Catching Up on Welfare Reform

In the last decade welfare programs in the United States have been radically transformed. Experimentation by a number of states has demonstrated that with policies that emphasize work, it is possible to move people off of the welfare rolls and into self-sufficiency. The experience clearly shows that “work works.” States can improve lives of welfare recipients through policies that push labor force participation. Recent federal legislation is forcing all states to recast their systems along these lines.

The contrast between Oregon and Washington in promoting work has been remarkable. Oregon has been a national leader in this arena and has achieved impressive results. From January 1993 to September 1997 Oregon welfare caseloads fell by 51 percent; nationally welfare caseloads fell by only 29 percent. Washington, on the other hand, has been a relative laggard. Over the period its caseloads fell by only 14 percent.

In 1997 a long legislative impasse was broken and the Washington Legislature enacted a major reform that embraces the Oregon approach. This Special Report gives an overview of Washington’s new welfare program, WorkFirst.

Welfare

The federal welfare role began in 1935 when the Social Security Act created the Aid to Dependent Children program. This program was viewed as temporary bridge to “take care of widows with small children,” until the survivors’ insurance component of the Social Security System was fully functioning. Over the next sixty years the program, renamed Aid to Families with Dependent Children (“AFDC”), grew to become a permanent institution of income transfers for large segments of the American population.¹
From 1960 to 1972, as Figure 2 shows, the percentage of the U. S. population on welfare grew from less than 2 to more than 5 percent. In part this reflects President Johnson’s “War on Poverty;” equally important was the welfare rights movement, which “marketed” the programs to the poor, brought court challenges to broaden standards of eligibility, and generally believed that the “right” to welfare should not be constrained by work requirements.2

As the welfare rolls grew, so grew public discontent. By 1987 the National Governors’ Association listed welfare reform as its first priority.3 Bipartisan support evolved for the concept that AFDC should be reformed to promote self-sufficiency rather than dependence. That support culminated in enactment of the Family Support Act of 1988 (“FSA”).4 The key component of FSA was the Job Opportunity and Basic Skills Training Program (“JOBS”), which sought to move welfare recipients into employment. Each state was required to have a JOBS program of its own design in place by October 1990.

FSA was widely viewed as the most significant welfare reform in fifty years. President Reagan declared it would “lead to lasting emancipation from welfare dependency.”5 Both liberal and conservative supporters of FSA advocated a new mission for welfare based on an idea of mutual obligation, where welfare recipients have an obligation to become self-sufficient and government has the obligation to provide temporary support and services to help them do so.

The results were disappointing. Welfare caseloads increased from 4.4 percent of the U. S. population in 1989 to 5.5 percent in 1994. One explanation was offered in a study by the Rockefeller Institute of Government at the State University of New York at Albany. In none of the states that the Rockefeller Institute studied “did JOBS spur state leaders to alter their public stance towards welfare or to make a strong personal commitment to reform their welfare systems in light of the new law.”6

A second explanation is the strategy most states followed in trying to move people from welfare to work. Two competing strategies emerged:

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*FIGURE 2*

**Percentage of US Population on Welfare 1960-1996**

Source: U.S. Department of Health and Human Services
Annual data for 1997 not yet available

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*As the welfare rolls grew, so grew public discontent.*
Human Capital Development programs were built on the theory that education and training would help participants qualify for higher paying jobs and increase their long-term chances of remaining off welfare. Workforce Attachment programs emphasized immediate job placement on the theory that work experience and required participation in the labor market more effectively keeps people off the welfare rolls. Most states chose to follow the human capital development approach. Because of the expense, the JOBS program could only serve a small fraction of the welfare caseload.

The workforce attachment approach has proven to be more effective. The rapid decline in welfare caseloads nationally after 1994 is due in large part to the success of the states that emphasized workforce attachment.

