



JOINT ECONOMIC COMMITTEE DEMOCRATS



REPRESENTATIVE PETE STARK (D-CA) – SENIOR DEMOCRAT

ECONOMIC POLICY BRIEF

OCTOBER 2004

TANF CASELOAD DECLINES DESPITE INCREASES IN POVERTY BUSH ADMINISTRATION FAILS TO EVEN ACKNOWLEDGE A PROBLEM

Introduction

The number of individuals receiving cash welfare assistance declined during the 2001 recession and the prolonged jobs slump that followed. This is a disturbing development given the purpose of welfare and one that runs counter to prior recessionary trends.¹ During recessionary periods, as unemployment increases and incomes fall, greater numbers of families typically qualify for – and receive – public support. As expected, caseloads for other income support programs did expand in the wake of the 2001 recession; only the Temporary Assistance to Needy Families (TANF) caseload did not.

With the release of new welfare caseload figures in August 2004, Health and Human Services Secretary Thompson trumpeted that “American families are improving their lives by leaving public assistance and entering the workforce,” reiterating the Bush Administration’s frequent praise for a declining caseload.² But the decline in welfare caseload during a recession is cause for concern, not celebration. Since the start of the 2001 recession, both overall poverty and child poverty have increased and unemployment among single mothers has steadily climbed. Receipt of cash benefits – which could have alleviated some of the economic distress – has declined. For any program designed to help people in economic difficulty, a decline in usage during a time of increased need suggests a fundamental program flaw that should be corrected.

The Bush Administration, however, fails to acknowledge a problem. It blindly asserts that the

“current welfare program has become relatively ‘recession-proof.’”³ In fact, TANF’s failure to respond to increased need proves that it is anything but recession-proof.

TANF Caseloads Decline while Poverty Increases

TANF and its predecessor program, Aid to Families with Dependent Children (AFDC), was developed to help support the poorest in our society. Specifically, the program focuses its benefits to help children, since they are unable to fend for themselves. Like most other safety net programs, TANF is means-tested, meaning that eligibility is based on certain income requirements. During weak economic periods when individuals lose jobs and incomes decline, increasing numbers of people meet the program’s eligibility requirements.

Before 1996, AFDC simply provided cash assistance to needy families, mostly headed by poor single mothers. The number of AFDC recipients remained relatively flat between 10 and 11 million from 1971 to 1989, but climbed to 14 million in 1993 as poverty peaked following the 1990-91 recession. As the economy improved and many states reformed their welfare programs, the AFDC caseload began to decline. This decline accelerated with the advent of federal welfare reform in 1996, when the TANF block grant replaced AFDC. By 2000, TANF recipients had fallen to 6 million.⁴

In 2001, the country experienced its first recession in nearly a decade, which was followed by the longest jobs slump in 50 years.⁵ Although the economy

continues to recover, as evidenced by 11 quarters of real GDP growth, 34 months after the official end of the recession the number of non-farm payroll jobs has still not returned to pre-recession levels.⁶ Not surprisingly, poverty rates among the TANF target population increased during this time. Chart 1 reveals that between 2000 (the year before the recession began) and 2003 (the second full year following the end of the recession), the number of poor individuals in families with children increased by 11.9 percent, up to over 22 million individuals. After years of steady decline, the number of poor children increased from 11.6 million in 2000 to 12.9 million in 2003, an increase of 11.0 percent.⁷

