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#### **Authors**

Albert, Vicky  
Wiseman, Michael

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Welfare in California Since 1971**

Vicky Albert and Michael Wiseman

School of Social Welfare  
Department of Economics  
University of California at Berkeley

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## Abstract

California is implementing an elaborate system of job search, training, and child care assistance for adult AFDC recipients called the Greater Avenues for Independence (GAIN) plan. This paper reviews the California AFDC system on the eve (July, 1985) of GAIN. The conclusions are: (1) The moderate increase in welfare dependency in the state since 1972 is wholly attributable to the influx of refugees. (2) In part because of regulations changes brought about by the Omnibus Budget Reconciliation Act of 1981, employment rates among single recipient adults have declined. The rate of case closure has also gone down. (3) This decline in turnover has diminished OBRA effects. The 1984 caseload in the AFDC-FG (mostly single-parent) program was only about 2 percent smaller than would have been predicted. The challenge is to find ways to use GAIN to accelerate adjustment of refugees and to reverse the decline in termination rates.

## What's to be GAINed: Welfare in California Since 1971

Vicky Albert and Michael Wiseman\*

On September 26, 1985, California Governor George Deukmejian signed legislation authorizing the Greater Avenues for Independence (GAIN) program for adult welfare recipients in his state's Aid to Families with Dependent Children (AFDC) program. The GAIN program establishes an elaborate system of job search, training, and childcare assistance for adult AFDC recipients.

Although GAIN is widely referred to as "workfare", mandatory work assignments are likely to be infrequent under the program. The important feature of the innovation is the establishment of a comprehensive reciprocal obligation between people receiving income support and the state. On one side certain recipients ("principal earners" in two-parent families and single parents without pre-school children) are required to become actively engaged in job search and

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\*The authors are, respectively, graduate student in the School of Social Welfare and Associate Professor of Economics at the University of California at Berkeley. The tolerant and generous assistance of many people in the Department of Social Services of the California Health and Welfare Agency is gratefully acknowledged. This background paper was prepared for the Manpower Demonstration Research Corporation conference on GAIN held at Berkeley on February 28, 1986. This paper is not intended, nor should it be considered, to represent the position or policy of MDRC. Opinions and errors contained herein are solely the responsibility of the authors. © 1986, Vicky Albert and Michael Wiseman.

training at an early stage of welfare receipt; on the other the state is required to deliver a range of supporting services, including childcare.

GAIN is viewed by both proponents and opponents as a major reform of the welfare system.<sup>1</sup> Unlike programs intended (or at least funded) to serve only a fraction of the eligible population, the announced object of GAIN is to serve all eligibles in much the same way as all eligibles in AFDC are guaranteed the state's basic benefit payments. Preparation for and accession to employment are intended to become integral parts of the welfare process. It is these features, not the inclusion of mandated work assignments as one of the activities encompassed by the program, that distinguish the idea of GAIN from the reality of contemporary work-welfare programs such as Massachusetts' Employment and Training Choices program.

The GAIN program has not yet been implemented, and many vital operating details have not been announced publicly. But despite this uncertainty, GAIN will continue to receive a great deal of attention because workfare is receiving a great deal of attention, and both Republicans and Democrats look to California for examples. California is a trendsetter in AFDC. The state's experience with an earlier program, the Community Work Experience Program (CWEP), is regularly cited by President Reagan as a model for work requirements. Most of the program alterations incorporated in the Omnibus Budget Reconciliation Act (OBRA) of 1981 were originally proposed or partially implemented as part of the California Welfare Reform Act of 1971, the legislative portion of the general program that produced CWEP. On the Democratic side, GAIN will probably be used as an al-

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<sup>1</sup> For a description by a program architect, see David Swoap (1986).

ternative to generic work requirements should the administration propose mandating public work as a condition for welfare receipt nationwide.

This means that people will want to know if GAIN works. The state is committed by the GAIN legislation to developing a general evaluation scheme, but the bottom line is simple: will GAIN reduce welfare dependency in California and, as advertised, cut hundreds of millions from California's welfare bill?

Evaluating the effects of GAIN will be difficult. This side of Heaven there is no other California to serve as a control. As a result, much of the evaluation of effects must be based on an estimate of what the welfare system would have been like had GAIN not been attempted. An essential first step is getting a fix on California's welfare system on the eve of implementation of GAIN. This is the objective of this paper. We provide a general review of the AFDC system as operated in California to establish a baseline for evaluating the effects of GAIN on the aggregate AFDC caseload.

We follow a simple outline, and we try to be brief. We begin with a review of the current (July 1985) AFDC system and follow this with a summary of the dynamics of the caseload: the rate at which new families appear on welfare and previously dependent families leave. It is these flows that GAIN must affect if the system is to have any consequence for the number of families receiving benefits each month.

To its credit, the California Department of Social Services has launched a significant publicity campaign to spur interest in and local government commitment to GAIN. But we shall argue that the state's description of the problem to be addressed by GAIN grossly exaggerates increases in dependency over time

in the state, in part because most state officials fail to acknowledge the dramatic impact of refugees on the caseload. Nevertheless, when correction is made for this factor, it does appear that within the recipient population dependency has increased in the sense that rates of case closure have declined.

GAIN is hardly the first welfare reform the state has experienced. It is now five years since the 1981 OBRA reforms altered AFDC policy. We will try to identify some of the OBRA consequences of these reforms in the course of the discussion. Our most surprising contention is that OBRA effects appear to have been perverse. We believe that, because of OBRA, the state has been left with a more expensive and, in the long run, more dependent caseload. This argument is based on results from a long-term caseload simulation.

We believe that the data suggest a need for innovation in welfare policy. Whether GAIN is the right innovation remains to be seen.

### **Aid to Families with Dependent Children in California**

The welfare caseload is the collection of families receiving AFDC benefits. The caseload is in a sense the outcome of the interaction of welfare system features, economic conditions, and general population demographics. Changes in any part of this triad will affect the size of the caseload. To establish a pre-GAIN baseline we need to know something about the system, and then we will investigate what this system, the state's economy, and demographic trends have produced.

The first step in going onto welfare is for a family member to fill out an application form at the county welfare office or one of its branches. State law requires birth certificates for children and information on income and assets. The application process includes an interview with an eligibility technician who assists in completion of the application form. Once payments are initiated, continued eligibility requires monthly filing of a status form reporting earnings and other income. As much as six weeks can elapse between the filing of a welfare application and receipt of assistance; in some cases emergency assistance is provided through a separate program.

Families leave welfare by reporting a change in status that eliminates eligibility or by failing to return the monthly status form. When eligibility for AFDC is lost, categorically eligible families are entitled to Medi-CAL benefits for four to twelve months, depending on income.<sup>4</sup> Two-parent families lose all Medi-CAL eligibility when employment increases beyond 100 hours. For twelve months after welfare is terminated it is possible for families that suffer reversal of fortune to resume welfare payments with an accelerated acceptance process.

**The Basic Benefit** AFDC payments are summarized in table 1. For reference, the monthly poverty standard for a family of three was \$738 in 1985. Since the figures in table 1 do not include a valuation for Medi-CAL, it is reasonable to say that California's welfare benefit is roughly the equivalent of the poverty standard. California's welfare payment is among the highest in the nation.

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<sup>4</sup> If during the first four months of employment eligibility is lost despite the application of the "\$30 and one-third" work incentive income disregard (described under Treatment of Earnings) then Medi-CAL benefits extend for four months. If after the first four months eligibility would be retained were the \$30 and one-third disregard still to be applied, Medi-CAL benefits are continued for nine months.



**Background** The Aid to Families with Dependent Children program is part of the general state welfare system that includes the Supplemented Security Income (SSI/SSP) program for the elderly and disabled, medical assistance provided through California's Medicaid (called Medi-CAL) program, general assistance for people not eligible for anything else and the foodstamps program for all non-elderly poor.<sup>2</sup> AFDC, SSI/SSP and Medi-CAL are matching grant programs for which the federal government covers about half of all costs. General Assistance is operated and paid for wholly by the counties.

Families qualify for income payments under AFDC by demonstrating need. Need is determined by a comparison of resources, including both income and assets, to a state-determined standard of eligibility. Once eligibility is established, the state provides income equal to the difference between other resources and need. Families qualifying for AFDC automatically become eligible for foodstamps and Medi-CAL.

The program has two major components.<sup>3</sup> AFDC-FG includes all households with a single parent or a disabled parent. AFDC-U includes all households with two non-disabled parents. Two-parent families are eligible for AFDC-U assistance only if the principal earner in the household has been employed in the past and currently is involuntarily working less than 100 hours per month. The state provides a short-duration program for poor two-parent families in which neither adult has a work history, but this program is very small.

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<sup>2</sup> For greater detail on the AFDC system and other components of the California welfare system see Wiseman (1985).

