

What Role Is Welfare Playing in This Period of High Unemployment?

Sheila Zedlewski and Pamela Loprest with Erika Huber

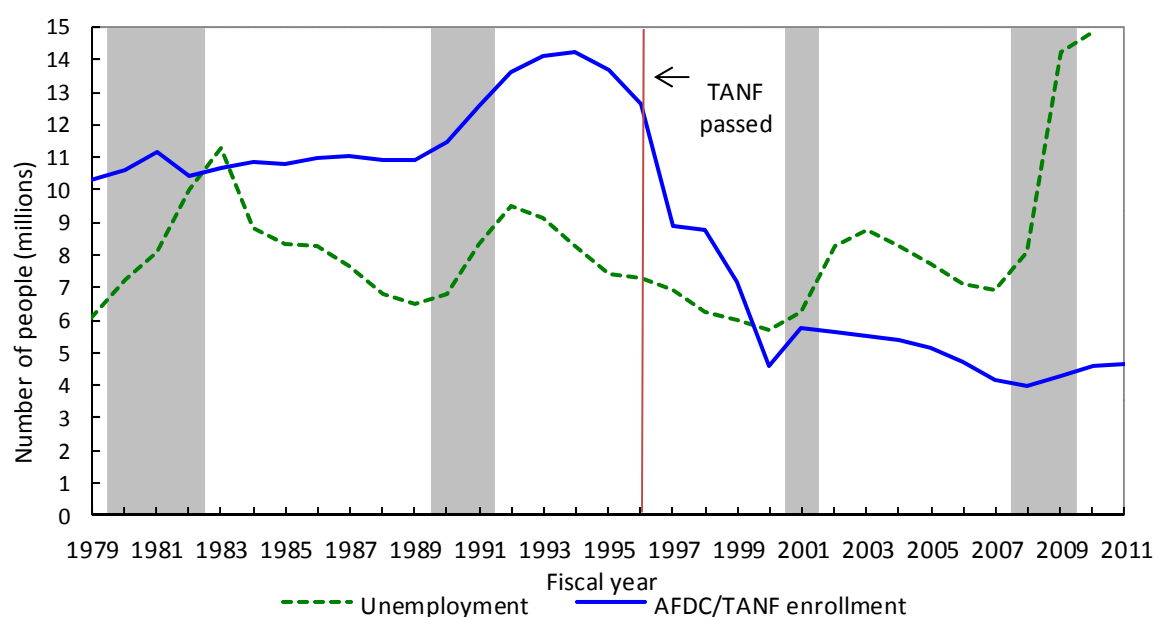
Temporary Assistance for Needy Families (TANF), the nation's cash assistance program for poor families with children, has not played much of a countercyclical role during the current recession (figure 1). Since the start of the recession in 2007 through 2010, the unemployment rate increased by 88 percent while national TANF caseloads increased by only 14 percent. This pattern contrasts with the response of welfare before passage of TANF when caseloads rose as unemployment increased. While we don't know precisely why the response to rising unemployment has been modest, some reasons likely include the following:

- Unemployment benefits substitute for welfare: three in ten low-income (below 200 percent of the federal poverty level) single parents received unemployment benefits in 2009, double the share receiving in 2005.¹ This suggests that as more single mothers went to work

during the late 1990s and early 2000s, more could qualify for unemployment benefits in the event of job loss. Also, many states have recently expanded eligibility for unemployment benefits.²

- State TANF policies discourage welfare use: TANF benefits have remained flat over the past 15 years in most states, diminishing the value to low-income families. Maximum TANF cash benefits are less than 30 percent of the federal poverty threshold in 30 states (Zedlewski and Golden 2010). Also, many states actively discourage applicants from enrolling in TANF.³
- Attitudes are changing about participation: the share of families eligible for welfare assistance that enroll in the program has dropped from over 80 percent before TANF in 1996 to 40 percent in 2005.⁴

Figure 1. Unemployment and AFDC/TANF Enrollment, 1979–2011



Sources: Administration for Children and Families, Bureau of Labor Statistics, and National Bureau of Economic Research.

Note: Gray bars indicate recessions.