Employment Declines Cause Poverty to Increase

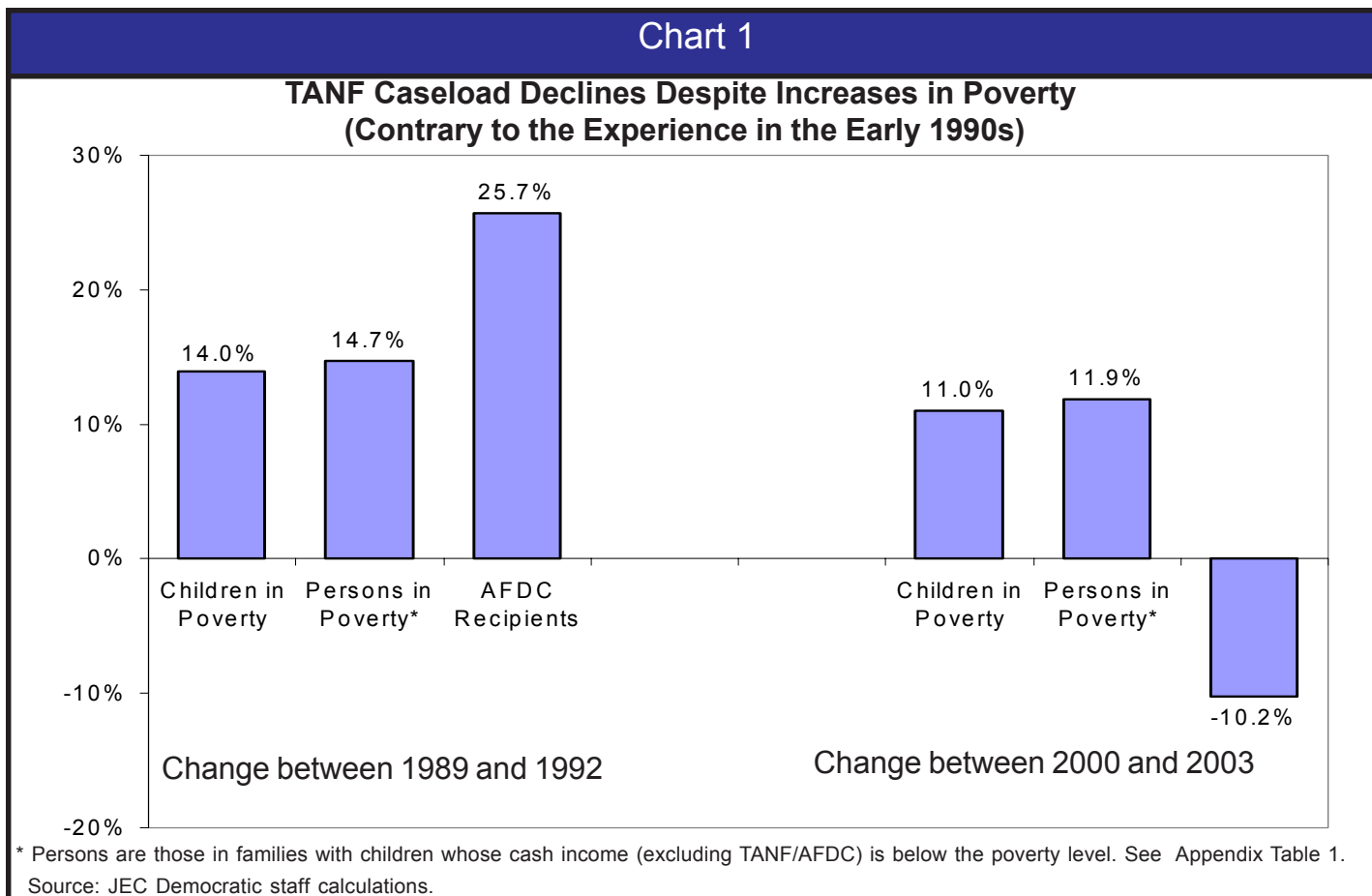
A key factor behind the increase in poverty among these families was the deterioration in the employment situation for single mothers. Between 2000 and 2003, the average annual unemployment rate for mothers who maintain families increased from 5.9 to 8.5 percent.⁸ The number of women actively but unsuccessfully

looking for work to support their families increased from just over half a million individuals to nearly 800,000 – a 50 percent increase in three years.⁹

The decline in employment is just as evident if the focus is narrowed to just poor mothers. The percentage of poor single mothers who worked at any point during the year steadily rose between 1992 and 1999 – from 43.6 percent to 64.3 percent. However by 2003, this percentage had fallen to 56.5 percent, a 7.8 percentage point decline in four years.¹⁰

