AN END TO WELFARE AS WE KNOW IT?

THE 1996 WELFARE reform bill has been hailed by many as a sweeping improvement of the American welfare system. In the words of President Clinton, the bill is intended to "end welfare as we know it" by making it "a second chance, not a way of life."[1] Supporters of the bill characterize it as an attempt to rescue the poor from a well-intended system whose actual effect has been to "reward the behavior which leads to poverty and punish the behavior which leads out of poverty."[2] A bipartisan consensus allowed the bill to pass both houses of Congress by a large majority, and public opinion polls show that most Americans support its contents. One senator summarizes the public sentiment that led to the bill's passage: "If anybody thinks the children that are under this welfare system are getting a good deal today, then frankly I don't know what would be a rotten deal because they're getting the worst of America."[3]

Opponents of the welfare reform bill express a different view. By encouraging people to leave the welfare rolls, the measure "punish[es] those…least able to cope"[4] and reflects "ignorance and prejudice far more than the experience of this nation's poorest working and welfare families."[5] One supporter of the old welfare system argues that the bill "does actual violence to poor children, putting millions of them into poverty who were not in poverty before."[6] Said Senator Daniel Patrick Moynihan, "It is as if we are going to live only for this moment and let our future be lost."[7]

Clearly, welfare reform is a controversial issue. It is also one of the most important issues facing the American people: the share of GDP devoted to welfare expenditures has increased tenfold since 1965, while the poverty rate has remained largely unchanged. How was the old welfare system constructed? How does the welfare reform bill attempt to change the system? Does the bill truly end welfare as we know it—and if it does, will its primary effect be to encourage work or to harm children? These are questions that an analysis of welfare reform must answer.

The System Before Reform

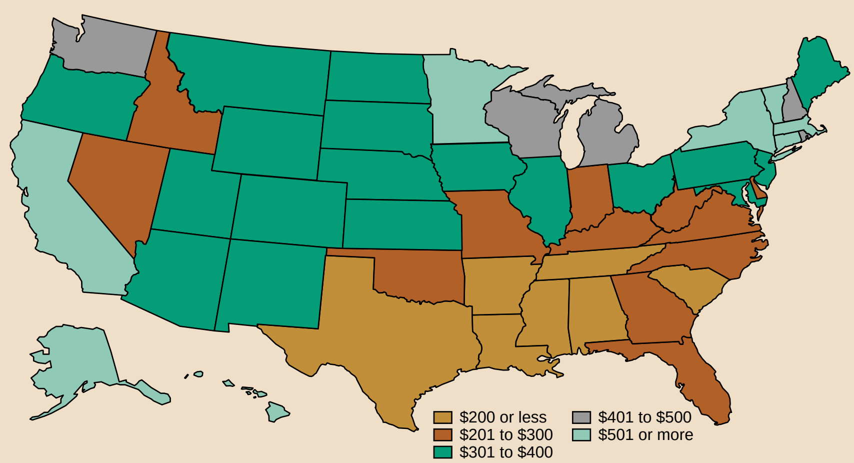
When most people hear the word *welfare*, they think of Aid to Families with Dependent Children (AFDC). Established by the Social Security Act of 1935 "for the purpose of maintaining and strengthening family life," AFDC gives cash payments to poor families. AFDC has a total budget of approximately $25 billion and represents about 1 percent of total government expenditures.

Chart 1 illustrates the degree to which AFDC benefits vary across states. In 1994, the average monthly payment to an AFDC family was $382, but benefits ranged from a low of $123 in Mississippi to a high of $740 in Alaska. Strong regional trends are apparent, with considerably more generous benefits in New England and West Coast states than in the South. Eight states offered benefits in excess of $500 per month, and seven offered benefits of less than $200 per month.

Two other programs that do not provide cash payments to poor families also contribute to the social safety net in America: Food Stamps and Medicaid (*Table 1*). The Food Stamp program gives vouchers to the poor that are redeemable for food, while the Medicaid program provides poor individuals with medical services. Although many people believe that AFDC is the largest welfare program, the Food Stamp program is almost exactly the same size as AFDC and the Medicaid program is five times larger than AFDC. The combined share of the federal budget devoted to these programs is approximately 6 percent.

Before the welfare reform bill was signed into law, eligible families in each program could receive benefits for an unlimited amount of time and were not required to work in exchange for their benefits. Benefits were funded from a mix of state resources and per-recipient matching funds from the federal government, which means that high-benefit states tended to receive larger subsidies from the federal government than low-benefit states. There were no restrictions on the eligibility of legal immigrants. And, by law, states

Chart 1
AFDC Levels in the United States



were required to treat all immigrants as if they were legal immigrants—states were forbidden to ask whether a recipient was in the country illegally and forbidden to deny benefits on that basis.