Reforms in Oregon

In the early 1980s the state of Oregon began a work search program for welfare recipients it called “Jobs” (not to be confused with the federal JOBS program). In 1988, the Oregon Legislature authorized a pilot welfare reform program, “New Jobs,” based on the human capital approach. In October 1990, the program that the state adopted as JOBS under the federal FSA combined elements of the earlier state Jobs and New Jobs programs.

The Oregon Department of Human Resources’s assessment of self-sufficiency strategies evolved during the 1990s. A 1990 evaluation of the New JOBS pilot program found that it “is three times as expensive [as the work search program it supplanted], has greater client non-compliance, and participants do not have significantly greater success finding work or earning higher wages despite receiving extensive education.” In addition, over the 1990-92 period national research continued to demonstrate the effectiveness of labor force attachment strategies. Three separate times the Department obtained waivers from federal regulations, allowing the state to strengthen the work requirements of its JOBS program. In November 1994, the JOBS Plus pilot program began. (This innovative public-private partnership, which uses welfare funds to subsidize private sector jobs, is described in the Washington Research Council Special Report; “What Works For Welfare? Recent Experiences in Oregon and Washington.”) By July 1996, when the state’s welfare reform bill, SB1117, was implemented, Oregon had one of the nation’s strongest labor force attachment programs.

The rapid decline in welfare caseloads nationally after 1994 is due in large part to the success of the states that emphasized workforce attachment.

“The choice to request public assistance in Oregon is a request for JOBS and self-sufficiency services.”

- From a poster displayed in Adult and Family Services branches
People who come to one of Oregon’s Adult and Family Services branches for aid are provided a number of “upfront” employment services, including an assessment of their situation and job search help, before they are placed on welfare. They receive the message that work is a better option than welfare and the goal of the program is to help them find work as soon as possible. A number of clients find work without ever going on welfare. Those who make it to the welfare rolls because the initial search is unsuccessful are provided with additional services including “Life Skills” classes, short-term vocational training, and mental health and substance abuse evaluation and treatment, while they continue to search for a job. For those who cannot otherwise find work, the JOBS Plus program will provide a subsidized position with a private business or public agency.

**Washington tries FIP**

From 1988 to 1993, Washington state ran a pilot welfare reform program, the Family Independence Program (“FIP”). The program provided financial incentives for welfare recipients to participate in education, training, and employment, together with a variety of support services.9

On balance, FIP placed more emphasis on human capital development than labor force attachment. The executives of both the Employment Security Department and the Department of Social and Human Services (“DSHS”), which jointly ran FIP, believed that the program would only be successful if it increased enrollments in education and training.10 Participation was essentially voluntary: the program relied on financial incentives rather than the threat of sanctions. Although it had been intended that special job development efforts would be made for those welfare clients who were immediately employable, this feature was only minimally implemented.

FIP was judged to be a failure. A cost benefit analysis by the Urban Institute found that “FIP’s measured benefits were lower and its measured costs higher than the regular AFDC program.”11 The program ended in 1993. The state was left with a JOBS program based on the human capital development approach, with a large number of welfare recipients satisfying the participation requirement by attending community college.

In 1994, a bipartisan coalition committed to the belief that welfare should be a transitional program leading to self-sufficiency pushed a welfare reform bill through the Legislature. The sponsors intended to change the culture of welfare offices, emphasize the transitional aspect of welfare, encourage employment, and discourage teen pregnancy. Notably, the bill placed a time limit on welfare benefits, albeit a fairly weak limit. After four years of full benefits, the grants to long term recipients were reduced by 10 percent per year. Welfare was limited to fourteen years. The
most significant provision of the bill, however, would have made enrollment in the JOBS program mandatory. Governor Lowry vetoed this element. He argued that it was wrong to prevent welfare recipients from pursuing liberal arts education by requiring them to participate in job search and employment activities.

The 1996 Federal Welfare Legislation

Despite his 1992 pledge to “end welfare as we know it,” welfare reform took a back seat to national health insurance in the first two years of the Clinton presidency. He seemed more interested in completing the New Deal than in reforming it.

