3. The Caseload

Welfare programs exist to provide a minimal level of support for children. Among the changes brought about by welfare reform was the addition of a complementary goal of “reducing dependency,” i.e., cutting the caseload. The relative importance of these two goals—providing a minimal level of support to poor children and reducing dependency—is a matter of considerable debate, to which we return at the end of this section.

Regardless of the relative weight attached to these goals, the level and composition of the caseload are key indicators of outcomes under CalWORKs, and they provide important insights into the effects of CalWORKs’ policies and programs. Beyond being a key measure of dependency, the size and composition of the caseload drive total aid payments and the staffing levels needed to administer the grant and provide WTW services.

This section describes trends in the caseload. We first describe the overall trends (in the aggregate) and then disaggregate them for several different subgroups. The path of California’s caseload decline is then compared with that in other states. The section concludes with a preliminary discussion of the evidence on the causes of the trends. We examine the factors identified in the model in Section 1 in explaining the caseload results in California and in explaining those results in relation to the rest of the nation.¹

Overview of Descriptive Findings

The basic story is straightforward and therefore central to the evolution of the CalWORKs program. Since a peak in March of 1995, the caseload has fallen approximately 1 percent per month; as of late 2000, it had fallen to a level nearly half its peak. This decline is unprecedented and broad-based. In addition, when we adjust the caseload decline to account for changes in population, we find that the decline in the per-capita caseload was even larger than the gross caseload decline, and when we account for composition shifts in the population, the composition-adjusted decline is larger still.

¹We defer until the second report detailed consideration of the differential caseload decline in California’s counties.
However, in comparison with other states, the decline in California is smaller than the average decline in the rest of the nation and much smaller than that in some other states. Although there are various ways to make the comparison, the basic story is invariant. First, California’s caseload peaked a year later than that in the rest of the nation. Second, California’s increase to its peak caseload was much larger than that of the rest of the nation. Third, California’s caseload decline was much smaller than the decline in the rest of the nation. Fourth, the decline was not homogeneous. Finally, California’s population growth was slightly larger than the percentage increase for the nation, accounting in part for its slower decrease in caseload.

Caseload Trends in California

As mentioned above. We take both an aggregated and a disaggregated view of the caseload trends in California. Here, we break the aggregate view into two parts, looking first at the overall picture from March 1990 to March 2000, then breaking the overall picture down into a series of subperiods.

Aggregate Statewide Trends

The recent history of the caseload in California can be divided into two phases, starting in about March 1995. As Figure 3.1 shows, the caseload increased sharply, starting in about 1990 and peaking in March 1995. In March 1990, the caseload stood at about 656,544. Exactly five years later, it stood at 932,345, an increase of 42 percent.2

After March 1995, this pattern reverses. Exactly five years later in March 2000, the caseload stood at about 567,549, a decline of 39 percent. Furthermore, the caseload decline has continued, and in October 2000, it stood at 529,248, for a decline from the peak of 43.2 percent. The pace of the decline has slowed slightly

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2We adopt these March dates for convenience and the five-year intervals for symmetry. Choosing the same calendar month in different years provides a rough correction for the seasonal patterns in the time series.

The data in this discussion are from the CA 237 form and refer to “Cases receiving cash grant ($10 more)” during the calendar month. These CA 237 data are based on the official county reports to the state and are used by the state in compiling some of its filings to the federal government. CA 237 contains only aggregate data, so longitudinal analyses are not possible. Thus, CA 237 data can only be disaggregated by month, county, program (see below), and adults versus children. Furthermore, the coding of the program changes through time.

To complement these CA 237-based estimates, we also provide tabulations from the individual-level data in the MEDS file that identify individuals and cases. However, they are not the source of the official caseload statistics and there are some divergences (mostly small) between the official counts from CA 237 and the MEDS file.
to about 10 percent per year, down from the peak year-over-year decline of 14 percent between February 1997 and February 1998.

Table 3.1 indicates the timing of the decline. The available data are divided into seven periods that we will use throughout this part of the analysis. Here, we summarize the status of CalWORKs programs during the periods and the magnitude of the decline. In the discussion of causation later in this section, we relate the timing of the decline to the timing of the roll-out of the components of the CalWORKs program and consider the implications of the timing of the two sequences of events for the likely effect of the CalWORKs reforms on the caseload decline.

The first period covers the five years from March 1990 to March 1995. The caseload increased 42.0 percent during this period, an annual rate of 7.0 percent.

The second period covers the interval from March 1995 to the passage of federal welfare reform (PRWORA) in August 1996; however, to align the caseload changes with SFYs, we have set the break in the periods to July 1996. Over this interval, the caseload dropped 5.4 points, a 4.0 percent decline per year.
Table 3.1
Percentage Change in the Caseload, Statewide by Subperiod

<table>
<thead>
<tr>
<th>Date</th>
<th>Label</th>
<th>Cases</th>
<th>% Change from Peak</th>
<th>% Change Over Period</th>
<th>Annualized % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/90</td>
<td>Pre-reform baseline (5 years pre-peak)</td>
<td>656,544</td>
<td>29.6</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>3/95</td>
<td>Caseload peak</td>
<td>932,345</td>
<td>0.0</td>
<td>42.0</td>
<td>7.0</td>
</tr>
<tr>
<td>7/96</td>
<td>Passage of PRWORA (8/97)</td>
<td>882,164</td>
<td>-5.4</td>
<td>-5.4</td>
<td>-4.0</td>
</tr>
<tr>
<td>7/97</td>
<td>Passage of CalWORKs (8/99)</td>
<td>776,022</td>
<td>-16.8</td>
<td>-12.0</td>
<td>-12.0</td>
</tr>
<tr>
<td>7/98</td>
<td>End of first year of CalWORKs</td>
<td>675,540</td>
<td>-27.5</td>
<td>-12.9</td>
<td>-12.9</td>
</tr>
<tr>
<td>7/99</td>
<td>End of second year of CalWORKs</td>
<td>606,533</td>
<td>-34.9</td>
<td>-10.2</td>
<td>-10.2</td>
</tr>
<tr>
<td>7/00</td>
<td>End of third year of CalWORKs</td>
<td>545,647</td>
<td>-41.5</td>
<td>-10.0</td>
<td>-10.0</td>
</tr>
<tr>
<td>10/00</td>
<td>Most recent available data</td>
<td>529,248</td>
<td>-43.2</td>
<td>-3.0</td>
<td>-11.5</td>
</tr>
</tbody>
</table>