Term Limits and Work Requirements

The welfare reform law changes welfare programs in several respects. First, it imposes a five-year lifetime limit on welfare benefits. Second, it mandates that anyone who remains on the welfare rolls for more than two years must work to receive benefits. Third, the bill requires that 25 percent of the recipients in each state's welfare caseload work by 1997. Fourth, the bill restricts the eligibility of legal immigrants for welfare programs. Fifth, the bill converts federal funding from per-recipient matching funds into lump-sum block grants.

How are the changes likely to affect welfare recipients? The term limit and work requirement provisions have been hailed as the most significant changes in American welfare policy since the New Deal, and there is reason to believe that such provisions could reduce the number of people who receive public assistance. However, the specific provisions in the welfare reform law contain significant loopholes for states that choose to employ them. An exception to the first provision stipulates that one-fifth of a state's caseload may be exempted from term limits if the state asserts (with or without cause) that the loss of benefits would create "hardship" for those who have reached their five-year limit. An exception to the second provision allows states to define "work" in as untraditional a manner as they choose. An exception to the third provision lets states calculate the number of recipients who do not have to work by 1997 as 75 percent of their 1995 caseloads rather than as 75 percent of current recipients, which is significant because the number of people receiving public assistance declined (in some cases significantly) between 1995 and 1996. In addition, a general exception to the bill permits states to relabel a portion of their funds from the federal government as a "social services block grant," which may be given to recipients who exceed their time limit or refuse to work.

The welfare reform bill's enforcement mechanism is especially problematic. If a state does not fulfill the requirements of the bill, it is penalized by a reduction in federal funding. Since states actually define most of the requirements they must meet, states have an incentive to impose lenient requirements to lessen the probability of punishment. Moreover, states are free to seek permission from the executive branch of the federal government to waive provisions of the bill with which they disagree. If a waiver is granted to a particular state, the state cannot be punished for violating that portion of the welfare reform law for which the state received a waiver.

How might the time limit and work requirement provisions operate in practice? If a state's welfare caseload declined by 10 percent between 1995 and 1996, which is approximately the amount by which welfare caseloads fell in the United States, the state could mandate that 15 percent rather than 25 percent of welfare recipients work by 1997. The state could also define easily achievable, non-work-related activities as "work" to help its recipients maintain eligibility for welfare. Then the state could exempt any families that exceed their lifetime eligibility for welfare from time limit provisions. If any families remained without benefits after these actions, the state could continue to give welfare benefits to those families with federal dollars under the social services block grant program or simply ask the Department of Health and Human Services to waive the time limit and work requirement provisions entirely.

All these possibilities suggest that, if a state does not wish to impose term limits or work requirements, the welfare reform bill will not force it to do so. Even a state that adopts strict term limit and work requirement provisions may, however, find itself hampered by practical difficulties that arise from state-to-state migration. Although welfare recipients are free to migrate from one state to another, their welfare histories (such as the length of time they received welfare and whether they participated in a work program) do not travel with them. Indeed, at the present time, states have no way to obtain the welfare histories of newly arrived residents, and some states do not even record this information for their own welfare recipients. Unless every state records the welfare histories of its recipients and exchanges this information with other states, recipients will be able to exhaust their eligibility for welfare, move to a state unaware of their previous welfare histories and receive benefits as if they had no welfare histories.

Table 1
Social Welfare Programs In 1994

Program	Recipients (Millions)	Payments (Billions)
AFDC	14.0	$ 22.9
Food Stamps	27.4	$ 22.7
Medicaid	35.0	$108.3

Changes for Legal and Illegal Immigrants: A Dilemma for Texas

One change likely to exert a disproportionate impact on the Southwest is the restriction on the eligibility of immigrants. The welfare reform bill stipulates that some current legal immigrants and all future legal immigrants are ineligible for the AFDC and Food Stamp programs for at least five years after their immigration; an accompanying immigration bill gives states the right to deny those benefits to recipients who are in the country illegally. The impact of these provisions on Texas is expected to be substantial: approximately 200,000 Texans will lose a total of $153 million in food stamps during 1997. One charity worker estimates that 20 percent of residents in some border counties are legal immigrants and that over one-third of those immigrants could lose their benefits.[8]

However, the bill is not as strict as it first appears in this regard because any legal immigrant who chooses to become a citizen is exempt from these restrictions. Indeed, Immigration and Naturalization Service officials have been ordered to increase the speed at which they process immigrants who face a loss of benefits, and a historically unprecedented number of immigrants have been naturalized as a result. More-

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over, residents of any county whose unemployment rate exceeds 10 percent may be exempted from a cutoff of food stamps. Illegal immigrants face a somewhat more difficult prospect because, in general, they cannot become citizens of the United States. In practice, however, most states (with the exception of California) have no plans to remove them from the welfare rolls.