In 1995 the Republican Congress seized the issue. In late 1995 and early 1996 Clinton vetoed welfare reform plans that they sent to his desk. Clinton sought to regain the initiative in his 1996 State of the Union address with a call for a bipartisan welfare reform bill.

By mid-summer Republicans were able to craft a bill that many congressional Democrats could support. Despite intense lobbying from liberal members of his party, President Clinton signed The Personal Responsibility and Work Opportunity Reconciliation Act (“PRWORA”) on August 22, 1996.

PRWORA firmly established labor force attachment as the core strategy of federal welfare policy. No longer were all eligible mothers and children guaranteed welfare checks. Instead, program participants would be required to work within two years of receiving benefits and they would be limited to five years of aid. Block grants replaced the federal entitlement program and states were given significant flexibility to design innovative welfare-to-work programs.

Congress identified four goals of welfare reform:

1. Provide states greater flexibility in assisting needy families;
2. End the dependence of needy parents on government benefits by promoting job preparation, work and marriage;
3. Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing these pregnancies; and
4. Encourage the formation and maintenance of two-parent families.

The most salient features of the bill are presented in the box on page 6.
Three aspects of the 1996 Federal Welfare Reform law are likely to have the most significant and direct impacts on state welfare programs:

1. The Block Grant Approach
   - The law abolishes AFDC, ending 61 years of entitlement to federal benefits for all eligible low-income families. AFDC is replaced with a new state block grant program, Temporary Assistance for Needy Families (TANF), funded at $16.4 billion annually from fiscal 1996 through fiscal 2001.
   - States are given the freedom and responsibility to design their own welfare programs within certain limited federal guidelines.
   - The federal government gives states an annual lump sum payment and requires states to invest an amount equal to 80 percent of the previous year’s state welfare expenditures. Whether costs increase or decrease, the TANF block grant amount is essentially unchanged.

2. Work Participation Requirements
   - Adults receiving benefits are required to be working within two years of receiving aid.
   - States must have 25 percent of their single-parent TANF caseload participating in work activities in fiscal 1997. The required participation rate increases 5 percentage points annually until fiscal 2002 and continues at 50 percent each year thereafter. If states are successful in reducing caseloads, the required work participation rates decline.
   - Job search only qualifies as a “work activity” for up to six weeks per individual and not for more than four consecutive weeks.
   - Fifty percent of the state’s two-parent TANF caseload must be participating in work activities in fiscal 1996, 75 percent in fiscal 1997-98 and 90 percent from fiscal 1999 onward.
   - A person may only receive TANF benefits for a maximum of five years. However, states may exempt twenty percent of their caseload from the time limit due to hardship or risk of domestic violence.

3. Carrots and Sticks
   The law provides incentives for states and individual program participants to reduce caseloads and increase work participation. Not content to rely only on positive reinforcement, P.L. 104-193 also establishes sanctions and penalties for failures to comply with the proscribed reforms. For example:

   - Between 1999 and 2003, a total of one billion dollars is available for bonuses to states most successfully meeting the goals of welfare reform. Examples include reducing out-of-wedlock births and increasing the work participation rate.
   - Penalties reduce a state’s block grant by 5 percent in the first year and an additional 2 percent per year up to a maximum reduction of 21 percent if a state fails to meet the work participation rates.
   - Sanctions are applied to TANF recipients that refuse to work the required number of hours. Grants must be reduced on a pro rata basis, i.e. if the participant only worked 50 percent of the required hours, her assistance grant would be cut in half.

The welfare reform bill includes many other provisions, in areas such as Child Protection, Child Nutrition, and Child Support Enforcement. Perhaps most controversial were provisions denying benefits to legal immigrants and a $23 billion cut in projected food-stamp spending over six years.
States were required to submit plans to the Department of Health and Human Services explaining how their welfare programs would comply with the provisions of PRWORA and were required to convert to the new program by July 1, 1997.