Despite the weak labor market and increasing poverty rates, the average monthly number of individuals receiving cash assistance benefits under TANF declined, from 6.0 million in 2000 to 5.5 million in 2003.¹¹ In contrast, during the comparable period surrounding the 1990-91 recession (which was also followed by an unusually long jobs slump) AFDC recipients expanded from 10.8 million in 1989 to 13.6 million in 1992, an increase of 26 percent.¹²

Expenditures for cash assistance followed a similar



pattern.¹³ After adjusting for inflation, total federal and state spending for welfare benefits declined by 13 percent from 2000 to 2003, in contrast to a 26 percent increase in expenditures between 1989 and 1992.

In essence, during the first recession under the new welfare program, the number of individuals in need of cash assistance increased while the number who actually received such help declined. The increase in poverty due to decreased employment and earnings is a direct contradiction of the Administration's rhetoric that the program is "recession-proof".

TANF Pulling Fewer Out of Poverty

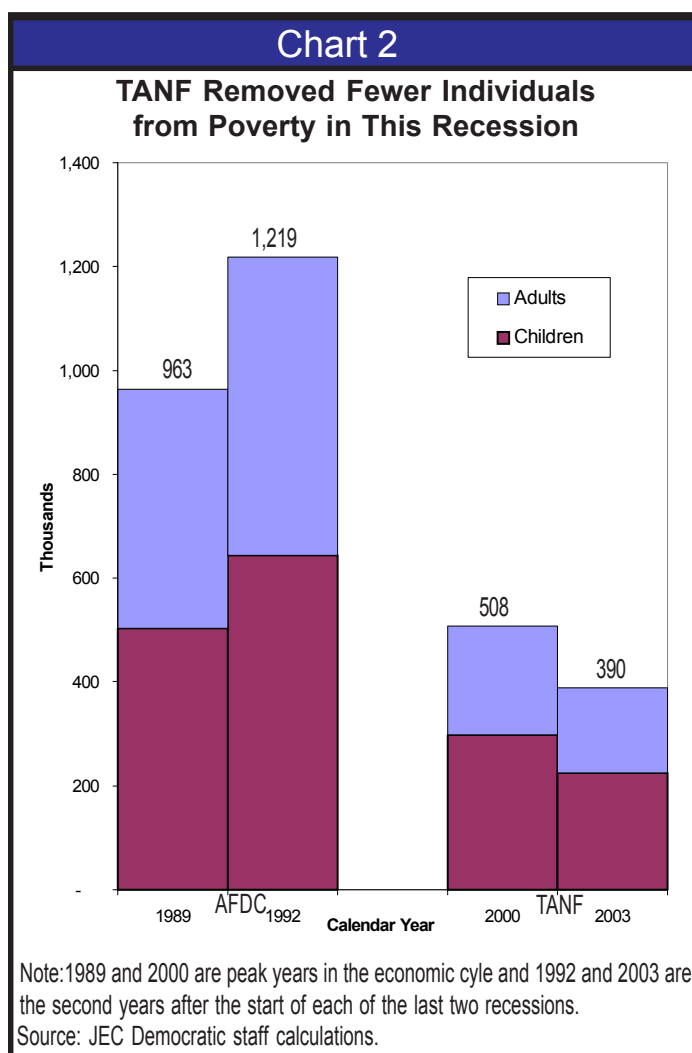
Primarily because the TANF caseload declined while poverty increased, the effectiveness of the TANF program in reducing poverty also declined. Chart 2 shows the impact of AFDC/TANF on removing individuals from poverty during and immediately following the two recent recessions. TANF is determined to have removed an individual from poverty if the addition of TANF cash benefits pushed his or her income (as defined by the Census Bureau) above the poverty line. In 1992, the second year after the start of the 1990-91 recession, AFDC pulled nearly 256,000 more individuals out of poverty than it had in 1989. By contrast, in 2003, the second year after the start of the 2001 recession, TANF pulled nearly 118,000 *fewer* individuals out of poverty than it had in 2000 – a decline of 23 percent even as poverty was increasing.¹⁴