<sup>3</sup> A third subprogram, not considered here, covers state payments on behalf of children in boarding homes and institutions.

**Table 1: Basic Benefits, California AFDC  
July 1, 1985**

Household Size	AFDC "Maximum Aid"	Foodstamp Allotment w Min/Max Deductions	Total Benefits
Two	\$474	\$31- 71	\$505-545
Three	\$587	\$60-101	\$647-688
Four	\$698	\$83-123	\$781-821
Source: See Appendix A.			

**Benefits Over Time** The California Welfare Reform Act of 1971 included a provision for indexing the state's basic welfare benefit.<sup>5</sup> While the indexed increase has been rejected by the legislature on occasion (for example, following passage by popular referendum of a tax-cutting initiative in 1978), in general benefits have kept up with inflation. Evaluated in terms of purchasing the product and services that low-income households buy, welfare benefits in California are now only 4 to 5 percent lower than they were ten years ago. This is the exception when viewed in comparison with policies pursued by other states, where in general benefits have fallen much more. As a result of these provisions -- somewhat ironically the product of the Reagan reforms -- California moved from being the state with median benefits in 1970 to a position

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<sup>5</sup> Deflation is done on the basis of the California Necessities Index, the price index used for escalation of welfare benefits. The CNI differs from the Consumer Price Index in that costs of medical care, mortgage interest, and certain other items are excluded. While we would be the last to defend the actual procedures followed in CNI construction (the index was created by a committee of the California Legislature), our studies indicate that it principally serves to eliminate from price trends the jump created by the upsurge in mortgage interest rates in the late 1970s and the influence of the exceptional rise in health care costs. The adjustments are appropriate for evaluations of real purchasing power by welfare recipients, since none buy homes and the Medi-CAL benefit is not subject to erosion through inflation.

of being the state with the most. Since the eligibility standard for welfare in California is based on the payments standard, indexing of payments keeps the real level of the eligibility standard constant as well.

We have also compared AFDC payments to wages on standard jobs in the private sector. In real terms the minimum wage has declined by about 22 percent since 1978. An index of wages of receptionists in the three largest state Metropolitan Statistical Areas shows a decline of about 8 percent over the same period. On balance it appears that over the past ten years California's welfare benefits have posted a modest gain relative to common wages for low-skilled work in the private economy.

**The Treatment of Earnings** A great deal of attention has been paid to the treatment of earnings in welfare benefits computation. Traditionally it has been argued that a dollar-for-dollar reduction in benefits as earnings increase will lead to withdrawal of welfare recipients from the labor force, and that it is necessary to discount some proportion of earnings in benefit computation in order to make employment attractive. Critics of this position, while acknowledging that financial incentives may be important, point out that payments systems that do not reduce benefits dollar for dollar with earnings make it possible for families with incomes in excess of the eligibility standards to still receive benefits. This leads to special advantage for welfare recipients compared to similarly situated families that have not achieved welfare eligibility because of lower incomes in the past. It also means that some share of welfare expenditure goes to families not in need.

The Social Security Act amendments of 1967 modified AFDC payments procedures to allow "disregard" of a portion of earnings in benefit computation. The

disregard amounted to \$30 plus one-third of the excess of gross earnings over \$30 per month and was applied as long as the recipient, given the disregard, retained eligibility. The OBRA-attached Social Security Act amendments of 1981 severely curtailed the disregard, mandating its computation on earnings net of other expenses and allowing full application for only four months. OBRA added an overall restriction: regardless of expenses, if a family's gross earnings reach a level greater than 185 percent of the standard of need, eligibility is lost.<sup>6</sup>

The 1967 system and OBRA-induced changes are illustrated in table 2, in which benefits are calculated for a single-parent family of three with and without a working mother. We consider three cases. One, the reference family, covers payments in the absence of outside income. As already shown in table 1, in July of 1985 welfare and foodstamps total \$688 in this case assuming the mother receives the maximum "excess shelter" allowance.

We assume the woman can make \$5 per hour as the starting wage in a low-skilled job. Working 80 hours per month, her take-home pay is \$369. Ignoring childcare expenses and assuming a constant amount of deductible work expenses other than withholding, the woman in this example would have gained \$171 in disposable income from this effort under welfare calculation procedures in effect before OBRA. Under OBRA rules, for the four months of the job her net income increase will be on the order of \$147; thereafter the gain comes to just \$64. Even working full time (that is, about 173 hours) produces a gain after twelve months of only \$121, and, after twelve months, no Medi-CAL.

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<sup>6</sup> When OBRA was implemented the gross income cutoff was set at 150 percent of need. The test was liberalized in October 1984. At the same time the \$30 disregard (but not the one-third) was extended to the first twelve months of employment.

Table 2: Treatment of Earnings, California AFDC-FG

Household: Family of Three Headed by Single Adult				
Benefits and Income	Benefits Calculation Procedure*	Assumed Earnings (Per Month)		
		None	\$400	\$865
AFDC Net Grant	Pre-OBRA	\$ 587	446.17	231.98
	Post-OBRA (1)	587	410.89	164.77
	Post-OBRA (2)	587	292.84	0.00
Food Stamp Allotment	Pre-OBRA	\$ 101	44.00	0.00
	Post-OBRA (1)	101	55.00	14.00
	Post-OBRA (2)	101	90.00	64.00
Total Income after Withholding	Pre-OBRA	\$ 688	859.33	970.33
	Post-OBRA (1)	688	835.05	917.12
	Post-OBRA (2)	688	752.00	808.73**
Net Income Gain from Employment:	Pre-OBRA	\$ --	171.33	282.33
	Post-OBRA (1)	--	147.05	229.12
	Post-OBRA (2)	--	64.00	120.73**

Notes: \*"Post-OBRA (1)" refers to first four months following beginning of employment; "Post-OBRA (2)" refers to period after twelve months of employment

\*\*Includes Earned Income Tax Credit

Source: See Appendix A.

The results of these calculations are very sensitive to what is assumed about work expenses, childcare deductions, and other factors. But the basic conclusion will survive any variant: if welfare recipients decide to work on the basis of costs and benefits accrued immediately, they are less likely to take a job now than they were prior to OBRA.

From the perspective of some, the positive aspect of this is that people whose eligibility while working was secured only by the \$30 and one-third disregard were eliminated from welfare four months after OBRA was implemented in

November 1981. Despite dire warnings from critics, few of these families returned to welfare, and indeed initial research indicated that the incidence of welfare termination among families with no earning members did not seem to decline after OBRA when compared to the behavior of dependent families before OBRA (Usher and Griffith, 1983). For reasons set out below, we believe the evidence on long-run effects of these changes is not all in. Nevertheless, it is worth noting that the return to work never was all that great; movement to self-support probably has always been motivated principally by factors beyond the dollar gain in the first few months of wage-earning.

All of the discussion above applies to earners in AFDC-FG and to earnings received by AFDC-U families up to the point that the principal earner is working 100 hours per month. At that level AFDC-U eligibility is lost and, for AFDC-U families, so is eligibility for Medi-CAL. There is no one-year grace period of Medi-CAL eligibility for AFDC-U families. This is because by definition two-parent families are categorically eligible for AFDC-U only if the principal earner is unemployed. In contrast, single-parent families are always categorically eligible; they may lose eligibility for payments while retaining Medi-CAL for the grace period. Poor two-parent families for which the principal earner is employed more than 100 hours may still qualify for medical assistance from county hospitals, but standards for this tend to be more stringent and access is more difficult. OBRA did not alter the 100-hour rule, and as a result OBRA effects on the AFDC-U caseload are likely to be minor.

To summarize, California is one of the few states in the nation in which benefits have remained virtually constant since 1972. At the same time, the state's system exhibits all the standard perversities of AFDC -- in particular the limited financial incentives for job-taking and the anomaly that a change

from 99 to 101 hours of work per month by the family's principal earner leads to total loss of benefits for a two-parent household. There is some evidence that welfare benefits in the state have increased in value relative to wages paid for low-skilled work in the private sector. The most significant recent systems alteration was the change in earnings treatment brought about by OBRA.

## Dynamics of the Caseload

Study of trends in welfare dependency requires making decisions about the appropriate time interval and the variables to be studied. For study of recent developments in California, an appropriate beginning point is 1972, the year following implementation of the provisions of the California Welfare Reform Act and related policies. By this time the levels of benefits and the eligibility standard were set, and the caseload had stabilized following the immediate effects of the reform legislation.

As background it will be useful to keep in mind the size of the state's population and something about its economy. As of July 1972 California's population was slightly less than 21 million. Over the next 13 years it increased by 26 percent, to 27 million. Over the same interval the number of children in the population grew very little -- only about 3.5 percent. Children currently account for about one quarter of the state's population. In 1972 they accounted for almost one-third.<sup>7</sup>

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<sup>7</sup> All population numbers cited in the paper are from unpublished estimates supplied by the State Department of Finance.