Oregon had to make few adjustments to its welfare programs to comply with PRWORA. The Oregon program was consistent with the new law. Moreover, the law allowed state programs operating under federal waivers to continue unchanged for the term of the waiver. Oregon, however, did experience an increase in federal funding under PRWORA’s block grants.

Recently, a report issued by the Center on Hunger and Poverty at Tufts University questioned whether the new state welfare policies adopted in response to PRWORA are likely to improve or worsen the economic security of the poor. Researchers at the Center constructed the “Tufts Scale” which provides a (somewhat subjective) answer. By this measure the welfare policies of only eight states are judged likely to improve economic security. Oregon is one of these eight states and in fact ranks second highest in the nation behind Vermont.

Welfare Reform Comes to Washington State

The implementation of the 1994 Washington welfare legislation had required a federal waiver; as a result, the state could have avoided for a time the PRWORA reforms. In December 1996 Governor Lowry actually submitted a TANF plan to the federal government which preserved the state’s existing AFDC program.

In January 1997 Gary Locke replaced Mike Lowry as Governor, removing the major impediment to welfare reform. Within four months the Legislature enacted a fundamental redesign of the state’s welfare system. The principal sponsor of the reform legislation, House Bill 3901, was Representative Suzette Cooke.

Based on the labor force attachment model, HB 3901 created Washington’s WorkFirst program. The guiding principle of WorkFirst is that attachment to the workforce is the most effective way to alleviate poverty. Under WorkFirst, observes Representative Cooke, welfare recipients become participants in a program that aims at self-sufficiency. “Relieving ourselves of the entitlement status was the biggest coup of all.”

The Washington State Institute for Public Policy’s study of the dynamics of welfare was a major influence on some legislators. For decades Washington State administered its welfare program as “institu-
The new TANF program adopts the federal maximum of five years of assistance for any recipient and requires adults to participate in job search and work activities.

“We are ending a system that over the last 60 years has lost its vision of providing a helpful hand, and instead fostered a system that discouraged work.”

- Governor Gary Locke
  Spokane, July 31, 1997

The new TANF program adopts the federal maximum of five years of assistance for any recipient, observed Representative Cooke, but the Institute’s study pointed out that those policies were not working.

The study followed a group of Washington welfare recipients over a period of five years. Thirty-five percent of those on the rolls at the beginning of the period remained on continuously for the full five years; 36 percent exited and did not return; while the remaining 29 percent cycled off and back on. Representative Helen Sommers, who sponsored the 1994 welfare bill, believes “the Institute study blew things apart.” Opponents of reform often recited that the average length of time on welfare was about two years. The Institute study showed how “averages cover the truth,” and helped convince many legislators that the welfare system was causing intergenerational dependence. Sommers also recalled a Legislative Budget Committee review which discovered that DSHS counted recipients as “new” if they had been off the rolls for six months.

On April 17, 1997, Governor Gary Locke signed into law House Bill 3901. The law took effect August 1, 1997, 90 days after the end of the 1997 Legislative session. Washington thus became the last state in the union to implement a TANF plan.

HB 3901 voided the TANF plan previously submitted to the federal government by Governor Lowry. The new TANF program adopts the federal maximum of five years of assistance for any recipient and requires adults to participate in job search and work activities. The law also requires DSHS to meet the federal work participation standards.

The WorkFirst program emphasizes work and personal responsibility. TANF recipients are required to develop an Individual Responsibility Plan outlining their specific responsibilities for achieving self-sufficiency. The first activity for TANF recipients is job search. If employment is not achieved within four weeks, Employment Security refers the participant back to the WorkFirst case manager for an assessment and referral to activities designed to increase employability. Individuals who are not engaged in other work activities are required to participate in self-directed community service. Recipients are subject to sanctions for failure to participate in work activities.

Another key element of HB 3901 is the authorization for TANF recipients to keep 50 percent of their earned income without affecting
TANF eligibility or the benefit amount. The “income disregards” provide a financial incentive to work, even at entry-level jobs. In the absence of income disregards, taking such employment could have resulted in lost income for welfare recipients.

