



BRIEF ANALYSIS

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Welfare Reform: Reasons To Stay the Course

by Joe Barnett

The number of Americans receiving cash welfare — called Temporary Assistance to Needy Families (TANF) — has fallen in half; the number of Americans living in poverty has fallen 21 percent; and the annual incomes of the poorest women have increased nearly \$1,000. The 1996 federal welfare reforms are partly responsible for these positive trends.

Concerns remain that some who have left the welfare rolls — mostly women with children — do not have “decent jobs” that will lift them out of poverty. However, the evidence shows that although some welfare leavers face the same hardships they experienced while receiving assistance, their living conditions improved, and even women with low wage jobs are making economic progress.

Less Poverty. The U.S. poverty rate is the proportion of families or households with a cash income below the federal poverty threshold, which was \$13,874 for a single parent with two children in 2000. According to the most recent Bureau of Labor Statistics (BLS) data, the poverty rate has declined in recent years:

- The number of American households in poverty declined from 39 million in 1993 to 31 million in 2000.
- More importantly, the number of children in poverty declined from 16 million in 1993 to 11.5 million in 2000.

Most of the decline in poverty rates came after 1996, when federal welfare reform was enacted.

Although the reduction in poverty is welcome, the poverty level is not the best indicator of material depriv-

ation (or “want”) in America. It was arbitrarily set at three times estimated food costs for a family in the 1960s, rather than being based on actual living expenses. And the Consumer Price Index used to update the poverty threshold annually overstates increases in the cost of living. Furthermore, in determining whether a family falls below the poverty threshold, only money income is counted. Noncash benefits such as medical care, food stamps and public housing are ignored.

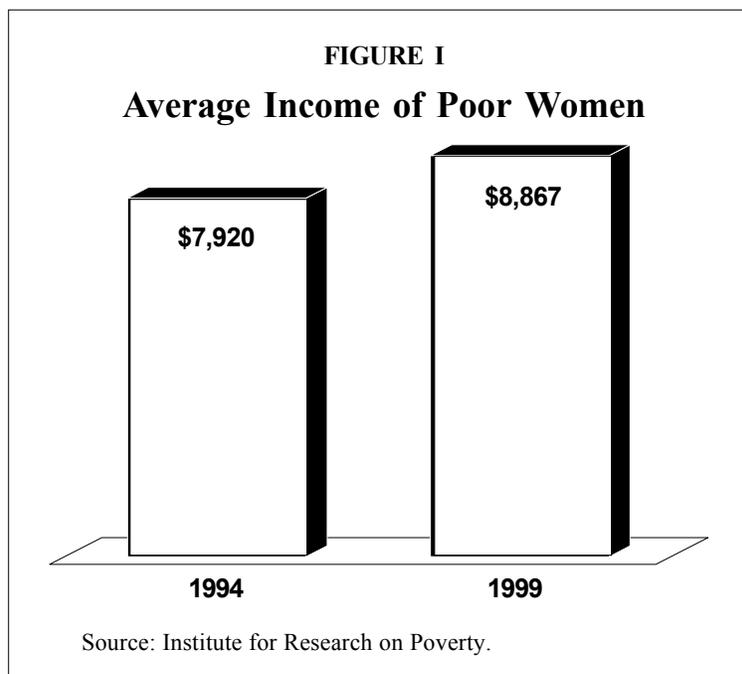
Higher Incomes. Unlike previous periods of high employment, when welfare caseloads barely budged, from 1996 to early 2001 the TANF caseload fell from 4.6 million families to 2.1 million. The caseload decline was sharpest among younger mothers (ages 18–24) and mothers with younger children.

Studies of women leaving welfare indicate that about two-thirds are working at any point in time, and a total of 80 percent are either working or seeking work. This transition from welfare to work contributed to an overall increase in the

labor force participation of never-married mothers from slightly less than 50 percent in 1994 to almost 65 percent in 1999. As a result of increased work by women (see figure):

- The poorest fifth of mothers saw their average incomes increase from \$7,920 in 1996 to \$8,867 in 2000 — an average increase of 2.75 percent per year.
- The proportion of their income from personal earnings jumped from 26 percent to 36 percent, while the proportion of their income from welfare fell from 53 percent to 37 percent.

Increased Consumption. The living conditions of poor families have improved steadily, and by much more than the fall in poverty rates suggests. For the bottom fifth



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of households, expenditures typically exceed income by more than 100 percent. In the latest BLS survey, for every dollar of reported pretax income in 2000, the poorest fifth of American households reported spending \$2.31.

This consumption reflects the lack of substantial material want among most poor people. A Census Bureau study of major consumer durable goods owned or rented in 1992 by the poor in general and welfare recipients in particular found that 92.2 percent of those on welfare had access to color televisions, while 60 percent of the poor and almost as high a percentage of those on welfare had access to VCRs. Over time, according to Census data, the material well being of those below the poverty level has improved. For example:

- Although almost 30 percent of African American households below the poverty level lacked some plumbing facilities (hot water, flush toilet, and/or shower-bathtub) in 1970, by 1999 the figure was less than 3 percent.
- Between 1970 and 1999, the proportion of poverty-level black households with telephones and clothes dryers jumped by more than 30 percentage points.
- And between 1985 and 1999 alone, median per capita floor space for poor black households rose by about 25 percent.

An April 2002 Joyce Foundation study found that some who have left welfare continue to face such financial hardships as having a utility cut off or occasionally being late with a rent check. However, the study found that “moving from welfare to work does not necessarily increase such hardships. Michigan researchers found that those who had left welfare and were relying on wages were better off on several of these measures than those who were still on welfare or who had left welfare but had no jobs.”

More Help. Although welfare caseloads have been cut in half, federal funding has remained stable at \$16.5 billion a year. This has allowed states to substantially increase funding for noncash benefits to working families. According to the General Accounting Office, in Fiscal Year 1995, spending on cash benefits totaled 71 percent of spending under the old Aid to Families with

Dependent Children. In FY 2000, cash assistance was only 43 percent of TANF spending.

The rest of the \$16.5 billion TANF budget in 2000 was spent on noncash services for welfare recipients and the working poor. The major noncash benefit was child care, which accounted for about 20 percent of noncash TANF-funded benefits.

Of course, TANF is only a small portion of total spending on the poor. In 2000, combined federal and state spending on means-tested programs totaled \$434 billion, according to Robert Rector of the Heritage Foundation.

More Mobility. Although many welfare leavers were initially employed at low-wage jobs, by working they improved the probability that their future incomes will be higher. A 1995 Dallas Federal Reserve Bank study that tracked the income progress of Americans over 17 years found that:

- Of those in the bottom fifth of income in 1975, just 5 percent were still in the bottom income bracket in 1991 and only 2.3 percent failed to increase their absolute level of income.
- Sixty percent climbed all the way to the top 40 percent of all earners.
- Similarly, a 1992 Treasury Department study showed that between 1979 and 1988, 86 percent of those in the bottom quintile moved to a higher quintile, and 35 percent in the top quintile moved to a lower quintile.

The Census Bureau found that the lower one's current annual income, the greater the likelihood that it would rise the following year. Thus, among those whose 1992 family income was below the poverty level, 51 percent saw their income rise the following year, while just 29 percent experienced drops.

Conclusion. Those who left welfare for employment took the first step up the economic ladder. Thus, while the early reduction in poverty rates was welcome, the broader benefits of welfare reform will be experienced for years to come as more young mothers and their children escape poverty and dependency.

Joe Barnett is an editor-analyst with the National Center for Policy Analysis.

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