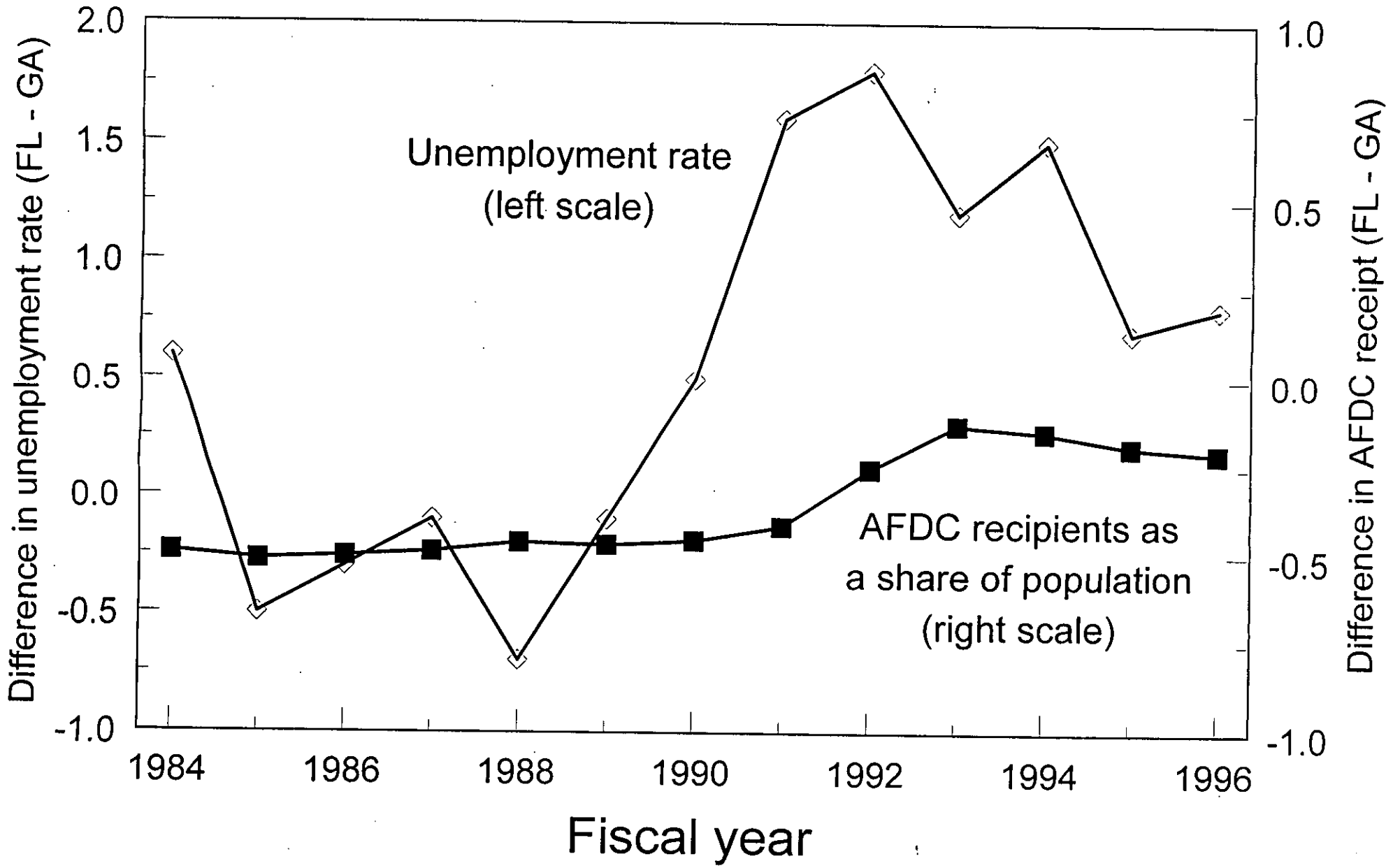
Number of Approved Statewide Waivers



* 43 states have received waivers under the Clinton Administration, but not all are statewide.

Figure 4

A Comparison of Florida and Georgia



WR-CEA Report

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996

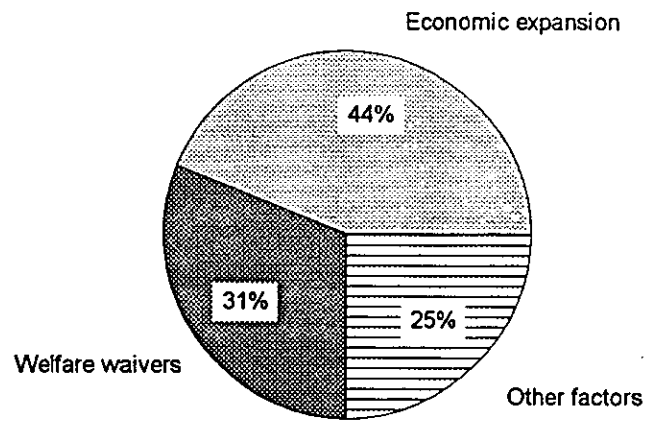
May 9, 1997

A Report by the
Council of Economic Advisers

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996[1]

During the first four years of the Clinton Administration, from January 1993 to January 1997, the number of individuals receiving welfare fell by 20 percent, or 2.75 million recipients — the largest decline in over 50 years.[2] Three potential explanations for this decline are (1) economic growth, which created 12 million new jobs over the period, (2) Federal waivers, which allowed 43 states to experiment with innovative ideas to help reduce welfare dependency, and (3) other policies affecting work-related incentives, including the 1990 and 1993 expansions of the Earned Income Tax Credit (EITC) and the recent rise in federal and state spending on child care. It is important to determine the causes of this decline in light of the recently enacted welfare reform legislation. If economic growth was the major contributor, then continued growth seems essential for further progress in moving people from welfare to work. If federal policies played a significant role, however, then continued efforts along these lines are likely to lead to additional reductions. A statistical analysis (described in the companion technical paper to this report) shows that over 40 percent of the decline resulted from a falling unemployment rate associated with the economic expansion and almost one-third from statewide welfare reform waivers (Figure 1).[3] Other factors (which might include other policy initiatives, such as the EITC) account for the remainder.

Figure 1
Reasons for the Decline in Welfare Caseloads, 1993-1996



[1]We are grateful to the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation for providing technical assistance in preparing this report.

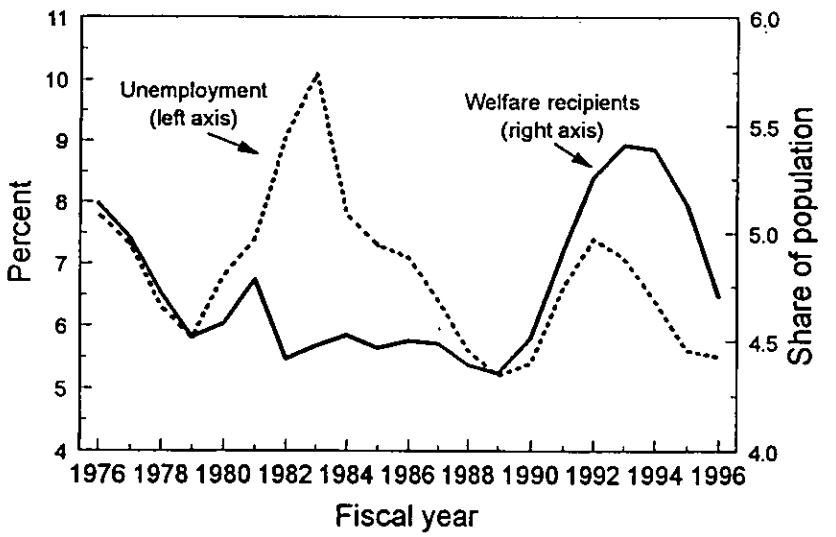
[2]The statistical analysis presented here uses data on the average monthly share of the population receiving welfare in a fiscal year. Between the 1993 and 1996 fiscal years (October 1, 1992 to September 30, 1996), the average monthly share of the population receiving welfare fell from 5.4 percent to 4.7 percent.

[3]Eight states received waivers that affected only a small part of the state, typically a few counties. Waivers granted to these states are not included in this analysis.

WELFARE CASELOADS AND THE BUSINESS CYCLE

Welfare caseloads tend to fluctuate over the business cycle, rising when the economy moves into recession and declining once a recovery is underway and the economy is expanding. For example, the proportion of the population receiving welfare fell during the expansion of the late 1970s and rose as the economy went into recession in 1980 (Figure 2).[4] Between 1989 and 1993, the proportion of the population receiving welfare shot up 25 percent, reaching its highest level ever. The recession of 1990-1991 and the weak labor market through 1992 certainly contributed to this increase, hindering the efforts of those welfare recipients seeking work. One might be tempted to argue that the subsequent decline between 1993 and 1996 simply reflected the normal return to work of welfare recipients who were unable to find jobs when the economy was weak.

Figure 2
Unemployment Rate and Rate of Welfare Receipt



The business cycle alone, however, is unlikely to account for the entire decline in welfare recipiency after 1993. The 1990-1991 recession was relatively mild; the annual unemployment rate peaked at 7.5 percent in 1992, much lower than the peak rates in the 1974-75 and 1981-82 recessions. It seems improbable that a moderate recession would lead to such severe swings in the rate of welfare receipt. Moreover, some states with large reductions in their unemployment rate during this period did not experience big drops in their welfare caseload, while other states saw a big drop in welfare receipt even though their unemployment decline was moderate (see attached map). For that reason it is important to look at other factors, including the possible impact of changes in welfare programs during that time.

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[4]Two anomalous episodes occurred as well. First, welfare recipiency declined sharply in 1982 despite a worsening economy. This was because policy changes enacted in the Omnibus Budget Reconciliation Act of 1981 substantially reduced welfare eligibility. Second, the dramatic swing in welfare recipiency between 1989 and 1996 was larger than might have been expected based on the relatively mild 1990-91 recession.

FEDERAL WELFARE WAIVERS

Aid to Families with Dependent Children (AFDC) was the Nation's primary welfare program until last year. The AFDC program was administered by the states, subject to Federal requirements. Since 1962, the Secretary of Health and Human Services has had the authority to waive some of these requirements if states proposed experimental or pilot program changes that furthered the goals of the AFDC program. The Bush administration was the first to use this authority extensively, especially in its final year. But the Clinton Administration expanded the number of waivers dramatically after 1993, granting waivers to a total of 43 states.

Waivers granted to states to implement experimental welfare policies generally contained a number of provisions that varied greatly in scope. Some were pilot programs that could not have had much effect on the size of a state's overall welfare caseload. Others covered a larger share of the state's welfare population but included some relatively minor provisions that probably had little effect on the number of welfare recipients statewide. Six broad categories of waivers that potentially might have had an observable effect in reducing state welfare caseloads are:

- **Termination time limits.** States receiving this type of waiver are allowed to limit the length of time recipients can collect benefits. Once that limit is reached, benefits are terminated.

- **Work-requirement time limits.** These waivers are similar to termination time limits, but once the limit is reached, recipients are required to accept work or enter a training program in exchange for their benefits.

- **Reduced JOBS exemptions.** The Job Opportunities and Basic Skills (JOBS) training program, enacted in 1988, required a share of the welfare caseload to participate in work and/or training programs. Waivers were granted to some states to reduce the number of recipients who were exempt from participating in the program.

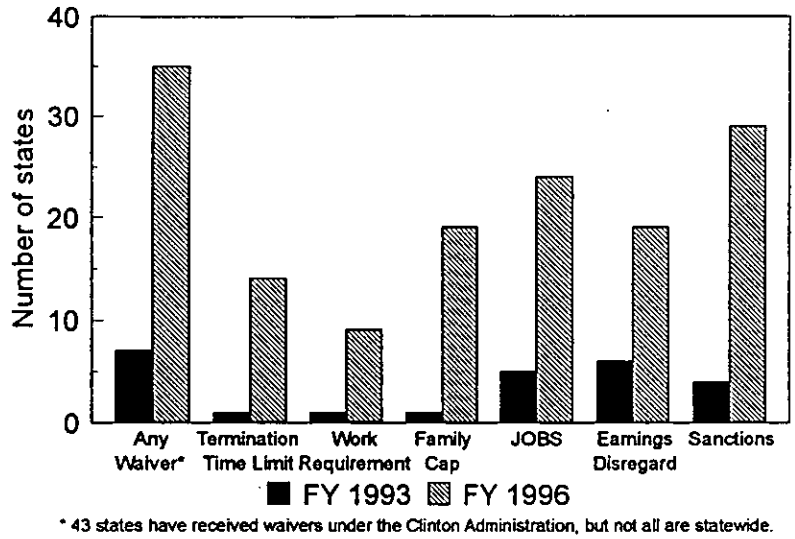
- **Increased JOBS sanctions.** Some states argued that sanctions for recipients who refused to participate in JOBS were inadequate and requested the ability to strengthen those sanctions—including termination of benefits in some cases.