NOTE: Except for the first two rows, the dates are chosen to align with SFYs (i.e., July–June). Labels are approximate. Percentage changes are from each date to the next. Annualized change is the annualized percentage change in the caseload. Annualizing corrects for the different lengths of the first two periods.

The third period covers the next year, July 1996 to July 1997. This is approximately the interval between the passage of PRWORA and the passage of welfare reform in California (CalWORKs) in August 1997. During this interval, there was considerable publicity about the changing welfare system, but no new regulations went into effect in California, funding levels did not change significantly, and new CalWORKs programs were still a year or more away. Over this year, the caseload dropped to 16.8 percent below its peak, a 12.0 percent rate of decline per year.

The fourth period covers the first year of CalWORKs, July 1997 to July 1998. During this interval, there was more publicity about the changing welfare system, and some of the policy changes—the new benefit structure and time limits—went into effect. For CWDs, this was primarily a period of strategic planning and capacity building, although some counties and caseworkers began to aggressively inform recipients that the old world of time-unlimited welfare had ended. However, our fieldwork for the process analysis (e.g., Zellman et al., 1999a,b; Klerman et al., 2000) suggests that county WTW programs did not change much. Toward the end of the period, counties started to call recipients into welfare offices to “enroll” them in CalWORKs, but most enrollment appears to have happened toward the end of calendar year 1998 (up against the statutory
deadline of December 31, 1998), i.e., in the second year of CalWORKs. Over this year, the caseload dropped to 27.5 percent below its peak, a 12.9 percent rate of decline per year.

The fifth period covers the second year of CalWORKs, July 1998 to July 1999. During this interval, recipients started to interact with the changing WTW system. They were enrolled, and this enrollment often involved a face-to-face meeting with a caseworker in which the new rules and the new expectations were conveyed. In most counties, this process was completed by about the statutory deadline (December 31, 1998), but only through a surge of enrollments late in the calendar year (including some by mail, rather than in person).

After recipients completed enrollment, they were assigned to Job Club as slots became available. In most counties, Job Club began in volume around the beginning of the fiscal year (i.e., July 1998), and approximately a year was required to handle the backlog of existing cases. Counties report high job-finding rates among those who participated in Job Club. They also report high noncompliance rates. After encouraging participation through intensive casework, counties turned to the formal noncompliance process and, as necessary, sanctions. Initial no-shows who later participated contributed to the continuing Job Club surge at least through the end of the fiscal year (i.e., July 1999) (Zellman et al., 1999a,b; Klerman et al., 2000). Toward the end of the period, counties began to move recipients who had not found jobs into assessment and then post-assessment activities. Over the year, the caseload dropped to 34.9 percent below its peak, a 10.2 percent rate of decline per year.

The sixth period covers the third year of CalWORKs, July 1999 to July 2000. During this interval, county WTW programs moved into steady-state operation. Most of the backlog of existing cases had gone through Job Club. During this period, they moved through assessment and into post-assessment WTW activities. New cases were processed. New staff and contractors were coming on-line, providing more intensive case management and specialized services. CWD expenditures were rising rapidly. Counties moved to refine and improve their operations and processes. During this year, the caseload dropped to 41.5 percent below its peak, a 10.0 percent rate of decline per year.

The final period includes the most recent months for which we have data. The caseload decline continued through the early months of SFY 2000–2001 at an annualized rate of 11.5 percent. At least up to this point, there is little evidence of a slowing of the rate of caseload decline.
Disaggregated Trends by Subgroups

How different is the story when we disaggregate the overall statewide trends into subgroups, in this case by regions of the state, by program type, by race/ethnicity, and by urbanicity?

Regions of the State. The magnitude of the decline varies across the regions of the state and individual counties. Figure 3.2 shows the decline for the five regions—Northern California, Coastal/Bay Area, Central Valley, Southern California (less Los Angeles County), and Los Angeles County. Table 3.2 presents detailed results for each of the regions. Appendix E provides the full results for each of the 58 counties.

In the five years preceding the caseload peak, the caseload increased fastest—by over 50 percent—in Los Angeles County and the rest of Southern California (50.4 percent and 54.6 percent, respectively). The increase was smaller in the Central
Table 3.2
Caseload Decline by Region

<table>
<thead>
<tr>
<th>Region/County</th>
<th>Caseload, September 2000</th>
<th>Change (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>From Peak</td>
</tr>
<tr>
<td></td>
<td>3/90- 3/95</td>
<td>3/95- 7/96</td>
</tr>
<tr>
<td></td>
<td>7/97- 7/98</td>
<td>7/98- 7/99</td>
</tr>
<tr>
<td></td>
<td>7/99- 7/00</td>
<td>7/00- 9/00</td>
</tr>
<tr>
<td>Statewide</td>
<td>537,908 100.0</td>
<td>42.0 -5.4</td>
</tr>
<tr>
<td>Northern California</td>
<td>22,629 4.2</td>
<td>18.7 -4.2</td>
</tr>
<tr>
<td>Central Valley</td>
<td>122,051 22.7</td>
<td>31.0 -4.3</td>
</tr>
<tr>
<td>Coastal/Bay Area</td>
<td>62,096 11.5</td>
<td>30.3 -9.3</td>
</tr>
<tr>
<td>Southern California</td>
<td>118,665 22.1</td>
<td>54.6 -6.4</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>212,467 39.5</td>
<td>50.4 -3.8</td>
</tr>
</tbody>
</table>

SOURCE: County CA 237 submissions.