The data for children in poverty are similar. In 2003, the second year after the recession began, TANF removed 225,000 children from poverty, compared to 644,000 children lifted out of poverty by AFDC in 1992, the comparable year for that economic cycle.¹⁵

Other Program Caseloads Increase When Need Increases

During the recent period of increased need, other means-tested safety net programs did not experience declining caseloads. This provides further evidence that TANF's performance during the 2003 recession represents a fundamental flaw in the program. In

particular, the Food Stamp Program and the Earned Income Tax Credit program (EITC) are two inflation-adjusted entitlement programs that automatically respond to increased need for income support. During both of the recent jobs slumps, the caseloads in these two programs expanded significantly. The number of people receiving Food Stamps increased from 17.0 million in 2000 to 21.7 million in 2003, an increase of 27 percent. Between 1989 and 1992, Food Stamp recipients increased by 37 percent.



The EITC caseload followed a similar pattern. The number of families with children participating in the EITC program grew by 13 percent between 2000 and 2003 and by 21 percent between 1989 and 1992.¹⁶

Figure 1 illustrates the caseload trends for EITC, Food Stamps, and cash welfare (AFDC/TANF). In all three

programs, the caseloads increased during the jobs slump in the early 1990s. During the most recent recession, the pattern diverges. While the number of Food Stamp and EITC beneficiaries increased, the number of TANF beneficiaries declined significantly.

TANF's Block Grant Financing Structure Partially Responsible for Reducing Caseload

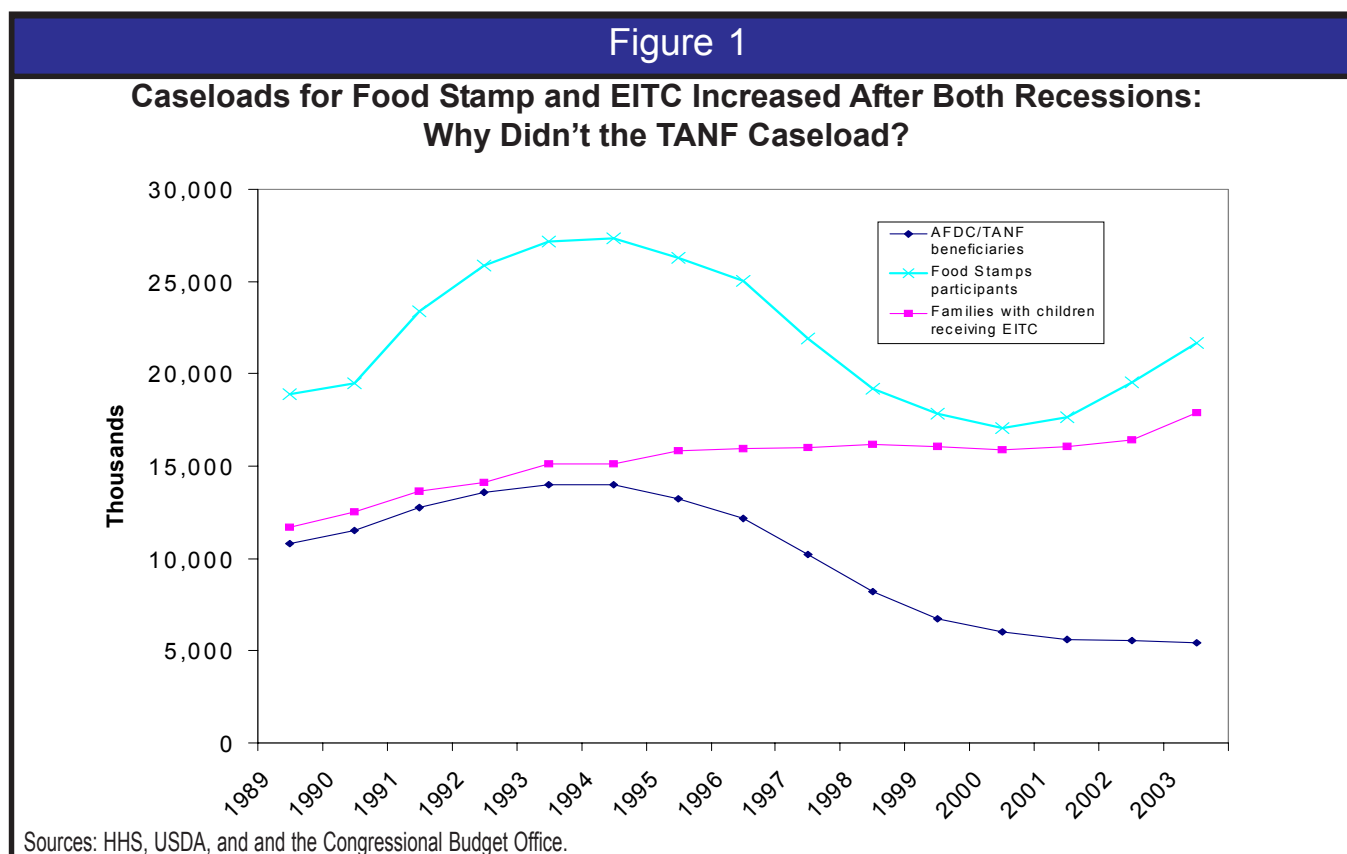
One key reason that Food Stamp and EITC program participation increased while TANF participation fell between 2000 and 2003 is TANF's financing structure. The EITC and Food Stamp programs are open-ended federal entitlement programs, meaning that all who meet the eligibility criteria can receive the benefits. In contrast, TANF is a block grant, meaning that states receive a fixed (and historically flat) amount of funds to manage, irrespective of actual need for the program.¹⁷ Since states are responsible for any additional program costs above the fixed federal grant, they face significant pressure to tighten eligibility criteria, which many states have done.¹⁸ In addition, states face declining revenues during a recession. This provides further pressure to restrict eligibility for cash assistance at the very time more families need assistance.

