



The Role of Welfare during a Recession

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Changes to welfare have significantly curtailed the role that the Temporary Assistance for Needy Families (TANF) program can play in cushioning the current recession. Historically, welfare caseloads rose during recessions, lagging behind the increases in unemployment (Council of Economic Advisers 1997). Unemployed parents who were either not eligible for unemployment insurance or who had exhausted these benefits often turned to welfare for cash assistance. But reforms in 1996 eliminated the individual entitlement to welfare and, more recently, stricter work-participation requirements were set. Most likely, Congress will need to consider increasing program funds and relaxing the work-participation requirements if this recession turns out to be long and deep, as many predict.

Background

TANF, like its predecessor, the Aid to Families with Dependent Children (AFDC) program, offers the only source of cash assistance to families with children and very low incomes that is not contingent on prior work history. Before TANF took hold, all eligible families were “entitled” to assistance. Now, the federal government provides states an annual block grant fixed at about \$17 billion to run their TANF programs, and states must maintain 80 percent of their prior spending on programs that TANF replaced.¹ This new financing arrangement also gave states enormous latitude in program design.

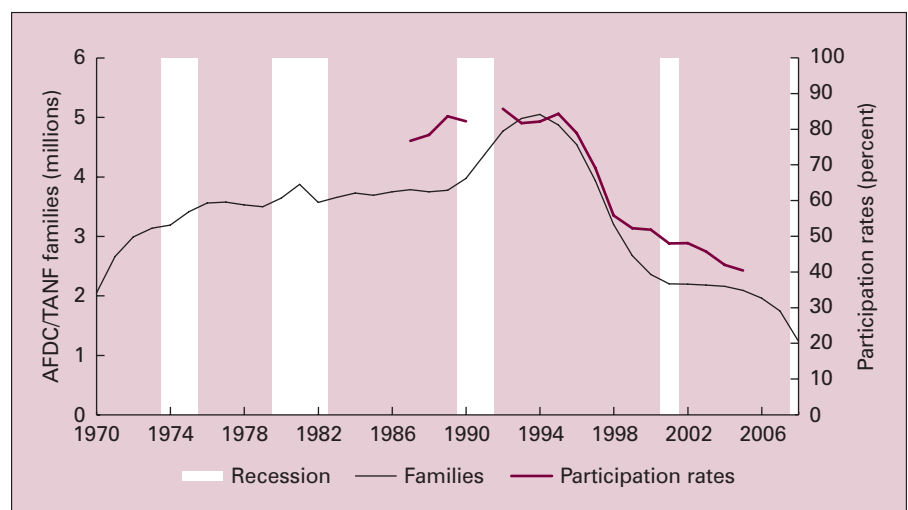
TANF also initiated five-year lifetime time limits on benefits paid through the federal block grant, though states can exempt up to 20 percent of the caseload from this limit. States can pay benefits beyond the time limit using their own money. Finally, on pain of a financial penalty, federal rules also require states to show that at least half of the caseload participates in work-related activities.

Response to Economic Downturns

Welfare caseloads rose during recessions until the introduction of TANF (figure 1). The recession of 1990–91 and the weak labor market through 1992 helped drive welfare caseloads up steeply (CEA 1997). Caseloads began falling rapidly after 1994 as the economy expanded and welfare policies changed. Surprisingly, the decline continued during the 2001 recession, albeit more slowly. Caseloads have also dropped since the start of the 2008 recession.²

The policy changes behind this steep decline in welfare caseloads after 1994 have also reduced the participation rate (the share of eligible families that receives benefits). Declining real benefits, work requirements, sanctions for failure to meet particular rules, time limits, and state strategies that divert families from enrolling all play a part. On balance, the participation rate has fallen markedly since TANF replaced AFDC (figure 1).

FIGURE 1. AFDC/TANF Families and Participation Rates, Fiscal Years 1970–2008



Source: AFDC/TANF caseload data are from *TANF Seventh Annual Report to Congress*; participation rates are from *Indicators of Welfare Dependence Annual Report to Congress*, 2007.

Notes: The caseload data are for fiscal years 1970–2008 while the participation rates are for selected calendar years. The 2008 caseload is the average monthly number of families for October 2007 to June 2008. Starting from 2000, AFDC/TANF families include families in separatestate programs. The 2005 participation rate is from an Urban Institute model, TRIM3 (trim3.urban.org).