Valley and the Bay Area, less than one-third (31.0 percent and 30.3 percent, respectively); and smallest in the Northern part of the state (18.7 percent).

The patterns have been quite different since the peak (rightmost column in Table 3.2). The declines in the Bay Area and Southern California are larger (55.5 percent and 49.6 percent, respectively) than the statewide decline (42.3 percent), and Los Angeles County has a significantly smaller decline (33.3 percent).

These patterns have been relatively stable. In almost every subperiod, the declines in the Coastal/Bay Area and Southern California regions have been well above the state average, and the declines in Los Angeles County have been well below. If anything, the declines in Los Angeles County are diverging even more (i.e., they are smaller relative to the rest of the state) in the later period (July 1998–July 1999, 7.4 percent versus 10.2 percent; July 1999–July 2000, 5.6 percent versus 10.0 percent).

Program Type. Under AFDC (and until October 1999), California’s caseload was officially broken down into two parts, family group (FG) and unemployed parent (UP). Under CalWORKs (since October 1999), the caseload has been officially broken down into three parts: all other families (one-parent), two-parent families, and zero-parent families (child only). Some of the new child-only group had formerly been FG and some had formerly been UP. As of October 2000, one-parent families made up about 60 percent of the caseload (319,574...
cases), two-parent families made up 11 percent (57,394), and child-only cases made up 29 percent (152,280).

The change in the official definitions obscures some of the time trends. From the individual-level MEDS data, we have created a consistent-through-time classification based on the number of adults in a case.\(^5\) Table 3.3 presents the rates of change in the caseload by number of adults, as well as by race/ethnicity and urbanization. Each categorization is discussed below.

In the five years before the peak, caseload growth was not concentrated in the one-parent group, which represents most of the cases. The increase in this group, while substantial (31.3 percent), was considerably smaller than that of the caseload as a whole. The difference is the much faster caseload growth of zero-adult households (51.2 percent) and two-parent households (68.3 percent). This pattern is consistent with nationwide trends (see, e.g., Blank, 2001).

| Table 3.3 |
| Caseload Change by Subgroup (percentage) |
| % Change |

| From Peak |
| Statewide | 46.1 | -2.0 | -9.3 | -11.5 | -11.2 | -10.5 | -38.7 |
| Number of adults |
| None | 51.2 | 0.4 | -3.0 | -0.3 | 3.3 | 1.7 | -3.7 |
| 1 | 31.3 | -2.5 | -11.0 | -15.9 | -19.0 | -16.3 | -51.3 |
| 2 or more | 68.3 | -4.9 | -16.1 | -20.3 | -20.7 | -19.2 | -60.4 |
| Race/ethnicity |
| White | 19.8 | -3.2 | -9.0 | -13.0 | -16.2 | -9.8 | -43.8 |
| Black | 14.9 | -2.5 | -6.4 | -7.7 | -8.6 | -11.5 | -33.1 |
| Latino | 91.5 | 0.2 | -10.9 | -12.1 | -8.9 | -9.7 | -36.4 |
| Other | 27.9 | -6.0 | -8.5 | -11.6 | -10.3 | -13.8 | -42.9 |
| Urbanization |
| Rural | 41.3 | -4.4 | -11.3 | -12.2 | -10.0 | -10.1 | -40.8 |
| Mixed | 35.5 | -6.0 | -12.4 | -13.6 | -10.7 | -12.9 | -45.7 |
| Urban | 37.9 | -7.5 | -14.4 | -15.6 | -13.9 | -14.4 | -51.7 |
| L.A. County | 50.4 | -3.8 | -10.3 | -11.0 | -7.4 | -5.6 | -33.3 |

SOURCE: RAND tabulations from the MEDS micro-data file.

NOTE: The MEDS data come from a different data system than the official CA 237 caseload figures, so these figures do not align exactly with the official CA 237 caseload figures (e.g., for L.A. County).

\(^5\)See Appendix C for details.
The patterns in the decline since the peak are quite different. Since March 1995, the caseload decline is largest for two-parent cases (60.4 percent versus 38.7 percent). The one-parent decline is only slightly smaller than the two-parent decline (51.3 percent), and the zero-parent caseload has barely declined at all (3.7 percent). Finally, this pattern of largest declines for two-parent families and smallest declines for zero-parent families is consistent across each of the subperiods.

**Race/Ethnicity.** There is also some divergence by race/ethnicity, as shown in Table 3.3. From March 1990 to March 1995, the caseload increase was smallest for blacks and whites (14.9 percent and 19.8 percent, respectively), larger for other (primarily Asians, 27.9 percent), and largest (and much larger) for Latinos (91.5 percent). For the decline from March 1995 to October 2000, the differences are small: largest for whites (43.8 percent), followed by Asians (42.9 percent), Latinos (36.4 percent), and blacks (33.1 percent).

Relative to the differences in the caseload decline in the pre-peak period, the differences in later periods across groups are small and the patterns are not consistent across subperiods. In particular, for SFY 1999–2000, caseload declines for whites, which had been above the statewide average, are below the statewide average, while those for blacks, which had been below the statewide average, are now above it.

**Urbanization.** Compared to the striking variation by region, program, and race/ethnicity, the variation by degree of urbanization is small.6 We have already noted that the increase in the caseload was largest for Los Angeles County (50.4 percent, according to the MEDS data used for these tabulations). The other groupings are in a narrow band, with the largest increase in the rural counties (41.3 percent), the smallest increase in the mixed counties (35.5 percent), and intermediate increases in the other urban counties (i.e., excluding Los Angeles County, which has about one-third of the state’s caseload, 37.9 percent).