In July 1972 the seasonally adjusted unemployment rate for California was 7.2 percent; in July 1985 it was exactly the same. In figure 1 we have plotted the unemployment rate since 1972 to help fix the timing of recessions since, as we shall see, recessions do affect the caseload. The state has experienced two major recessions in the past fifteen years. The first occurred during 1974-75; the second began in 1979 and produced maximum joblessness in 1982. The second recession obviously creates problems for evaluation of OBRA effects, since consequences of OBRA for the caseload have to be disentangled from consequences of widespread joblessness. For use later we have marked on the graph two twelve-month periods for which the unemployment trend was down and average unemployment rates were approximately the same.

An important demographic development affecting the caseload is the flow of refugees.<sup>8</sup> Refugees come to California from all over the world as well as the District of Columbia, but over 90 percent of refugees on welfare are from Vietnam, Laos, and Cambodia. By July 1, 1985, there were approximately 335,000 Southeast Asian refugees in the state. Slightly more than half of all the state's Southeast Asian refugees were on AFDC at that time.<sup>9</sup> Thus for interpreting caseload developments it is the flow of Southeast Asian refugees that counts.

Southeast Asian refugees get to California through both direct placement and secondary migration from other states. The major influx of refugees occurred

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<sup>8</sup> As is well known, California has experienced a sizable inflow of illegal immigrants in addition to the sanctioned refugee flows. At least initially, illegals are much less likely to raise welfare costs, since only citizens or legally resident aliens are eligible for AFDC.

<sup>9</sup> Refugee totals are from California Department of Social Services (1985). Estimates of total refugees in California are from California Department of Finance (1985). Caseload data were supplied by DSS.



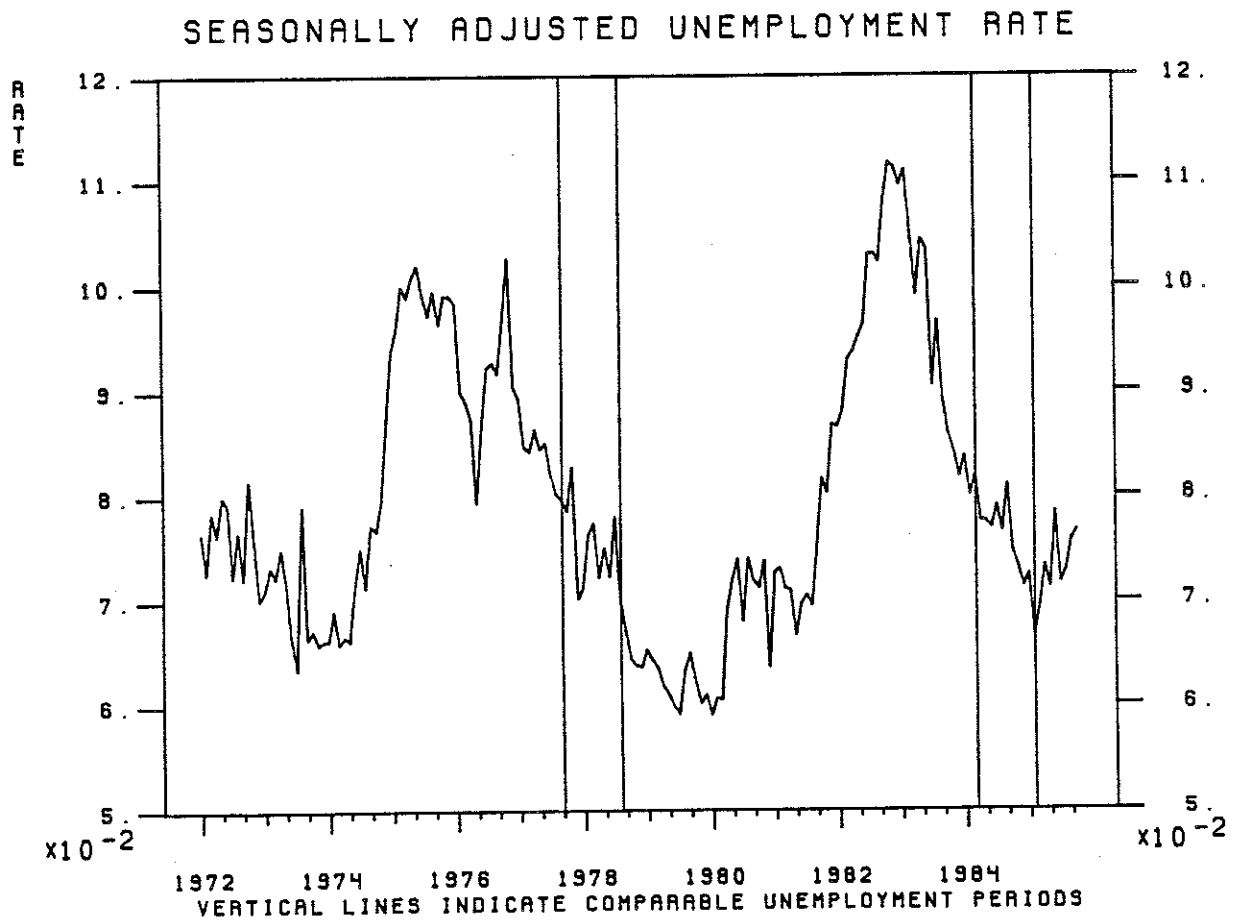


Figure 1. The Unemployment Rate

in 1979-81. When categorically eligible for AFDC, these refugees are counted in the caseload, even in the interval in which the cost of their assistance is wholly covered by the federal government.<sup>10</sup> The refugees have significant effect on caseload trends, as we show below.

**The Pattern of Change** Changes in the caseload from one period to the next are the result of adding new cases (accessions to welfare), closing others (terminations), and, if one is studying each subprogram separately, adjusting for movements of families from one program component to another. In studying these dynamics it is important to normalize by looking at rates instead of total numbers because California keeps getting bigger, and some caseload changes since 1972 simply reflect general population growth.

Structural changes in welfare will show up as changes in these rates over time. We should be concerned about increases in accession rates because this means that, over time, people who are not on welfare are more frequently experiencing the kinds of life events -- pregnancy, job loss, separation, and so on -- that precipitate going onto welfare. We should be concerned about reductions in termination rates because lower termination rates mean that the average duration of welfare spells is increasing. That's one facet of welfare dependency. We are interested in interprogram moves from AFDC-U to AFDC-FG or vice versa because these identify changes in the status of parents in the household. A move from AFDC-U to AFDC-FG occurs, for example, as the result of a separation or when the unemployed principal earner becomes disabled by alcoholism.

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<sup>10</sup> For families eligible for AFDC, this is the first three years of U.S. residence.

We consider, in order, accessions, terminations, and movement between programs.

Accession. Figure 2 shows rates of accession. This is the hardest number to normalize. We have used as denominator an estimate of all women aged 15-44 in the state minus all open AFDC-FG and AFDC-U cases. This calculation produces roughly the total of all nondependent women of childbearing age in the state. We say "roughly" because some AFDC households do not include adult women and about 8 percent of women in AFDC are over 44.

The general impression from figure 2 is that accession rates haven't changed much, especially since about 1975. Every month about one-half of 1 percent of women not on welfare go onto welfare in either AFDC-FG (.4 percent) or AFDC-U (.1 percent) cases. Both programs saw substantial increases during the period 1979-81; this change is probably a result of the recession and the flow of refugees. Since that time accession rates in AFDC-FG have been very slightly lower than they were between 1975 and 1980. For AFDC-U the period of expansion stretched out to 1983; more recently, accessions have slowed for this subprogram as well.

Termination. Figure 3 shows rates of termination. For each month this is the total number of cases in the program leaving AFDC (either FG or U) divided by the beginning-of-month caseload. Obviously, there is much more movement in AFDC-U than in AFDC-FG. Looking first at AFDC-FG, over the long run termination rates appear remarkably constant. The only significant event is the spike in November 1981 created by OBRA closures. Tabulation of the data suggests that termination rates for the period 1978-81 were slightly higher than for 1982-84, but this could be a product of the recession.