Medical care for noncitizens is another area that presents difficulties for the Southwest. Almost 100,000 legal immigrants are expected to lose Medicaid benefits as a result of the welfare reform bill. Without Medicaid coverage, the Texas Department of Health fears that these immigrants will simply go to emergency rooms and leave Texas taxpayers to pick up the tab.[9] Again, though, legal immigrants may retain Medicaid coverage if they choose to become citizens of the United States. Illegal immigrants face the greatest difficulties: the bill would strip them of all medical coverage except for emergency medical assistance. However, most states (including Texas) do not yet attempt to distinguish between legal and illegal immigrants in the provision of Medicaid services, which suggests that the short-term impact of the welfare reform bill on illegal immigrants may not be as significant as many have feared.[10]

From Welfare to Work

The welfare reform bill gives new opportunities to states. Under the bill, states may hire private-sector employment agencies to move individuals from welfare to work. Since the salaries of social workers depend on a steady stream of welfare recipients, some analysts believe private agencies may be better able to help recipients find employment. States may also offer subsidies for employers that hire welfare recipients. Evidence from California suggests that many long-term recipients have little education and lack basic job skills, and to the extent that these individuals impose higher training costs on employers, subsidies might make it more profitable for businesses to hire welfare recipients. Governors, including Pete Wilson of California and George Bush of Texas, have expressed interest in these provisions, and President Clinton has promised to seek an expanded job subsidy program for welfare recipients during the 1997–98 session of Congress.

Southern states face especially large hurdles in implementing welfare-to-work programs because of a provision of the bill that changes the funding mechanism for AFDC. Before the welfare reform bill was passed, the federal government would subsidize a fixed proportion of each recipient's AFDC payment and states would pay the remainder. Under the new system, the federal government gives a certain amount of money to each state in the form of a block grant. The block grant given to a particular state reflects the level at which the state previously funded welfare programs, which means that states that chose to give high benefits under the old system will receive larger block grants (in per capita terms) than other states. Since there is no reason to suppose that the welfare-to-work programs will be more expensive in high-benefit states, there is no economic rationale for these states to receive larger block grants under the new system. Nevertheless, the funding differentials exist and are quite substantial. For example, Texas will receive an estimated $339 per child annually while New York will receive an estimated $1,998. This highly uneven funding system will be especially harmful to welfare reform efforts if states expressed their (dis)satisfaction with the old welfare system by the funding they chose to provide for it because states whose leaders would be most likely to pursue reform will lack the funds to proceed, while states that receive sufficient funds will have no interest in reform.

Conclusion

Much has been said about the recent welfare reform bill. Some have suggested that recipients will finally escape the cycle of dependency and enter the labor force, while others have charged that impoverished families will be deprived of the food and medicine they need to survive. There is a broad consensus, however, that welfare reform ought to ensure assistance for those who need it and encourage work for those who do not. The welfare reform bill gives states unprecedented freedom to make meaningful changes in the welfare system, but it also gives states the freedom to resist reform. Only time will tell whether states seize the new opportunities given to them or whether they simply perpetuate rather than eliminate the American welfare system as we have known it.

—Jason L. Saving

Notes

1 Bill Clinton, as quoted in "Welfare: Work All Around," editorial board, *Christian Science Monitor*, December 27, 1996.

2 Senator William Roth of Delaware, as quoted in "U.S. Senate Passes Major Overhaul of Welfare System," by Sue Kirchhoff of Reuters World Service, August 1, 1996.

3 Senator Pete Domenici of New Mexico, as quoted in "Welfare Overhaul Approved," *Reading Eagle*, July 24, 1996.

4 Former Senator Bill Bradley, as quoted in "President Praises Senate Changes in Welfare-Reform Bill," National Public Radio, Morning Edition, July 24, 1996.

5 Catholic Charities USA, as quoted by Massachusetts Senator Edward Kennedy in his statement on the welfare bill, July 22, 1996.

6 Senator Carol Moseley-Braun of Illinois, as quoted in "Senate Approves Sweeping Change in Welfare Policy," by Robert Pear, *New York Times*, July 24, 1996.

7 Senator Daniel Patrick Moynihan of New York, as quoted in "As Pivotal Vote Nears, Welfare's Fate Unclear," by Vanessa Gallman, *The Record*, July 22, 1996.

8 George Rodrigue, "Welfare Cuts May Hit Legal Immigrants Hard," *Dallas Morning News*, August 28, 1996.

9 George Rodrigue, "Welfare Overhaul Bill Easily Passes in Senate," *Dallas Morning News*, July 24, 1996.

10 Diane Jennings, "Welfare Law's Impact Unclear," *Dallas Morning News*, September 8, 1996.