The patterns are similar since the peak. Excluding the decline in Los Angeles County (where the decline is 33.3 percent), the decline is smallest in the rural counties (40.8 percent), largest in the urban counties (51.7 percent), and intermediate in the mixed counties (45.7). Furthermore, these rankings are relatively stable. The decline is always largest in the urban counties (excluding Los Angeles County), and, as noted earlier, smallest in Los Angeles County.

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6See Appendix C for the classification of the counties by urbanization.
The Effects of Changes in Population and Composition on California’s Caseload

So far, this discussion has focused on the total caseload, which drives program costs. However, to understand the causes of changes in the caseload, it is useful to consider also the per-capita caseload and the composition-adjusted per-capita caseload. Increases in the state population alone will drive up the caseload, even if the probability that an individual is on welfare remains constant. Similarly, changes in the composition of the population could increase the caseload, even if the probability that an individual with given characteristics is on welfare remained unchanged.

California’s population increased over this period, especially later in the period. If recipiency rates had remained constant, then the 6 percent increase in the state’s population between calendar year 1995 and calendar year 2000 would have been expected to yield a 6 percent increase in the caseload. Put differently, the per-capita decline in the caseload was even larger than the gross caseload decline, 45 percent versus 39 percent.

Not only has the state’s total population grown, the composition of the population has shifted toward groups that are more likely to receive welfare. California has seen a large growth in the fraction of its population composed of young Hispanics. Younger women are more likely to have children, and Hispanics, having less education and poorer labor-market opportunities, are more likely to need welfare. If rates had remained constant, this composition shift would have yielded a further 3 percent increase in the caseload. Put differently, the decline in the composition-adjusted caseload was 48 percent (rather than the gross decline of 39 percent or the per-capita decline of 45 percent). Thus, rather than explaining the caseload decline, changes in the size and composition of the population further increase its magnitude.

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7These estimates are calculated using the RAND 1 percent MEDS microdata file and population data from the California Department of Finance to calculate welfare recipiency rates. The rates are calculated by race (4 groups—white, black, Latino, other), age (10 groups—ages 0-49 grouped in five-year increments), gender, county, and year.

In this analysis, we hold welfare recipiency rates constant at 2000 levels and examine the impact of population. To test the robustness of our estimates, we performed the same analysis holding recipiency rates constant at 1995 levels. The results are quite similar, suggesting that population changes would have led to an 8 percent increase in caseloads, with composition shifts accounting for one-fourth of the growth.
California’s Caseload Trends Relative to the Rest of the Nation

In this subsection, we compare California’s caseload decline to that in the nation as a whole. Figure 3.3 shows the national caseload decline and the decline in California.

Table 3.4 presents several calculations of the relative caseload decline, using the official federal statistics adjusted for establishment of an SSP for two-parent families in California and other states. It compares California against the nation and against the nation less California. It considers the change relative to the peak in California, in the nation, and in the nation less California.

The basic story is invariant with the series used. First, California’s caseload peaked a year later than the caseload in the rest of the nation: March 1995 in California versus March 1994 for the rest of the nation.

Figure 3.3—Caseload Decline: California versus the Rest of the Nation

SOURCE: State filings to U.S. DHHS-ACF.
Table 3.4
Caseload Decline by Period: U.S., California, U.S. Less California

<table>
<thead>
<tr>
<th></th>
<th>Caseload Total (in millions)</th>
<th>% Change from Baseline to Peak</th>
<th>% Change from Peak to Recent</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/90 baseline</td>
<td>3.94</td>
<td>3.29</td>
<td>0.66</td>
</tr>
<tr>
<td>3/95 CA peak</td>
<td>4.88</td>
<td>3.95</td>
<td>0.93</td>
</tr>
<tr>
<td>12/99 recent</td>
<td>2.24</td>
<td>1.67</td>
<td>0.57</td>
</tr>
</tbody>
</table>


NOTE: Caseload estimates for CA add back in California’s two-parent caseload and an approximation to the two-parent caseloads of other states with SSPs (which is not included in official federal TANF figures because cases in SSPs are not federal TANF cases).

Second, California’s caseload increase from March 1990 to the peak—however defined—was much larger than that of the rest of the nation. As we have noted, California’s increase to its peak was 42 percent (see the middle panel, third column, fourth row). In the rest of the nation, the increase from March 1990 to the national peak in March 1994 was only 25 percent, a difference of 17 percentage points.

Third, California’s caseload decline—according to any of the three datings of the caseload peak—was much smaller than the decline in the rest of the nation. The magnitude of the difference depends on where the decline is measured from. The divergence between California and the nation is smallest when measured from California’s caseload peak—39 percent in California versus 58 percent in the rest of the nation, or 19 percentage points. If the decline is measured relative to the caseload peak in the rest of the nation, California’s decline is smaller (38 percent vs. 39 percent) and the national decline is larger (59 percent versus 58 percent), so the difference is even larger—21 percentage points.

Fourth, it is important to note that the decline was not homogeneous in the rest of the nation. The average decline masks considerable variation. DHHS-ACF has tabulated the caseload decline from January 1993 to June 2000, deriving a federal caseload decline for California of 42 percent. The state with the second largest caseload, New York, also had a decline of 42 percent. Only six states had smaller declines.

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8 Note that these are not the ALF-202 caseload figures used to compute the caseload reduction credit (discussed in Section 2). Those caseload figures add back in the SSP cases.
However, this comparison overstates the total caseload decline in California. The published DHHS caseload counts consider only the federal caseload. Thus, they reflect the removal of two-parent cases in states (including California) that established SSPs for two-parent cases near the end of this period. Adding the two-parent caseload back in brings the state’s caseload decline over this period (January 1993 to June 2000) to about 34 percent. Only three states had smaller declines, and several states had much larger declines.