## California AFDC Accession Rates

January, 1972 - September, 1985

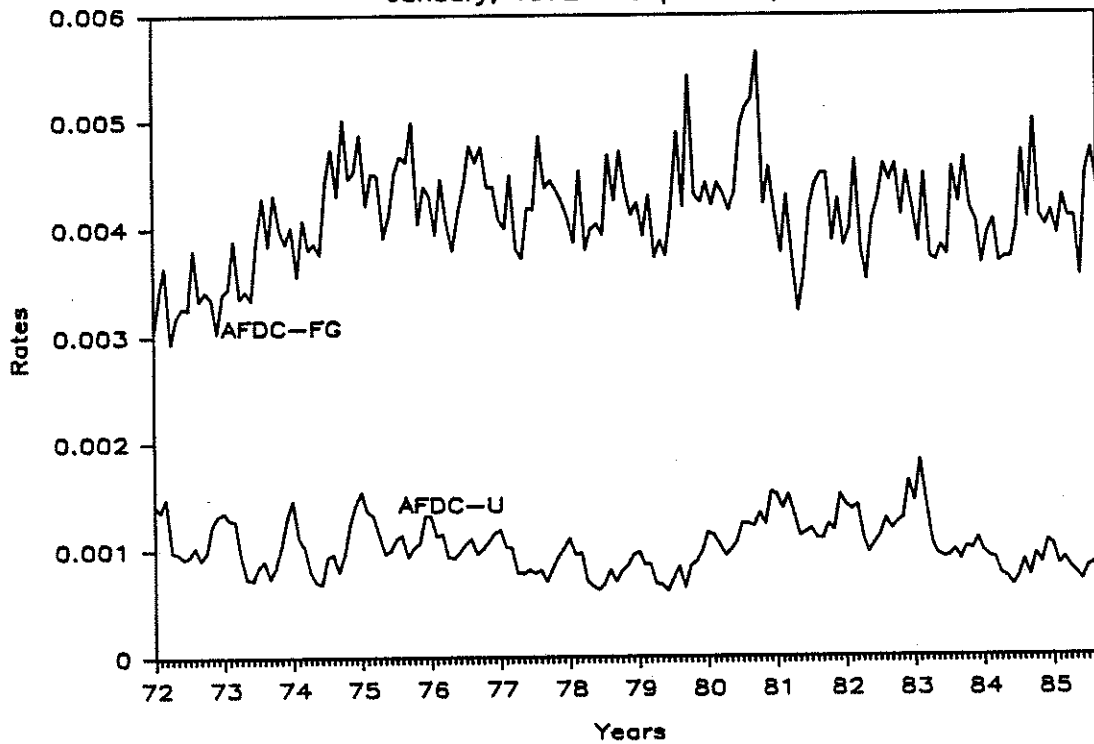


Figure 2. Accession Rates

# AFDC Termination Rates California, 1972-1985

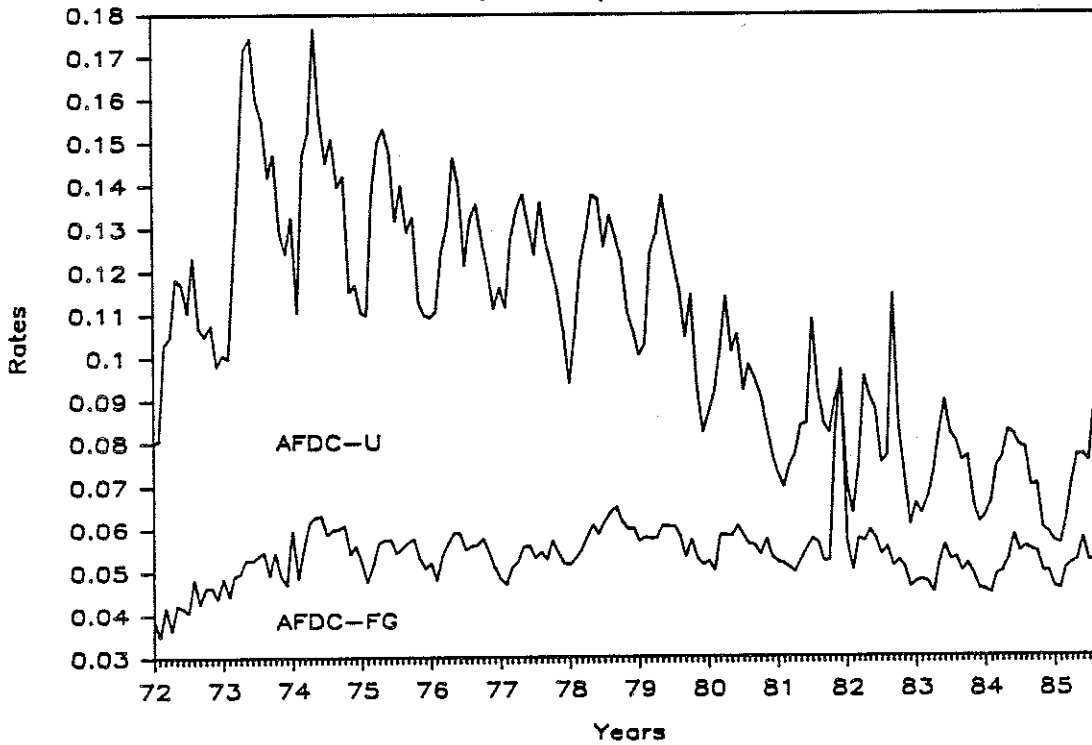


Figure 3. Termination Rates

Looking at AFDC-U one is struck by at least three things. The first is the seasonality of the series: obviously, many of the cases that open in the winter close in the spring. The second is the pronounced downward trend in termination rates. The AFDC-U caseload is up because accession rates are up, at least until recently (see figure 5), and termination rates are down. This trend is evident in the data accumulated before the arrival of refugees, but it was clearly accelerated by that influx. The third observation is that there is a lot of turnover in AFDC-U. This is important to keep in mind when looking at GAIN strategy: slowing this turnover by holding people in training programs is certain to expand the caseload. While in the long run such policies may lower the probability of return, in the short run anything that slows termination will raise costs. On the other hand, of course, anything that reduces accession rates will reduce costs.

Intraprogram movement. Finally, we consider the rate of intraprogram movement, that is, the proportion of AFDC-FG cases that switch to AFDC-U and vice versa. Rates of program transfer appear in figure 4. (These changes are not included as terminations in the data used to make figure 3.) Movement from AFDC-U to AFDC-FG far outstrips movement in the opposite direction. Such adjustments occur either when an unemployed parent (usually the father) leaves or when the unemployed principal earner becomes disabled. For reasons that are unclear, it appears that AFDC-U families are more stable now than they were prior to 1979. We are uncertain about the cause of this trend. We suspect it is in part attributable to the influx of refugee families to the AFDC-U program; at least for the time being, these families may be more stable than has historically been the case for dependent two-adult households.

# AFDC Intraprogram Transfer Rates

California, 1972-1985

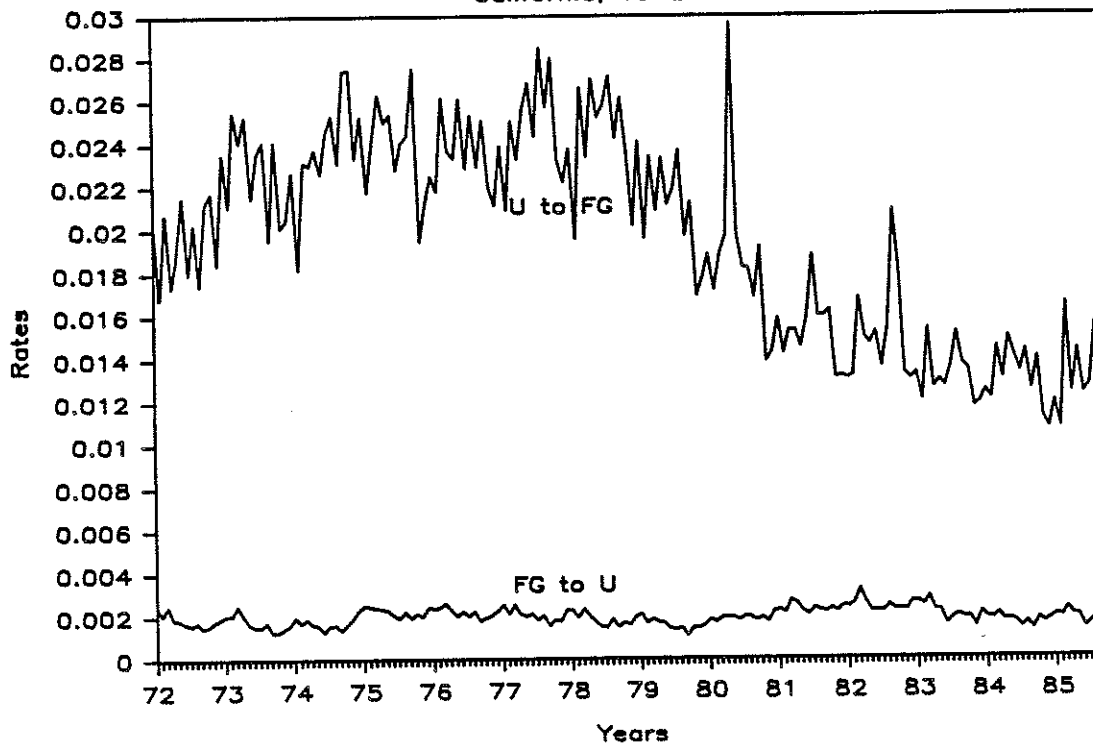


Figure 4. Intraprogram Movement

In figure 1 we delineated two periods, one in the late 1970s and the other more recent, during which unemployment rates were falling and, over the entire interval, virtually identical. In table 3 we report the results of calculation of mean termination, accession, program change, and caseload growth rates for these intervals. Our conclusion is that, despite similarity of economic conditions and roughly equivalent rates of caseload accession, caseloads fell less rapidly during the more recent period (AFDC-FG actually grew). This change was principally because of reduced rates of termination. The lower termination rate in AFDC-U is in part the result of the increase in the number of refugees in the caseload, but the trend downward in termination rates (see figure 3) predates the arrival of the refugees.

