

## **ECONOMIC DOWNTURNS AND WELFARE REFORM: AN EXPLORATORY COUNTY-LEVEL ANALYSIS**

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Over the past 20 years, the U.S. economy has experienced remarkable economic and job growth. The combination of rising incomes, low and declining rates of unemployment, low interest rates and rapid GDP growth have led to a booming stock market. Since new firms are being created and old firms are often expanding, new job creation has been rapid. As a result, jobs are now more readily available for welfare recipients who want to work, and, with the rapidly expanding economy of the past five years, welfare caseloads have been declining.

A major goal of the authors of welfare reform legislation was to reduce the number of individuals relying on welfare over a long period of time, and that goal is being met. Although the decline in welfare caseloads can be partially attributed to the prosperous economy of the past five years, research conducted by the government and by academic researchers also suggests that the welfare reform legislation itself was responsible for a reduction in the number of caseloads (GAO, 1998, p. 96; Council of Economic Advisers, 1997; Ziliak et al. 1997; Martini and Wiseman, 1997; Blank, 1997a).

The strong economy makes it easier for individuals to move off welfare, but problems still remain. First, not all areas of the US are sharing equally in the growing economy. Second, certain welfare recipients, primarily younger women who lack education, face a different and often more limited labor market than is available to most workers. Third, past welfare recipients still face a variety of barriers to employment that are beyond their control.

In this paper we estimate the relationship between local economic conditions and participation in welfare programs. A statistical model allows us to simulate

the effect of an economic downturn on food stamp and Temporary Assistance to Needy Families (TANF) programs, and to isolate the separate effects of welfare recipients' characteristics from local economic conditions on changes in welfare caseloads.

### **Caseloads and the Economy**

While the US economy has been experiencing rapid economic growth, not all places have shared equally. Some areas, particularly rural areas such as Appalachia, the Mississippi Delta, border areas in the Southwest and Native American reservations have failed to fully participate in the economic expansion of the past two decades. Urban unemployment has remained nearly stable in the first three quarters of 1998: the rural unemployment rate increased. Child poverty rates are declining in metro and suburban areas but not in rural areas despite the strength of the national economy. Thus, many rural areas are not fully participating in the strong growth of the US economy: these are places that "the economy forgot."

Welfare reform is occurring against this backdrop. About two years old in its implementation, the restructuring of the income support program in place for over thirty years shifted its emphasis from poverty alleviation to a focus on employment. Adult recipients are now faced with a new, 60-month lifetime limit, the requirement to participate in work or work-related activities, and sanctions in the form of benefit reductions for noncompliance without 'good cause'. While early studies indicate that many former recipients of cash assistance are finding employment, far less is known about those who do not. Likewise, while many former recipients are finding jobs, many do so at low wage levels. Despite the low wages, the numbers of recipients on food stamps or Medicaid has declined dramatically.

Nationally, welfare caseloads have been declining. "Between January 1996 and September 1997, caseloads declined in all states and territories except Hawaii and Guam, with reductions ranging from 1 percent in Nebraska to 77 percent in Idaho." (GAO, 1998:95). However, these declines have not been evenly distributed. For example, Zimmerman (1999a) found regional differences in the rate of decline. A calculation based on the aggregate change for each of the four regions (using the Regional Rural Development Centers' groupings), reveals that not only were there differences across states, but also important changes across regions. For example, between January, 1993 and June, 1998, the southern region had a larger decline in the number of welfare recipients than any other region. This meant that the South moved from being the region with the highest number of recipients to being the region with the second lowest number of recipients by June, 1998.

Differences in caseload declines also arise within states. For example, Katz and Carnevale (1998) identify a spatial component in welfare reform caseload

reductions. Between 1994 and 1997, two thirds of their select set of cities had welfare caseloads declining at a rate slower than their state average. As the authors conclude, their results raise the question of the significance of place and reasons for differences in caseload reductions for rural and urban areas. The same is the case for the Project on Devolution and Urban Change being conducted by the Manpower Demonstration Research Corporation (Quint et al., 1999). This study is a multidisciplinary longitudinal examination of welfare reform focused specifically on four major cities — Cleveland, Los Angeles, Miami, and Philadelphia.