Even before the 2001 recession, welfare experts, including such prominent experts as Rebecca Blank and Ron Haskins, were concerned that, "many states may have to restrict their employment and public assistance programs at exactly the point when the need is rising."¹⁹ However, the Bush Administration has been oblivious to this problem. Wade Horn, Assistant Secretary for Children and Families, HHS, even stated in late 2002, "The widespread decline in caseloads is a good sign that the economy is on the rebound...it also confirms that this program has sufficient funding to serve our clients and improve our programs."²⁰

Whether states had sufficient funding is problematic. TANF balances have fallen from \$7.1 billion at the end of fiscal year 2000 to a projected \$3.0 billion at the end of fiscal year 2004. Between 2001 and 2004, states spent on average \$1.5 billion more than their annual federal TANF block grant amounts.²¹

Unemployment Compensation Cannot Justify Declining Caseloads

Recently the Bush Administration has cited "unemployment compensation followed by



reemployment as one key explanation of why the TANF caseload has not increased.”²² Clearly, unemployment compensation is an important safety net that does automatically respond to increased unemployment.

One possible explanation for TANF’s declining caseload during this recent recession is that the unemployment insurance (UI) program worked more effectively for single mothers. Because of the increase in labor force participation of single mothers during the late 1990s, more of these single mothers probably became eligible for UI when they became unemployed as a result of the recent recession. Although UI certainly did alleviate economic hardship for some, it did not fill the gap left by fewer welfare payments and earnings for many families. Since the definition of poverty includes UI and welfare payments, the fact that poverty increased means that UI did not fill the gap. For a variety of reasons, including sporadic work history, greater likelihood of part-time work, and a higher incidence of voluntary separation (due, for example, to child care problems) poor single mothers are among the least likely demographic group to qualify for unemployment insurance.²³ Some studies have found that, as a group, they were slightly more likely to be eligible for unemployment insurance benefits in the late 1990s than in the early 1990s.²⁴ One study reached an opposite conclusion.²⁵