**Table 3. Changes in Caseload Dynamics 1978-1984**

Time Period	Unemployment Rate	Average Monthly Rate of							
		Termination		Accession		Program Change		Caseload Change	
		U	FG	U	FG	U→FG	FG→U	U	FG
9/77-8/78	7.5	12.1	4.4	.08	.42	2.5	.19	-.79	-.01
3/84-2/85	7.6	7.1	4.1	.09	.41	1.3	.17	-.52	.07

Source: Calculations by authors from data provided by California Department of Social Services. All figures are percentages.

**The Caseloads** Given trends in the flows of families to and from each AFDC program, we can consider trends in the caseloads themselves. Figures 5 and 6 present the AFDC-FG and AFDC-U caseloads since 1970. The caseload numbers are cases open at the beginning of each month.<sup>11</sup>

<sup>11</sup> All data reported here on welfare numbers come from the state's Aid to Families with Dependent Children -- Cash Grant Caseload Movement and Expenditures Report. We do not include AFDC cases opened on behalf of children in foster care or group homes.



## California AFDC-FG Caseload

January, 1970 - September, 1985

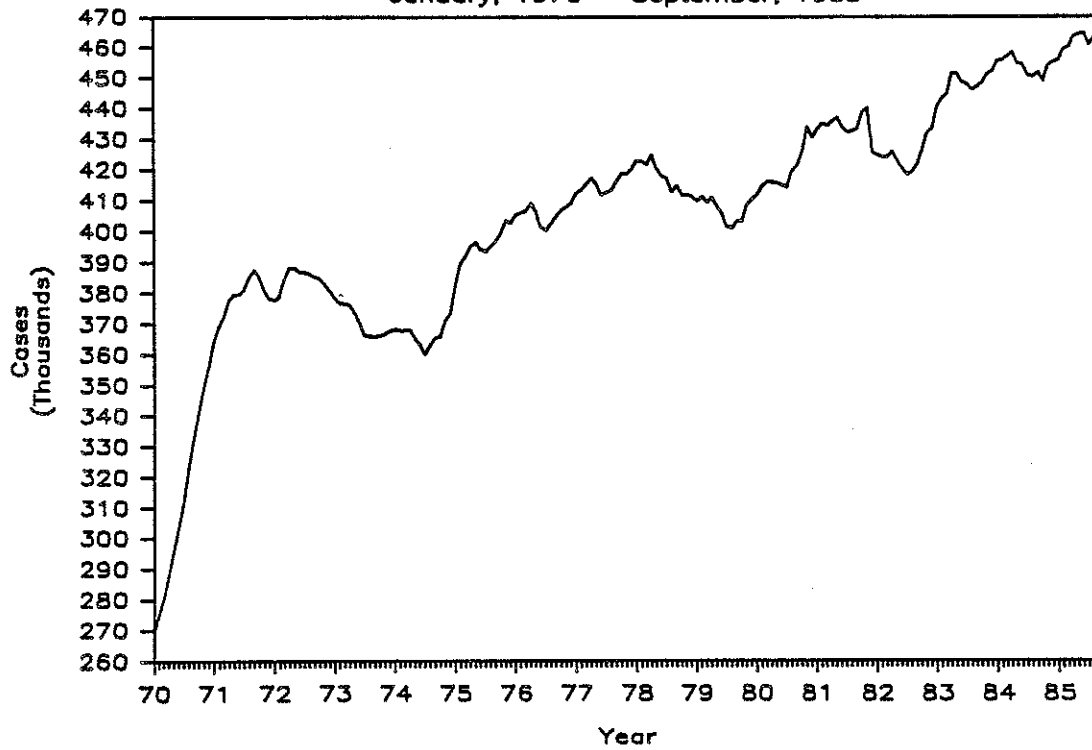


Figure 5. The AFDC-FG Caseload

# California AFDC-U Caseload

January, 1970 - September, 1985

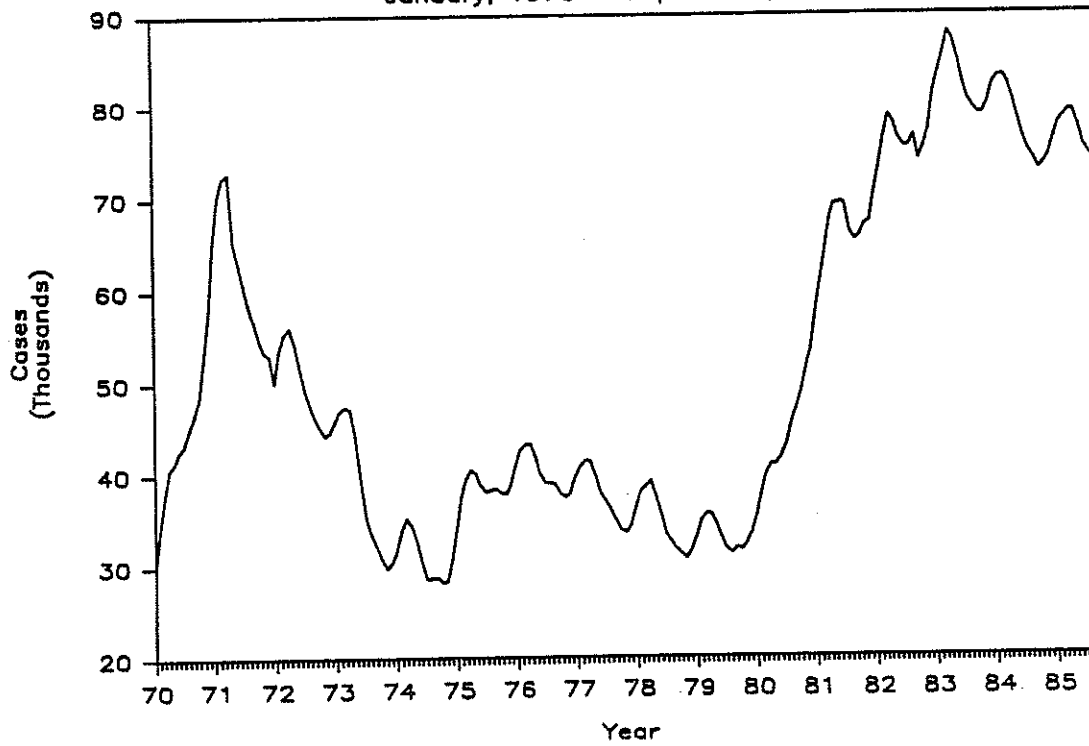


Figure 6. The AFDC-U Caseload

Looking first at AFDC-FG, we note four factors that will figure in the discussion that follows. First, between January 1970 and the summer of 1971 the caseload grew at an extraordinarily rapid rate. This is the last phase of the caseload explosion that precipitated the California Welfare Reform Act of 1971.<sup>12</sup> Second, the AFDC-FG caseload is cyclically sensitive and responds with a lag to economic recovery. The decline into recession in 1974-75 produced a 9.5 percent increase in AFDC-FG cases, and it took three years for the recovery to begin to dent the caseload.<sup>13</sup> Third, the initiation of OBRA in November 1981 produced an immediate and precipitous cut (3.3 percent) in the caseload. This came about as a result of the restriction placed upon household gross income. The second reduction, in March of the following year, occurred with elimination of the \$30 and one-third deduction for all households that had reported earnings since November 1981. Again, the effect was a reduction of slightly less than 2 percent of the caseload. Fourth, following full imposition of the OBRA reforms, the caseload began to recover rapidly. By early 1983 the case count had returned to pre-OBRA levels, and it continued to grow. Simple extrapolation of trends apparent immediately prior to OBRA implementation suggests that most of the effects had gone away. However, this ignores the consequences of the continued expansion in unemployment rates after 1981 apparent in figure 2. Without control for this and other factors, we cannot be sure.

The first thing to note about AFDC-U, in figure 6, is that the scale is much different from AFDC-FG. In July 1985 there were approximately 580,000 AFDC-FG cases and 77,000 AFDC-U cases for a ratio of over 7:1. As would be anticipated,

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<sup>12</sup> For a discussion of this episode see Rence and Wiseman (1978).