Rural-based research has also found differences in caseload reductions within states. For example, the Rural Policy Research Institute's (RUPRI) Rural Welfare Reform Research Panel assessed caseload changes using county-level administrative data for Mississippi, Missouri, Oregon, South Carolina, and Kentucky. The results revealed considerable spatial variations not only between rural and urban areas, but across rural areas as well (RUPRI Rural Welfare Reform Research Panel, 1999). Examining changes in caseloads from 1992 to 1997 for metropolitan, nonmetropolitan adjacent and nonmetropolitan nonadjacent counties (combining Urban Influence codes) indicated variations both across rural and urban areas, but different spatial patterns across the five states. For example, in two states the greatest declines were in metro areas with smaller declines in rural areas. On the other hand, in two other states, metro areas had the lowest rates of caseload declines, with higher rates occurring in rural areas.

Further, analyses in Kentucky reveal even more variations across rural areas. Given the regional economic diversity in the state, and to gain a better understanding of the differences in caseload changes, the analysis conducted by RUPRI was extended by region within the state (Zimmerman, 1998, 1999c, forthcoming). An analysis of aggregate change in caseloads revealed that while those parts of the state with the greatest economic growth had seen greater caseload declines, some persistent-poverty, remote rural areas have also seen considerable caseload declines. Left unanswered is why this is the case.

### *Local Labor Markets*

Many observers have suggested that low unemployment rates in an expanding economy indicate that welfare recipients who are able and who want to work, should be able to find a job. Indeed, a recent assessment of state evaluation results found that all state studies reviewed reported employment rates of former welfare recipients of above 50 percent, with one reporting a rate as high as 81 percent (Brauner and Loprest, 1999). Still, these figures must be read with caution as each study utilized different definitions of employment. And, these studies still leave around half of all former recipients as leaving the program without a job.

Prior research also indicates that the characteristics of recipients in rural areas vary from those of recipients in urban areas. For example, rural recipients are more likely to be employed than those in central cities (Rank and Hirschl, 1988; Porterfield and McBride, 1997). Rural recipients are also more likely to be married. The poor in rural America are already more likely to be among the working poor, a point which is supported by other research. Perhaps due to both a lack of program information and stigma related to reliance on public assistance, program participation is lower in rural areas and rural recipients usually have shorter spells on public assistance than urban recipients (Fitzgerald, 1995; O'Neill, et al. 1987; Osgood, 1977; Porterfield, 1998; Rank and Hirschl, 1993). Finally, rural women leaving assistance have lower earnings than their urban counterparts (Meyer and Cancian, 1998).

While clearly important, this earlier research has not examined the interrelationship between individual barriers in the context of place. Instead, much of the prior research focuses on the macro relationship of welfare caseloads to changes in the economy. Consequently, these studies have tended to rely on statewide caseload and economic data. While useful, these aggregate studies are insufficient in examining the relationship between local conditions and caseload. For example, as some authors point out there is an acute "welfare-to-work spatial mismatch problem in the rural South," where portions of some states have large concentrations both of unemployment and AFDC use by families (Nord and Beaulieu, 1997: 4).

Hoynes, for instance, indicates that unemployment rates alone are insufficient to measure relevant local conditions (1996). Further, recent analyses suggest limits to the ability of the labor market to absorb welfare recipients (Lerman et al., 1999; Goetz and Freshwater, 1997) and that the effects of the labor influx could be large for "labor sub-markets" (Bartik, 1999). For example, survey results from various states demonstrate former recipients tend to find employment in specific sectors such as food service and retail (Brauner and Loprest, 1999).