Finally, the percentage increase in California’s population was slightly larger than that for the nation. Thus, about 4 percentage points of the slower decrease in the caseload in California results from the state’s faster population growth. However, a large differential remains.

Possible Explanations for the Descriptive Findings

This review of caseload trends suggests two complementary sets of questions. The first set includes the following: Why did California’s caseload decline? In particular, what was the role of CalWORKs in the caseload decline? Of state-level policies? Of CWD programs?

The second set includes the following: Why was California’s caseload decline smaller than the decline in the rest of the nation? Why did California’s caseload decline begin later? In particular, what was the role of differences in policies and programs between CalWORKs and other TANF programs in the differential caseload decline?

In this subsection, we use the model and factors described in Section 1 (Figure 1.1) to identify possible answers to these two sets of questions.

What Might Explain the Magnitude and Timing of the Caseload Decline in California?

California’s caseload decline is driven mostly by the economy, some by pre-CalWORKs reforms, some by other policies, and some by county CalWORKs programs.

The Effect of the Economy. The economy is a natural candidate for explaining much of the caseload decline. Few would argue that the increase in the caseload in the early 1990s was the result of a massive collapse of casework or policies that became more generous. It seems likely that much of the caseload increase was the result of the worsening economy during that period. This inference is supported by the simple co-movement of the unemployment rate (as a proxy for
economic conditions) and the economy, plotted in Figure 3.4. Like the caseload, the unemployment rate rises in the early 1990s and falls in the late 1990s. While the unemployment rate appears to lead the caseload by about two years, the turning points for the underlying flows of the caseload—discussed in more detail below—are very close to those for the economy. The lag in the relation between the unemployment rate and the caseload derives from the way changes in the flows affect changes in the total caseload.

Similarly, the differential paths of the caseload by region are consistent with differential unemployment-rate paths by region. For both the unemployment rate and the caseload, the largest increases and subsequent declines are in Southern California. There is a small increase and then a large decline in the Bay Area, and smaller changes both up and down in the Central Valley and Northern California.

From its peak in March 1993, the unemployment rate fell nearly continuously through the summer of 2000. Thus, just as economic conditions explained some of the increase in the caseload, they appear to explain some of the decline in the caseload.
caseload well past the passage and implementation of CalWORKs. In addition, given the lag in the relation between the economy and the caseload, the unemployment-rate declines through the summer of 2000 seem likely to pull down the caseload well into 2001.

**The Effect of Pre-CalWORKs Reforms.** The existing WTW programs are not a likely explanation for the pre-CalWORKs caseload patterns. California’s WTW programs were relatively stable and employment-and-training-focused until the 1995 GAIN reforms. Furthermore, most of those reforms were apparently not implemented even on the eve of CalWORKs. (The exceptions appear to have been Riverside County, Monterey County, Santa Barbara County, San Mateo County, and Sonoma County.)

There were, however, two major reforms to California welfare programs in the early 1990s. In response to the state’s fiscal crisis, the nominal aid payment was cut several times (see Appendix A). In addition, the COLA was suspended. The combination of the cuts in the nominal benefit, the suspension of the COLA, and the moderate inflation rate during the early part of the period combined to yield a nearly 29 percent cut in the real welfare payment between 1991 and 1997. Conventional estimates (e.g., Council of Economic Advisers, 1999; Blank, 2001) imply that this 29 percent cut would have been expected to lower the caseload by 7 to 16 percent.

In addition, in 1992, California adopted fill-the-gap budgeting and in 1993, California implemented the Work Pays reforms. As discussed in Section 2, these reforms made work more attractive for those currently on welfare, increasing the level of earnings at which a recipient becomes income-ineligible for cash assistance (the breakeven point). This enabled some people whose earnings would previously have made them income-ineligible for welfare to remain on the welfare rolls, in turn increasing the caseload. Such an increase in the caseload has been found in similar benefit-structure reforms in other states (see, e.g., Berlin, 2000). We note, however, that the random assignment of the California Work Pays reforms produced few statistically significant or substantively large effects. Meyers, Glaser, and MacDonald (1998) conclude that part of the problem was that recipients were not informed of the changes in the benefit structure. Not knowing that the incentives had changed, they did not change their behavior. In response to these findings, CDSS moved to increase awareness of the changes, but no evaluation of this campaign is available.

**The Effect of Other Government Policies.** Other government policy changes are also likely to have affected the caseload in the early 1990s. Large increases in the EITC made work more attractive relative to welfare (Hotz and Scholz, 2000;
Meyer and Rosenbaum, 1999, 2000) and thus would have been expected to decrease the caseload.

Conversely, immigration reform would have been expected to decrease the caseload in the late 1980s and then increase it in the early 1990s. In particular, those legalized through IRCA were subject to the five-year moratorium on welfare receipt. When that period ended in late 1993 and 1994, an influx of new cases would have been expected, especially among Hispanics and especially in Los Angeles County, Southern California, and the Central Valley. The race/ethnicity and regional patterns are consistent with this presumption. (See Macurdy, Mancuso, and O’Brien-Strain (2000) for further evidence on the effects of IRCA.)

**The Effect of County Welfare Programs.** A simple timing argument allows us to bound the effects of CalWORKs on the caseload decline. California’s caseload peaked in March 1995. The turning points in the flows—rates of entry into welfare and rates of exit from welfare—occurred more than a year earlier. Federal welfare reform, PRWORA, did not pass until August 1996; CalWORKs did not pass until August 1997; and one-on-one casework reflecting the new CalWORKs WTW programs did not begin in volume until the summer of 1998, with many components following a year or more later. Thus, we would not expect the main impact of expanded and reformed county welfare programs on the caseload until early 1999. In fact, Figure 3.5 provides some evidence of such effects in this time frame. The figure presents the caseload from a dynamic perspective. The line labeled *Net change* plots the monthly percentage change in the caseload. It is positive where the caseload is growing (through early 1995) and then turns negative as the caseload shrinks.