<sup>13</sup> Caution should be exercised in looking at all the figures because of the exaggeration of caseload movements created by scaling; for example, the fluctuations apparent in figure 5 involve changes of less than 10 percent in the total caseload.

the AFDC-U caseload shows considerable cyclical sensitivity: between July 1974 and July 1975 the caseload increased by one-third.<sup>14</sup> But as bad as the 1974-75 recession was, the last recession was much worse: the caseload almost tripled. It is hard to find an OBRA effect in the AFDC-U caseload. The caseload has a strong seasonal component that leads to a peak in the winter and a trough in the fall.

It would be a mistake to attribute the entire AFDC-U caseload increase since 1979 to recession. Our calculations indicate that about half of the change is attributable to an influx of refugees, in particular Southeast Asians, to the rolls. By October 1984 37.8 percent of the AFDC-U caseload, some 28,500 families, were refugees; 4.3 percent of the AFDC-FG caseload, another 19,862 families, were refugees.

**Recipient Characteristics** To this point we have said nothing about the characteristics of families receiving public assistance. While the state has recently improved its data-gathering procedures, the historical data are spotty and often do not include information on factors of policy concern. We have assembled information on family size and the share of families reporting earnings. These numbers appear in table 4.

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<sup>14</sup> Growth of the AFDC-U caseload in 1970-71 is attributable to the sharp post-Vietnam recession and a series of major strikes. The subsequent decline reflects economic recovery and tightening of eligibility rules. See Rence and Wiseman (1978), pp. 54-55.

Table 4. Case Characteristics, 1970-1984

	1972 (July)	1977 (Oct.)	1980 (July)	1982 (Oct.)	1984 (Oct.)
<u>AFDC-FG</u>					
FBU size	3.2	2.9	2.8	2.7	2.7
Report earnings (%)	n.a.	13.1	11.4	4.9	6.5
<u>AFDC-U</u>					
FBU size	4.5	4.4	4.5	4.3	4.6
Report earnings (%)	n.a.	12.2	10.2	6.4	12.0
Sources: For Family Budget Unit (FBU) size the source is calculations by authors using data supplied by the State Department of Social Services. Earnings data are derived from California State Health and Welfare Agency, Department of Social Welfare, Human Relations Agency, <u>Aid to Families with Dependent Children: Social and Economic Characteristics of Families Receiving Aid</u> , Program Information Series Reports 1972-1, 1977-1, 1980-4, and 1984-06. Unpublished data for 1984 provided by Reports Processing Section, California Health and Welfare Agency, Department of Social Services, Statistical Services Branch.					

The data in table 4 indicate that family size in AFDC-FG has declined by 16 percent since 1972. Size in AFDC-U varies, but since the AFDC-FG caseload is so much larger, the later trend dominates. As would be expected from our earlier discussion of OBRA, the incidence of reported earnings among recipient families in AFDC-FG is down. This need not mean, of course, that job-taking is down; it may be that people who take jobs while receiving welfare are less likely now to continue receiving benefits. The employment rate in AFDC-U has returned to pre-recession levels. This is consistent with our contention that

it is the 100 hours rule, not work incentive disregards, that dominates behavior in AFDC-U<sup>15</sup>

These numbers have two implications. One is that since family size is down in AFDC-FG, over time the number of people on welfare has increased at a rate less rapid than the rate of change in the number of welfare cases. The second is that welfare costs per aided case in AFDC-FG are higher since OBRA because there is less offset of benefits by earnings. The overall effect of OBRA on welfare costs depends on the extent to which the effect of measured costs per case has been offset by the effect of OBRA's stricter eligibility requirements on total cases receiving welfare. Both of these implications figure in conclusions drawn later in the paper.

### Motivation for GAIN

As should be expected, the motivations behind passage of GAIN were complex (Kirp, 1985). Politicians were responding in part to perceived voter interest in welfare reform manifested in debate preceding defeat of a particularly draconian welfare initiative that appeared on the state's ballot in 1984. Others seem to think that AFDC problems were getting worse. David Swoap (1986), the former director of the state's Health and Welfare Agency, claimed after GAIN was passed that "the time was at hand for structural reform of the system" (p.

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<sup>15</sup> Earnings received in AFDC-U are subject to the same disregard procedure as are applied in AFDC-FG. As a result, OBRA might also be expected to reduce the incidence of employment in this program. Two factors reduce OBRA effects. The first is that earnings in AFDC-U families are generally from the spouse of the principal earner and are insufficient to meet the need of larger AFDC-U families. Second, expected duration of AFDC-U cases is shorter. Second earners in such families retain jobs even with low net immediate return because they expect their households to leave assistance in a foreseeable future.

24) because, among other things, the number of recipients had grown twice as fast as the population since 1980 and the proportion of the state's children living in families receiving welfare was "at an all-time high" (p.24). Even more dramatic is a transparency produced by the Department of Social Services to illustrate problems to be addressed by the new initiative. This transparency is reproduced as figure 7. The contrast depicted between welfare growth and population growth in the state is startling.

Closer examination indicates that the information provided by figure 7 distorts the pattern of development in the state's welfare caseload in at least three ways. First, growth in caseload is contrasted with growth in population; this comparison exaggerates the expansion of dependency given the decline in case size illustrated above. Second, the figure (apparently) takes as base January 1, 1970 and implies linear expansion of the caseload since that time. In fact, as figures 5 and 6 indicate, most of the caseload growth was accomplished during the first eighteen months of this interval. Since the administration of former Governor Reagan has already taken credit for the containment of this explosion with the California Welfare Reform Act of 1971 (Carleson, 1980), it is inappropriate to count as part of the problem of 1985 the problem that was allegedly solved by the end of 1971. Finally, the immediate consequences of the arrival of 325,000 Southeast Asian refugees can hardly be taken to be the result of structural failings in the welfare system.

In table 5 we adjust for all these things: we count people on welfare instead of cases, we evaluate changes since 1972 instead of 1970, and we present calculations with and without refugees. Without adjustment for refugees, population has grown 2.7 times faster than people on AFDC since 1972. But, as Swoap indicates, the number of children in AFDC families has grown more rapidly than

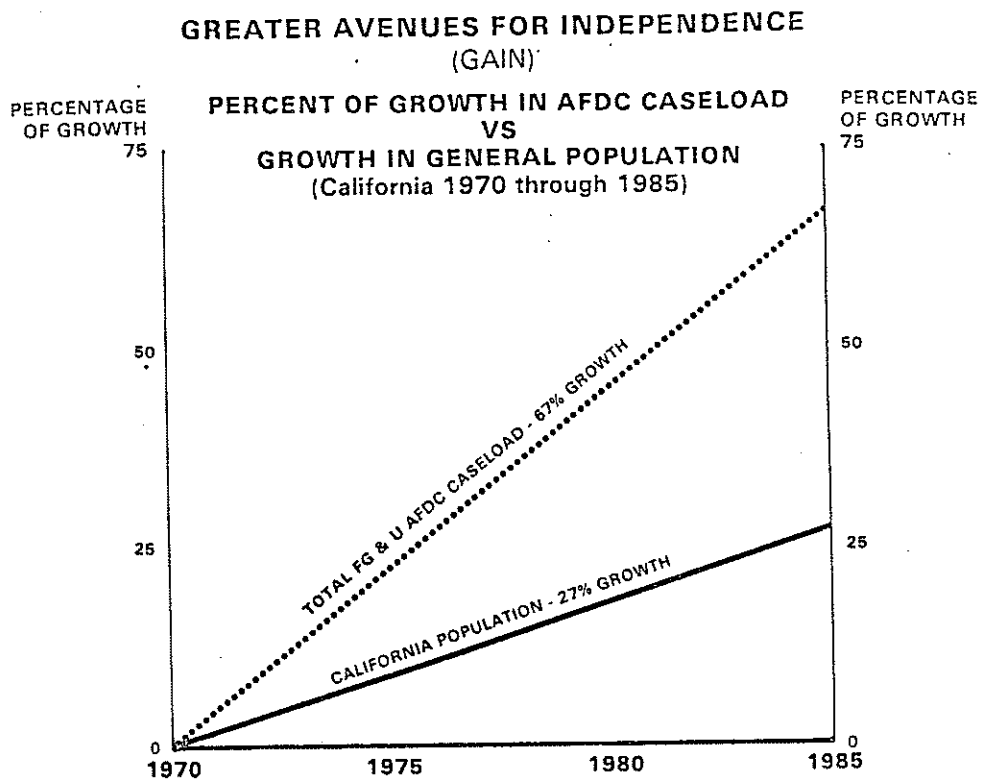


Figure 7. GAIN Transparency



the number of children in the population as a whole. The consequence of this is relatively minor. The "all-time high" proportion of children on assistance cited by Swoap amounts to the difference between 15.8 percent (1985) and 15.6 percent (1972). If we do not count Southeast Asian refugees the total number of people on AFDC has declined since that year. If we do not include Southeast Asian refugees, the number of children on AFDC has declined absolutely and as a proportion of all children.<sup>16</sup>

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<sup>16</sup> More than a few caveats are in order regarding table 5. First, we have accepted the state's Southeast Asian refugee count for July 1, 1985. Second, as the table indicates, all of our estimates of refugees on welfare are actually for October, 1984. We do not believe the numbers are changing fast enough for this to be a problem. Third, we do not really know what proportion of the 335,000 refugees are children. We assume that half are. About 61 percent of refugees receiving any kind of assistance (not just AFDC) are children. Finally, for counts of refugees on welfare we include all members of refugee families, even children born in the U.S. We consider the dependency of these children to be part of the refugee problem. As best we can determine, these children are not included in the state's estimate of total refugees in the population.