There is little evidence to suggest that unemployment compensation worked significantly better after the 2001 recession that it can account for continuing declines in the TANF caseload. Consider the following facts – UI receipt among families with children increased less between 2000 and 2003 (2.7 percent) than between 1989 and 1992 (3.3 percent). Even more telling is that the increase in the number of individuals in families with children removed from poverty by UI was less following the most recent recession than in the prior recession. The number of individuals in families with children removed from poverty by UI increased by 625,000 between 1989 and 1992 but only increased by 480,000 in the 2000 to 2003 period. In addition, the percent of individuals in families with children who were removed from poverty by the UI program was lower in 2003 than in

1992 (See Appendix Table 1).²⁶ For UI to be a justification for declining TANF caseloads, unemployment compensation would have had to increase more and have been more effective in removing individuals from poverty in this recent recession compared to the prior recession.

Conclusion: TANF Performs Poorly During Recessionary Periods

During the recent recession of 2001 and the subsequent jobs slump, need for income assistance grew: poverty increased, especially among TANF’s target population of children and their families, and unemployment increased for women who maintain families, leaving them with fewer opportunities to support themselves. While other parts of the safety net expanded to meet the increased need, cash welfare assistance did not.

The only response from the Bush Administration is to continually repeat the rhetoric that welfare is working. The Administration refuses to acknowledge that decreased welfare receipt during a period of increased need is a problem. Welfare reform was supposed to increase economic self-sufficiency, not poverty. How successful is the new welfare program if it does not respond to deteriorating economic conditions facing those it is designed to help? It appears that the new welfare program is not up to the challenges of a recession or a jobs slump.

Many policymakers had cautioned that the success of welfare reform could not be completely assessed until the program experienced a full economic cycle. For example, a couple years after welfare reform was enacted, Rep. Robert Matsui said, “The success of this program isn’t going to be measured while we have this wonderful economy humming along. The success of this program is going to be measured when we have a recession.”²⁷

The program’s inadequate response during and following the most recent recession suggests that the entire program needs to be re-evaluated.

(Endnotes)

¹ Although a substantial portion of welfare expenditures is devoted for support services (such as child care, job readiness, and others), this paper examines caseload trends for cash assistance only.

² “Secretary Thompson Announces TANF Caseloads Declined in 2003,” HHS press release, Monday August 23, 2004. This statement is similar to previous ones given by Thompson. On May 21, 2002, Thompson declared, “Despite the soft economy and the tragic events of Sept. 11, the national welfare caseload did not increase. This is a testimony to the resilience of the TANF program and of TANF recipients themselves. Our reformed welfare system rose to the challenge. It continued to help recipients move toward work, and it continued to provide aid when needed.” (HHS press release: http://www.acf.dhhs.gov/news/press/2002/tanf_521.html) On November 1, 2002, Thompson stated, “This latest report simply reaffirms that welfare reform in America is working. Despite some tough economic times, our reformed welfare system continues to move more people off of public support and into the workforce.” (HHS press release: http://www.acf.dhhs.gov/news/press/2002/release_110102.html)

³ Statement from Wade Horn. See Robert Pear, “Despite Sluggish Economy, Welfare Rolls Actually Fell,” *The New York Times*, March 22, 2004.

⁴ *Indicators of Welfare Dependence: Annual Report to Congress 2004*, TANF Table 2, U.S. Department of Health and Human Services. Table IND 4a in this annual report illustrates that the steep decline in the TANF caseload was caused by a decline in the number of TANF eligible families. But an even more important factor was the decline in the participation rate – the percentage of eligible families participating in the TANF program. Of the 2.1 million decline in the number of participating families between 1996 and 2000, 1.2 million was due to the decline in participation and 0.9 million was due to the decline in eligible families. Also, as part of the shift in the program’s mission from simple income support to fostering economic self-sufficiency, states added a variety of support services, such as subsidized child care and transportation and job readiness in order to better equip poor single parents in finding and keeping the work necessary to avert a return to income support payments. Note that official caseloads figures do not include the thousands of families who do not receive cash assistance but do benefit from these other support services. These efforts have become increasingly larger parts of welfare program; in 2002 cash assistance accounted for only 38 percent of TANF funds (Congressional Research Service, *Welfare Reform Briefing Book*, “Expenditure Trends” <http://www.congress.gov/brbk/html/ebwlf21.html>).