TANF Responsiveness Varies across States

The response of TANF to changes in unemployment has varied tremendously across states (table 1). Since the start of the recession through calendar year 2010, TANF caseloads have dropped in 13 states, including a 48 percent decline in Arizona.⁵ TANF caseloads increased in other states. Caseloads rose by 78 percent in New Mexico and by 70 percent in Oregon.

The caseload changes do not track very well with unemployment changes in the states. For example, unemployment rose by 146 percent in Arizona, but it had the largest decline in TANF caseloads among all states. The

unemployment rate doubled in five states with TANF caseload declines. Unemployment increased by a relatively modest 41 percent in Oregon, yet it saw the second-largest increase in TANF caseloads. Numerous factors account for differences across states, including states' unemployment insurance policies (states with broader eligibility likely will see less response in TANF caseloads) and TANF policies (some states responded to families' greater need for assistance more than others). In addition, TANF caseload increases have traditionally lagged increases in unemployment, making the dynamics of unemployment an important factor in explaining TANF caseload change.

Table 1. 2007–10 Change in Unemployment Rate and TANF Caseloads by State

State	TANF caseload, 2010	% change in caseload from 2007	% change in unemployment rate from 2007	State	TANF caseload, 2010	% change in caseload from 2007	% change in unemployment rate from 2007
Alabama	24,212	30	139	Montana	3,694	16	106
Alaska	3,572	20	27	Nebraska	8,445	12	48
Arizona	19,366	-48	134	Nevada	11,066	49	198
Arkansas	8,632	-1	55	New Hampshire	6,168	37	65
California	601,226	26	116	New Jersey	35,330	3	102
Colorado	8,064	-11	123	New Mexico	21,664	78	146
Connecticut	16,750	-14	84	New York	158,133	1	74
Delaware	5,754	44	118	North Carolina	23,639	-4	96
District of Columbia	6,122	17	75	North Dakota	1,931	-7	27
Florida	58,144	20	155	Ohio	103,513	28	67
Georgia	20,686	-9	100	Oklahoma	9,471	6	89
Hawaii	10,136	53	110	Oregon	32,884	70	104
Idaho	1,858	22	194	Pennsylvania	59,304	7	89
Illinois	27,177	32	67	Rhode Island	6,778	-19	92
Indiana	31,461	1	107	South Carolina	19,038	32	98
Iowa	21,100	7	56	South Dakota	3,290	13	68
Kansas	15,647	22	70	Tennessee	63,149	14	74
Kentucky	31,336	7	84	Texas	52,972	-7	89
Louisiana	11,117	0	108	Utah	5,716	11	150
Maine	15,448	26	56	Vermont	3,335	-21	41
Maryland	26,160	28	106	Virginia	37,105	20	100
Massachusetts	51,179	-2	89	Washington	69,805	34	98
Michigan	67,596	-2	54	West Virginia	10,676	22	137
Minnesota	24,726	-6	47	Wisconsin	25,270	42	67
Mississippi	12,078	4	67	Wyoming	312	18	146
Missouri	39,606	1	81	U.S. totals	1,947,957	14	88

Sources: Administration for Children and Families and Bureau of Labor Statistics.

Note: Caseload data are as of December 2010.

The TANF Financing Arrangement Limits the Program's Responsiveness

TANF's financing structure no doubt played a role in restraining the program's responsiveness to rising unemployment. The legislation that enacted TANF in 1996 changed federal welfare financing from an open-ended entitlement to a series of fixed block grants to the states. States are required to maintain only 80 percent of their pre-TANF spending. TANF expenditures began at \$24.7 billion in 1997 (state spending was low during program implementation), rose to \$31.1 billion in 2001, and declined to \$25.6 billion in 2009 (figure 2).⁶

The 2009 American Recovery and Reinvestment Act (ARRA) created a new \$5 billion TANF emergency contingency fund to allow states to apply for funds to cover increasing needs for basic assistance, nonrecurring short-term benefits, and subsidized employment. The federal government paid for 80 percent of the costs. When the funding ended in September 2010, all \$5 billion was spent. Thirty-nine states and the District of Columbia used \$1.3 billion of these funds to create new subsidized employment programs; other funds were used to pay for increased benefits and emergency assistance (Pavetti, Schott, and Lower-Basch 2011). ARRA accounted for \$0.5 billion in TANF spending in 2009 (the latest data available).