Results also indicate that different employment sectors are impacted to varying degrees by changes in business cycles (Holzer, 1999). Hoynes, for example, found a significant relationship between local labor market conditions and welfare spells. In particular, Hoynes indicates that "Minorities, residents of urban areas, and two-parent families are more sensitive to changes in local labor market conditions." (1996:50). Even so, as Hamrick (1997) points out, rural labor markets appear to respond more quickly to business cycles, leading urban areas both in times of growth and recession.

All of this holds particular potential implications for rural areas. While many equate rural areas with agriculture, only 6.3% of the rural population lives on farms and farming accounts for only 7.6% of all rural employment (Mills, 1995). Instead, more than 90% of rural workers have nonfarm jobs (Mills, 1995). Local economies in rural areas show great variation, ranging from those

dependent on manufacturing, services, or natural resources to those that are retirement destinations or recreation-oriented. In 1996, the service sector employed 23.3% of all rural workers (Economic Research Service, 1998). And, manufacturing jobs, traditionally the source of higher paying jobs in rural areas, have been disappearing. Between 1969-1992 rural manufacturing employment slipped from 20.4% to 16.9% (Parker, 1995). And finally, rural workers are more likely to earn minimum wage -- 12% in rural areas compared to 7% in urban areas (Parker and Whitener, 1997: 23).

**Caseloads in Kentucky**

While the national number of cash assistance recipients fell by 41 percent from January 1993 to June 1998, the Southern region has experienced the highest overall decline (55 percent). Compared to other states in its home region, Kentucky had the lowest decline in the region, with 48 percent (Zimmerman, 1999a). Even so, this figure is above the national trend.

The transition of former recipients in Kentucky also exhibits a trend similar to that nationwide. For example, according to the most recent phone survey of former KTAP recipients, 48.3 percent are finding employment (Cummings and Nelson, 1999). Most of these are finding employment in services (47.2 percent), working 40-45 hours per week (47.8 percent). Most former recipients in Kentucky reported earnings between minimum wage (\$5.15/hr) and \$7.99 an hour (61.8 percent combined) with the largest single category being \$6.00-6.99 an hour (28.7 percent). The majority of jobs obtained by former recipients did not provide health or other benefits.

Using snapshot data compiled by the Cabinet for Families and Children on an occasional basis (CFC, 1999), notable rural/urban differences were found in the characteristics of recipients across Kentucky (See Table 1). For example, two parent families make up a much larger share of the rural caseload (20.8% of all nonmetro cases) compared to urban areas (only 4.8% of all metro cases). Reflecting the higher proportion of two adult families in rural areas, caseloads in nonmetro areas also had lower proportions of single parent households or households with a minor-aged parent. Likewise, rural areas had a lower proportion of adults who were women (84.1 percent in nonmetro areas compared to 94.2 percent in metro areas). Child-only cases (cases with no parent) were also a lower proportion of the caseload in nonmetro areas than in metro areas (10.0 percent in nonmetro compared to 14.4 percent in metro).

**Table 1. Characteristics of KTAP Caseload in Kentucky, February 3<sup>rd</sup>, 1999.**

| Characteristic | Metro | NonMetro | Kentucky |
|----------------|-------|----------|----------|
|----------------|-------|----------|----------|

|   | Counties | Counties |         |
|---|----------|----------|---------|
| Number of Counties  | 22       | 98       | 120     |
| Number of Recipients  | 48,167   | 77,058   | 125,225 |
| Percent Children  | 70.0%    | 69.0%    | 69.4%   |
| Percent Adults Employed or with Work History                      | 90.2%    | 73.5%    | 79.8%   |
| Percent Adults Employed   | 15.2%    | 15.4%    | 15.3%   |
| Percent Cases with no Parent                                      | 14.4%    | 10.0%    | 11.6%   |
| Percent Cases with 1 Parent                                       | 80.8%    | 69.2%    | 73.6%   |
| Percent Cases with 2 Parents                                      | 4.8%     | 20.8%    | 14.8%   |
| Percent Cases with a Minor Parent                                 | 6.6%     | 4.3%     | 5.2%    |
| Percent Adult Recipients with HS/GED but less than College Degree | 59.3%    | 51.5%    | 54.4%   |
| Percent Cases with Benefits over 2 Years                          | 57.4%    | 61.6%    | 60.0%   |