⁵ See “Job Loss in the 2001 Recession Was Greater Than it Was in the Previous Recession but Federal Unemployment Insurance Was Less Generous,” Joint Economic Committee

Democrats, September 2004, for greater discussion of the weakness of the recent labor market.

⁶ As of August 2004.

⁷ JEC Democratic staff calculations.

⁸ Bureau of Labor Statistics, Table A-7. Selected unemployment indicators, <http://www.bls.gov/webapps/legacy/cpsatab7.htm>.

⁹ Ibid.

¹⁰ Tom Gabe, Congressional Research Service “Trends in Welfare, Work and the Economic Well-being of Female-Headed Families with Children: 1987–2002.” RL 30797; See Support Table 8. 2003 information provided in Congressional Research Service memorandum from Tom Gabe to Joint Economic Committee Democratic staff, September 20, 2004.

¹¹ These are calendar year figures calculated from monthly data from the Administration for Children and Families, Department of Health and Human Services. Figures include recipients in Separate State Programs (SSP). In 2003, there were nearly 5 million recipients under TANF and half a million under SSPs.

¹² Data for 1989 through 2002 are average monthly numbers for the calendar year from Table TANF 2 in *Indicators of Welfare Dependence: Annual Report to Congress 2004*, U.S. Department of Health and Human Services.

¹³ If one examines all welfare services, including funds for child care, transportation, and other services, the decline is not as marked.

¹⁴ These figures were calculated by JEC Democratic staff from the Current Population Survey.

¹⁵ Ibid.

¹⁶ Christine Scott, Congressional Research Service, “The Earned Income Tax Credit (EITC): An Overview Report,” RL 31768; Table 4. Figures for 2001-2003 data provided via email by Congressional Research Service, September 14, 2004.

¹⁷ The main TANF block grant has remained flat since 1996, not even adjusted for inflation. See “Missing the Mark,” Joint Economic Committee Democrats, forthcoming.

¹⁸ See Sharon Parrott and Nina Wu, “States Are Cutting TANF and Child Care Programs,” Center on Budget and Policy Priorities, Washington, DC, June 3, 2003.

¹⁹ Rebecca Blank and Ron Haskins, eds., *The New World of Welfare*, Brookings Institution, Washington, DC, 2001, p.20. Rebecca M. Blank is dean of the Gerald R. Ford School of Public Policy at the University of Michigan. Ron Haskins spent 14 years on the staff of the House Ways and Means Human Resources Subcommittee, first as welfare counsel to the Republican staff, then as the subcommittee’s staff director. He was the primary staff author of the 1996 welfare bill.

²⁰ HHS press release: http://www.acf.dhhs.gov/news/press/2002/release_110102.html November 1, 2002.

²¹ Based upon data from the Congressional Budget Office. The projected balances at the end of 2004 are estimated using CBO’s latest estimate of how much spending in 2004 exceeds the TANF grant levels for 2004.

²² Letter to the Editor from Wade Horn, "Lower Caseload Shows Welfare Reform Working," *Nashua Telegraph*, September 23, 2004.

²³ Kelleen Kaye, "Re-Examining Unemployment Insurance as a Potential Safety Net for Workers at Risk of Public Assistance Receipt," Prepared for the America's Workforce Network Research Conference, June 26-27, 2001.

²⁴ Rangarajan, Anu, Walter Corson and Robert G. Wood, "Is the Unemployment System A Safety Net for Welfare Recipients Who Exit Welfare for Work?" Mathematica Policy Research, Inc, originally prepared for presentation at the DOL/ETC National Conference on Workforce Security Issues, June 26-27.