- **Family cap.** Welfare benefits are scaled to family size and normally increase when a recipient has an additional child. Some states requested waivers to eliminate the additional benefit for women who had a child while receiving welfare.

- **Increased earnings disregard.** For many recipients, a dollar in earnings led to almost a dollar reduction in their welfare benefit, providing a disincentive to work. Some states requested waivers to increase the amount of earnings that welfare recipients could keep.

The number of states with statewide waivers of these types rose dramatically between 1993 and 1996 (Figure 3). Some states that experienced large drops in welfare receipt are also states that received waivers (see attached map).

Figure 3
Number of Approved Statewide Waivers



* 43 states have received waivers under the Clinton Administration, but not all are statewide.

THE STATISTICAL ANALYSIS

Several factors besides economic conditions and waivers are likely to affect the rate of welfare receipt. An increase in female-headed families will tend to increase this rate because the welfare system strongly favors single mothers with children. The generosity of welfare benefits also may affect the number of poor individuals who seek benefits. Labor market returns for less-skilled workers, national changes in welfare policy, and cultural attitudes towards welfare receipt, also may play a role. The task of a statistical analysis is to disentangle the separate effects of these factors in order to identify the relationship between each of them and welfare receipt.

The exercise reported here uses state-level data from 1976 through 1996 to estimate the contributions of economic growth (measured by the change in the unemployment rate) and approved state waivers to the recent decline in welfare receipt. The use of state level data allows us to control for changes that affect welfare receipt across the entire country at a point in time, such as national

changes in welfare policy.[5] The relationship between, say, economic conditions and the rate of welfare receipt can still be identified because recessions tend to be worse in some parts of the country than in others and could lead to differences across states in patterns of welfare receipt. Using data over several years allows us to control for long-run differences in welfare receipt that exist across states. The relationship between waivers and welfare receipt, for example, can be observed by following changes in welfare receipt within a state before and after the waiver. Using techniques like these, a statistical analysis can estimate the effects of economic activity and waivers on the size of the welfare rolls holding other things that affect welfare receipt constant.[6]

An Example

Figure 4 presents a comparison of Florida and Georgia that is intended to provide some intuition for the statistical methodology and the manner in which the effects of economic activity are estimated separately from other potential confounding factors. It should not be considered a rigorous test. The figure plots the difference between the two states in unemployment rates between 1984 and 1996 and in the share of the population receiving AFDC over the same period. Taking the difference between the two states in each year controls for any differences that affect both states simultaneously. Because neither state received a waiver until late in the 1996 fiscal year, the difference in trends through virtually all of this time period are unaffected by differences in waiver provisions or their effectiveness. Throughout most of the expansion of the middle to late 1980s, unemployment in Georgia had been somewhat higher than in Florida. When the 1990-91 recession hit, unemployment in Florida rose considerably relative to that in Georgia, and the difference has been slow to recede. Subsequently, AFDC receipt shows an increase in Florida relative to Georgia. The full statistical analysis uses this sort of approach to identify the effects of both waivers and economic activity on the rate of welfare receipt in all states over time.

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[5]Although the effects of changes in national welfare policy cannot be determined using this methodology, some recent policies may have contributed to the decline. The 1993 increase in the Earned Income Tax Credit increased the returns to work. Increases in child care subsidies made it easier for parents to work. Enhanced efforts to collect more child support raised the incomes of some mothers, reducing their reliance on welfare. The impact of these policies on the rate of welfare receipt cannot be identified separately in this analysis because they apply equally in all states at any time; it is incorporated into the effect of other, unidentified factors.

[6]This methodology does include some limitations that may preclude a "causal" interpretation of the estimated relationship between, say, waivers and the rate of welfare receipt. First, if factors like out-of-wedlock birth rates suddenly fell in waiver states at precisely the time that their waivers were approved, a negative estimated relationship between waivers and the rate of welfare receipt would be misleading. Second, it is possible that the estimated effect of waivers on AFDC receipt may be capturing the tendency for states with shrinking welfare rolls to be the ones most willing to experiment with the sort of waiver policies examined here.

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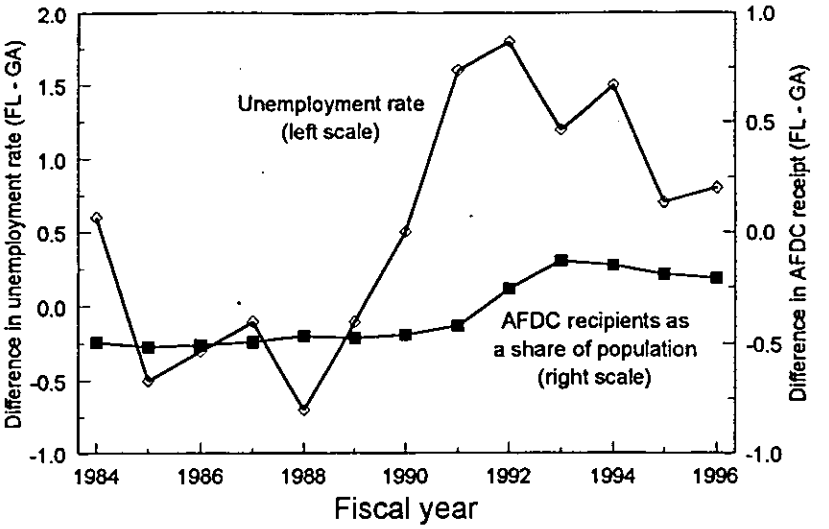


The Timing of the Welfare Caseload Response

A number of other tests were conducted to explore more complicated relationships between economic activity, waivers, and the welfare caseload, particularly the possibility that impacts on the rate of welfare receipt might not be contemporaneous with changes in unemployment or implementation of waivers:

- **Delayed responses.** Changes in unemployment may affect the welfare caseload only after a delay. For instance, the onset of a recession may lead those low-income workers who lose their jobs to spend some time looking for a new one while drawing down their limited assets before applying for welfare. When a recession ends, these typically less-skilled workers may be the last ones hired.

- **Advance responses.** Waiver policies may have some effect on the welfare caseload even before the waiver is actually approved. This effect could occur if publicity regarding the new proposed policies led potential welfare recipients to seek work more intensively than they might have otherwise or because they chose not to apply for benefits, perhaps concerned that they would be treated more harshly by welfare officials.

RESULTS

The results of this analysis indicate a strong relationship between the welfare caseload and both economic activity and Federal welfare waivers.

- Changes in the welfare caseload do appear to respond to changes in the unemployment rate with a delay.

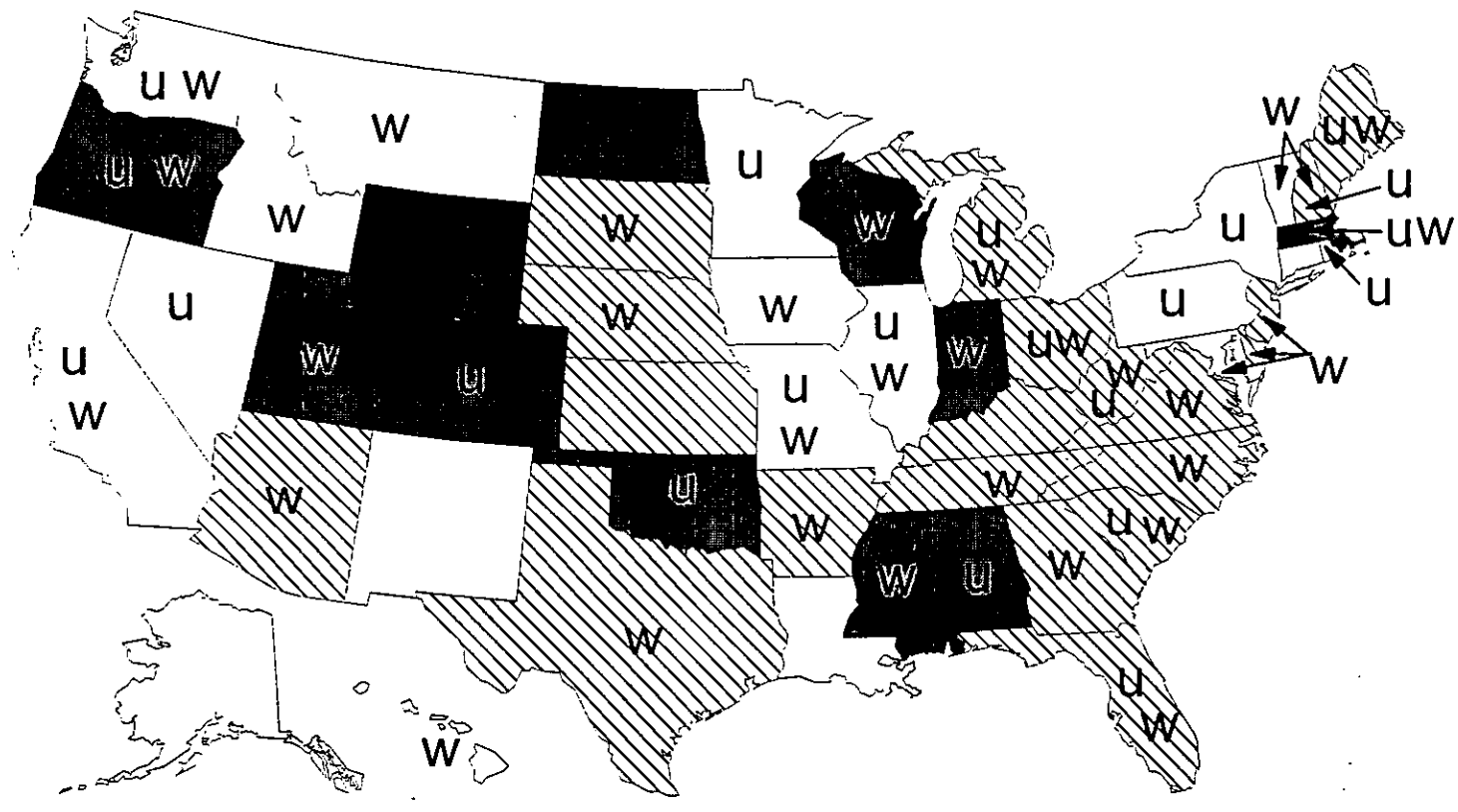
- States that instituted a major, statewide waiver did experience a decline in the welfare caseload in advance of the actual waiver approval.

- Waivers that included strengthened JOBS sanctions were related to a decline in the rate of welfare receipt that did not precede the waiver approval.

- Overall, over 40 percent of the decline in welfare receipt between 1993 and 1996 can be attributed to economic growth, almost one-third was related to federal welfare waivers, and the remainder was due to other, unidentified factors.

These findings say nothing about the outcomes for those individuals who otherwise would have collected benefits had waivers not been granted. Additional research that can determine how individuals fared under the alternative waiver provisions, rather than an aggregate analysis examining the statewide caseload, clearly is desirable to help address this issue.

Reduction in Welfare Recipients and Unemployment Rate 1993 to 1996



Reduction in welfare recipients (share of population):

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W Major statewide waiver approved

WR - CEA White Paper

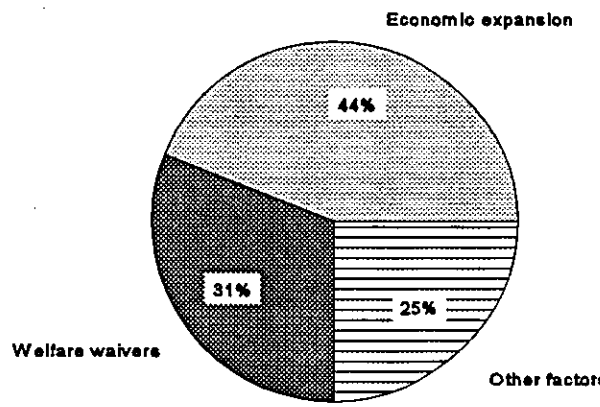
EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996

April 21, 1997

A Report by the
Council of Economic Advisers
with the U.S. Department of Health and Human Services,
Office of the Assistant Secretary for Planning and Evaluation

During the first four years of the Clinton Administration, from January 1993 to January of 1997, the number of individuals receiving welfare benefits fell by 20 percent, or 2.75 million recipients -- the largest decline since the federal welfare system began in the 1930s.[1] Three potential explanations for this decline are (1) economic growth, which created 12 million new jobs over the period, (2) Federal waivers, which allowed 43 states to experiment with innovative ideas to help reduce welfare dependency, and (3) other policies affecting work-related incentives, like the 1990 and 1993 expansions of the Earned Income Tax Credit (EITC) and the recent rise in federal and state spending on child care. It is important to determine the causes of this decline in light of the recently enacted welfare reform legislation. If economic growth was the major contributor, then continued growth seems essential for further progress in moving people from welfare to work. On the other hand, if federal policies played a significant part, then continued efforts along these lines are likely to lead to additional reductions. A statistical analysis (described in the companion technical paper to this report) shows that over 40 percent of the decline resulted from a falling unemployment rate associated with the economic expansion and almost one-third from statewide welfare reform waivers (see chart).[2] Other factors (which might include other policy initiatives (like the EITC) account for the remainder.

