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2004 Elections Project
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POLICY BRIEF ▪ WELFARE REFORM

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THREE PATHS TO WELFARE REFORM IN THE UPPER MIDWEST

Minnesota, Michigan, and Wisconsin represent three distinct paths to welfare reform. Minnesota has focused on promoting work and reducing poverty and Wisconsin has emphasized the reduction of welfare dependency. Michigan has adopted a program model that is between these two approaches. While all three states had large declines in caseloads between 1996 and 2003, Minnesota and Michigan appear to have been more successful in decreasing child poverty. These state experiences are representative of the nationwide trend where welfare reform has contributed to decreases in welfare caseloads and increases in employment, while it has much less consistently increased income or decreased poverty.

The policy context

Starting in the 1980s, and accelerating in the 1990s, states have experimented with welfare reform through a federal waiver process that allows states to modify their welfare programs. In 1996, the federal government passed landmark legislation that replaced the Aid to Families with Dependent Children (AFDC) with a new program, Temporary Aid to Needy Families (TANF). This legislation imposed new mandates on states, including a 60-month lifetime limit on welfare use, an increase in required work activities for welfare recipients, and restrictions on eligibility for legal immigrants. This federal legislation also substantially increased state flexibility in determining how and to whom they deliver cash assistance.

The experience of three states—Minnesota, Michigan, and Wisconsin—provides an indication of the range of approaches that states have adopted to reforming their welfare systems. These programs are compared in Table 1 (see next page).

Minnesota is one of the few states to focus on poverty reduction as an explicit goal of welfare reform. To achieve this objective, Minnesota allows welfare recipients to deduct up to 38% of their earnings before computing their grant amount. This provision makes it possible for some families to bring their combined work and welfare income above the poverty level. It also increases the financial reward to recipients for working.

By contrast, the Wisconsin program places a high priority on decreasing welfare dependency. For this reason, it has implemented a diversion program that is intended to limit cash payments to families with serious barriers to work. Families who are determined to be job ready are not eligible for cash assistance, although they may receive help finding a job.

The Michigan approach falls between the Minnesota and Wisconsin models. Michigan does not operate a diversion program, as does Wisconsin. In addition, Michigan adopted an earnings disregard that was roughly half the size of that in Minnesota. Unlike both Minnesota and Wisconsin, Michigan does not enforce a lifetime limit on the number of months of welfare receipt. Instead, it has decided to use state funds to continue to support families after they become ineligible under federal program requirements.

All three states have implemented work activity requirements to encourage welfare recipients to work, although these requirements are much more vigorously enforced in Wisconsin

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Table 1: Three Models of Welfare Reform

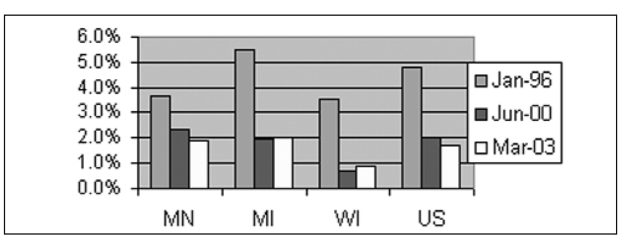
	Monthly Grant for Family of 3	Treatment of Earnings in Computing Grant	Diversion Program	Adults in Work Related Activities	Lifetime Time Limit
Minnesota	$532	38% of recipients earnings disregarded	Limited program	31.2%	60 months
Michigan	$459	$200 and 20% of remaining earnings disregarded	No	28.9%	None
Wisconsin	$673	None	Yes	69.4%	60 months

than in the other two states. In fiscal year 2002, nearly 70% of adults receiving cash assistance in Wisconsin participated in a work activity, compared with roughly 30% in Minnesota and Michigan. Wisconsin also had much more participation in community work experience and employment and training than did Minnesota or Michigan, which relied primarily on private employment and job search assistance.

Outcomes in Minnesota, Michigan, and Wisconsin

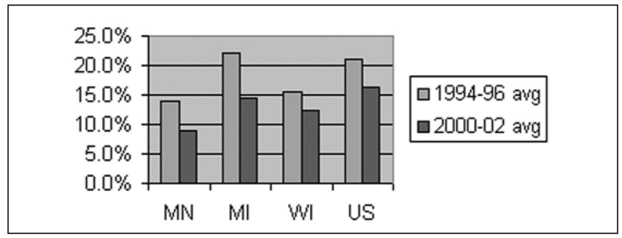
Welfare caseloads substantially declined between January 1996 and June 2000 in all three states, though caseloads have increased slightly in Michigan and Wisconsin more recently. Figure 1 compares the share of the state population receiving TANF in each of the three states before and after welfare reform. It shows that from January 1996 to March 2003 welfare caseloads per capita decreased by 80% in Wisconsin, compared with 64% in Michigan and 35% in Minnesota. Nationwide the change in caseloads was closest to that in Michigan, with an average decline of 57% in recipients per capita between 1996 and 2003.

Figure 1: Percent of State Population Recieving TANF



Even as caseloads fell dramatically in all states, Minnesota and Michigan enjoyed far more success in reducing child poverty than did Wisconsin. Figure 2 compares child poverty rates in each state before and after welfare reform was implemented. From 1994–96 to 2000–02, child poverty rates decreased by 40% in Minnesota and by 30% in Michigan. By contrast, there was almost no change in child poverty in Wisconsin during the same period.

