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What Accounts for Recent Declines in Welfare Caseloads?

Since Congress enacted welfare reform in 1996, states have had more flexibility in designing their own welfare programs. With this flexibility has come an increased interest in accountability at the state level. Like other states, California is frequently evaluated according to declines in its welfare recipiency rate. Although California's caseload rate fell 43 percent between 1996 and 2000, that decline lags the national average. Even compared to other large, high-immigrant states, California has not done well by this standard. Among the five largest states in the nation, only New York had a smaller decline in recipiency rates, while Texas, Florida, and Illinois all performed above the national average.

These results raise a key question: What accounts for this variation in caseload declines, especially among large, high-immigrant states? In *Does California's Welfare Policy Explain the Slower Decline of Its Caseload?* Thomas MaCurdy, David Mancuso, and Margaret O'Brien-Strain examine the variation in recipiency rates among the five largest states both before and after the welfare reforms of 1996. Using statistical techniques to measure the relative effects of economic, demographic, and policy factors, they find that those effects changed markedly over time. Between 1989 and 1996, economic and demographic factors accounted for most of the variation in welfare recipiency rates; after 1996, however, policy decisions at the state level were the most important factor in explaining caseload variations across states.

Before Reform: It's the Economy—and Demography

In the prereform period, federal waivers from program requirements were used to test various reform options. To assess the effects of these early policy changes, the authors compare the caseload variation across states with different types of waivers. These comparisons indicate that policy differences account for very little of the variation in caseload decline. Only three waiver types—full-family sanctions, termination time limits, and reduced exemptions from training and employment programs—appear to have had any effect on welfare caseloads. Moreover, even these characteristics have weak causal links to lower recipiency rates during this time.

In contrast, economic and demographic trends greatly influenced the state's caseload in the prereform period. California experienced an unusually severe recession in the early and mid-1990s, and even by 1999, the unemployment rate had not dropped to 1989 levels. This recession precipitated both a larger drop and a slower recovery of wages for workers at the bottom of the income distribution. California also had higher rates of nonmarital births than other states and a very high proportion of immigrants legalized under the Immigration Reform and Control Act of 1986 (IRCA). In fact, California received over half of the immigrants legalized under IRCA and over twice as many as Texas, the state that received the next highest number. Compared to immigrants who entered the United States legally, IRCA immigrants were more likely to be poor. Moreover, IRCA may have encouraged resident immigrants to apply for benefits for their citizen children, even if the parents were barred from public assistance. Finally, IRCA may have led to additional immigration as legalized immigrants brought their families to the United States. In short, trends in nonmarital births and immigration increased the pool of Californians who were likely to receive welfare.

Taken together, the effects of these trends account for most of the variation across states in caseload growth between 1989 and 1996. The authors estimate that if California's economic and demographic trends had matched those of the average state, welfare recipiency rates would have *decreased* 5 percent during this period. In fact, these rates *increased* 44 percent.

After Reform: State Policies Matter

After 1996, the factors influencing recipiency rates changed substantially. Beginning in that year, sanctions and benefits began to differ considerably across states, and the role of policy decisions in determining caseload declines became more pronounced both nationally and in California. More severe sanctions, especially full-family sanctions the first time a recipient fails to comply with program requirements, were associated with significant caseload reductions. Likewise, less generous maximum grants and lower income cutoffs for receiving aid were linked to large reductions in recipiency rates.

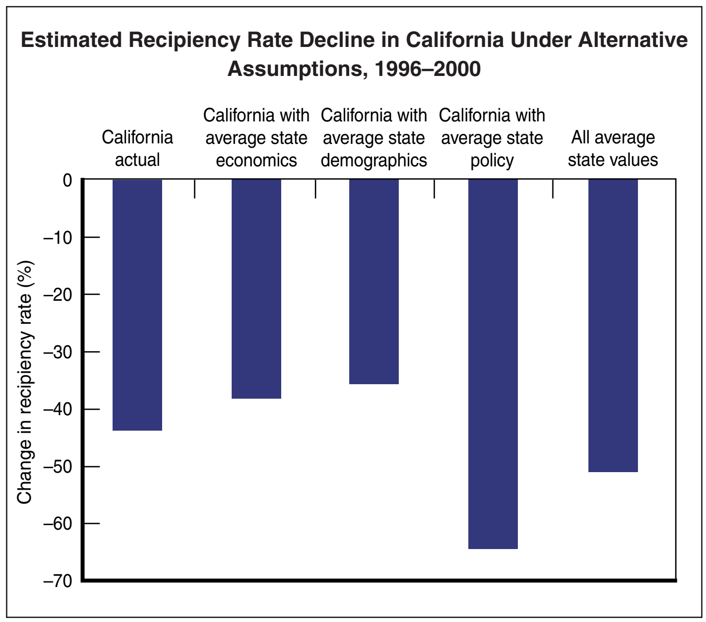
The authors note that California is one of the most generous states in terms of both sanctions and benefits. It offers large grants, has the highest income cutoffs, and allows children to continue receiving public assistance after their parents are sanctioned or hit time limits. These program characteristics explain more of California's relatively small caseload decline since 1996 than economic and demographic trends do. The authors estimate that if California had Illinois's welfare sanctions and benefit levels, its caseload drop would have been above the national average.

In contrast, economic conditions and demographic factors play virtually no role in explaining California's relatively small caseload decline after 1996. Indeed, California had favorable economic and demographic conditions compared to the rest of the United States during this period. Although these factors continued to figure in California's caseload trends, the authors estimate that policy choices account for two to three times the variation in these trends than is attributable to economic and demographic factors.

Are Caseload Declines the Best Way to Measure Policy Success?

In the early 1990s, welfare recipiency rates in California increased relative to other states; since 1996, its caseload decline has lagged those of other states. The analysis indicates that California's economic and demographic challenges explain most of the former phenomenon and its relatively generous welfare policies help account for the latter. The authors estimate that if California had adopted the opposite strategy of high sanctions and low benefits after 1996, its recipiency rate would have dropped an extra 36 percentage points.

The authors note that California's relatively generous policies reflect a political decision. Low benefits, low cutoff points, and stringent sanctions are known to reduce caseloads, but the private and social costs of these policies are less well known. Caseload reductions could come at the cost of substantially lower income for families and reduced well-being for the children of former welfare recipients. In designing California's policies, state officials intended not only to encourage welfare recipients to work but to support current participants while they worked. The state's high-benefit strategy certainly achieves this goal; California leads almost all states in the percentage of aided adults involved in unsubsidized employment. Given these goals, the authors conclude that caseload drops alone should not be the final yardstick for evaluating California's welfare policies.



If California had adopted the welfare policy of the average state, its caseload would have topped 60 percent—over 10 percentage points more than the national average.

This research brief summarizes a report by Thomas E. MaCurdy, David C. Mancuso, and Margaret O'Brien-Strain, Does California's Welfare Policy Explain the Slower Decline of Its Caseload? *(2002, 100 pp., $7.00, ISBN 1-58213-032-9). The report may be ordered by phone at (800) 232-5343 [U.S. mainland] or (415) 291-4400 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, objective, nonpartisan research on economic, social, and political issues affecting California.*

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