

Welfare Reform

1 Institutional Details

- Welfare programs are programs that transfer cash and consumption goods to the poor and destitute.
- The milestones in the U.S. welfare programs are:
 - In 1935, the federal government established Aid to Families with Dependent Children (AFDC) program and Supplemental Security Income (SSI) program under Social Security Act;
 - In 1960s under President Johnson “War on Poverty”, Medicaid was established to provide medical assistance to poor families, which is now the largest assistance program in dollar terms;

- On August 22, 1996, President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which changed the name of the assistance program from AFDC to TANF (Temporary Assistance for Needy Families). PRWORA and subsequent state legislations changes on welfare constitutes what we meant by welfare reforms.

Major welfare programs

- AFDC and TANF:
 - cash program, a *combination of federal and state programs*;
 - states administer AFDC, set the benefit levels and have discretion over rules; federal contribution to the programs varies from 1/2 to 3/4 depending on the per capita income of the state.
 - There are huge state variation in the level of benefits, for example, Alaska's benefits are seven times higher than Mississippi.
 - From 1970 to 1996, total expenditure increased from \$19 billion (in 1996 dollars) to \$22 billion, and total number of beneficiaries increased from 7.4 million to 12.6 million [average benefits per family declined almost by half]

- It is a means-tested program, that is, the benefits are reduced as income rises [this implies that the effective marginal income tax rate could be as high as 100 percent]
- TANF replaced AFDC from 1997. Two major differences from AFDC: first, matching grants are replaced by block grants, a fixed amount of money; second, TANF focused on moving individuals from welfare to work, the use of TANF funds has to be consistent with federal priorities of strong work requirements, time limits to receiving assistance, a reduction in welfare dependency and the encouragement of two-parent families.

- EITC [earned income tax credit] supplements the income of low-income families with children by an amount which depends on their income and number of children. Basically if an eligible family's income is below certain level, the government gives it a negative income tax (tax credit) that could be as high as 40%. The rate varies across states, income and number of dependent children. EITC phases out as income rises. [The total expenditure on EITC grew from \$1.25 billion in 1975 to \$25 billion in 1996]
- Food Stamps: This is a federal program enacted in 1975 with uniform benefit levels. The benefit level depends on income (adjusted, and housing expenditures are deductible).

- Medicaid:

- Enacted in 1966, provides medical assistance to the poor; medical care to disabled, and nursing home care to the aged.
- It is a federal-state matching program: The federal portion is about 50-83% (depending on the state's per capita income);
- The states have considerable discretion in determining eligibility and coverage;
- Recently covers about 36 million low-income individuals, including 18 million children;

- Historically, families receiving benefits under AFDC were eligible for medicaid. Hence eligibility for medicaid is based on a threshold test: those with income above the threshold (essentially the cutoff level of AFDC) are not eligible. This creates a welfare lock: because many employers do not provide medical benefits to low income workers, many of those on welfare find themselves in a dilemma: even if they would like to work, they lose eligibility for medicaid benefits if they accept a job. This is particularly important for those with children requiring medical attention.
- A new program, called Children's Health Insurance Program (CHIP) is created to deal with this issue.

- An interesting question is why welfare reform commands so much attention recently. There are a couple of factors:
 1. It was felt that welfare had created a dependency and there was wide agreement that welfare system has to be reconstructed to help those on welfare get off welfare and be productive in the labor force. Clinton “End welfare as we know it” “A hand up, not a hand out”, “making work pay”.
 2. A misperception: The federal deficit reached record during the first Bush administration. There was a widespread impression that welfare was largely responsible. [In fact, in 1996 total welfare expenditures account for less than 10% of total federal expenditures, and excluding Medicaid they were only 4%)

3. After the passage of PRWORA, the federal government turned a large surplus, and the welfare rolls declined dramatically. [These two phenomena are correlated, but welfare roll decline did not contribute to the federal surplus at all.]

2 Welfare Reform Bill of 1996

- Its official name is Personal Responsibility and Work Opportunity Reconciliation Act of 1996.
- Two main changes:
 1. It replaced the AFDC system in which the federal government paid a fraction of the state expenditure with a block grants of TANF (Temporary Assistance to Needy Families);
 2. It imposed a number of stringent requirements designed to encourage movement from welfare to workfare.

- The three most important features of 1996 welfare reform bill are:
 - Block granting: The federal government gives each state a block grant (which is a fixed amount) in exchange for the state's promise to continue spending on welfare support at least 75% of the amount that they had spent previously on welfare;
 - Time Limits: Federal rules stipulate that federal TANF funds may not be received by a family which includes an adult who has received sixty months of TANF funds previously;
 - * A state may exempt up to 20% of its caseloads from the five year limit based on hardship;
 - * States can choose to support all families beyond five years if they choose;
 - * Many states adopted a shorter two-year welfare eligibility;

- * The hope is that these time limits would not only push people off the welfare rolls, but also that they would discourage people from joining in the first place.
- Workfare: Adults had to engage in some form of work after a maximum of two years of TANF benefits, and to participate, unless the state opted out, in community services after two months (20 hours minimum in 1997-1998, and 30 hours after 2000). This work requirement does not apply to single parents of children under age 6 who can not obtain child care.