Figure 3.5 also plots the entry rate (per capita x 10). To adjust the scale, the entries are multiplied by ten. This series peaks in mid-1991 (at about 0.41 percent), staying more or less at that level through mid-1993. Only then does it begin its rapid fall, to about 0.2 percent in late 1998. It has risen slightly since then, but not as fast as the entry rate as a percentage of the caseload. Thus, the upturn in the entry rate per case appears to result primarily from the continuing fall in the caseload rather than from an increase in the rate of entry among those off welfare.

Finally, Figure 3.5 plots the exit rate per case. As expected, exits move in the opposite direction from entrances (per capita, at least until 1999). When

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9These estimates are computed from MEDS data. To smooth out seasonal variation, the plots are the one-year moving average of the monthly rates.
entrances rise, exits fall; when entrances fall, exits rise. Exits as a percentage of the caseload reached their lowest point in mid-1994, at about 2.7 percent. Thereafter, they have risen rapidly and nearly continuously, to over 4.1 percent by 2000.

These patterns are broadly consistent with the patterns for the caseload: A worsening in the early 1990s, followed by robust and sustained improvement in the late 1990s. Note, however, that the turning points in the flows are earlier. The total caseload begins to decline in about March 1995. Entrances per capita peak in mid-1991, but the sustained decline does not begin until mid-1993. Exits per case begin to increase about mid-1994. These turning points are a year or two before the turning point in the caseload but nearly simultaneous with the turning point in the state’s economy.

Returning to the question of the effect of county welfare programs on the decline of the caseload, the circled areas in Figure 3.5 show that toward the end of the available data, the entrance rate per capita had stopped falling, which would be
expected to stop the exit rate from rising. In fact, however, the exit rate has continued to rise. County WTW programs that primarily affect the caseload by helping current recipients leave faster are one possible explanation for the divergence of the trends between entrances and exits. Evidence on employment since entering welfare, which is presented in the next section, is also consistent with an important role for county WTW programs in decreasing the caseload in the most recent period.

**What Might Explain the Smaller Caseload Decline in California Compared with the Rest of the Nation?**

The economy and different statewide policies account for the lower caseload decline in California versus the rest of the nation.

**The Effect of the Economy.** Just as the path of the unemployment rate in California explains part of the increase in California’s caseload, it seems likely that the path of the national unemployment rate explains part of the path of the national caseload. Figure 3.6 shows that, like the unemployment rate in

![Figure 3.6—Unemployment Rates for California and the Nation](RAND_MR138-3.6)
California, the national unemployment rate rose in the early 1990s and has fallen since then. Furthermore, the rise in the unemployment rate in California was sharper and the peak occurred later. This pattern—larger increase and later peak—is similar to the relative caseload paths between California and the nation.

These inferences from aggregate time series are also supported by econometric (double-fixed effects) analyses (Council of Economic Advisers, 1997, 1999; Figlio and Ziliak, 1999), which conclude that the economy is the largest single factor explaining the differential paths of the caseload across states. There is some disagreement in the literature about the importance of the economy in explaining the caseload decline. Based on their dynamic approach, Klerman and Haider (2001) argue that the largest estimates (i.e., Figlio and Ziliak’s dynamic models) are too large, but estimates from the widely cited CEA estimates are probably too small. Most studies conclude that the economy is more important in explaining the early decline (up to and possibly slightly past PRWORA) and less important in the later period (as state TANF programs were implemented and policies and programs diverged).

Thus, the available evidence suggests that some of California’s larger caseload increase and later and smaller caseload decline were caused by the economy. However, once it started, California’s recovery (i.e., the decline in the unemployment rate) was faster than that of the nation as a whole. Thus, inasmuch as changes in the unemployment rate cause changes in the caseload (or the flows), the economy should have caused the decline in California’s caseload (perhaps a lag of a year or two) to be larger than in the other states (which it was not).

**The Effect of CalWORKs Legislation.** Nationally, waiver-enabled changes to state welfare programs accelerated in the years immediately preceding PRWORA. Increasing numbers of states strengthened their participation requirements, raised their sanctions for nonparticipation (first adopting any sanction, then adopting a full-family sanction), and imposed lifetime time limits. These changes continued to accelerate after PRWORA, as states exploited their new discretion to design their own TANF programs. Most states adopted a full-family sanction and ended aid for the entire family at the time limit. Many states adopted a shorter time limit.

California also adopted changes to its welfare program with TANF. Thus, as TANF policy changes decreased the national caseload (and the evidence is that it did—see Council of Economic Advisers, 1997, 1999), we would expect the CalWORKs policy changes to decrease California’s caseload. Indeed, both the national evidence (e.g., Council of Economic Advisers, 1997, 1999) and the
California evidence (e.g., Klerman and Haider, 2001) suggest that much of the caseload decline is not explained by the economy.

Policy effects can be expected to occur primarily after the policies are implemented. The new benefit structure and time-limit clocks were not implemented until January 1998. The new participation requirements would not be expected to affect caseloads until county programs ramped up—at the earliest, in the summer and fall of 1998; for other purposes, in 1999 and into 2000.

Nevertheless, it seems plausible that some effects of reforms preceded the implementation of the programs. In many counties, with the passage of PRWORA in the summer of 1996, caseworkers started to explain to recipients that the old world of time-unlimited welfare was ending, that the economy was good, and that now was a good time to leave aid. The evidence from national studies (e.g., Levine and Whitmore, 1998; Blank, 2001) suggests that caseload declines often lead the actual implementation of reforms.