Overall, educational levels of recipients were lower in rural areas. While slightly more than half of all rural adult recipients had completed high school, this was still a lower proportion than that found in urban areas (51.5 percent in nonmetro areas compared to 59.3 percent in metro areas). The amount of previous work history also varied across rural and urban areas. While the proportion of adult recipients in rural and urban areas were nearly equally as likely to be employed, rural caseloads had a higher proportion of those without a work history. Likewise, rural areas had a higher proportion of cases that had been on cash assistance for more than two years, reflecting the influence of Appalachian counties with limited economic opportunities.

### **The Economic Model**

The economic model assumes that individuals maximize utility over income and leisure time, in the presence of transactions (search) costs associated with finding employment. Income can be derived from wage and salary employment, which is the product of the hourly wage times the number of hours worked ( $w \times h$ ), or welfare grants, which are available for a specified time only given the new overall time limits. Welfare recipients respond to the relative returns available from employment and remaining on the welfare roles, subject to the constraint imposed by time limits.

In this paper we identify the relationship between local economic conditions and the demand for TANF—measured as caseloads—in addition to and independently

of the relationship between welfare recipients' characteristics and changes in caseloads in Kentucky. We estimate statistically the relationship among these variables, which allows us to simulate the independent effect of an economic downturn on food stamp and TANF programs. This analysis increases the local specificity of prior research by 1) extending prior analyses relying upon unemployment rates to include local job growth; 2) including indicators of changes in the those labor market sectors in which welfare recipients have been obtaining employment; and 3) including both place and individual-level factors.

Variables determining adult caseload reductions in the  $i$ th county,  $\Delta c_i$ , can be separated into (1) individuals' characteristics (such as previous experience in the workforce), and (2) county-level economic conditions (such as the local unemployment rate). County-level conditions are beyond the immediate control of welfare recipients, and permit us to simulate the effects of the business cycle and local labor market factors on caseload change over time, while holding constant welfare recipients' characteristics.

County economic conditions in the linear regression model (*vector*  $\mathbf{G}$ ) include the unemployment rate (*URATE97*), recent job growth (*JOBGROW*), and the number of retail sector jobs per adult welfare recipient (*RETAIL*). A lower unemployment rate in the county and more rapid recent job growth are both expected to provide conditions favorable for the transition of welfare recipients into the workforce, and thus lead to a more rapid reduction in caseloads. In most areas, the retail sector is an important employer of individuals leaving cash assistance, and a larger relative number of jobs in retailing also means more opportunities for welfare recipients to obtain a job because of greater job turnover.

Other factors that affect transitions into the workforce—and that are beyond the control of individuals—include availability of daycare for children (*ALLDAYC*), and presence of Family Resource Youth Service Centers (*FAMRPC*). The availability and expense of daycare have been widely cited as a constraint for welfare recipients. Non-adjacency to metro areas (*NONADJAC*) of the county in which the welfare recipient resides should also affect transitions. Recipients in rural counties that are not adjacent to a metropolitan center face higher transaction costs in identifying employment opportunities in such centers (relative to residents of metro areas and residents of rural areas that are adjacent to a metro area), and so we expect this variable to be associated with a smaller decline in caseloads (RUPRI Rural Welfare Reform Research Panel, 1999; Zimmerman, 1999).