Reasons for the Decline in Welfare Caseloads
1993-1996



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Welfare caseloads tend to fluctuate over the business cycle, rising when the economy moves into recession and declining once a recovery is underway and the economy is expanding. For example, the proportion of the population receiving welfare fell during the expansion of the late 1970s and rose as the economy went into recession in 1980 (Figure 1).[3] Between 1989 and 1993, the proportion of the population receiving welfare shot up 25 percent, reaching its highest level ever. The recession of 1990-1991 and the weak labor market through 1992 certainly contributed to this increase, hindering the efforts of those welfare recipients seeking work. One may be tempted to argue that the subsequent decline between 1993 and 1996 simply reflected the normal return to work of welfare recipients who were unable to find jobs when the economy was weak.

It is unlikely that the business cycle alone can account for the entire decline in welfare recipiency after 1993, however. The 1990-1991 recession was relatively mild; the annual unemployment rate peaked at 7.5 percent in 1992, much lower than the peak rates in the 1974-75 and 1981-82 recessions. It seems improbable that a moderate recession would lead to such severe swings in the rate of welfare receipt. Moreover, some states with large reductions in their unemployment rate during this period did not experience big drops in their welfare caseload, while other states saw a big drop in welfare receipt even though their unemployment decline was moderate (Figure 2). For that reason it is important to look at the possible impact of changes in welfare programs during that time.

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had little effect on the number of welfare recipients statewide. Six broad categories of waivers that might potentially have had an observable effect in reducing state welfare caseloads are:

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- Changes in the welfare caseload do appear to respond to changes in the unemployment rate with a delay.

- States that instituted a major, statewide waiver did experience a decline in the welfare caseload in advance of the actual waiver approval.

- Waivers that included strengthened JOBS sanctions were related to a decline in the rate of welfare receipt that did not precede the waiver approval.

- Overall, over 40 percent of the decline in welfare receipt can be attributed to economic growth, almost one-third was related to federal welfare waivers, and the remainder was due to other, unidentified factors.

These findings say nothing about the outcomes for those individuals who otherwise would have collected benefits had waivers not been granted. Additional research that can determine how individuals fared under the alternative waiver provisions, rather than an aggregate analysis examining the statewide caseload, is clearly desirable to help address this issue.

Figure 1
Unemployment Rate and Rate of Welfare Receipt

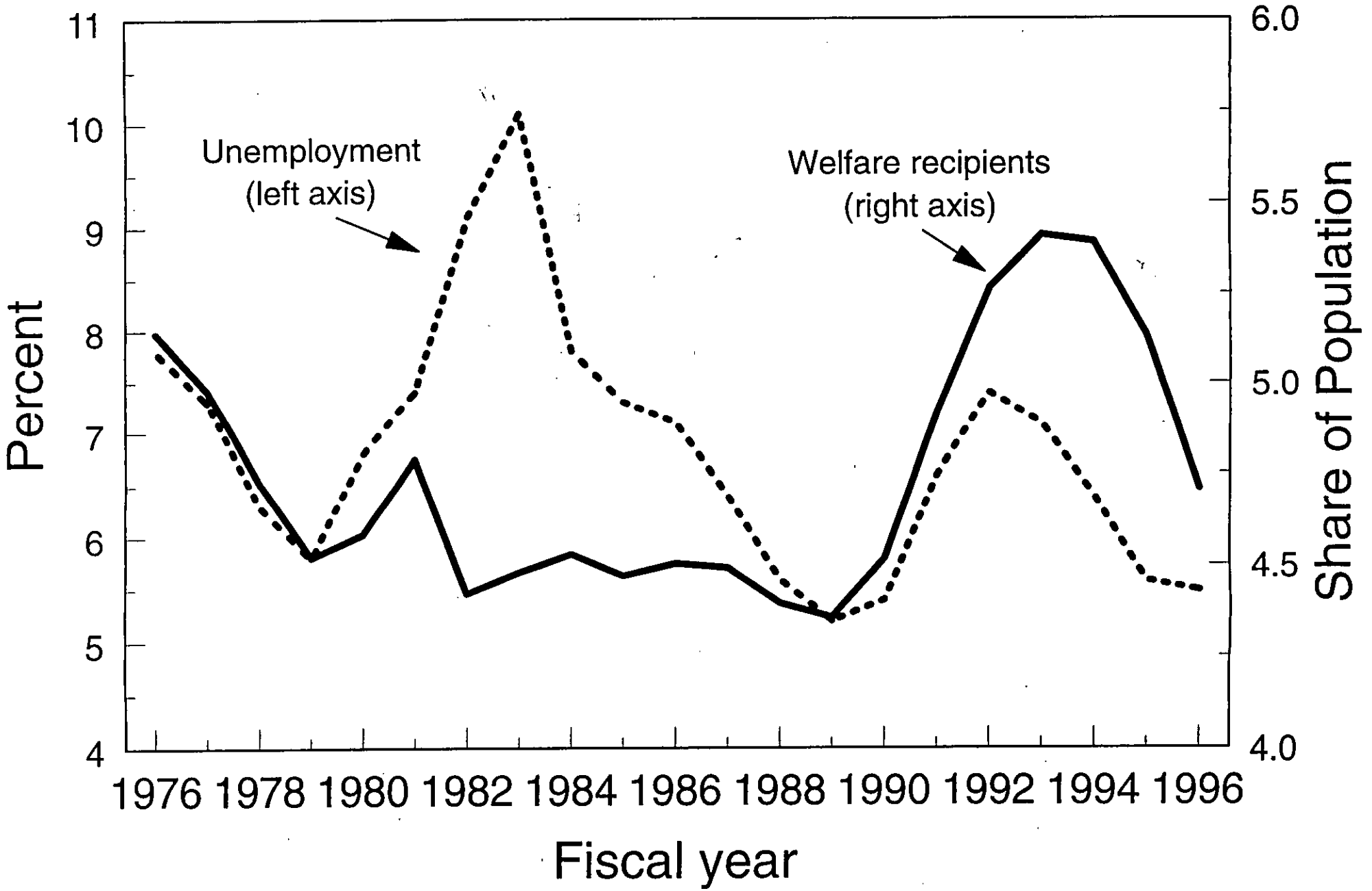
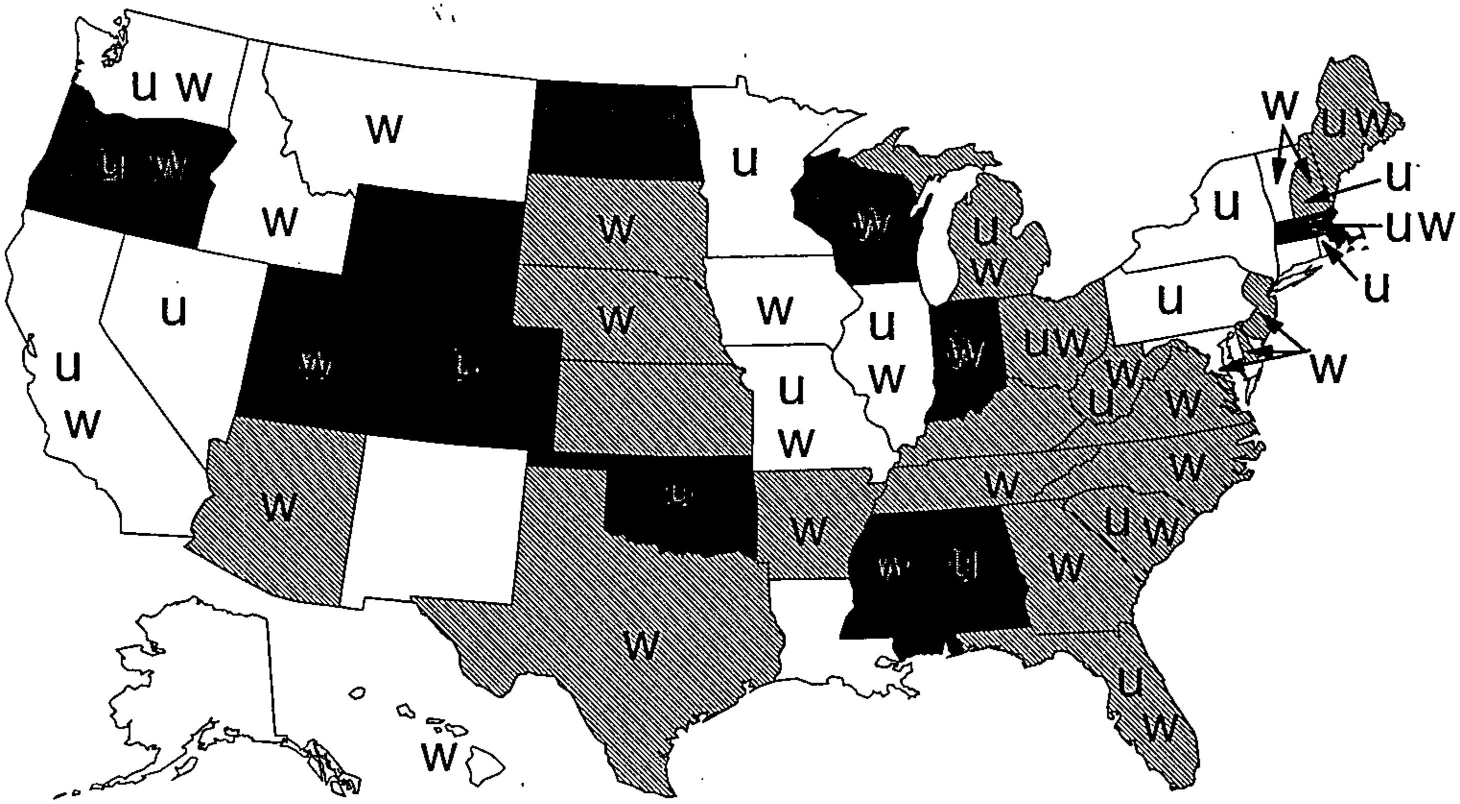


Figure 2
Reduction in Welfare Recipients and Unemployment Rate
1993 to 1996



Reduction in welfare recipients (share of population):

■ Over 25 percent

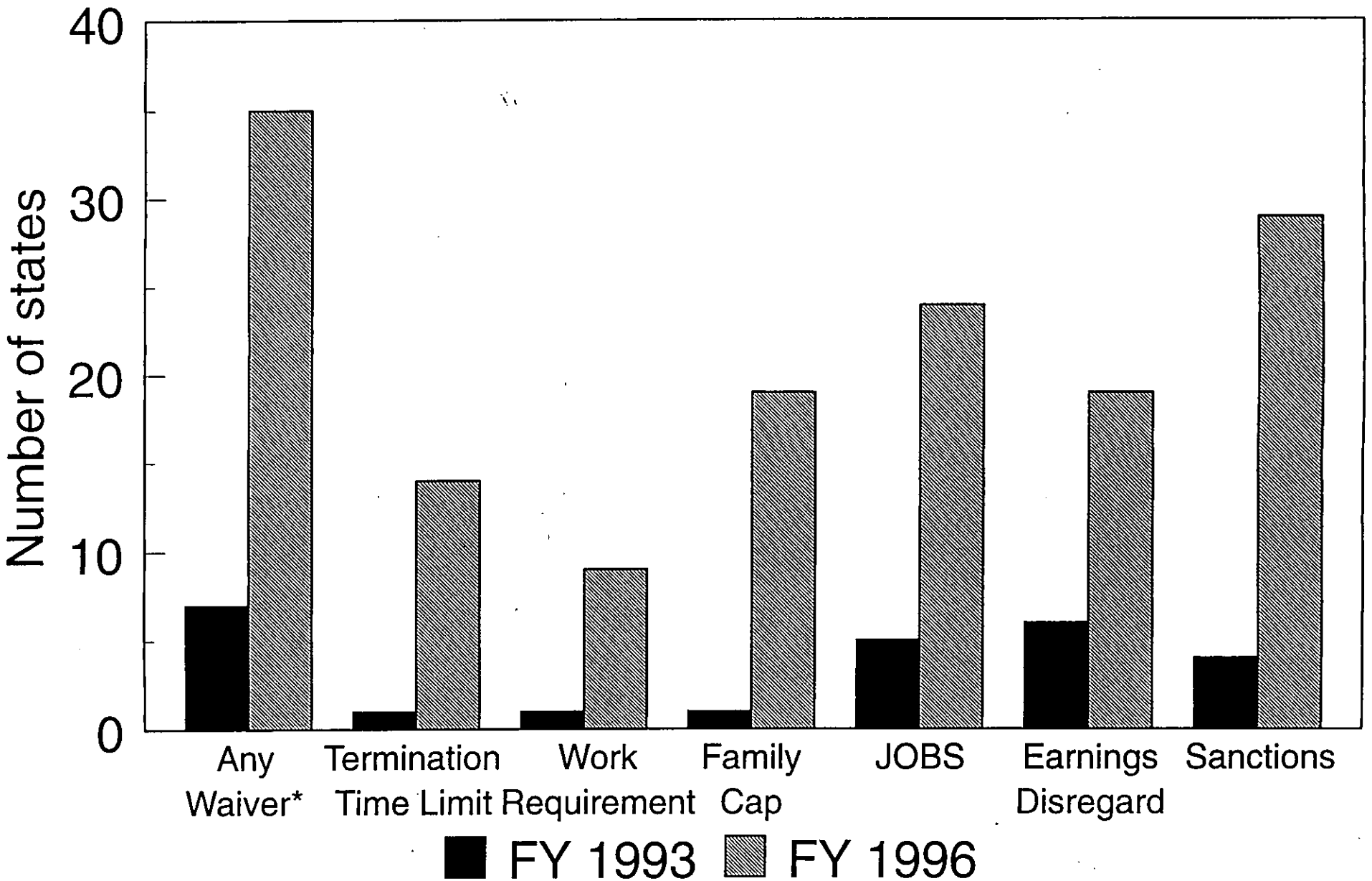
▨ 15 - 25 percent

□ Less than 15 percent

u 1.6 percentage points or more reduction in unemployment rate (larger than national average)