DSHS must establish a wage subsidy program that may last for up to nine months. HB 3901 also directs DSHS to operate a grant diversion program to provide brief emergency assistance for families in crisis. DSHS is further directed to operate a program creating individual development accounts in which TANF participants may save money to use for post-secondary education, first-time home buying, or business start-up costs. Those programs are targeted at increasing self-sufficiency and thus reducing dependence on the TANF program.

The legislation authorizes competitive, performance-based contracting for employment services, and directs that outcome measures be established to monitor program success. Outcome measures are currently being developed. The statute states they may include caseload reduction, rates of return to welfare, job retention, earnings, reductions in average grant amount due to increased earnings, and job placements in unsubsidized, private sector employment.

Other provisions in HB 3901 relate to benefits for legal immigrants, requirements for teen parents, low-income child care subsidies, child support enforcement, coordination with tribal governments and more program guidance.

The Legislature also set WorkFirst goals, directing DSHS to reduce the caseload by at least 15 percent in the 1997-99 biennium and by another 5 percent in the 1999-2001 biennium. The importance of the goals was underscored by the budget requirements. Funding was provided based on those goals and DSHS was given much the same flexibility by the State Legislature as the federal block grant program gave to the states. Whatever savings the WorkFirst Program can achieve through caseload or earnings-based grant reductions may be reinvested to provide more or improved client services.

Results

Nationally caseloads have declined significantly from the peak reached in March of 1994. Many argue that welfare reform is a major factor in this decline.

President Clinton’s Council of Economic Advisors (“CEA”) analyzed state welfare caseloads for the 1993-1996 period, when a number of states imposed work requirements and time limits under federally granted “waivers.” The CEA found that these “waivers” accounted for 31 percent of the decline in AFDC caseloads over the period, while economic growth
accounted for 44 percent of the decline. President Clinton cites this study as confirmation that TANF-like programs encourage poor families to become self-sufficient.

Others, however, argue that the economy deserves far more of the credit for caseload reduction. A 1997 report by the Rockefeller Institute looked at the conflicting conclusions of a number of studies of caseload trends and summarized the major points of agreement and disagreement. No one disputes that the economy has a significant impact on welfare caseloads, “However, the economy by itself cannot explain what happened to caseloads in recent years.” The Report goes on to state that, although the precise relationship is unclear, “There are, indeed, correlations between waiver approvals and caseload declines.”

Oregon and Washington

Staff of the Adult and Family Services Division of Oregon’s Department of Human Resources shows a great deal of pride in their state’s leading role in the adoption of welfare reform. As Figure 3 shows, AFDC/TANF caseloads have fallen dramatically, from 42,700 in January 1994 to 19,300 in March of 1998.

It is too early to tell whether Washington’s WorkFirst program will achieve similar success. Policymakers and program administrators, however, are almost uniformly enthusiastic about the promise and performance of WorkFirst.

Figure 4 shows welfare caseloads in Washington. From the peak of 87,928 in February 1995, caseloads fell by 15 percent to 74,896 in January 1998. WorkFirst Division Director Mike Masten is skeptical that the economy is the only reason for this decline. “We’ve had caseload growth before when the economy was strong,” says Masten. He points to “two years,
five days out of seven with the media discussing the looming policy change. That has its effect.” Ken Miller, Senior Budget Assistant for Human Services in the Office of Financial Management agrees, saying the market indicators didn’t change that significantly between 1996 and 1997. “But word gets out that the world has changed. Welfare is now about helping someone find a job. As soon as what happens to you when you walk into the welfare office changes, caseload is affected.”

In states that had implemented welfare waivers, the Rockefeller report found “much of the caseload decline actually preceded waiver approval and program implementation.” The greatest short-term impact of the policy change appears to occur in the year before the waiver is approved. Some policy analysts contend that potential welfare recipients respond to the threat of job requirements or welfare time limits by getting a job instead of applying for welfare, or by taking a job if they’re already on the caseload. CEA calls this the “threat effect” and calculates the prospect of a waiver being enacted next year lowers this year’s caseload by over six percent.