In this study we use five distinct variables to capture individual characteristics of adult welfare recipients that affect transitions into the workforce, independently of local county conditions. These variables are summarized in *vector*  $\mathbf{I}$  and include the age of the recipients which, given the nature of the data, is measured as the percent of adult recipients who are between 18 and 20 years

old (*PCTYOUNG*); the average number of children per recipient (*KIDSPERR*); previous length of time on assistance, measured as the percent of adult recipients who have been on cash assistance for at least two years (*PCT2YRS+*); educational attainment, measured as the percent of adult welfare recipients with at least a GED degree (*PCTGRADS*); and lack of previous work experience, measured as the percent of adult recipients who are currently not working and who have no prior work experience (*PCTNOEXP*).

Younger-aged adults are more likely to have younger-aged children at home. Thus we expect a smaller decline in welfare caseloads as the share of young adult welfare recipients in the total adult recipient population increases. As the number of children per adult recipient increases, the transition into the workforce is also expected to become more difficult. The longer an adult recipient has remained on welfare, the more difficult we hypothesize the transition into the workforce to be, all other measured characteristics being equal. Greater educational attainment and more prior work experience, in contrast, should facilitate the transition into the workforce and we expect a larger decline in caseloads, all else equal, in counties where caseloads are characterized by adult recipients presently employed or having at least some work experience, and greater educational attainment.

### **The Econometric Model**

The dependent variable used in the regression captures the decline in adult caseloads between two points in time, in county  $i$ , and is calculated as:

$$\Delta c_i = CL(98)_i / CL(97)_i - 1$$

where  $CL(98)$  is the number of adult K-TAP recipients (caseload) in January 1998, and  $CL(97)$  is the number in June 1997. The complete model estimated is:

$$\Delta c_i = \alpha_0 + \beta_1 CL(97)_i + \beta_2 (g_i / w_i h) + \beta_3 G_i + \beta_4 I_i + \varepsilon_i$$

Greek letters denote parameters to be estimated,  $g$  is the average annualized amount of welfare grant received (per family) in the county,  $\varepsilon$  is the error term, and the other variables were defined previously.

Table 2 lists the specific variables used in the regression, along with their sources. Including the caseload level in 1997 serves to place all counties on the same base (relative size) so that the percent reduction in caseloads can be compared across counties with widely varying initial populations of welfare recipients. Both a level and change in unemployment are included to allow for contemporaneous and lagged (dynamic) effects of this important factor. Descriptive summary statistics for each of these regressors are presented in Table 3.

**Table 2: Definition of Variables Used in the Regression and their Sources**

| Variable  | Description  | Data source           |
|---|--|-----------------------|
| <i>DROP</i>   | Percent drop in recipients, June 1997 to February 1998             | KCFC <sup>a</sup>     |
| <i>ADULTR97</i>   | Number of adult recipients, June 1997                              | KCFC                  |
| <i>INCEN</i><br>( <i>g<sub>i</sub>/w<sub>i</sub>h</i> ) | Wage & salary earnings per job ('000s) per \$ annual welfare grant | AC <sup>c</sup>       |
| <b>Vector <i>G</i></b>                                  |  |                       |
| <i>URATE97</i>  | Unemployment rate, 1997 annual average                             | KCHR <sup>b</sup>     |
| <i>DELUNEM</i>  | Change in unemployment rate, 1997 to 1996                          | KCHR/AC <sup>c</sup>  |
| <i>JOBGROW</i>  | Growth in wage and salary jobs, log(jobs1996/jobs1995)             | BEA <sup>d</sup> /AC  |
| <i>RETAIL</i>   | Retail jobs (in 1996) per adult welfare recipient (1997)           | AC                    |
| <i>NONADJAC</i>   | Non-adjacent rural county indicator variable (=1)                  | USDA/ERS <sup>e</sup> |
| <i>FAMRPC</i>   | Family Resource Youth Service Centers per child recipient          | KCFC/AC               |
| <i>ALLDAYC</i>  | Licensed, certified and unregulated day care slots/child recipient | KCFC/AC               |
| <b>Vector <i>I</i></b>                                  |  |                       |
| <i>PCTYOUNG</i>   | Percent of recipients aged 18 to 20 years                          | KCFC/AC               |
| <i>KIDSPERR</i>   | Child recipients per adult recipient                               | KCFC/AC               |
| <i>PCT2YRS+</i>   | Percent recipients on welfare two years or more                    | KCFC/AC               |
| <i>PCTGRADS</i>   | Percent recipients with high school, GED or higher degree          | KCFC/AC               |
| <i>PCTNOEXP</i>   | Percent recipients not employed and without work history           | KCFC/AC               |

a. Kentucky Cabinet for Families and Children. b. Kentucky Cabinet for Human Resources.

