Welfare, Work, and the Economy

A background on welfare for mothers with dependent children and how numbers of new entrants coincide with economic times.

The social program known as welfare traces its origin back to the Great Depression, when it was created as part of the Social Security Act of 1935. The program was originally known as Aid to Dependent Children and later as Aid to Families with Dependent Children (AFDC), the title the program would retain through the mid-1990s. The program was designed to provide support to mothers with dependent children whose fathers had left the family, become incapacitated, or died. The legislation was motivated by a 1934 study conducted by the Committee on Economic Security that found 8 million children living in families receiving unemployment relief, a number equal to approximately 22 percent of all children under the age of 16 in the U.S. The study warned that these children were exposed to a significant risk of delinquency or serious neglect and prescribed financial assistance to protect children from this risk.

During the first 25 years of AFDC, the program operated as intended, caseloads were relatively low, and the general public either accepted the program as satisfying a legitimate social need or was at least unconcerned with it. However, the broad social changes of the 1960s would drastically alter the public's opinion toward welfare, providing an impetus toward reform. Perhaps the most influential social change was the steady increase in the percent of working mothers. Only 28 percent of women with children worked outside of the home in 1960, but by the 1990s this figure rose to nearly 70 percent. Consequently, public opinion shifted away from the view that mothers need to be home taking care of children toward the view that mothers can and should work outside of the home. Two other social trends served to foster an overall negative view of welfare among the public. From 1960 to the mid-1980s, the divorce rate more than doubled and the percentage of births to unmarried women quadrupled. Some argued that these trends were the direct results of welfare on the basis that there were financial incentives toward divorce, never marrying, and out-of-wedlock childbearing. Regardless of the validity of such arguments, the ever-growing share of the public that had developed an unfavorable opinion of welfare served to embolden policymakers to legislate major reforms to the program.

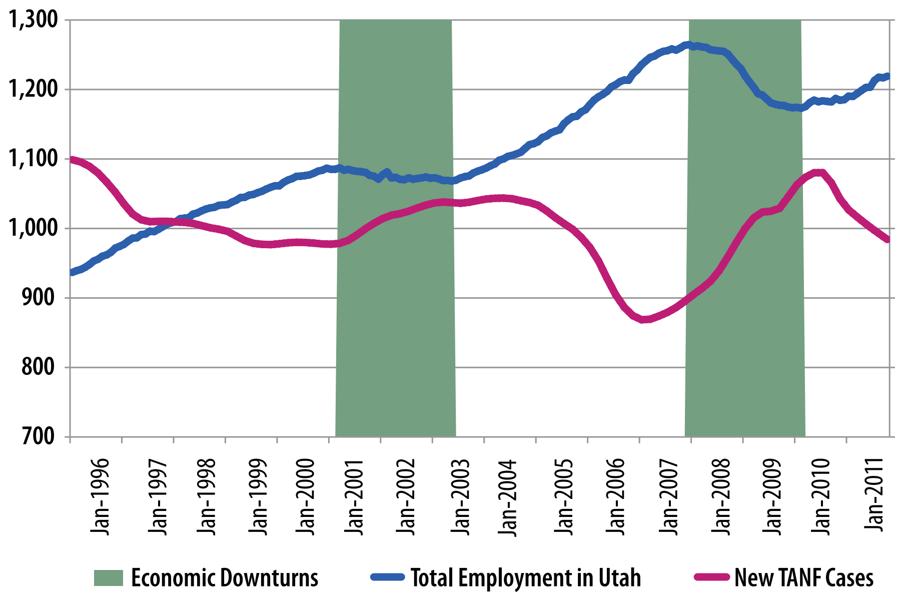
Welfare reform was achieved with the passing of the Personal Responsibility and Work Opportunities Reconciliation Act of 1996, which dismantled AFDC and put in its place Temporary Assistance for Needy Families (TANF). The new program was designed around the central tenet that welfare is only a temporary source of financial assistance granted under the expectation that recipients are actively seeking employment or pursuing activities to improve their chances of future employment.

In order to promote compliance with the requirements to pursue work-related activities, states are given the power to impose sanctions in the forms of benefit reductions and, under some circumstances, the lifetime elimination of all benefits. To eliminate the perceived incentive toward having additional children out of wedlock, states are free to impose caps that fix the size of benefits received by each family. Possibly the most significant reform was the imposition of time limits on the receipt of welfare. TANF limits individuals to a maximum of five years of eligibility for welfare, but states are permitted to impose even shorter time limits if they choose. In Utah, the time limit is 36 months. Because individuals can be denied benefits for not participating in work-related activities or for having exhausted the time limit, one of the most important facts about welfare under TANF is that, strictly speaking, it is no longer an entitlement program.

Turning to economic matters, the health of Utah's labor market and the number of new entrants into TANF exhibit an inverse relationship that is clearly discernable in the accompanying graph. The economic downturns are defined as periods where the labor market was contracting in Utah. As expected, when the demand for labor decreased, a greater number of individuals were unable to secure employment and were forced to resort to TANF for assistance. Conversely, during periods of strong labor market growth, the greater the number of employment opportunities, the smaller the number of individuals who needed to rely on TANF to make ends meet. The impact of the Great Recession upon Utah's economy has most often been expressed in terms of lost jobs. From December 2007 to February 2010, the State of Utah experienced the largest percentage drop in employment during the post-World War II era. Data on the number of new TANF cases provides a supplemental measure of the severity of the recession. The seasonally-adjusted number of new TANF cases reached a peak of roughly 380 in May 2010, shortly after the labor market had reached the bottom of the downturn. This represents the largest number of new TANF cases in any month since the inception of the program in October 1996. Not only, then, does the TANF data provide another illustration of the depths to which the labor market fell during the Great Recession, but it also reveals that TANF serves an important function as a social safety net during periods of economic duress.

New TANF Cases and Employment in Utah
January 1996 to October 2011

The number of new TANF cases is measured on the right vertical axis while employment is measured on the left vertical axis in thousands. Different scales were chosen to more clearly reveal the relationship between the two data series.



Sources: Utah Department of Workforce Services and the Bureau of Labor Statistics.