Figure 2: Poverty Rate of Children Under 18



How much of recent reductions in poverty and welfare caseloads can be attributed to the economy?

Economic growth may have contributed to the recent decline in TANF caseloads and in child poverty levels but it is not the sole driver. State policy changes may also have been critical. Child poverty rates declined more markedly in Minnesota and Michigan than in Wisconsin even though there is little evidence that the economy improved more in Minnesota and Michigan than it did in Wisconsin.

Figure 3 indicates that all three states have enjoyed similarly strong growth in real per capita personal income throughout this period, although these growth rates have been negligible since 2000.

Figure 3: Annual Growth in Personal Income per Capita

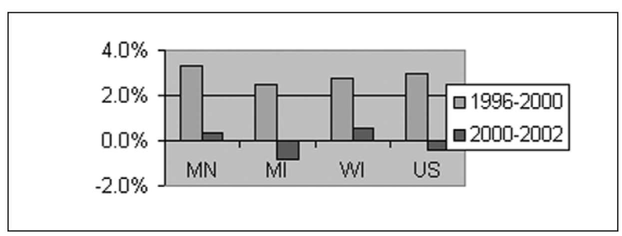
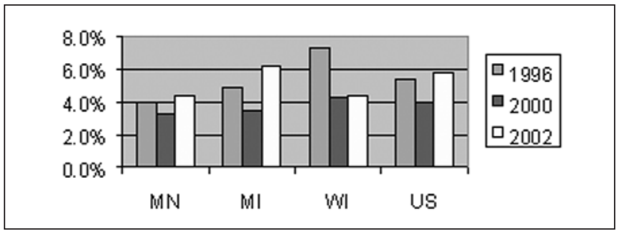


Figure 4 indicates that unemployment rates decreased substantially in all three states from 1996 to 2000. However, by 2002 these improvements had dissipated in both Michigan and Minnesota, while Wisconsin unemployment rates remained well below their 1996 levels.

Figure 4: Unemployment Rate



Taken together, these comparisons suggest that the recent declines in TANF caseloads and in child poverty levels may partly be attributable to improvements in state macroeconomic conditions rather than to welfare reform. However, this does not explain why child poverty rates declined more markedly in Minnesota and Michigan than in Wisconsin, since there is little evidence that the Minnesota and Michigan economies enjoyed greater improvement than did Wisconsin's.

What does research say about the likely effects of welfare reform?

A substantial body of research allows us to predict the likely impact of the welfare reform policies outlined above,1 including a number of studies conducted by the Manpower Demonstration Research Corporation. As a whole, state welfare reforms have increased employment and earnings and they have decreased welfare caseloads. There is much less evidence that state welfare reforms have been effective in increasing incomes or reducing poverty.

This research also suggests a possible trade-off between cutting welfare caseloads and reducing poverty. Research shows that programs, such as the one in Minnesota that combines increased earnings and disregards additional work requirements, have been successful in increasing employment and improving measures of family well being, such as family income, poverty, marital stability, and educational attainment of school-age children. On the other hand, studies demonstrate that these programs increase the number of families on welfare because they expand eligibility for assistance.

Studies of programs that focus exclusively on increasing work requirements show that work mandates reduce welfare use and increase employment. However, there is little evidence that work mandates consistently increase family income or reduce poverty.

Finally, there is much less evidence available on the impact of time limits and diversion programs, such as the one in Wisconsin. Two recent experimental studies suggest programs that combine time limits with earnings supplements and work requirements may increase family incomes in the period before the time limit is reached. However, these gains recede once the time limit has been exhausted.

[1] For reviews of this literature, see [Berlin, 2002], [Blank, 2002], [Moffit, 2002], and [Grogger, Karoly, and Klerman, 2002].

Summary

Minnesota, Michigan, and Wisconsin all have adopted policies designed to decrease welfare use and to increase employment. However, they differ markedly in emphasis placed on reducing poverty relative to reducing welfare dependency. This may in part explain the greater declines in child poverty in Minnesota and Michigan than in Wisconsin. Nationwide, research suggests that welfare reform has been effective in decreasing caseloads and increasing employment. However, there is much less evidence that welfare reform increases income or decreases poverty.

While welfare reform has effectively reduced caseloads in the boom periods of the late 1990s, there is some evidence that caseloads have begun to increase during the recent economic recession. As more and more families reach their welfare time limits, it is possible that welfare reform may exhibit more negative impacts on family incomes and poverty rates.

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• 2004 Elections Project •

The purpose of the Humphrey Institute's 2004 Elections Project is to provide relevant, non-partisan information about the 2004 elections on such topics as voter attitudes and characteristics, campaign spending, recent election returns, and the impact of third parties. The project focuses on the Upper Midwestern states of Minnesota, Iowa, Wisconsin, and South Dakota, which have emerged as critical swing states in the 2004 national election.

To provide timely updates on this year's election season, the 2004 Elections Project is developing a portal news channel. *2004 Election News* will provide instant access to news, information, research, polling data, and public forums. You can access *2004 Election News* by displaying it on your personalized University of Minnesota portal or by asking to receive *2004 Election News* by e-mail.

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