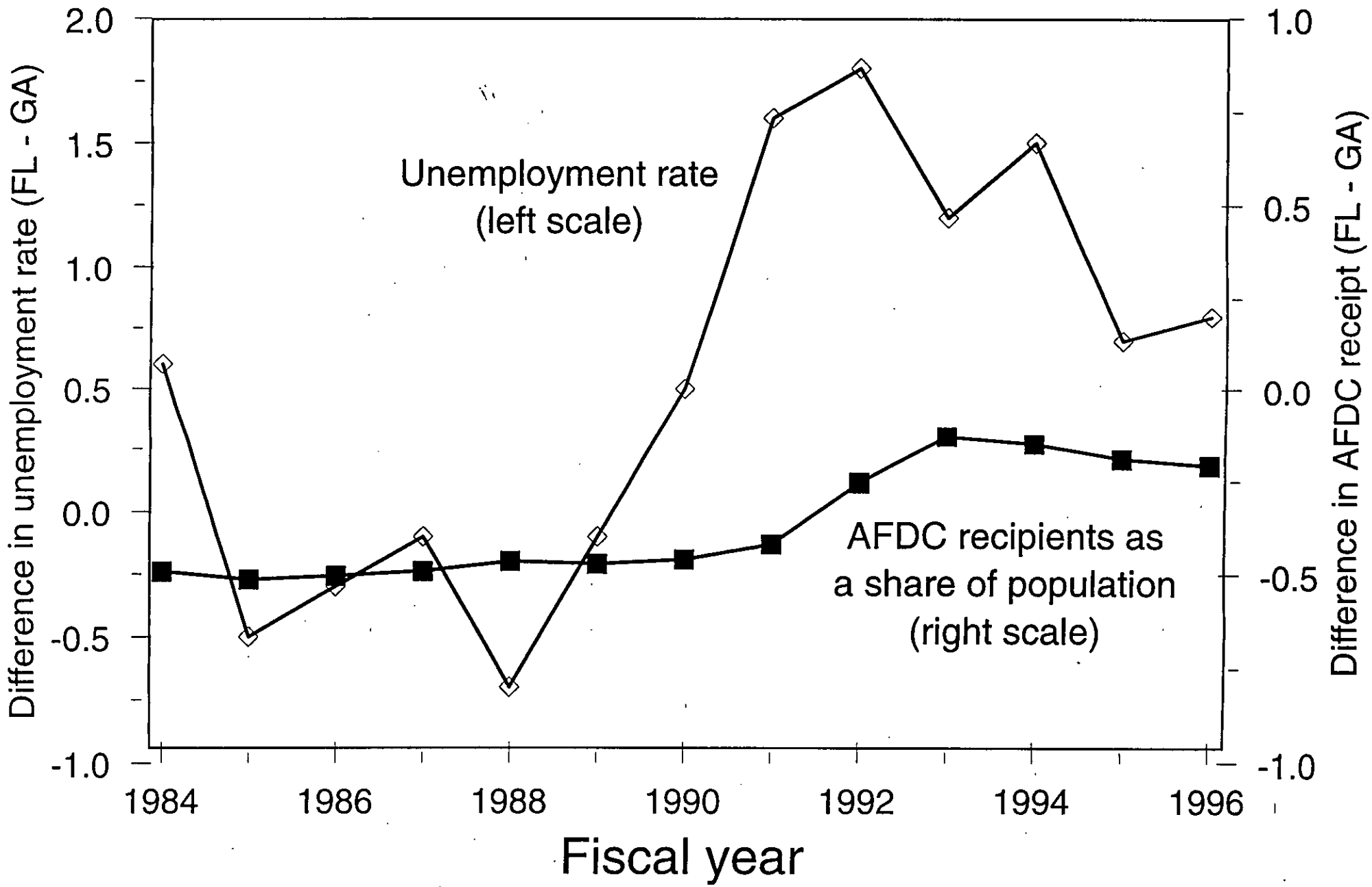
W Major statewide waiver approved

Figure 3
Number of Approved Statewide Waivers



* 43 states have received waivers under the Clinton Administration, but not all are statewide.

Figure 4
A Comparison of Florida and Georgia



TECHNICAL REPORT:

EXPLAINING THE DECLINE IN WELFARE RECEIPT, 1993-1996

April 21, 1997

A Report by the
Council of Economic Advisers
with the U.S. Department of Health and Human Services,
Office of the Assistant Secretary for Planning and Evaluation

During the first four years of the Clinton Administration, from January 1993 to January of 1997, the number of individuals receiving welfare benefits fell by 20 percent, or 2.75 million recipients -- the largest decline since the federal welfare system began in the 1930s.[1] Three potential factors that may have contributed to the dramatic decline in the welfare rolls over the period are economic growth, federal welfare waivers, and other policies affecting work-related incentives. First, the recession of 1990-1991 may have hindered the efforts of welfare recipients who were seeking work; as the labor market subsequently became more robust, creating almost 12 million new jobs from January 1993 to January 1997, these individuals may have found jobs more easily and left the welfare rolls. Second, over this period federal waivers granted to states to experiment with innovative approaches to ending welfare dependence may have also played a role. The Clinton Administration granted waivers to 43 states between 1993 and 1996 that included provisions which may require work and/or training, sanctions for those who do not comply with these requirements, and limits on the duration of benefit receipt, among other things. Third, other policies like the 1990 and 1993 expansions of the Earned Income Tax Credit (EITC) and the recent rise in federal and state spending on child care made it easier to enter the labor market and increased the rewards to work for individuals that might have otherwise chosen welfare.

It is particularly important to determine the causes of this decline in light of recently enacted welfare reform legislation that completely overhauls the system of providing aid to the

[1]The statistical analysis presented here uses data on the average monthly share of the population receiving welfare in a fiscal year. Between the 1993 and 1996 fiscal years (October 1, 1992 to September 30, 1996), the average monthly share of the population receiving welfare fell from 5.4 percent to 4.7 percent.

poor. If economic growth was the major contributor to the decline, then continued growth is essential for further progress in moving people from welfare to work. On the other hand, if federal policies played a significant part, then continued efforts along these lines are likely to lead to additional reductions.

This paper will examine the recent decline in receipt of welfare benefits and provide estimates of the contribution made by economic growth and one particular federal policy, welfare waivers. State-level data from 1976-1996 are used in the analysis. The statistical methodology employed controls for differences in the rate of welfare receipt across states that are roughly constant over time, differences over time that are constant across states, and trends over time that may differ between states. This approach allows us to isolate the effects of economic growth and waivers on welfare receipt assuming that all of these other factors had not changed. The results indicate that over 40 percent of the decline can be attributed to economic growth and that almost one-third is related to waivers, particularly those that sanction recipients who do not comply with work requirements. Other factors, which might include additional policy initiatives (like the EITC), account for the remainder.

WELFARE RECEIPT AND THE BUSINESS CYCLE

Figure 1 displays the pattern of the unemployment rate and the share of the population receiving welfare benefits between 1976 and 1996. The expansion of the late 1970s is reflected in a declining share of the population receiving welfare over that period. As the economy fell into a recession in 1980-81, welfare rolls began to increase. However, the massive recession of 1981-82 actually coincided with a decline in the rate of welfare recipiency. The explanation for this

paradox is the Omnibus Budget Reconciliation Act of 1981 (OBRA 1981), which reduced AFDC eligibility at exactly the time when one might have expected to see a large increase in AFDC receipt. Perhaps because those who otherwise would have entered the welfare rolls were prevented from doing so in that recession, the extended recovery of 1983-1989 apparently had little effect on the welfare rolls.

The recession of 1990-91 had a dramatic impact on the rate of welfare receipt; the share of the population receiving welfare rose 25 percent between 1989 and 1993 to its highest level ever. Given the large increase during that recession, the decline in the rate of benefit receipt between 1993 and 1996 may have reflected a return to work of welfare recipients who were unable to find jobs during bad times. But the 1990-91 recession was relatively mild, with a peak unemployment rate of 7.8 percent in June 1992, much lower than the peak rates in the 1974-75 and 1981-82 recessions. It seems improbable that a moderate recession would lead to such severe swings in the rate of welfare receipt.

Moreover, geographic variation in changes in the unemployment rate and the rate of welfare recipiency indicates that factors other than economic growth also contributed to the reduction in the rolls. Figure 2 displays the reduction in the share of the population receiving AFDC and the reduction in the unemployment rate in each state between 1993 and 1996. It shows that the correlation between reductions in unemployment and welfare receipt is not perfect. For instance, between fiscal years 1993 and 1996, the unemployment rate in Pennsylvania fell by more than the national average of 1.6 percent, yet the decline in the share of the state's population receiving welfare was smaller than the average. In contrast, Tennessee experienced a 20 percent

drop in welfare receipt over the period even though it experienced a below average decline in its unemployment rate.

OTHER FACTORS THAT AFFECT WELFARE RECEIPT

Factors besides economic conditions may be related to the rate of welfare receipt and could explain recent trends. These factors include federal waivers awarded to states to introduce new welfare policies, other changes in federal policy that alter the environment for low-income households, and changes in demographic composition that may alter the share of the population eligible for welfare.

WAIVERS

The most recent policy change directly linked to welfare receipt, and the focus of much of the remainder of this analysis, is the substantial increase in federal waivers granted to states to implement new and innovative welfare policies. The AFDC program was administered by States, but was subject to federal requirements. Since 1962, the Secretary of Health and Human Services had the ability to waive some of these requirements if states propose experimental or pilot programmatic changes that furthered the goals of the AFDC system. The Reagan Administration made some use of this authority, granting a limited number of waivers that either affected a very small share of a state's caseload or were superseded by national legislative changes.[2] The Bush Administration granted more waivers affecting larger numbers of individuals

[2]Because of this, the analysis that follows only examines the effect of waivers approved during the Bush and Clinton Administrations.

within a state, particularly in its last year or so. Since 1993, however, the Clinton Administration has used waiver authority extensively allowing 43 states to experiment in some way with their welfare programs.

This analysis examines the effects of implementing six important waiver provisions in most, if not all, of a state (major, state-wide waivers). Waivers that only applied to pilot sites, such as a few counties, are not examined here because the magnitude of any effect on the state's caseload will be too small to detect.[3] Many state waivers also include a multitude of provisions that affect few individuals and are unlikely to have a substantial impact on the overall rate of welfare receipt in the state. Thus, we focus on the following six types of waivers: termination and work-requirement time limits, reduced JOBS (Job Opportunities and Basic Skills) exemptions, increased JOBS sanctions, family caps, and increased earnings disregards. The data appendix describes each type of waiver and identifies the dates that each statewide waiver was approved.

Figure 3 displays the number of major, statewide waivers in effect in fiscal 1993 and 1996. By the end of the 1993 fiscal year, seven such waivers had been approved; the most common form was an increase in the earnings disregard. If this type of waiver has any effect on the welfare rolls in the short-run, it would increase welfare recipiency because it increases the number of low-earnings workers eligible for benefits. By fiscal 1996, however, 35 states were granted major, statewide waivers.[4] Sanctions imposed upon workers who did not live up to their work or job search requirements are the most common. Because these and most of the other types of major waivers

[3]Results of preliminary analysis indicated that pilot programs had no discernible effect on the size of a state's welfare rolls.