DSHS administrators say that attitudes changed so the focus was on getting jobs even before the law required implementation of the policy change. Although the WorkFirst program did not actually begin until November 1, 1997, policy implementation began earlier. On July 31, 1997 Governor Locke announced, “Starting tomorrow, when a person walks into a state office and asks for help, the first priority will be to help that person find a job.”

“In a number of offices,” says Miller, “change was instantaneous.” Masten points out how different it is to walk into a welfare office today and instead of spending thirty minutes with a clerk getting information about financial circumstances, you’re immediately asked, “How can we help you find a job?” One policy expert describes his visit to a welfare office in Lewis County where case managers told him this was the best thing that had ever happened because “now they could really help people.”

The study by the Center on Hunger and Poverty lists Washington among the 14 states whose welfare reforms are likely to improve the economic security of the poor. The state ranks 8th highest on the Tufts Scale.
Work Pays under WorkFirst

The income disregards and childcare assistance provisions of WorkFirst guarantee that work pays. Any job, even the lowest paid entry-level job, provides more disposable income than does the basic TANF grant. For example, 25 hours of work a week for $5.15 per hour will put the average family of three above the federal poverty level.22 “It is absolutely clear that if you work you’re better off than if you’re on welfare,” says Miller.

Thus, WorkFirst provides incentives to join the workforce. But even with these incentives, policymakers agree that a critical component of WorkFirst is the requirement to take a job – any job. This requirement is backed by sanctions. “Sanctions are critical to the integrity of the program,” says Masten, “However, the more effective they are, the less you have to use them.” Some analysts question the willingness of some case managers to use sanctions. Masten offers assurances that they are being used, if sparingly.

The shift from the human capital development to the labor force attachment strategy will have a major impact on our community and technical colleges. As the program’s name indicates, welfare recipients are told to first get a job. Skill training to move up the wage ladder will come later. Enrollments of welfare recipients at Washington’s community and technical colleges fell from 15,310 in fall 1996 to 11,861 in fall 1997. Most of these students must go to work by June 30. (There are about 400 welfare recipients enrolled full time at Oregon’s community colleges.) The colleges will surely be scrambling to develop evening, weekend, and short-term classes targeted at WorkFirst participants.

Where do we go from here

Oregon is further along the road to welfare reform than Washington. As the state moves onward many of the cases that remain present multiple barriers to employment. The caseload reductions already achieved, however, free up resources that can be targeted at these more difficult cases. The Adult and Family Services staff continue to experiment with new approaches and are confident of continuing progress.

In establishing the WorkFirst program, Washington’s Legislature has laid a foundation for transforming welfare in the state. The early signs are good. Caseloads are down. Our interviews show that the WorkFirst leadership is enthusiastic about the program. The future will reveal whether they will follow through and transform the culture within DSHS. The experience in Oregon demonstrates that the key to success is a welfare department that is committed to moving people expeditiously into work.
Notes


7 Sandie Hoback presentation to Oregon Legislature, Joint Committee on Ways and Means, Human Resources Subcommittee, February 1997.

8 May 1, 1996.


10 Long et al, p. 2.

11 Long et al, p. vi.

12 P.L. 104-193.


18 Institute for Research on Poverty, *Accounting for the Decline in AFDC Caseloads: Welfare Reform or Economic Growth?* Discussion Paper No. 1151-97, James P. Ziliak, Department of Economics, University of Oregon and Department of Economics, University of Michigan, David N. Figlio, Department of Economics, University of Oregon, Elizabeth E.
Davis, Department of Agricultural and Resource Economics, Oregon State University, Laura S. Connolly, Department of Economics, Oregon State University, November 1997, p.1


20 Rockefeller Report, p.7.

21 CEA.


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