Table 5. Changes in Dependency Since 1972

Population Component	Percentage Change, 7/1/72 - 7/1/85
California Population	26.3%
California Population minus Southeast Asian Refugees	24.7%
California Children	3.5%
California Children minus Southeast Asian Refugee Children	0.9%
Persons on AFDC	9.6%
Persons on AFDC minus Southeast Asian Refugees on AFDC	-1.9%
Children on AFDC	4.7%
Children on AFDC minus Southeast Asian Refugee Children on AFDC	-8.1%
Source: Calculations by authors from sources cited in text. Estimates of refugees on AFDC are for October, 1984.	

In summary, the aggregate caseload statistics suggest that the incidence of welfare dependency has not increased significantly since 1972. If Southeast Asians refugees are not included, the incidence of AFDC receipt within the population and among children has declined absolutely. The recent surge in welfare dependency in the state is principally the result of U.S. foreign policy. But while the data suggest that little ground has been lost, it is hard to find examples of significant improvement. We believe the caseload that remains has grown more dependent. The basis for this suspicion is the termination data presented earlier and the results of our study of OBRA effects, to which we turn next.

## Effects of OBRA

In reviewing numbers for preparation of this paper, we found it particularly frustrating that we could not separate recession effects on the caseload from policy effects. Where would the caseload be if the OBRA provisions had never been implemented?

Most of the work on OBRA effects has measured immediate consequences using micro data, that is, information collected on an individual case or family basis. In this section we break new ground by looking at the effects for California with aggregate data. We concentrate on the AFDC-FG caseload because, as we have argued above, OBRA had little significant effect for AFDC-U, and AFDC-U developments are heavily influenced by refugee arrivals.

The procedure is simple. We first ignore all of the nuances of accession rates and termination rates and focus exclusively on the caseload. The caseload is assumed to be a function of population, the level of benefits, the amount of unemployment, the birth rate, and alternatives in the private-sector job market. The measures employed for each of these variables are summarized in Appendix B. We estimate a multivariate forecasting equation for the caseload using data for the interval July 1972 through November 1981. We start our model at the point where the system presumably has absorbed the effects of the California Welfare Reform Act of 1971 and we end estimation on the eve of implementation of OBRA. Our model makes heavy use of lags; we have included a six-month lag structure for caseload, births, and unemployment.

Figure 8 shows the results of our exercise. The region between the two vertical lines shows the time period for estimation. Both the actual and the

predicted welfare caseload appear.<sup>17</sup> For months past November 1981 the caseload is simulated using the coefficients for the pre-OBRA model. The story the model tells is this: in the absence of OBRA, the caseload would have been larger. The magnitude of the difference is exaggerated by the perspective of the figure. Over the period December 1981 to December 1983 the estimated reduction is an average of 38,293 cases, that is in the absence of OBRA the monthly caseload over this interval would have been about 8 percent greater. But note that as the economy has recovered, the predicted and actual caseloads have begun to merge. For 1984 the actual caseload is only about 2 percent smaller than predicted.

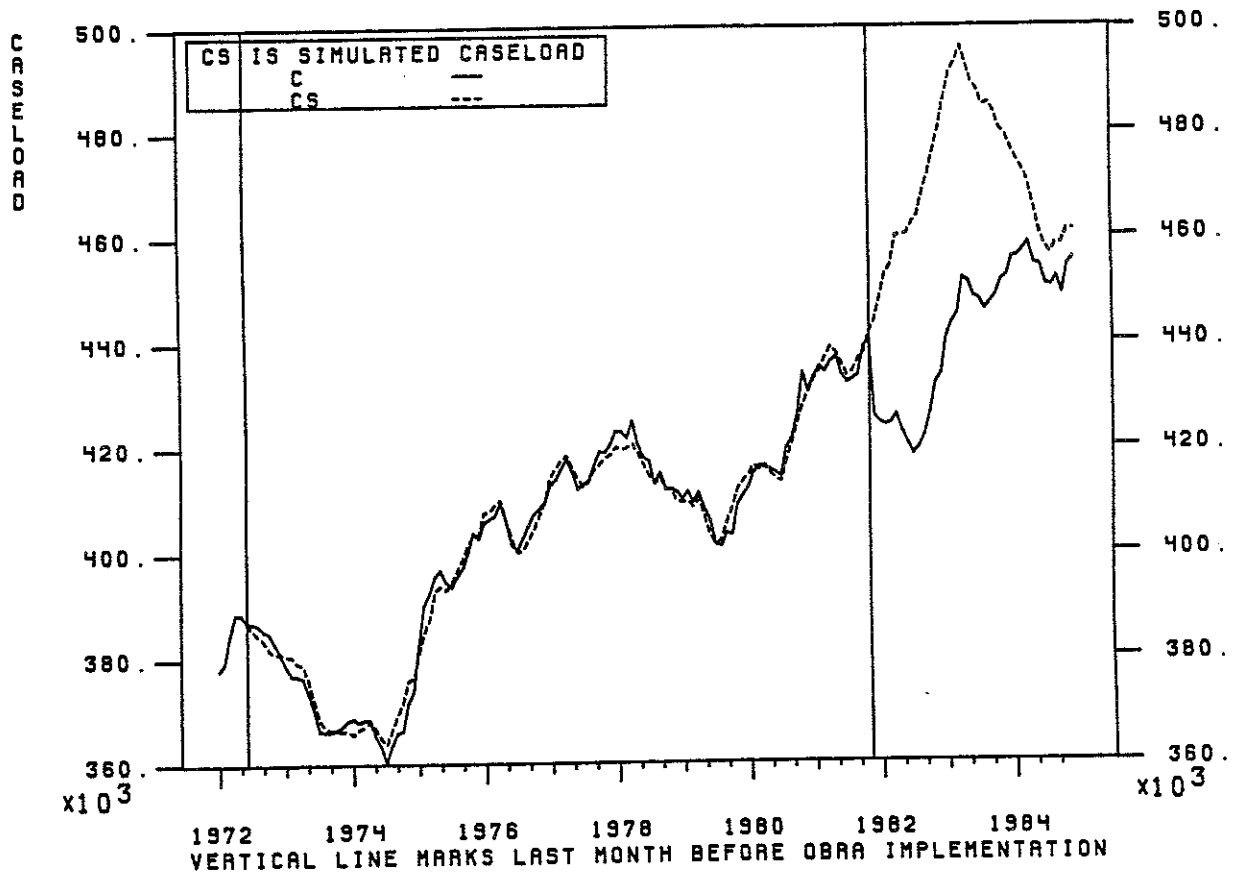
What does this mean? From these data -- and more study is clearly required -- it seems that the effect of OBRA was when first implemented to eliminate a significant portion of the caseload and thereafter to isolate the caseload from the full effects of the 1981-82 recession. But over the longer run the impact is diminished to the point where it appears that California now has about the same welfare caseload as it would have had anyway. Furthermore, we suspect that the cost may be greater now because, as shown earlier, a smaller proportion of cases involve earnings to offset welfare. Those reporting earnings on average report much less now than was reported prior to OBRA.

Our suspicion is that, as time passes, the actual caseload may rise above that predicted. Microanalytic study of welfare cases indicates that the longer cases stay on, and the longer welfare mothers spend without being in the labor force, the less the likelihood of termination (Wiseman, 1983). This prediction

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<sup>17</sup> The predicted caseload values for each month are calculated using predicted, not actual, values for caseloads in preceding months unless the preceding months fall in the interval January to June, 1972.

### SIMULATION RESULTS, AFDC-FG CASELOAD



Source: California Health and Welfare Agency, Department of Social Services.

Figure 8. The Caseload with and without OBRA

is consistent with the results reported in table 3. The reduced turnover rate means that the average duration of welfare dependency is rising. That trend will continue, and as it does, the termination rate will continue to fall.<sup>18</sup>

## Summary

The last Reagan reform of the California welfare system was initiated in 1971. During the previous two years the AFDC caseload had increased by an astonishing 70 percent. That was a real welfare crisis. Our figures show that since that time growth in welfare receipt has been much slower. In fact, we have argued that without the influx of refugees the number of welfare cases and welfare recipients would have declined absolutely despite an increase in the general population of 27 percent. The state can take pride in its preservation of real welfare benefits at a time when most states have allowed benefits to erode.