Compared to the TANF changes in other states, however, CalWORKs represented less of a change relative to AFDC/GAIN. Since these policy changes were smaller in California, we would expect the caseload effects also to be smaller (and to occur later) in California.

Precisely which of the policies has had the largest effect is the subject of considerable ongoing debate (Council of Economic Advisers, 1997, 1999; Rector and Youssef, 1999; Ellwood, 1999). Because states adopted the policies as bundles in the midst of a robust economic expansion, it is difficult to estimate the individual effects of those policies. Here, we briefly discuss the evidence for three clusters of policy changes: benefit structure, participation requirements and sanctions, and time limits.

**Benefit Structure.** As noted earlier, California has among the highest benefit levels in the country, as well as a high earned-income disregard and a low BRR. Thus, the earnings at which welfare recipients become income-ineligible for benefits are among the very highest in the country. Our simulation results (discussed in Section 2 and illustrated in Appendix D) imply that California’s caseload would be about 9 percent smaller if the state adopted the benefit structure of other states.

Yet it seems unlikely that benefit structure alone explains either the large caseload decline in California or the smaller caseload decline in California relative to that of the nation as a whole. The 1993 Work Pays reforms and the extensions to those reforms in the 1997 CalWORKs legislation would have been
expected to raise the caseload (at least in the short run), since individuals who would have become income-ineligible under the earlier benefit structure remained eligible.

Similarly, the CalWORKs changes to the benefit structure are unlikely to explain California’s smaller caseload decline. It is true that CalWORKs further increased the income-ineligibility level, which would be expected to increase the caseload; however, our simulations based on Q5 data suggest that there are relatively few people with earnings between the pre-CalWORKs and post-CalWORKs income-eligibility levels, so the net effect was to increase the caseload by only about 2 percent.10

The effects in other states were larger. Work Pays-type reforms were common components of state TANF programs.11 Other states started with lower benefit levels, lower earnings disregards, and higher BRRs. Thus, the increase in the income-ineligibility level included a larger fraction of potential recipients, increasing the caseload in other states even more than the CalWORKs changes did in California. The simulations suggest that the smaller benefit-structure reforms in California would have narrowed the gap between California’s caseload and that of the nation as a whole by about 2 percentage points.

**Work Requirements and Sanctions.** By contrast, it seems likely that the combination of participation requirements and sanction policies does explain some (perhaps much) of the differential caseload decline. With pre-PRWORA waivers and then redesigned TANF programs, states moved aggressively to link receipt of cash assistance to work and to penalize those who did not participate.12

Many states require pre-approval job search, often including some form of Job Club. Once on aid, recipients are expected to participate in WTW activities. In some of the states with the largest caseload decline, the goal is “complete engagement”—every recipient participating in some activity every day. Leaders in those states report that once informed of the requirement for pre-approval job search and post-approval participation, some recipients choose not to complete the application and some current recipients leave. (In California, some counties report similar outcomes after the imposition of the community service requirement.)

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10This estimate is computed using methods similar to those used to produce Table D.1, which include the behavioral response. However, if there are fixed costs to being on welfare so that individuals eligible for small checks choose to leave, this estimate is likely to be too low.
11According to Bloom and Pavetti (2001), 40 states adopted such reforms.
12See Gais et al. (2001) on linking aid to work and the role of pre-approval job search.
For those who remain on welfare but do not participate, most states have streamlined their conciliation process—first under waivers and then in their TANF programs. This streamlining of the conciliation process in other states has led advocates in those states to express concern that many people are being sanctioned inappropriately—that they were not given a chance to show good cause, they did not know that they were noncompliant, and notices were not received or were difficult to interpret (see, e.g., Overby, 1998; U.S. Department of Health and Human Services, 1998; Goldberg and Schott, 2000).

The magnitude of the sanction has also changed. In 37 states, the entire benefit is eliminated (a full-family sanction) rather than only the adult part, either at the first noncompliance event (in 15 states) or at some subsequent event (in 22 states). In seven states, continued or repeated noncompliance can lead to a lifetime bar on receipt of welfare (Goldberg and Schott, 2000; Bloom and Pavetti, 2001). Goldberg and Schott (2000) estimate that about one-third of case closures result from sanctions.

Bloom and Pavetti (2001) conclude that these policies are important in explaining the observed caseload decline. Some applicants or recipients choose to leave welfare (or not to apply) rather than participate. Some participate and find jobs through the WTW services provided. With the lower benefit structure in many other states, employment for enough hours to satisfy the participation rate requirement is enough to make them income-ineligible. Finally, those who choose not to comply are sanctioned. With a full-family sanction, they are dropped from the caseload.

A large number of cases appear to be dropped because of full-family sanctions. The Council of Economic Advisers (1999) estimated that a full-family sanction cuts the welfare caseload by more than 10 percent. Goldberg and Schott (2000) estimated that at the end of 1999, 370,000 cases nationally had received a full-family sanction and remained off welfare. This is 15 percent of the national caseload. Furthermore, the effects are concentrated in the states with full-family sanctions (most of the states, but only about half of the national caseload). In seven states, one-fifth or more of the case closures resulted from full-family sanctions.

The situation in California is quite different. Since the mid-1980s, California had had a mandatory WTW program with moderate levels of adult-only sanctions, so the adoption of the program in the early 1990s did not cause any caseload decline (see, e.g., Council of Economic Advisers, 1997, 1999). Inasmuch as WTW programs help recipients get jobs, the benefit structure implies that recipients remain eligible for cash assistance and often still receive aid.
In addition, the CalWORKs statute specifically prohibits requiring pre-approval job search (though voluntary pre-approval job search is legal). CWDs report that many recipients in California do not attend appraisal or complete Job Club. In many other states, job search is required before the case is opened, so the welfare case of such people (who do not complete job search) would not have been opened.