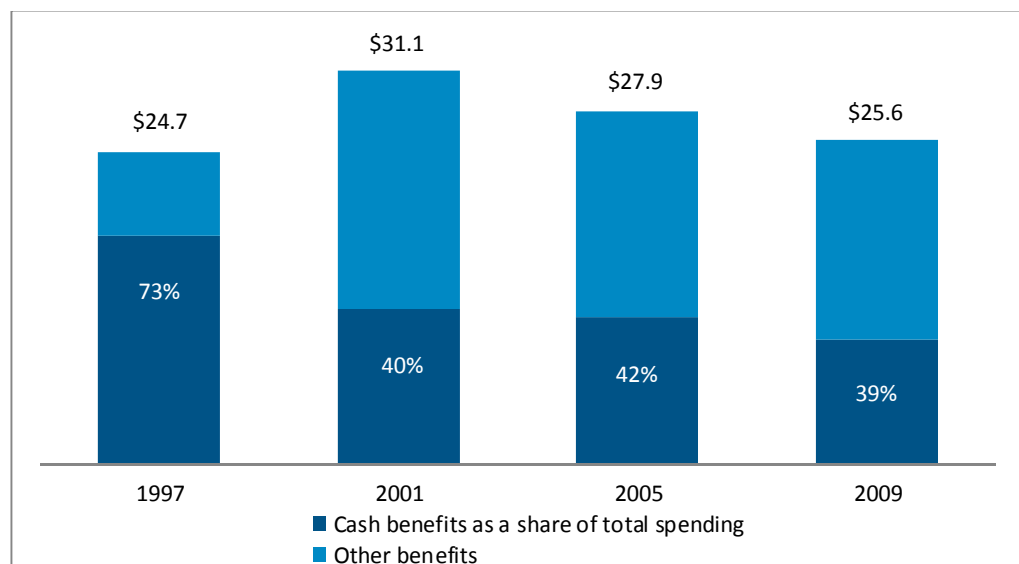
The change in TANF financing also gave states much more flexibility in how they spend the funds. The law restricts the funding only to supporting low-income families. States spend TANF funds for basic assistance (cash benefits), work activities, child care, transportation, emergency assistance, and many other needs. The share of total expenditures for cash assistance dropped from 73 percent of expenditures in 1997 to 39 percent in 2009 (figure 2).

Implications of TANF Policy for Unemployed Families

Relatively low TANF caseloads and dramatic variation in programs across the states lead to wide variation in the share of poor families with children receiving TANF (figure 3). For example, 80 percent of poor families in California received TANF in 2009, compared with only 8 percent of poor families in Texas. Less than a quarter of poor families received TANF in 21 states in 2009.

Low receipt of TANF coupled with high rates of unemployment have led to increases in the share of disconnected families—those without earnings or cash government assistance. About one in eight low-income single mothers was disconnected in 1996, but about one in five was disconnected from 2004 to 2008 (Loprest and Nichols 2011).

Figure 2. TANF Expenditures, Selected Years from 1997 to 2009 (billions of 2009 dollars)



Source: U.S. Department of Health and Human Services, Administration for Children and Families, "TANF Financial Data," Table F, Combined Spending of Federal and State Funds, <http://www.acf.hhs.gov/programs/ofs/data/index.html> (various years).

Notes: Excludes unobligated balances and transfers of TANF block grant to CCDF and SSDBA. 2009 TANF expenditures include \$0.5 billion in emergency funds from the American Recovery and Reinvestment Act.

Fixing TANF and Other Policies to Withstand Future Recessions

TANF must be reauthorized before the end of September 2011, and this will likely occur through a continuing resolution rather than debate over how to make the program more responsive in a recession. The TANF program is overdue for a serious review of its effectiveness during economic downturns. TANF has a strong work message that has functioned well during periods when jobs are available; it should have a countercyclical component as well.