²⁵ Boushey, Heather and Jeffrey B. Wenger, "UI Is Not a Safety Net for Unemployed Former Welfare Recipients," Center for Economic and Policy Research, December 4, 2003.

²⁶ If one examines UI receipt and the number removed from poverty by UI for single mother families instead of all families with children, the analysis changes somewhat. Increases in UI receipt and the number of individuals removed from poverty were larger between 2000 and 2003 than between 1989 and 1992 for single-mother families. However, the actual number of single-mother families receiving UI with incomes below TANF eligibility levels is far too small to justify the declining TANF caseload.

²⁷ At a House subcommittee hearing in March 1998. Referenced in Dave Williams, States News Service, "Florida, Federal Welfare Officials Clash with House Democrats," States News Service, March 19, 1998. Senator John Breaux made a similar statement to the Senate Finance Committee, "Now, as this country enters a recession, it is the true test of welfare reform's success." Referenced in "Staying off Welfare," *The Boston Globe*, November 25, 2001, Pg. D6.

Appendix

Table 1

TANF's Inadequate Response to Poverty During the Two Most Recent Jobs Slumps
(Individuals in Families with Children)

	1989	1992	Difference From 1989	2000	2003	Difference From 2000
Total Population (in thousands)	137,920	142,424	4,503	151,139	153,410	2,271
Number of Poor Individuals (in thousands):						
Earning and Self-Employment Income	29,899	34,365	4,466	26,014	29,067	3,053
Plus All Other Cash Income Except UI and TANF	24,774	29,035	4,261	20,437	23,317	2,880
Plus Unemployment Compensation Payments	24,448	28,052	3,604	20,173	22,570	2,397
Plus TANF Cash Income	23,485	26,833	3,348	19,665	22,180	2,515
<i>Reduction in Poverty Due to UI</i>	327	983	657	264	747	483
<i>Reduction in Poverty Due to TANF</i>	963	1,219	256	508	390	-118
Poverty Rate By Income Definition:						
Earning and Self-Employment Income	21.7%	24.1%	2.5%	17.2%	18.9%	1.7%
Plus All Other Cash Income Except UI and TANF	18.0%	20.4%	2.4%	13.5%	15.2%	1.7%
Plus Unemployment Compensation Payments	17.7%	19.7%	2.0%	13.3%	14.7%	1.4%
Plus TANF Cash Income	17.0%	18.8%	1.8%	13.0%	14.5%	1.4%
<i>Reduction in Poverty Due to UI</i>	0.24%	0.69%	0.45%	0.17%	0.49%	0.31%
<i>Reduction in Poverty Rate Due to TANF</i>	0.70%	0.86%	0.16%	0.34%	0.25%	-0.08%
Poverty Gap By Income Definition (in billions of 2003 dollars):						
Earning and Self-Employment Income	99.8	114.5	14.7	73.6	84.5	10.9
Plus All Other Cash Income Except UI and TANF	72.6	84.7	12.1	48.6	56.8	8.2
Plus Unemployment Compensation Payments	71.5	81.1	9.6	47.7	54.3	6.6
Plus TANF Cash Income	54.3	63.2	8.9	43.6	50.0	6.4
<i>Reduction in Poverty Due to UI</i>	1.1	3.6	2.5	0.9	2.5	1.6
<i>Reduction in Poverty Due to TANF</i>	17.2	17.9	0.7	4.1	4.3	0.2

Notes: This table reflects the poverty status of all persons in families with children. Families with negative incomes have their incomes set to zero. 1989 weight data is based upon revised 1990 decennial census population numbers found at www.census.gov/housing. Poverty thresholds for 1989, 1992, and 2000 are adjusted to reflect the CPI-U-RS index. The poverty gap amounts in this table for 1989, 1992, and 2000 are adjusted to a 2003 population basis by multiplying each year by the percent of population increase.

Source: Calculations by the Joint Economic Committee Democratic Staff based on data from the Current Population Survey.