Furthermore, while CalWORKs includes a universal participation requirement, the requirement is not enforced as a complete engagement program, at least not until community service. The details of the regulations imply that even compliant recipients are unlikely to reach mandatory community service until after about 30 months of continuous receipt of cash assistance (six or more months until they sign a WTW plan plus 18 or 24 months of WTW activities after signing a plan). For those who exit and reenter or who are noncompliant, mandatory community service comes even later. Counties were still filing their community service plans, setting up their community service programs, and enrolling recipients in volume in the fall of 2000—two and a half years after CalWORKs was enacted. Consistent with the reports of other states, some counties report that when faced with mandatory community service, a sizable fraction of recipients do something else: they find a job, become noncompliant, or leave cash assistance. However, very few recipients have reached the community service point.

Similarly with respect to sanction policy, CalWORKs retained the GAIN noncompliance process—a multistep conciliation process and then an adults-only sanction. The evaluation’s fieldwork and staff survey suggest that caseworkers, often with the strong encouragement of CWD leadership, give recipients multiple opportunities to comply before even beginning the formal noncompliance process. Caseworkers note that some recipients take advantage of the noncompliance process itself to delay the start of formal noncompliance proceedings and then the sanction.

Nevertheless, about 11 percent of the adults in one-parent cases are in sanction and another 8 percent are formally noncompliant but not yet sanctioned. In addition, it appears that some of those not participating are noncompliant but not yet in the formal noncompliance system. The total number of adults who have at some point in their time on aid become noncompliant appears to be much larger.

The GAO (2000) presents evidence that some (perhaps half) of these adults would come into compliance with a more quickly and surely applied full-family
sanction, but some of them would not. In a full-family sanction state, such noncompliant cases would be dropped from the caseload. It seems likely that a strictly applied full-family sanction would cut California’s caseload by more than 10 percentage points (Council of Economic Advisers, 1999).

**Time Limits.** The major program innovation of the immediate pre-PRWORA period was lifetime time limits on welfare receipt. First implemented in Florida and Connecticut, these programs became the defining element of the PRWORA reforms. They are embedded in the name of the new program—Temporary Assistance for Needy Families. Furthermore, instead of giving states more discretion on time limits, PRWORA includes a national ban on the use of federal funds to pay cash assistance to adults past the federal 60-month time limit.

Following the direction provided by the federal legislation, almost all states have adopted lifetime time limits. In 43 states (including the District of Columbia), after reaching the time limit, the entire case may be terminated; however, in practice, a sizable fraction of those reaching time limits receive (often short) extensions. Furthermore, in 17 states that account for one-quarter of the national caseload, a case reaches the time limit in fewer than 60 months (Bloom and Pavetti, 2001).

In contrast, California has adopted among the least binding time-limit policies. Recipients receive the full 60 months; the start date for the 60-month clock is among the latest in the country, January 1998; and after the time limit is reached, payments to the children continue. Thus, inasmuch as time limits would be expected to decrease the caseload—either because recipients leave to preserve or “bank” their months of eligibility or because they reach time limits—those caseload effects should be smaller in California.

The magnitude of the effect of time limits on the caseload is the subject of some controversy. At least until recently, few recipients actually reached time limits. Apparently, even in states where recipients could already have done so, few did. The strong economy and strong sanctions imply that recipients find jobs (and benefits in many states are so low that once recipients find jobs, they are income-ineligible and leave welfare), or they become noncompliant and a full-family sanction terminates their cases.

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13 In Iowa, half of those sanctioned come back into compliance; in other states, 30 percent come back. This estimate does not include the deterrent effect, i.e., it does not include those who participate because of the threat of a full-family sanction.

14 A few states (e.g., Michigan, Vermont, and New York) adopted no time limit, choosing instead to fund past the federal limit out of state funds.
Consistent with these conclusions, MDRC’s random-assignment studies of the early experiences in Florida and Connecticut found that most recipients leave before reaching the time limits. Furthermore, those randomly assigned to the time-limit group were no more likely to leave before reaching the time limit, i.e., they did not appear to bank their months (Bloom et al., 2000; Fein and Karweit, 1997; Gordon and Agodini, 1999).

Grogger and Michalopoulos (1999) and Grogger (2000) dispute these conclusions. They note that time limits were usually adopted in a bundle along with Work Pays-type policies. The Work Pays-type policies would have been expected to increase the caseload, counteracting any expected effect of banking. In addition, these authors note that in some states, those in the time-limit group did not realize that they were subject to time limits, while many of those not in the time-limit group thought they were subject to time limits. Finally, they present econometric evidence suggesting moderate effects of time limits (about 6 percentage points).

Our simulations imply that California’s time-limit policies have increased the caseload relative to what it would have been if California had adopted the time-limit policies of other states. As of mid-2000, the leading edge of recipients have reached time limits in about one-third of the states, including Texas, Florida, and North Carolina. About 10 percent of California’s caseload is already past the time limit of the “average” state. According to each state’s exemption policy, some of these cases would have been terminated. If, as Grogger argues, recipients leave cash assistance to bank their eligibility, then the effect of California’s 60-month time limit would be even larger than is implied by the simulation.

Over the next year and a half, the relative effect of time limits on caseload is likely to increase. In most states that adopted 60-month time limits, the first cases will reach those limits in late 2001 or early 2002. In states with termination time limits, these cases will disappear, causing the caseload to drop sharply. In California, the first cases will not reach time limits until January 2003. Even then, only the adults’ benefits will be terminated. Thus, the direct effect on the caseload will be small.

15The simulation considers the effect separately for each state’s sanction policy. The national effect is estimated by averaging over all of the states, weighting by each state’s caseload.