c. Authors' calculations. d. Bureau of Economic Analysis, Department of Commerce

| Variable  | Mean    | Std. Dev. | Minimum | Maximum |
|---|---------|-----------|---------|---------|
| <i>DROP</i>   | -0.227  | 0.127     | -0.651  | 0.294   |
| <i>ADULTR97</i>   | 386.0   | 739.7     | 17      | 7611    |
| <i>INCEN</i><br>( <i>g<sub>i</sub>/w<sub>i</sub>h</i> ) | 1.116   | 0.228     | 0.780   | 2.000   |
| <i>URATE97</i>  | 0.068   | 0.029     | 0.021   | 0.182   |
| <i>DELUNEM</i>  | -0.0025 | 0.0163    | -0.058  | 0.094   |
| <i>JOBGROW</i>  | 0.011   | 0.054     | -0.149  | 0.336   |
| <i>RETAIL</i>   | 8.4     | 8.2       | 0.6     | 58.1    |
| <i>NONADJAC</i>   | 0.525   | 0.501     | 0.000   | 1.000   |
| <i>FAMRPC</i>   | 0.016   | 0.009     | 0.000   | 0.059   |
| <i>ALLDAYC</i>  | 0.419   | 0.196     | 0.023   | 0.887   |
| <i>PCTYOUNG</i>   | 0.374   | 0.095     | 0.122   | 0.716   |
| <i>KIDSPERR</i>   | 2.17    | 0.26      | 1.58    | 3.34    |
| <i>PCT2YRS+</i>   | 0.562   | 0.088     | 0.000   | 0.739   |
| <i>PCTGRADS</i>   | 0.532   | 0.097     | 0.279   | 0.881   |
| <i>PCTNOEXP</i>   | 0.196   | 0.124     | 0.000   | 0.582   |

Source: Authors' calculations.

### **Regression Results**

Linear regression results corrected using White's efficient variance estimates are reported in Table 4. The adjusted R-square value for this equation is 38.0%. The incentives variable (*INCEN*) and the variables in vector *G* together yield an R-square value of 11.9 percent, while vector *I* alone yields a value of 15.8 percent (even though it contains fewer variables). Most (but not all) of the variables that are statistically different from zero also carry the expected sign for the coefficient estimate.

#### *County Characteristics*

As expected, a higher unemployment rate in 1997 (*UNEMPL97*) was associated with a statistically significant, smaller decline in welfare caseloads by February 1998. In other words, a county with a one percentage point higher unemployment rate (e.g., 7.8 % instead of 6.8%) had a 6.1 percent smaller reduction in cash assistance caseloads (evaluated at the average caseload decline of -22.7%). In contrast, a one percentage point drop in a county's unemployment rate between 1996 and 1997 (*DELUNEM*) was associated with a 10 percent smaller decline in caseloads. This may mean that falling

unemployment rates over time can reduce the immediate pressure on welfare recipients to find work—since they know such work is likely to be more readily available when they want it. Thus, individuals in these counties may respond in the short-term by engaging in other activities such as focussing on raising their children or upgrading their skills through additional training, instead of feeling a need to immediately seek employment.