[4]Since 1993, 43 states have received waivers, but some of them applied to a small share of the state.

would be predicted to reduce the likelihood of benefit receipt, their expansion over the 1993-1996 period may have helped reduce the welfare rolls beyond that brought about by economic growth.[5]

The map in Figure 2 also shows the states that have implemented major, statewide waivers. Some states that have experienced large drops in their welfare rolls without large drops in unemployment, like Tennessee, have also received waivers. In contrast, other states in which unemployment has fallen considerably, but in which large drops in welfare rolls have not occurred, like Pennsylvania, have not received any major statewide waiver. A systematic analysis that separately identifies the effects of waivers and economic conditions is reported below.

OTHER WORK-RELATED INCENTIVES

Several other federal policies introduced over the past several years may have contributed to changes in the rate of welfare receipt as well. For instance, the EITC was significantly expanded in 1990 and 1993. The tax credit paid to a low-wage worker increased from 14 percent in 1990 to 40 percent in 1996 and may have made work a better alternative than welfare, leading to a decline in the welfare rolls. Since 1993, enhanced efforts to collect more child support raised the incomes of some mothers, and may have reduced their reliance on welfare. Additional state and federal spending on day care may have also made it easier for single mothers to work.

Changes in Medicaid eligibility over the past decade or so also may have affected the size of the welfare rolls. Since 1986 the link between AFDC and Medicaid eligibility has been broken

[5]Moffitt (1996) has argued that the JOBS program (and, by implication, an extension of the JOBS program) may provide incentives for some to participate in welfare programs so that they can receive the potential benefits of these policies and could lead to an increase in the caseload.

and over time the number of poor children eligible for Medicaid has risen dramatically. The fact that some low-income individuals can now work without losing Medicaid benefits for their children may reduce the rate of welfare receipt.[6] In fact, Yelowitz (1996) finds that changes in Medicaid eligibility through 1991 led to a moderate reduction. Although eligibility has continued to expand since then, the expansions have been smaller than those that took place in the late 1980s and are unlikely to account for a substantial share of the reduction in welfare receipt.[7]

DEMOGRAPHIC CHANGE

The AFDC program was largely targetted to single mothers with children and this demographic group has grown over time. The share of families headed by women rose from 10 percent to 18 percent between 1970 and 1995, which fully explains the increase in child poverty over the period. Out-of-wedlock birth rates have also been on the rise. The relationship between these factors and AFDC eligibility suggests that the welfare rolls should have increased over time. In fact, Gabe (1992) argues that the growth in never-married female-headed families was largely responsible for the increase in welfare caseloads between 1987 and 1991. These factors actually suggest that we should have expected to see a continued expansion in the rate of welfare receipt; the observed decline between 1993 and 1996 means that other offsetting factors were more important in determining recent trends.

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[6]It is also possible that expanded Medicaid eligibility may have increased AFDC participation. As more people come into contact with the social welfare system through Medicaid, they may find that they are eligible for AFDC benefits as well.

[7]This analysis does control for some of the recent changes in Medicaid eligibility that have occured at the national level even though their effects cannot be separately identified from other factors that affect all states in a given year.

DATA AND DESCRIPTIVE STATISTICS

This analysis employs state-level data between the 1976 and 1996 fiscal years. Descriptive statistics for 1993 and 1996 are reported in Table 1, separately for those states with and without approved waivers.[8] Columns 1 and 2 indicate that the share of the population receiving AFDC in "nonwaiver states" fell 0.6 percentage points, from 5.3 to 4.7 percent. The fall in AFDC recipiency was larger in "waiver states"; the share fell 0.8 percentage points, from 5.5 to 4.7 percent in these states.[9] The unemployment rate in the two sets of states is virtually identical in these years, indicating that the larger fall in the welfare rolls in waiver states cannot be attributed to better economic

[8]All AFDC recipients are counted here, including those in two-parent families who receive AFDC-UP. Those in the latter category are probably more responsive to business cycle conditions because constraints facing single-parents, like finding affordable day care for their children while they work, are smaller in two-parent families. Therefore, they are more able to work when jobs are available. Still, AFDC-UP families represent a very small part of the total AFDC caseload and including them in this analysis should have minimal effects on the estimated parameters.

[9]The difference in the average reduction across waiver and nonwaiver states is not statistically significant. The power of this test, however, is very weak in that waiver states may have had a waiver in effect for a very small part of this three year period. In addition, the normal variation across states in the share of the population receiving welfare swamps any variation across the groups of states over time. The regression analysis reported below adjusts for these problems and results from model specifications that mimic this simple "difference-in-difference" test statistic indicate that the reduction in waiver states is significantly larger than that in nonwaiver states.

conditions.[10] Although AFDC benefits are more generous in nonwaiver states, real benefits have declined at roughly the same rate in both sets of states over the time span.

Other factors besides unemployment and benefit generosity may be related to differences in the relative size of the welfare rolls across states. In particular, the categorical nature of the AFDC program that mainly provided benefits to low-income unmarried mothers and their children suggests that the extent of poverty and the share of households headed by women may also matter. Unfortunately, obtaining reliable estimates of these measures by state is hampered by small sample sizes in the main source of household data, the Current Population Survey. Research concerned with trends across states in variables such as these generally rely on Census data that are only available every 10 years.

The lower block of Table 1 presents poverty rates and the share of households headed by women from the 1980 and 1990 Censuses by waiver status in 1996. These statistics can highlight whether any long-term trends across states could influence a statistical analysis of welfare receipt. In both types of states, both measures have been increasing over time, but increases were larger in nonwaiver states. For instance, the share of female-headed households increased by 2.0 and 2.5 percentage points in waiver states and nonwaiver states, respectively. If these differential trends

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[10]This analysis uses the unemployment rate in each state and fiscal year. Because state level unemployment data have only been available since 1976, the 1976 fiscal year unemployment rate is measured just for the last three quarters (January through September) of that fiscal year. Other measures of unemployment may be more appropriate for this analysis. For instance, a measure of unemployment for younger women may better represent the labor market opportunities of potential welfare recipients. This measure may be somewhat endogenous, however, because changes that affect the labor supply of welfare recipients will to some extent, also affect the unemployment rate of younger women. Therefore, one might want to use the prime-age male unemployment rate because it does not suffer from this sort of endogeneity. Unfortunately, neither of these alternative measures is available on a state/year basis.

continued through the 1990s, then one would expect the welfare rolls to fall in waiver states relative to nonwaiver states because a smaller relative share of the population would be categorically eligible for benefits. These trends would bias an analysis of the effects of waivers on welfare receipt towards the finding that waivers matter. Controls for these trends were included in the statistical analysis to help remove this form of bias (as discussed below).

METHODOLOGY

The statistical approach employed in this analysis is designed to estimate the effects of economic conditions and federal waiver policy on the size of the welfare rolls, holding other factors that may affect the rate of welfare receipt constant. To that end, we estimated multivariate models of the natural log of the share of the population receiving welfare in a state/year.[11] Specifically, we estimate OLS regression models of the following form:[12]

$$\ln R_{st} = U_{st}\beta_1 + W_{st}\beta_2 + \ln B_{st}\beta_3 + \gamma_s + \gamma_t + \epsilon_{st} \quad (1)$$

$$\ln R_{st} = U_{st}\beta_1 + W_{st}\beta_2 + \ln B_{st}\beta_3 + \gamma_s + \gamma_t + \text{trend}*\gamma_s + \epsilon_{st} \quad (2)$$

[11]Another measure of welfare receipt that could be used as the dependent variable for this analysis is the number of families, or cases, receiving benefits. Patterns in the welfare caseload over time may differ across states as the number of child only cases has proliferated at differential rates. All of the models reported below have also been estimated using the log of the welfare caseload as the dependent variable and mainly find similar results. The main difference is that JOBS sanctions apparently have a larger effect on recipients than on cases. This is consistent with the fact that many of these waivers only sanction the parent and maintain benefits for the children so that the case remains open even though the number of recipients fell.

[12]These regressions are weighted by the state population in each year to yield parameter estimates that are representative of the entire country.

where R represents the share of the population receiving AFDC, U is the unemployment rate, W is an indicator variable for welfare waiver status, B represents real maximum AFDC benefits in 1996 dollars for a three-person family, s indexes states, t indexes time, γ_s and γ_t represent state and year fixed effects, and ϵ represents a residual. Year fixed effects capture time-varying factors that affect all states in a given year. Such factors may include changes in welfare policy (like OBRA 1981), other changes in policies targeted to low-income individuals (like the Earned Income Tax Credit), or changes in national attitudes regarding welfare receipt that may have been linked to the welfare reform debate.[13] This approach incorporates the contribution of factors like these, although we cannot specifically identify the effects of each one on the rate of welfare receipt. Similarly, state fixed effects control for time invariant differences across states, such as differences in industrial composition that may affect less-skilled workers or attitudes towards welfare recipients.

As shown earlier, it is also possible that changes over time in otherwise unmeasured factors that differ across states, and particularly demographic characteristics like the share of female-headed households, may be occurring. Unfortunately, published data on detailed demographic characteristics such as these are unavailable at the state level each year. Such differences could be fully accounted for by including the interaction of state and year fixed effects, but a model including these interactions is under-identified. As an alternative, we include a state-specific time trend. If the rate of increase in, say, female-headed households in a state is constant, this

[13]Previous studies of the welfare caseload that use national time series data (CBO, 1993) have difficulty controlling for this type of pattern in the data. The results presented in Moffitt (1987) imply that it is important to control for such "structural shifts."

approach will control for these changes and provide an unbiased estimate of the effects of waivers and economic conditions on the welfare rolls.[14] The effects of such changes, however, cannot be separately identified.

Figure 4 presents a comparison of Florida and Georgia that is intended to provide some intuition for the statistical methodology and the manner in which the effects of economic activity are estimated separately from other potential confounding factors. It should not be considered a rigorous test. The figure plots the difference between the two states in the unemployment rate and the share of the population receiving AFDC between 1984 and 1996. Taking the difference between the two states in each year controls for any differences that affect both states simultaneously. Because neither state received a waiver until late in the 1996 fiscal year, the difference in trends through virtually all of this time period are unaffected by differences in waiver provisions or their effectiveness.

Throughout most of the expansion of the middle to late 1980s, unemployment in Georgia had been somewhat higher than in Florida. Over this period, a steady difference in the rate of AFDC recipiency is also apparent. This difference may be attributed to differences in the two states' welfare systems that do not change over time, attitudes towards welfare receipt and the like

[14]If differences across states over time are nonlinear they will not be captured by these trends and, if these differences are correlated with waiver awards, the estimated effect of waivers on the rate of welfare receipt will be biased. Although few candidates for such changes are readily apparent, one possibility may be the growth in income inequality since the late 1970s, documented in the Economic Report of the President (1997). Blank and Card (1993) show that the rate of growth in inequality has not been constant and has varied across regions of the country; if these differences occur across states and are correlated with waiver policies they may introduce a bias in the results reported here. Future research should investigate this possibility in more detail.

that are controlled for in the analysis conducted here. When the 1990-91 recession hit, unemployment in Florida rose considerably relative to that in Georgia, and the difference has been slow to recede. Subsequently, AFDC receipt shows an increase in Florida relative to Georgia. It is important to note that a delay in this response is apparent as Florida's AFDC caseload did not begin to rise relative to Georgia's until 1991 or 1992. This timing of the response in the rate of AFDC receipt to changes in unemployment (and waivers) will be examined more carefully in the empirical analysis below.

RESULTS

Table 2 presents estimates from different statistical specifications based on the regression models represented by equations (1) and (2). In column 1, the model does not include state-specific linear time trends and provides a baseline set of estimates to identify the effect of including these trends. In this model, the unemployment rate is shown to affect significantly the rate of welfare receipt; a one percentage point increase in the unemployment rate increases the rate of welfare receipt by almost 5 percent.[15] States that were granted any major, statewide waiver had almost a 10 percent fall in the share of the population receiving welfare, based on estimates in this model. Finally, benefit generosity is shown to be significantly positively related to AFDC receipt; the share of the population receiving benefits increases by 3.2 percent for every 10 percent increase in maximum monthly benefit payments.

[15]Additional measures of cyclical activity besides the unemployment rate may have a significant effect on welfare receipt. Preliminary estimates using the rate of employment growth within states over time, however, added no additional explanatory power in models that also included lags of the unemployment rate.

Column 2 presents estimates of the same specification except that state-specific linear trends are included. Omitting these trends will introduce bias if they are correlated with the rate of welfare recipiency and any of the other explanatory variables. Estimates presented here indicate that these conditions are present. As illustrated in Table 1, trends in factors like female-headed households and poverty rates across states are correlated with waiver status, and ignoring these trends biases the estimated effect of waivers upwards. The estimated effect of introducing a major, statewide waiver falls from 9.4 percent in column 1 to 5.8 percent in column 2. The estimated responsiveness of welfare receipt to unemployment is also smaller in this specification.

