

# Labor and Population

Research Brief RAND Program

## A Decade of Welfare Reform What We've Learned About Welfare Usage and Economic Outcomes

The last decade has seen a number of changes in welfare policy, starting with state waivers under the Aid to Families with Dependent Children program and culminating in the Temporary Assistance for Needy Families (TANF) block grant implemented by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. These reforms produced changes in the structure of benefits, introduced time limits, strengthened requirements for mandatory participation in work-related activities, and changed various administrative procedures.

What effect have these reforms had on welfare usage and on the key economic outcomes they were intended to impact? During the past decade, we have seen some dramatic improvements in these outcomes. As of December 2001, welfare usage has fallen to 2.1 million families, less than half of its all-time peak level in 1994; the fraction of welfare recipients participating in welfare-to-work activities or actually working has increased; and—for single mothers—employment rates, earnings, and incomes have risen while poverty has fallen.

However, assuming the reforms caused these improvements ignores other potential causes over the same time period, such as the Earned Income Tax Credit and the robust economy. To get at the actual effect of welfare policies on welfare-related outcomes, RAND Labor and Population program staff have synthesized the current state of knowledge from the growing base of research literature in this area.

### HOW WAS THE SYNTHESIS CONDUCTED?

Conceptually, the synthesis was organized around a two-dimensional matrix, where the rows represent individual welfare policies and the columns represent outcomes of interest. Ideally, the goal would be to fill in each cell of the matrix (each policy–outcome pair), expressing in a common format how each policy affected each outcome based on a review of the research literature. In reality, of course, the

literature does not cover each cell, and the studies included in some of the cells cannot be relied on for policy purposes.

Filling in the matrix itself was not straightforward. The synthesis aimed to answer this question: What is the effect of a given policy (e.g., work-related activity requirements) on a given outcome (e.g., the caseload), *holding all else equal*? If all else were not held equal, confounding influences could yield misleading results. The selected studies employ two research strategies that attempt to deal with such “confounders”: random assignment (34 studies) and econometric methods using observational data (33 studies).

Filling in the cells required more than simply tallying the results. Rather, the findings for each analysis were weighed and the strength of the evidence for each policy–outcome pair was assessed. Using this approach, the synthesis assigned a qualitative summary of the direction of the effect of each policy on each outcome and an indicator of the depth of the knowledge base associated with that effect.

### WHAT DOES THE SYNTHESIS TELL US ABOUT WELFARE USAGE AND ECONOMIC OUTCOMES?

The matrix on the next page shows the effect of various welfare policies and TANF reform as a policy bundle on the outcomes of interest here—welfare use, employment, earnings, income, and poverty. The arrows indicate the direction of effect. Cells with arrows pointing up indicate that the majority of studies show an increase in the outcome; those with arrows pointing down indicate the opposite; and those with arrows pointing both up and down indicate that roughly as many studies show an increase as a decrease. In terms of the shading, which indicates the knowledge base, all shaded cells indicate significant high- or moderate-quality results: Black shading indicates the deepest knowledge base (several high-quality studies, most of which yield similar and significant estimates); dark gray, an intermediate knowledge base; and light gray, a shallow

Policy/policy bundle	Welfare use	Employment	Earnings	Income	Poverty
Mandatory work-related activities	↓	↑	↑	↕	↓
Sanctions for noncompliance	↓				
Financial work incentives	↑	↑	*	↑	↓
Strong financial work incentives + mandatory work-related activities	↑	↑	↑	↑	↓
Weak financial work incentives + mandatory work-related activities	↓	↑	↑	↑	
Time limits (before limits are binding)	↓	↑	*	*	
Time limits (after limits are binding)	↓	↕	*	*	
Reform as a bundle	↓	↑	↑	↑	↓

  

Deep	Shallow	Insufficient evidence to assign direction with minimum confidence
Intermediate	No studies	

knowledge base (a single high-quality study or two moderate-quality studies with significant estimates). Cells marked with an asterisk indicate studies where evidence was insufficient to assign a direction of impact with a minimum level of confidence. Blank cells indicate no studies.

As to the effects of various policies on economic outcomes, almost all the econometric and experimental studies of the caseload indicate that mandated work activities, sanctions, and time-limit policies reduce welfare use. However, programs having generous financial work incentives—which allow recipients to keep more of their cash grant as their earnings rise—increase welfare use, whether implemented alone or with work mandates (although the opposite is true for weaker work incentives). Most studies indicate that welfare reform as a whole can explain a substantial part of the decline in the caseload since 1994.

Most of the reforms introduced in the 1990s had positive effects on employment and earnings. Thus, it seems likely that welfare reform is responsible for a portion of the increase in work and earnings among single mothers during the past decade. Nearly all the evidence, from both experimental and econometric studies, points in this direction.

Some welfare reform components can raise incomes and reduce poverty, although this result is not associated with all policy components. In fact, there is reason to believe that some of the initially favorable effects will not

persist over time. Generous financial work incentives—allowing working recipients within the welfare system to keep more of their earnings or providing earnings supplements outside the welfare system—generate the strongest income gains and anti-poverty effects. However, even these very generous programs only increase income a modest amount, and the incentives evaluated in the experimental studies are far more generous than most state TANF plans. The favorable impacts of reform as a whole on income and poverty, which essentially capture effects before most recipients reach time limits, may diminish as more recipients exhaust their benefits.

The row in the figure that shows strong financial work incentives combined with mandatory work-related activities raises an interesting point. It shows it is possible to require work and raise income (and more substantially reduce poverty) at the same time. The key is to combine a work requirement with a strong financial work incentive, so that earnings rise more rapidly than benefits fall. But the price for raising incomes is higher welfare use, which reveals a central trade-off facing welfare reform efforts.

## IMPLICATIONS

The last finding reveals one of the more significant implications of the synthesis effort: the importance of understanding the effects of both individual TANF policies and TANF reform as a bundle. Policymakers clearly need to understand that individual reform policies can work against each other, potentially requiring them to make trade-offs based on what outcomes they wish to achieve.

The focus on individual policies also reveals the gaps in our knowledge base. While there is a fairly substantial knowledge base about the effects of welfare reform policies on economic outcomes, the exceptions are sanctions and time limits, both of which have significant implications for economic outcomes.

Finally, although a substantial knowledge base does exist for economic outcomes, conclusions that can be drawn from that knowledge base apply mostly to the short run, with most studies providing evidence from follow-up periods of roughly two to three years. More long-run information on the effects of current policies is crucial. Current long-run studies should be continued and, where possible, extended.

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*RAND research briefs summarize research that has been more fully documented elsewhere. This research brief describes work conducted in RAND's Labor and Population Program; it is documented in Consequences of Welfare Reform: A Research Synthesis by Jeffrey Grogger, Lynn A. Karoly, and Jacob A. Klerman, DRU-2676-DHHS, 2002, available online at [http://www.rand.org/labor/TANF\\_synthesis/](http://www.rand.org/labor/TANF_synthesis/).*

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