Also as expected, a larger number of retail jobs in 1996 per welfare recipient in 1997 (*RETAIL*) was associated with a significantly larger drop in caseloads, confirming the relationship between employment and the retail sector labor market. For every increase in retail jobs per cash assistance recipient (e.g., from 8 to 9 jobs), the caseloads fell by 1.3 percent. By contrast, more rapid growth in total jobs between 1995 and 1996 (*JOBGROW*) was associated with a statistically significant *smaller* drop in caseloads, all else equal. This may reflect in-migration of workers into rapidly growing counties, or entry into the workforce of individuals who were previously neither working nor on welfare, which may in turn "crowd out" some former welfare recipients from certain jobs. On the other hand, as with unemployment rates, this, too, may indicate that greater availability of jobs in a community could reduce the urgency with which welfare recipients seek employment, or that the job growth occurred in sectors in which former recipients are not generally employed.

Earnings incentives, measured as total wage and salary earnings relative to the amount of the welfare grant ( $INCEN = w_i h / g_i$ ), had no significant effect on caseload changes. However, as with overall job growth, this could reflect a lack of sector specificity in the variable. In other words, different results could emerge if wage/salary earnings in retail or retail and services combined were used instead.

Two variables in vector *G* did not have a statistically significant effect on caseload reductions *in this specification*: the availability of Family Resource Youth Service Centers (*FAMRPC*) and the availability of daycare slots per child (*ALLDAYC*). Furthermore, disaggregating daycare into licensed, certified and unregulated slots does not materially change this result. However, when the absolute change in caseloads over time is used as the dependent variable, these daycare-related variables do become statistically significant, suggesting a more complex relationship than on first appearance. For example, in many rural areas the number of childcare slots is limited (or access to the care is limited through geography or cost), and many families rely on kin or family networks for childcare.

Finally, caseloads in non-adjacent rural counties (*NONADJAC*) were significantly smaller than were reductions in other parts of the state. In these counties, the decline in caseloads was 18.5 percent smaller than in all other counties, everything else equal. This finding most likely reflects several important features of nonmetro nonadjacent counties. First, many of the counties

in Kentucky that fit this category are located in the eastern or Appalachian region of the state. This region has historically seen the greatest levels of poverty, least amount of economic growth, and highest recipient-to-population ratios. Moreover, marked by steep mountainside slopes, this region also contains terrain more difficult to travel than is the case in other parts of the state. This increases the transactions (or search) costs not only of obtaining employment in metro non-adjacent rural counties, but of obtaining other services as well.

### *Individual Characteristics*

Next we compare the independent effects of the characteristics of individuals receiving welfare to the county-level influences. Young adults on welfare (*PCTYOUNG*) appear to experience significant difficulties in the labor market, even holding constant formal educational attainment and prior work experience. For each one percent increase in the share of adult recipients aged 18-20 years in the county, the adult caseload decline fell by 1.7 percent (calculated at the respective means of the variables). Thus, young adult recipients may be facing particular challenges when attempting to transition into the workforce. This could be related to the presence of very young children. Either way, this suggests the possible need for targeted job training programs, or other policies to help young adult recipients transition into employment.

The number of children per adult recipient (*KIDSPERR*) has a negative effect on caseload declines. In other words, the larger the proportion of children to adults in the caseload, the lower the rate of decline in caseloads. However, the effect is not significantly different from zero. Subsequent estimation attempts employing various interaction terms between *KIDSPERR* and other recipient characteristics reveal that this variable does become significant, with the expected sign, and dropping the percent of adult recipients aged 18 to 20 years has the same effect.

**Table 4: Regression Results for Determinants of Welfare Caseload Decline**

| Variable                                    | Standardized | Actual       | t-stat | prob.  |
|---|--------------|--------------|--------|--------|
| Constant                                    |              | - 0.267      | 1.84   | 0.0658 |
| <i>ADULTR97</i>                             | 0.123        | 2.1101E-05** | 2.39   | 0.0170 |
| <i>INCEN (g<sub>i</sub>/w<sub>ih</sub>)</i> | 0.068        | 0.0381       | 0.92   | 0.3579 |
| <i>URATE97</i>                              | 0.305        | 1.336***     | 3.09   | 0.0020 |
| <i>DELUNEM</i>                              | 0.313        | - 2.439***   | 4.65   | 0.0000 |
| <i>JOBGROW</i>                              | 0.159        | 0.373**      | 2.39   | 0.0169 |
| <i>RETAIL</i>                               | 0.194        | - 0.0030**   | 2.06   | 0.0394 |