One surprising finding in this specification is that more generous benefits are estimated to reduce the welfare rolls, although this effect is not significantly different from zero.[16] This finding is counterintuitive and is the result of the statistical procedure that has absorbed a significant share of the variability in the data. In a model with state and year fixed effects and state-specific linear trends, the only type of variation that can provide statistical identification are those resulting from sharp changes within a state over time in the respective variables. Changes like this are exactly what are observed in variables like unemployment and, particularly, in indicator variables like those representing waiver status. AFDC benefits generally exhibit little of this sort of behavior; typically benefit increases are small and benefit cuts largely occur as inflation slowly erodes the purchasing power of the benefit. Therefore, with little variation left to identify the effect of changes in AFDC benefits, the estimated effect becomes less robust. This

[16]It is possible that this result is driven by a sort of policy endogeneity where sharp changes cuts in benefit levels occur in response to swelling welfare rolls, providing a negative relationship between these variables. Benefit cuts in California in the early 1990s that occurred as caseloads were rising in that state may be an example of this endogeneity.

becomes clear in the subsequent model specifications reported in this table where an increase in AFDC benefits is estimated to increase welfare receipt, although some of these effects are only marginally statistically significant. In essence, these results indicate that the methodology employed here is not a particularly powerful one to determine the effects of the generosity of AFDC benefits on the level of welfare receipt.

Estimates in column 3 are obtained from a model that includes a one-year lagged measure of the unemployment rate within a state, providing a more flexible specification of the timing of the response in welfare receipt to economic conditions. Lagged unemployment may be related to welfare receipt if, for instance, the onset of a recession leads those low-income workers who lose their jobs to spend some time looking for a new one while drawing down their limited assets before applying for welfare. As a recession ends, these typically less-skilled workers may be the last ones hired. Evidence appears to support this intuition as lagged unemployment is strongly related to the share of the population receiving welfare. To interpret these findings, consider a one percentage point increase in the unemployment rate that lasts for two years. In the second year, the share of the population receiving welfare will be 4 percent larger (because the coefficients on the two unemployment measures are summed). States awarded a major statewide waiver are estimated to experience a 5.2 percent decline in welfare recipiency in this model.

So far, waivers have been aggregated into a simple indicator variable that measures whether any waiver had been approved. Column 4 presents estimates of the effects of each of the six major types of waivers studied in this analysis on the rate of welfare receipt. In this model,

the only type of waiver that significantly affects the extent of welfare receipt is JOBS sanctions.[17] This type of waiver is estimated to reduce the share of the population receiving welfare benefits by almost 10 percent.[18] Disaggregation of the waiver categories did not substantially change the estimated impact of an increase in unemployment.

One potential shortcoming of the model presented in column 4 is that many waivers included several of the different types all at once, limiting the ability of the statistical analysis to separately identify their effects. Column 5 presents estimates of a more parsimonious model that includes whether the state received any major statewide waiver and whether that waiver included JOBS sanctions. In this specification as well, no other type of waiver is shown to have a significant effect on welfare receipt besides JOBS sanctions. Again, the responsiveness of the welfare rolls to the business cycle is relatively unaffected by the changes in waiver specification.

The analysis reported so far has restricted the effect of waivers to be observed no sooner than the time the waiver was approved. This restriction does not allow for the possibility that the waiver application process, the publicity surrounding it, and potential changes in case workers' behavior and attitudes may provide a signal to potential recipients that the environment in which the welfare system operates is about to change. It may lead some individuals contemplating applying for benefits to find other sources of income support, whether from work or elsewhere. This possibility is considered in column 6, where the presence of any statewide waiver and those including a sanction provision are

[17]This finding is consistent with Pavetti and Duke (1995).

[18]Termination time limit waivers are also estimated to reduce the rate of welfare receipt, but the estimated effect is only statistically significant at the 10 percent level.

included in the model at the time the waiver was approved and, in separate variables, a year before the waiver was approved (a "lead").

Estimates of models including leads of the waiver measures are reported in Column 6 of Table 2. The "threat effect" of applying for a waiver does appear to reduce the number of individuals who receive benefits the year before the waiver is approved; the share of the population receiving welfare is estimated to fall by 6.3 percent in that year. In the following year no additional reduction is observed. On the other hand, the effect of waivers that include JOBS sanctions is not observed until the year such a waiver is approved.

One alternative to a causal interpretation of these findings is that those states which implemented waivers were among the ones that experienced the most dramatic run-up in their welfare rolls in the late 1980s and early 1990s. This trend may have inspired the waiver request and mean reversion may be responsible for the subsequent decline in the rate of welfare receipt relative to other states. Tests of this hypothesis, however, indicate that waiver states did not experience a larger than average increase in their welfare rolls between 1989 and 1993. In fact, little relationship across states is apparent between the 1989-1993 increase and the 1993-96 decline.

The results reported in Table 2 can be used to estimate the share of the reduction in welfare receipt between 1993 and 1996 that can be attributed to economic growth and federal welfare waivers granted to states. The product of the estimated parameters for, say, unemployment and its lag and the respective changes in unemployment in each state between 1993 and 1996 provides an estimate of the predicted change in welfare recipiency over the period based solely on changes in unemployment. The ratio of the predicted change to the actual change indicates the share of the

reduction attributed to unemployment. An analogous exercise can be conducted to estimate the extent to which waivers contributed to the decline in the welfare rolls. Other unidentified factors would be responsible for the difference remaining after accounting for these two effects.[19]

Table 3 presents the results of this exercise for several of the statistical specifications reported in Table 2. The results indicate that the decline in unemployment that continued through the economic expansion contributed about 44 percent towards the decline in welfare recipiency in models that included both contemporaneous and lagged unemployment.[20] Waivers accounted for roughly 15 to 20 percent of the decline in models that ignore the potential effects of an impending waiver grant. Once these effects are included (Column 6 of Table 2), estimates indicate that waivers can explain 31 percent of the decline in the share of the population receiving welfare. In this model, other unidentified factors explain an additional 25 percent.

A similar exercise could be conducted for the 1989-1993 period that saw a tremendous increase in the rate of welfare receipt. As discussed earlier, the magnitude of the increase is somewhat surprising given the relatively mild recession in the period. The estimates provided here reinforce the mystery; changes in unemployment can only explain about 30 percent of the rise in

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[19]Simply subtracting the sum of the two effects from 100 only indicates the contribution of other factors if no interaction between changes in unemployment and waiver policy on welfare receipt occurs. It may be the case, for example, that waiver policies are more effective in states with low unemployment rates. Models that incorporated this possibility were also estimated but the results indicated that the interaction between unemployment and waivers was not statistically significantly different from zero at conventional significance levels.

[20]Based on estimates from a model of the duration of welfare spells and permanent changes in labor market conditions, Hoynes (1996) estimates that a typical economic expansion would result in an 8 to 10 percent reduction in the welfare caseload. This estimate is somewhat higher than the findings presented here and the difference is consistent with the fact that the current expansion is ongoing and, therefore, does not represent a permanent change in labor market conditions.

welfare rolls. Waivers were relatively new by 1993 and are found to have very little impact on the share of the population receiving welfare; in fact, they are expected to lead to a small decline. That leaves roughly 70 percent of the rise unexplained by this statistical analysis. Other forces that are more difficult to quantify must have been changing over this period, contributing to the increase.

DISCUSSION

The findings presented in this paper indicate that a robust economy and federal waivers allowing states to experiment with new welfare policies have each made large contributions towards reducing the rate of welfare receipt. The estimates provided here suggest that over 40 percent of the decline in welfare receipt between 1993 and 1996 may be attributed to the falling unemployment rate and almost one-third can be attributed to the waivers. Other factors that are not identified in this analysis are responsible for the remainder.

The methodology employed in this analysis poses two problems in interpreting these results. First, it is possible that the estimated effect of waivers on AFDC receipt may be capturing the tendency for states with shrinking welfare rolls to be the ones most willing to experiment with waiver policies.[21] Another shortcoming of this research is that it cannot determine the outcomes for those individuals who otherwise would have collected benefits had waivers not been granted. Additional research that can determine how individuals fare under the alternative waiver provisions, rather than an aggregate analysis examining the share of the population receiving welfare, is clearly desirable to help address this issue.

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[21]One might expect states with difficulties in holding down their welfare rolls to experiment with approaches to achieve that end. This sort of policy endogeneity would bias the results towards finding a positive relationship between waivers and the rate of welfare receipt.

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DATA APPENDIX: DEFINING AND CODING WELFARE WAIVERS

Most waivers awarded to states include a multitude of provisions that vary in the degree of their implications. Some affect the entire caseload while others affect a very small segment, like those that were introduced in pilot sites, such as a few counties. Some contain generally standard provisions while others are more complicated and require some judgement in categorizing them. In this paper, six major types of waivers that were implemented in most, if not all, of the state are considered. This appendix will provide some background regarding each of these different types of waivers, and how they have been coded for this analysis.

Termination and Work-Requirement Time Limits. Under AFDC, families were entitled to receive benefits as long as they met the eligibility requirements; states could only impose a time limit on the duration of benefit receipt if they were granted a waiver. Several states received such a waiver to implement to two main types of time limits. Termination time limits result in the loss of benefits for the entire family or just for the adult members, depending on the individual state's plan. While most states set a limit of 24 months or so for all recipients, other states had variable time limits. For example, Iowa's plan called for recipients to develop a self-sufficiency plan that included individually-based time limits, and Texas limited benefits to 12, 24, or 36 months depending on the recipient's education and work experience. Illinois provides an example of a state that contained this type of waiver provision but that is not coded as such here because it applied to a small fraction of the recipients (those with no children under age 13).

Work requirement time limit waivers continue to provide benefits to adult recipients who reach the time limit as long as they comply with mandatory work requirements. For example, Massachusetts requires recipients unemployed after 60 days of AFDC receipt to do community service and job search to earn a cash "subsidy." California requires individuals who received AFDC for 22 of the previous 24 months to participate in a community service program for 100 hours per month. New Hampshire alternates 26 weeks each of job search and work-related activities for recipients. West Virginia's plan only requires participation in its work experience program by one parent in two-parent AFDC-UP cases, which are a small share of the total caseload, so it is not coded as a work-requirement time limit.

Some time limit waivers contain more complicated provisions that make them difficult to code. For instance, Delaware requires "employable" adults to participate in a pay-for-performance work experience program after receiving benefits for 24 months; after 24 months of program participation, the family completely loses cash benefits. Time limits with provisions such as this have been coded as containing both termination and work requirement provisions. Washington's plan is a grant-reduction time limit, subtracting 10 percent of the benefit for those who have received benefits for 48 of 60 months, then 10 percent for every 12 months thereafter. Because the time frame before a significant reduction in benefits could occur is so long, no time limit is coded for Washington.

Family Caps. Under AFDC, a family's benefit level depended upon its size, so if a recipient had a baby the grant amount rose. Family cap waivers allowed states to eliminate or reduce the increase in benefits when an additional child was born. A few states, like South Carolina, provide vouchers for goods and services worth up to the amount of the denied benefit increase. Others allow child

support collected for the additional child to be excluded from AFDC income calculation. All family cap waivers except New Jersey's exempt children conceived as a result of rape or incest from the family cap. Several states, such as Wisconsin, Massachusetts and Illinois, specify that a child born or conceived after a family no longer receives AFDC can be denied benefits if the family returns to AFDC.

JOBS Exemptions. The Job Opportunities and Basic Skills Training Program (JOBS), part of the 1988 Family Support Act, provides education, training and work experience activities to AFDC recipients who did not fall into one of the exemption categories. The exemption categories were rather large, however. For instance, parents with children under age 3 were exempt and those with children under age 6 could only be required to participate if the state guaranteed child care. Some states requested a waiver to narrow the exemption criteria. The most commonly requested waiver required parents with young children (sometimes as young as 12 weeks) to participate in JOBS. Other waivers allowed teen parents attending school and people working 30 hours a week to be considered as JOBS participants. Hawaii had a JOBS waiver approved for a pilot site in Oahu, where a large share of the state's population lives, so it was coded as statewide.

JOBS Sanctions. Some states found that the sanctions for non-compliance with JOBS were not strong enough to motivate unwilling participants; they requested and were granted waivers to impose harsher sanctions. Twenty-two of the states were allowed to impose full-family sanctions (such as suspension of the entire family's AFDC grant) after a continued period of non-compliance. Other states requested tougher sanctions imposed upon the recipient only, leaving the children on the

welfare rolls regardless of the parent's behavior. An informal survey of state welfare agencies conducted by the Council of Economic Advisers indicates that the use of sanctions has varied considerably across states. Some states have been very aggressive, sanctioning large numbers of recipients while others have sanctioned few, if any. For example, over the 1996 fiscal year Missouri reported sanctioning an average of 3,100 people per month, including sanctions of different severity levels. Massachusetts terminated benefits for 1,200 families in 1996 for failure to comply with training/work requirements. On the other hand, Georgia sanctioned few recipients in 1996.