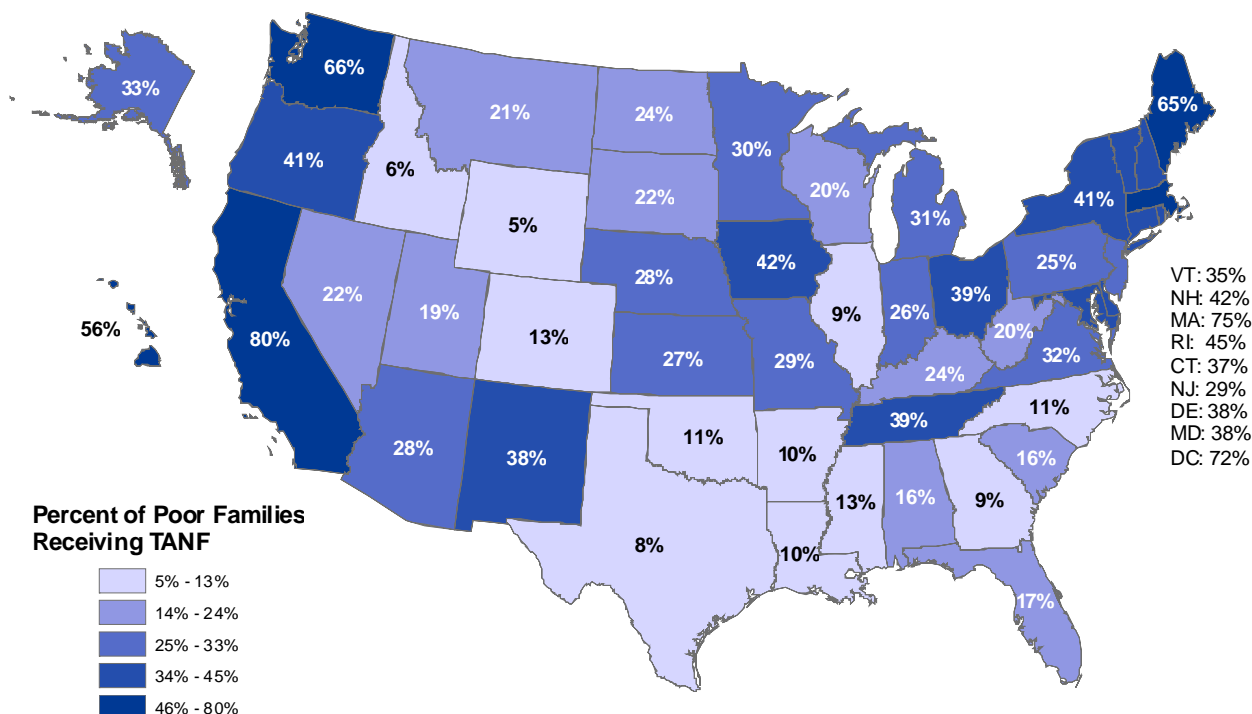
ARRA helped states respond to increasing needs, and many of its features could be made permanent parts of TANF. Federal block grant funds could automatically rise in states experiencing high unemployment and increasing demand for benefits, and the program could include funds and incentives to encourage subsidized jobs programs. States also could be allowed to count training and education for their TANF caseloads as a work activity during periods

of high unemployment so more parents can regain jobs when the economy turns around. Despite huge pressure to reduce the federal budget, these investments would be relatively small and could have huge payoffs in the future.

Notes

1. Tabulations from the 2009 Survey of Income and Program Participation by Austin Nichols, the Urban Institute, 2011.
2. Many states expanded eligibility as a result of financial incentives in the American Recovery and Reinvestment Act, or ARRA (National Employment Law Project 2010).
3. Examples include diversion policies that offer a short-term benefit in lieu of cash assistance (37 states) and requirements that applicants demonstrate numerous job applications before enrollment (20 states). See Zedlewski and Golden (2010).
4. U.S. Department of Health and Human Services, "2008 Indicators of Welfare Dependence: Chapter II. Indicators of Independence," <http://www.aspe.hhs.gov/hsp/indicators08/ch2.shtml>.

Figure 3. Ratio of the TANF Caseload to the Number of Poor Families, 2009



5. We report federal caseload data that exclude families with children in separate state-funded programs but include families receiving earnings supplements. See Pavetti, Trisi, and Schott (2011).
6. The 2009 expenditures include \$0.5 billion in emergency funds from ARRA.

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About the Authors

Sheila Zedlewski is an Institute fellow in the Urban Institute's Income and Benefits Policy Center. **Pamela Loprest** is director of the Income and Benefits Policy Center, and **Erika Huber** is a research assistant in the center.