At the same time that welfare dependency in the state has not increased, it has not fallen substantially. We believe that for open cases dependency is now greater in the sense that likelihood of leaving welfare has declined. This trend has been enhanced by the reforms introduced by the Omnibus Budget Reconciliation Act of 1981. Thus while the seriousness of trends in welfare receipt in the state has been exaggerated by GAIN proponents, there seems ample justification for considering policy innovations. The challenge to the state's welfare administrators is to find ways to use GAIN to accelerate adjustment of refugees and to reverse the long-run decline in termination among other recipients. It will not be an easy task.

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<sup>18</sup> We have not run our simulation past 1984 because we lack data on births.

## Appendix A: Notes on Benefits Calculations

This paper uses data on AFDC and foodstamps benefit calculation procedures to construct the numbers in Tables 1 and 2 and to calculate the benefits variable used for the time-series AFDC forecasting model described in Appendix B. This appendix summarizes the sources of this information and the assumptions employed in carrying out the computations.

### AFDC

**AFDC without Earnings** Data for maximum aid by family budget unit size are taken from State of California, Health and Welfare Agency, Department of Social Services, Manual of Policies and Procedures: Eligibility and Assistance Standards, section 44-315.411. The basic reference was the manual for June 1985; figures for dates before and after this were taken from later or earlier versions, as appropriate.

For both cases with and without earnings it is assumed the recipient family receives no other non-welfare income.

**AFDC with Earnings** In calculating AFDC benefits with earnings we followed the procedures set out in the Manual of Policy and Procedures section 44-300. We have assumed no childcare expenses and \$75 work expenses in all cases reported in table 2. Revised OBRA regulations grant a "flat" \$75 in work expenses other than mandatory withholding; prior to OBRA work expenses were granted only if documented and then only certain types. Thus the "pre-OBRA" case in table 2 may exaggerate the generosity of the system prior to November 1981.

For mandatory federal withholding we have applied rates reported in U.S. Internal Revenue Service, Employers' Tax Guide, publication 15, various issues. State withholding, which in most cases was inapplicable, came from California Health and Welfare Agency, Employment Development Department, Employers' Tax Guide: Unemployment Insurance Code of California. Social Security rates were taken from Committee on Ways and Means, U.S. House of Representatives, Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means (Washington: U.S. Government Printing Office, 1984), pp. 58-59 plus updated information received from the Social Security Administration.

The benefits computation formulas applied are those set out in Wiseman (1984) adjusted to account for the assumptions imposed above about work expenses and non-welfare income and for recent alterations in work incentive calculation.

We do not include the Earned Income Tax Credit (EITC) for all cases except full-time earnings after four months of work. The administration attempted in OBRA to assume that all earners received the EITC whether they did or did not. This provision was subsequently eliminated in a court challenge. Without automatic presumption there is no incentive for a working recipient on welfare to collect the EITC unless the EITC exceeds the AFDC benefits, since the EITC reduces welfare benefits dollar for dollar. Even in cases in which the EITC exceeds AFDC, the recipient may prefer to retain AFDC eligibility. There is an incentive for the state to assure that working recipients collect the credit, since EITC dollars are all federal, while welfare dollars cost the state \$.50. In most cases it still appears not to be worth the administrative effort. In practice in California, foodstamp benefits are not affected by receipt of the EITC.

## Food Stamps

The source for basic foodstamps benefits data is State of California, Health and Welfare Agency, Department of Benefits Payments, Manual of Policies and Procedures: Division 63, Food Stamp Regulations. The basic reference was the manual for June 1985; figures for dates before and after this were taken from later or earlier versions, as appropriate.

The foodstamps program allows deductions for "excess shelter costs" and for childcare. Currently a maximum deduction is allowed for both items combined. In table 1 we present foodstamps calculated assuming no excess shelter cost or childcare deduction and calculated assuming the maximum is granted. Table 2 is constructed under the assumption that the household receives the maximum deduction. For comparisons over time deductions become problematic because prior to 1979 deductions were itemized, no standard deduction was granted, and there were no limits on excess shelter or childcare deductions. We have been unable to develop a satisfactory time series on average deductions granted recipients in foodstamps calculation. Without this information, it has been necessary to calculate foodstamp benefits for the simulation model given no deductions. This is the procedure followed for constructing the benefits variable cited in Appendix B.

Additional details on formulas employed in calculating the foodstamp benefits are available from the authors.

## Deflation

Data on constant dollar benefits are employed for figure 1 and in construction of the guarantee variable used in the AFDC-FG simulation. For figure 1 all deflation was done using the California Necessities Index, or CNI. The CNI was provided by the California Department of Finance. In the simulations variables for income measures outside of AFDC/foodstamps were deflated by the California Consumer Price Index. The source for the CCPI is State of California, Department of Industrial Relations, Division of Labor Statistics and Research.



## Appendix B: The Simulation

Our AFDC-FG estimates are based upon a single-equation time-series forecasting model. Variables included in the model are listed below. The names in parentheses correspond to variable designation in the regression output.

- C(t) = CASELOAD AT THE BEGINNING OF THE MONTH (Caseload)  
Source: State of California, Health and Welfare Agency, Department of Social Services, Statistical Services  
Aid to Families with Dependent Children -- Cash Grant Caseload Movement and Expenditures Report, various issues.
- P(t) = POPULATION OF FEMALES AGES 15-44 (Population)  
Source: State of California, Department of Finance, Population Research Unit.
- B(t) = BIRTHS(t)  
Source: State of California, Department of Health, Birth Records Division.
- M(t) = MINIMUM WAGE(t) (Min Wage)  
Source: State of California, Department of Industrial Relations, Industrial Welfare Commission (San Francisco). Deflated by CPI(t).
- W(t) = WAGE INDEX FOR SWITCHBOARD RECEPTIONIST(t) (Recep Wage)  
Source: U.S. Department of Labor, Bureau of Labor Statistics, Area Wage Surveys (San Francisco - Oakland, San Diego, Los Angeles - Long Beach, Anaheim - Santa Ana - Garden Grove). Deflated by CPI(t).
- CNI(t) = CALIFORNIA NECESSITIES INDEX  
Source: State of California, Department of Finance, Financial Research Unit.
- CPI(t) = CALIFORNIA CONSUMER PRICE INDEX  
Source: State of California, Agriculture and Services Agency, Department of Industrial Relations, Division of Labor Statistics and Research (San Francisco).
- U(t) = UNEMPLOYMENT (Unemp)
- LF(t) = LABOR FORCE (Labor Frc)  
Source: (Labor Force and Unemployment) State of California, Health and Welfare Agency, Employment Development Department, Report LF101, October 1985, prepared by Employment Data and Research Division, Estimates and Economic Research Group.
- P3(t) = AFDC BENEFITS PLUS FOODSTAMPS BENEFITS (Benefit)  
Source: See Appendix A. Deflated by CNI(t).

The model was estimated over the period 1972:7 through 1981:11 (note the caseload is measured as of the beginning of the month, so OBRA effects are first observed 1981:12). The coefficient estimates and related statistics are listed

below. The number in the "lag" column indicates the timing of the indicated variable. Thus in the equation "Caseload lag 1" is the AFDC-FG caseload at the beginning of the month immediately preceding the month of the dependent variable observation.

**The Forecasting Equation**  
(Dependent variable is monthly AFDC-FG caseload)

Variable Name	Lag	Coefficient	Standard Error
Constant	0	-1973.561	34695.22
Caseload	1	.8569206	.1035059
Caseload	2	.8788226E-01	.1344708
Caseload	3	.2328583	.1208708
Caseload	4	-.5702229	.1187064
Caseload	5	.1823218	.1282582
Caseload	6	.4690937E-01	.8938801E-01
Population	1	-.7975801E-02	.6348543E-02
Births	1	.4450290	.1733866
Births	2	-.4010050	.1769340
Births	3	.3096892	.1857295
Births	4	.4032196	.1727416
Births	5	.1611312E-01	.1787152
Births	6	.3835315	.1821326
Labor Frc	1	.2715405E-02	.1673789E-02
Unemp	1	.6022204E-02	.2873525E-02
Unemp	2	.1013822E-01	.3345638E-02
Unemp	3	-.3585802E-02	.3803487E-02
Unemp	4	.7588643E-02	.3967581E-02
Unemp	5	-.1015498E-01	.3706678E-02
Unemp	6	.6871057E-02	.3166748E-02
Benefit	1	41.89872	14.41754
Min Wage	1	-534.5776	774.5985
Recep Wage	1	6.865338	16.32439
Observations		113	Degrees of Freedom 89
			R**2 (Adj.) .995
SSR		.21093216E+09	SEE 1539.4883

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