Earnings Disregard. Without a waiver, individuals are allowed to keep $30 plus one-third of all additional earnings for the first three months of benefit receipt (the "standard AFDC disregard"). After that almost every dollar of earnings results in a dollar reduction in benefits. Some states received statewide waivers to improve the economic incentives for recipients to work by increasing earned income disregards. The changes ranged from removing the time limit on the standard AFDC disregard to disregarding all earned income up to the poverty line.

Approval Dates of Major Statewide Welfare Waivers in the Bush and Clinton Administrations							
State	Any Major Statewide Waiver	term. time limit	work req. time limit	family cap	JOBS	Earnings Disregard	Sanctions
Alabama							
Alaska							
Arizona	5/22/95	5/22/95		5/22/95			5/22/95
Arkansas	4/5/94			4/5/94			
California	10/29/92, 9/11/95, 8/19/96		9/11/95	8/19/96		10/29/92	
Colorado							
Connecticut	8/29/94, 12/18/95	12/18/95		12/18/95	8/29/94, 12/18/95	8/29/94	8/29/94
Delaware	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95	5/8/95
DC							
Florida	6/26/96			6/26/96	6/26/96		
Georgia	11/1/93, 6/24/94			11/1/93		6/24/94	11/1/93
Hawaii	6/24/94, 8/16/96	8/16/96			6/24/94	8/16/96	
Idaho	8/19/96				8/19/96		8/19/96
Illinois	11/23/93, 9/30/95, 6/26/96			9/30/95	9/30/95	11/23/93	6/26/96
Indiana	12/15/94, 8/16/96	12/15/94		12/15/94	12/15/94		8/16/96
Iowa	8/13/93, 4/11/96	8/13/93			8/13/93, 4/11/96	8/13/93	8/13/93
Kansas							
Kentucky							
Louisiana							
Maine	6/10/96				6/10/96		
Marvland	8/14/95, 8/16/96			8/14/95	8/16/96	8/16/96	8/16/96
Massachusetts	8/4/95		8/4/95	8/4/95	8/4/95	8/4/95	8/4/95
Michigan	8/1/92, 10/6/94		8/1/92		10/6/94	8/1/92	10/6/94
Minnesota							

State	Any Major Statewide Waiver	term. time limit	work req. time limit	family cap	JOBS	Earnings Disregard	Sanctions
Mississippi	9/1/95			9/1/95			
Missouri	4/18/95		4/18/95				4/18/95
Montana	4/18/95		4/18/95			4/18/95	4/18/95
Nebraska	2/27/95	2/27/95		2/27/95	2/27/95	2/27/95	2/27/95
Nevada							
New Hampshire	6/18/96		6/18/96		6/18/96	6/18/96	6/18/96
New Jersey	7/1/92			7/1/92	7/1/92	7/1/92	7/1/92
New Mexico							
New York							
North Carolina	2/5/96	2/5/96		2/5/96	2/5/96		2/5/96
North Dakota							
Ohio	3/13/96	3/13/96				3/13/96	3/13/96
Oklahoma							
Oregon	7/15/92, 3/28/96	3/28/96			7/15/92, 3/28/96		3/28/96
Pennsylvania							
Rhode Island							
South Carolina	5/3/96	5/3/96		5/3/96	5/3/96		5/3/96
South Dakota	3/14/94		3/14/94				3/14/94
Tennessee	7/25/96	7/25/96		7/25/96	7/25/96	7/25/96	7/25/96
Texas	3/22/96	3/22/96			3/22/96		3/22/96
Utah	10/5/92				10/5/92	10/5/92	10/5/92
Vermont	4/12/93		4/12/93		4/12/93	4/12/93	4/12/93
Virginia	7/1/95	7/1/95		7/1/95	7/1/95	7/1/95	7/1/95
Washington	9/29/95						9/29/95
West Virginia	7/31/95						7/31/95
Wisconsin	6/24/94, 8/14/95			6/24/94	8/14/95		8/14/95
Wyoming							

Table 1: State Characteristics Over Time, by Welfare Waiver Status

Characteristic	States without Major Statewide Waiver		States with Major Statewide Waiver	
	Short-Term Changes, 1993-1996			
	(1) 1993	(2) 1996	(3) 1993	(4) 1996
% of population receiving AFDC	5.3	4.7	5.5	4.7
unemployment rate	7.1	5.5	7.1	5.4
max AFDC benefit (3 person family, 1996 dollars)	453	421	420	386
	Long-Term Changes, 1980-1990			
	1980	1990	1980	1990
Poverty Rate	13.1	14.0	12.3	12.9
% of Families Headed by Women	14.5	17.0	13.7	15.7

Table 2: Effect of Economic Activity and Federal Welfare Waivers on Rate of AFDC Recipiency
(coefficients multiplied by 100, standard errors in parentheses)

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)
log of maximum AFDC benefit	32.23 (5.10)	-5.91 (4.80)	7.93 (4.80)	11.03 (4.88)	9.99 (4.82)	8.61 (4.83)
unemployment rate	4.73 (0.35)	3.10 (0.26)	-0.90 (0.43)	-0.86 (0.43)	-0.91 (0.42)	-0.77 (0.42)
lagged unemployment rate			4.97 (0.42)	4.86 (0.42)	4.94 (0.41)	4.79 (0.41)
any statewide welfare waiver	-9.40 (2.26)	-5.78 (1.94)	-5.17 (1.74)		-1.64 (2.05)	2.26 (2.38)
JOBS sanctions				-9.69 (3.00)	-8.35 (2.59)	-6.96 (3.11)
JOBS exemptions				2.64 (3.09)		
termination time limits				-6.37 (3.74)		
work requirement time limits				2.86 (2.83)		
family cap				-0.49 (2.76)		
earnings disregard				0.11 (2.16)		
lead of any statewide waiver						-6.28 (2.21)
lead of JOBS sanction waiver						-1.50 (2.60)
state fixed effects	x	x	x	x	x	x
year fixed effects	x	x	x	x	x	x
state-specific trends		x	x	x	x	x

Note: The dependent variable is the share of the population receiving welfare, measured in natural logs.

Table 3: Percentage of Change in Welfare Recipients
Attributable to Different Factors
(Standard Errors in Parentheses)

	Based on Results in Table 2, Column: (2)	(3)	(5)	(6)
	1993-1996			
change in unemployment	31.3 (2.7)	44.7 (3.2)	44.4 (3.2)	44.1 (3.2)
welfare waiver approval	14.9 (5.0)	13.3 (4.5)	21.8 (6.2)	30.9 (9.2)
other	53.8	42.0	33.8	25.0
	1989-93			
change in unemployment	23.9 (2.0)	30.8 (2.7)	30.5 (2.7)	30.4 (2.7)
other	76.1	69.2	69.5	69.6

Figure 1
Unemployment Rate and Rate of Welfare Receipt

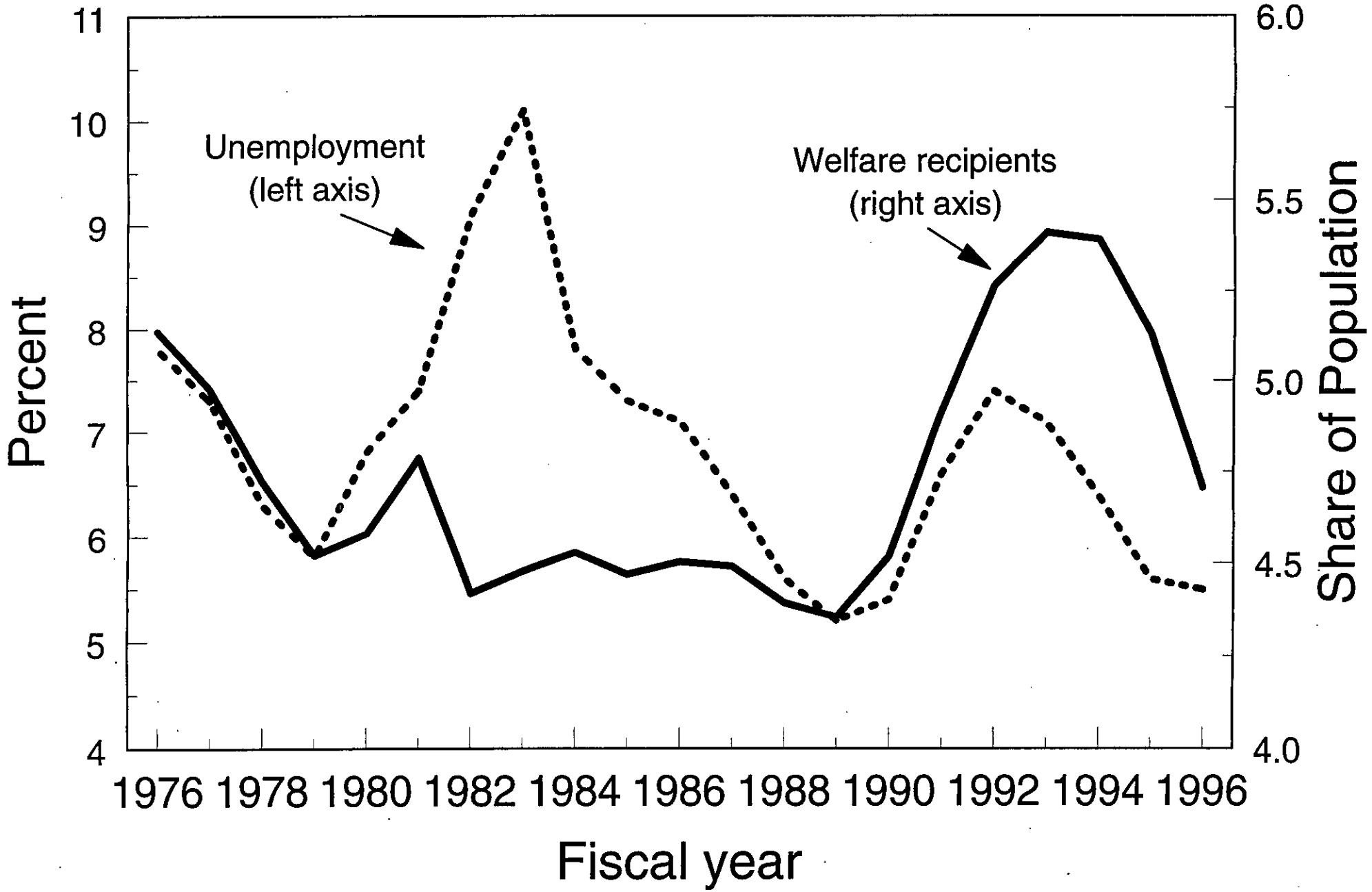
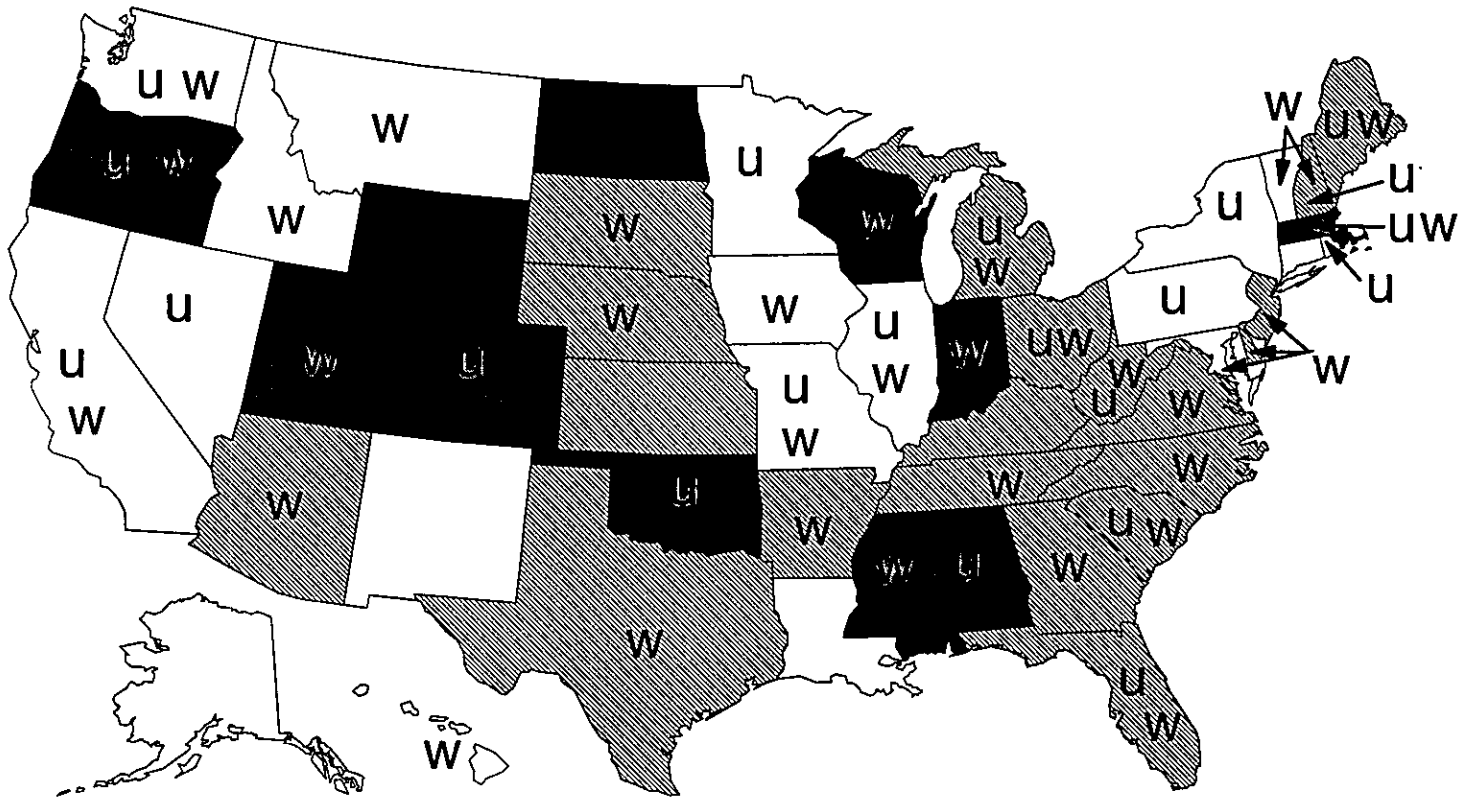