|                 |       |            |      |        |
|-----------------|-------|------------|------|--------|
| <i>RETAIL</i>   | 0.194 | - 0.0030** | 2.06 | 0.0394 |
| <i>NONADJAC</i> | 0.166 | 0.042**    | 2.15 | 0.0314 |
| <i>FAMRPC</i>   | 0.101 | 1.425      | 0.98 | 0.3273 |
| <i>ALLDAYC</i>  | 0.073 | 0.047      | 0.86 | 0.3885 |
| <i>PCTYOUNG</i> | 0.291 | 0.389**    | 2.24 | 0.0253 |
| <i>KIDSPERR</i> | 0.098 | 0.048      | 1.09 | 0.2742 |
| <i>PCT2YRS+</i> | 0.186 | - 0.268*   | 1.75 | 0.0803 |
| <i>PCTGRADS</i> | 0.409 | - 0.535*** | 3.35 | 0.0008 |
| <i>PCTNOEXP</i> | 0.180 | 0.184*     | 1.74 | 0.0826 |

Sample size=120; adjusted R-square=38.0%; standard errors are based on White's efficient variance-covariance matrix.

Significance levels: \*=less than 10%, \*\*=5%, \*\*\*=1% or lower.

The standardized coefficient is the actual coefficient times the standard deviation of the regressor divided by the standard deviation of the dependent variable.

Surprisingly, the greater the proportion of welfare recipients who had been on cash assistance for two years and more (*PCT2YRS+*), the greater the rate of decline in caseloads. Thus, respondents who have relied on welfare payments for extended periods are not necessarily more reluctant to leave welfare roles. Conversely, the greater the share of recipients on welfare for less than a year, the smaller the rate of decline in caseloads, all else equal.

Not surprisingly, greater levels of educational attainment of adult recipients (*PCTGRADS*) were associated with more rapid reductions in caseloads. Each one percent increase in the share of adult recipients with at least a GED degree was associated with a 2.3 percent larger decline in caseloads. This result further emphasizes the critical role of education in securing employment.

Counties with larger proportions of recipients without a prior work history also experienced lower rates of caseload decline. In other words, counties with higher proportions of recipients without employment or a work history at the time of the June 1997 snapshot data (*PCTNOEXP*), were significantly less likely to see declines than were counties characterized by greater proportions of recipients who were employed or had worked previously.

### **Summary and Conclusions**

Welfare reform offers the opportunity for a better fit between the new employment goals of cash assistance and local economic conditions. The 1996 legislation altered the system of welfare provision so that states are now given greater flexibility in designing programs which can be better tailored to "respond more effectively to the needs of families within their own unique

environments" (DHHS, 1997: Preamble). This opportunity, if taken advantage of, is critically important as the link between assistance, employment, and local economic opportunities intensifies under welfare reform.

Participation in cash assistance programs has always fluctuated with the national economy and changes in the composition of the individual characteristics of the cash assistance caseload. However, with the new work-first emphasis and maximum of 5 year lifetime limits under welfare reform, cash assistance is now tied to changes in the local economy as never before. This is particularly the case for changes in those labor market sectors where former recipients are finding employment in greater numbers – sectors such as retail employment. Changes in these sectors, more so than overall fluctuations in the economy, are more likely to have an immediate impact on the ability of recipients to locate employment.

While the link between the economy and caseloads has long been established, welfare reform brings a new opportunity and imperative to better understand the relative importance of both individual characteristics and *local* conditions. Even so, while welfare reform is focussing on employment, left unanswered is what is happening to those who do not find employment and for those who do -- whether that employment pays sufficiently to keep families from falling further into poverty, despite having a job.

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