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Welfare spending has tracked caseload trends and such policies as benefit levels and spending on related services (figure 2). A fixed block grant means that spending generally declines in real terms. States may qualify for a share of TANF's \$2 billion contingency fund during an economic downturn, but state matching funds are required. States spent more during the 2000–03 period than during the early years of TANF, as their programs matured and they used block grant reserves built up earlier to fund child care and employment-related services. For example, in 2006 (the last year for which there are data), states spent 41 percent of their TANF resources on cash assistance and 59 percent on such services as child care (U.S. Department of Health and Human Services 2008).

Implications

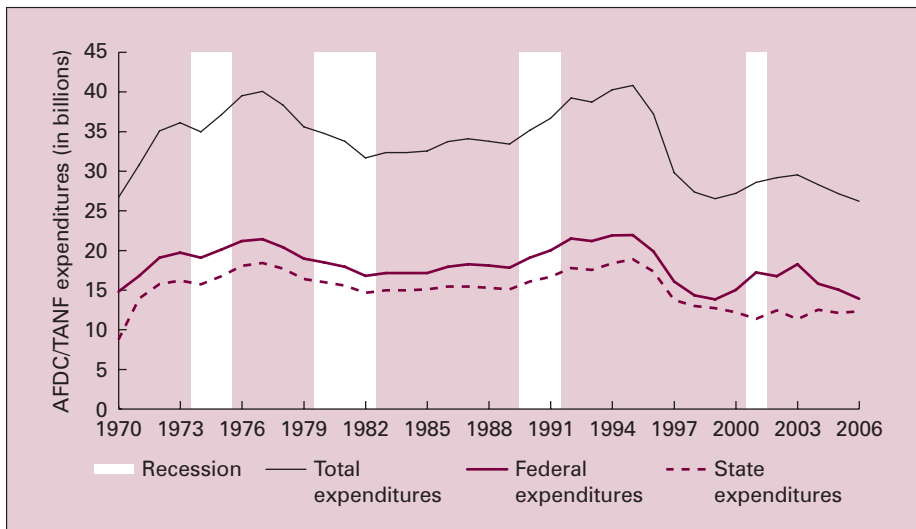
How TANF will serve families should a deep recession unfold and long-term unemployment climb remains unclear. Some families living in states with strict

time limits have already reached their limits, and others have little time left. Also, changes in TANF that discourage enrollment are unlikely to change.

The fixed TANF block grant will also limit the program's response. If more families apply for cash assistance, less will be available for child care and employment-related services. Such shifts would hamper states' abilities to provide work supports when parents need them most to get back into the labor market.

Congress may have little choice but to revisit the TANF program. Options include increasing states' block grants (without the additional state matching funds required by the contingency fund), providing relief from stricter work requirements, and increasing the share of the caseload that states can exempt from federal time limits. New provisions could be triggered by high state or federal unemployment rates to maintain core TANF goals while ensuring families get help during tough economic times.

FIGURE 2. AFDC/TANF Expenditures, Fiscal Years 1970–2006



Sources: Data for 1970–89 are from 1990 Green Book; data for 1990–2001 are from 2004 Green Book; and data for 2002–06 are from TANF financial data on the HHS web site (<http://www.acf.hhs.gov/programs/ofs/data/index.html>).

Notes: Expenditures are expressed in 2007 dollars. Total expenditures for 1970–89 include Emergency Assistance (EA) but not the Job Opportunities and Basic Skills Training Program (JOBS) (begun in 1988) or its predecessor, the Work Incentive Program. EA is not included in federal and state breakout for 1970–89 due to lack of availability. Total, federal, and state expenditures for 1990–2001 include expenditures for TANF and predecessor programs (AFDC, EA, and JOBS).

Notes

1. TANF replaced AFDC, Emergency Assistance, and Job Opportunities and Basic Skills Training. The federal block grant was set at the maximum level of state spending in one of three base periods (see Zedlewski et al. 2002).
2. Caseloads declined between January and June, 2008, in all but seven states—California, Delaware, Florida, New Mexico, South Carolina, Washington, and West Virginia.

References

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