Figure 2
Reduction in Welfare Recipients and Unemployment Rate 1993 to 1996



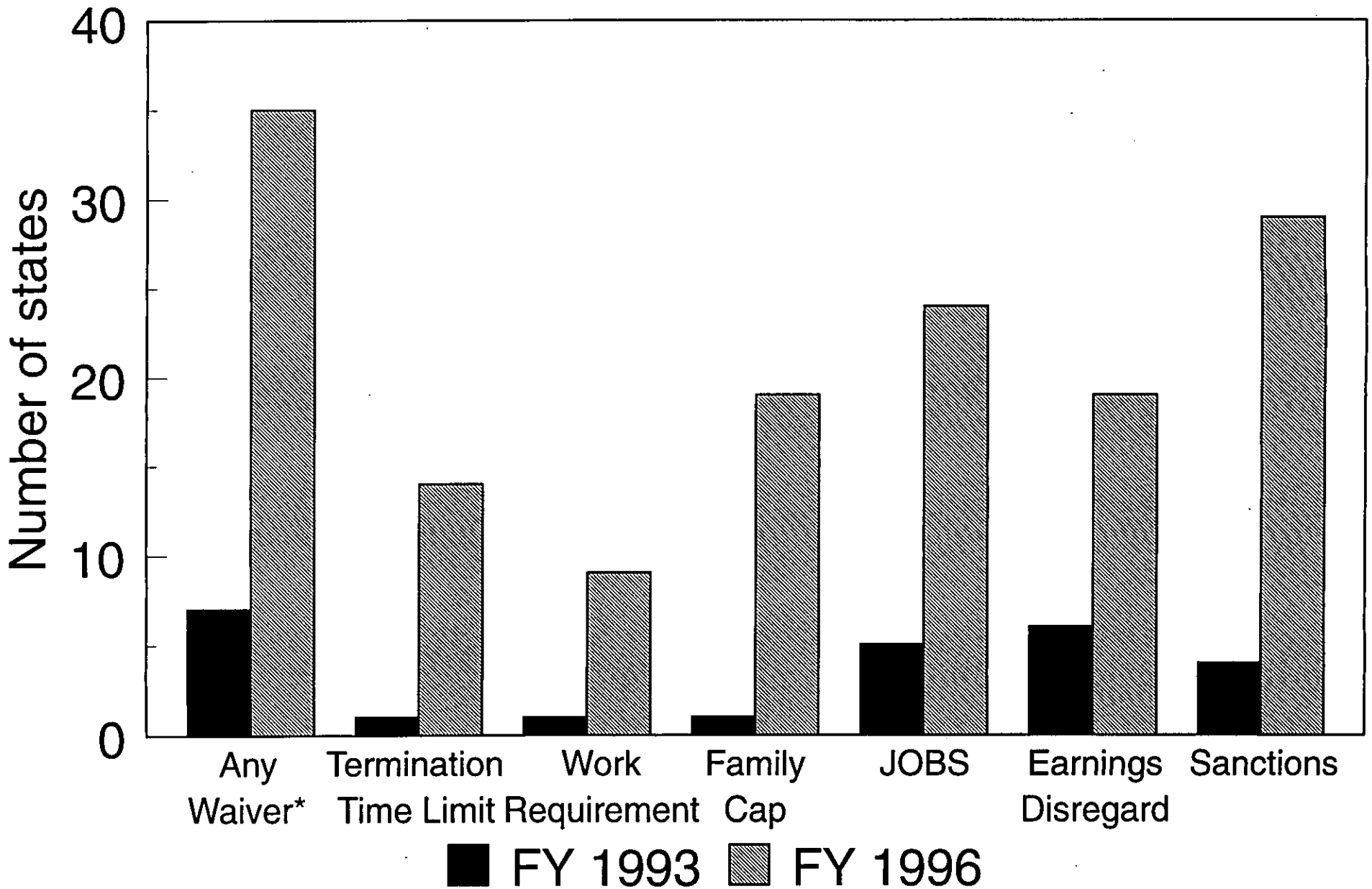
Reduction in welfare recipients (share of population):

- Over 25 percent
- 15 - 25 percent
- Less than 15 percent

u 1.6 percentage points or more reduction in unemployment rate (larger than national average)

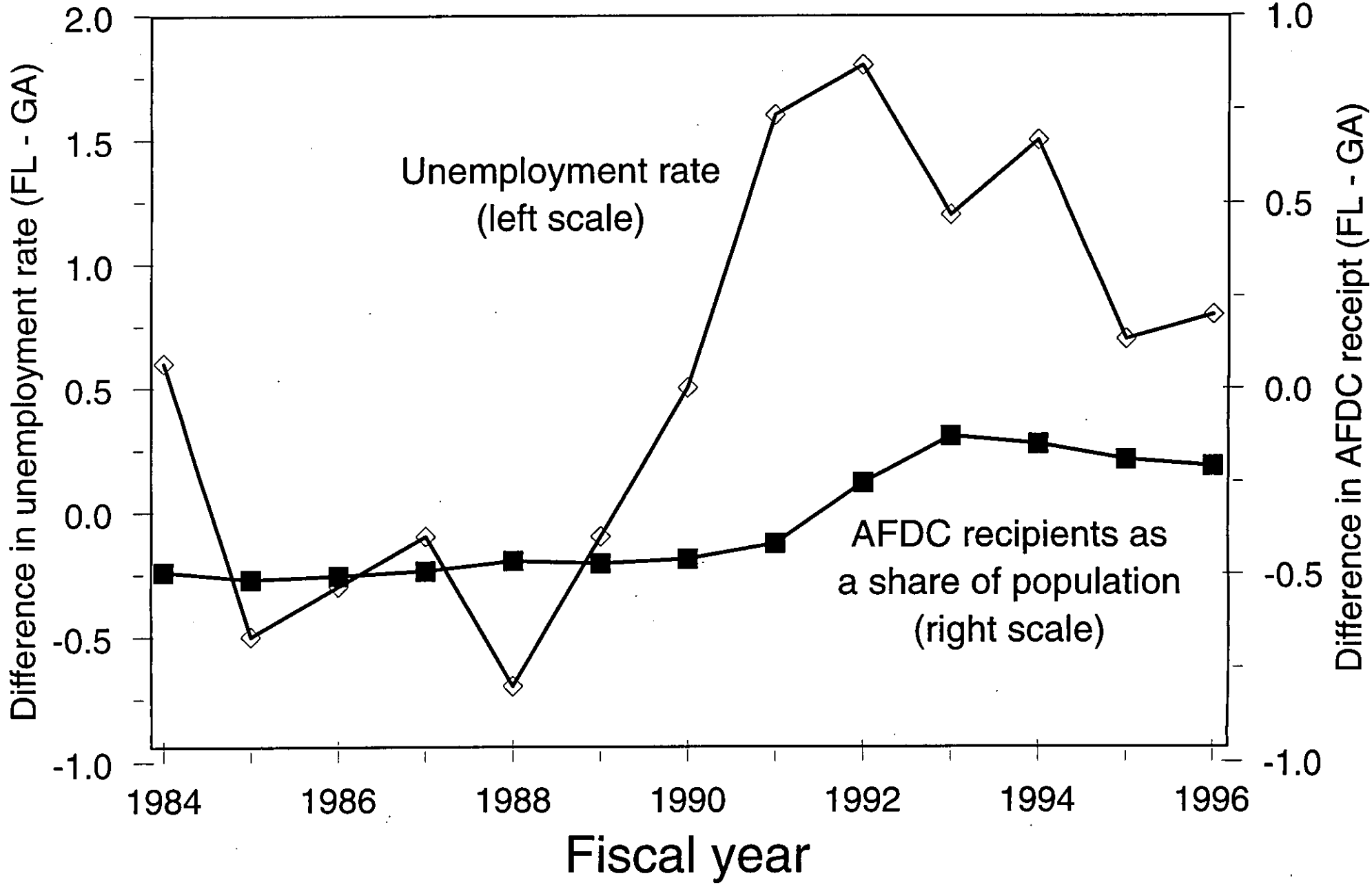
W Major statewide waiver approved

Figure 3
Number of Approved Statewide Waivers



* 43 states have received waivers under the Clinton Administration, but not all are statewide.

Figure 4
A Comparison of Florida and Georgia



WR-CEA White Paper

April 2, 1997

MEMORANDUM FOR: PHIL LEVINE, MICHELE JOLIN

FROM: CYNTHIA RICE (6-2846)

SUBJECT: WHITEPAPER ON WELFARE CASELOADS

CC: BRUCE REED, ELENA KAGAN, LYN HOGAN

We appreciate the opportunity to comment on the draft whitepaper on welfare caseloads. Below are comments, both general and specific. Please let me know if more detailed comments, in the text itself, would be helpful.

Release of Report

Since caseload numbers for January 1997 will soon be available, we would like you to hold the release of the whitepaper so the two can be released together. The January 1997 numbers, which will show the caseload change during the Administration's first four years, will probably generate a fair amount of interest, and it seems to us to make sense to release the explanation of why caseloads have declined along with the latest data.

Model

We believe that the model, as constructed, may exaggerate the effect of the economy relative to policy initiatives. Specifically, the model leaves out certain policy initiatives which may correlate with a good economy or which could help explain some of the "unexplained" 26%. For example, there have been large increases in Earned Income Tax Credit, child support collections, and overall (federal plus state) child care spending since 1993, all of which helped encourage people to leave the welfare rolls.

In general, the paper doesn't explain well why there is a 26% "unexplained" portion. Could the fact that you counted only state-wide waivers have increased the "noise" in the model? We think the paper should discuss some obvious suspects, like public attention to welfare reform because of national and state debates, EITC, child care, etc.

Description

The discussion of "advanced responses" of the waivers (p. 5 and 10) misses an important point -- in order to apply for and obtain a waiver, states had to have a plan endorsed by their legislatures. Thus, a state like New Jersey had already passed a state law calling for the changes before it obtained the necessary waivers. The debate and passage of the new laws usually would get a lot of publicity, and there was little public recognition that the laws would not be implemented until the federal government gave permission. Thus the "advance response" isn't as much of a mystery as you imply. Similarly, the attention to welfare reform given during and immediately after the welfare bill signing seems to in and of itself contributed to a decrease in caseloads.

Also, speculating about the effects of the new law ("Implications for Welfare Reform" section) is outside the scope of the analysis and does not fit comfortably in an Administration document. It should be dropped.

Data Used in Report

Because of the parameters of the analysis, the whitepaper uses some data that is different than those commonly cited by the Administration. For example, the paper examines only 35 statewide waivers, while the Administration has repeatedly cited the fact that it has given waivers to 43 states. Also, the whitepaper uses decline in the percentage of the population on welfare through September 1996, while we are about to release data re: the percentage decline in the caseload through January 1997. I think the paper should refer to the more commonly used statistics at least once to help clarify potential confusion.

Also, rounding is applied inconsistently, making 42% into "almost half" but 32% into "almost a third." 42% seems a lot closer to two-fifth than to one-half. Also, page 5 says "45 percent" of caseload decline can be attributed to economic growth, and "roughly 30 percent" to federal welfare waivers.