Demand for TANF in Mississippi

By

James W. Swindell Jr., Graduate Research Assistant; Steven W. Martin, Graduate Research Assistant; Lynn Reinschmiedt, Professor; and Darren Hudson, Assistant Professor.

Department of Agricultural Economics
Mississippi State University
Mississippi State, MS 39763
Ph. 662-325-2750
Fax 662-325-8777


Copyright 1999 by James W. Swindell Jr., Steven W. Martin, Lynn Reinschmiedt, and Darren Hudson. All Rights Reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.
DEMAND FOR TANF IN MISSISSIPPI

SCOPE OF THE PROBLEM

Currently, approximately 38 million people across the U.S. live in poverty\(^1\) (O'Hare, 1996). Many of these families rely on public assistance or welfare as their primary means of support. Poverty is often perceived as an urban issue. Rural poverty does not get as much media attention as urban poverty, but facts show that there are many rural areas (i.e., small towns, small communities, farm communities, and non-metropolitan areas) that have very high rates of poverty (Miller, 1998). Many of the poor do reside in inner cities of metropolitan areas, but the rate or incidence of poverty is in fact higher among families, female-headed households, and related children in non-metropolitan counties (Goetz and Freshwater, 1997). The South, a region with a heavy welfare burden, faces a tremendous challenge of reducing dependency and rural poverty given that one-third of the rural poor live in the South.

RECENT LEGISLATIVE CHANGES

The implementation of the Personal Responsibility and Work Opportunity and Reconciliation Act of 1996 (PRWORA), a comprehensive welfare reform plan, significantly changed the nation's welfare system into one that requires work in exchange for time-limited assistance. The act eliminated Aid to Families with Dependent Children (AFDC) (Kuhn, LeBlanc, and Gundersen, 1997), which was a means-tested entitlement program. AFDC was replaced with a fixed block grant that gives states the task of management of low income assistance programs.

\(^1\)Poverty refers to "a lack of material resources, especially income, necessary to participate in society." (Walker and Walker)
The fixed block grant is also known as Temporary Assistance for Needy Families (TANF) program. The legislation also gives states flexibility to create new cash assistance programs for families with children (Gallagher et al.), and ended 60 years of federal responsibility for the major cash welfare program guaranteeing assistance to recipients. Measures within this legislation require able-bodied people to move into the labor force and give up welfare benefits within a specified period of time (Reeder, 1997).

TANF is a radical move from traditional or past welfare measures in that states have the power to determine eligibility, benefit levels and the amount of services rendered to needy families. Changes in TANF are also coupled with changes in Food Stamp programs that reduce benefit levels by 3 percent and require that persons 18-50 years of age without dependents to work 20 hours per week (Fact Sheet, 1998).

TANF requires welfare recipients to gain employment, which is different from previous programs. Specifically, TANF recipients must secure a job after two years of continuous assistance (Beaulieu). Single parent households must work 20 hours per week while two parent households must work 35 hours per week. As an additional requirement, starting in FY 1997, at least 25 percent of single parent households must be working (off-assistance) with this percentage increasing to approximately 50% in FY 2002. States have the discretion to exempt from work single parents with children under one year of age. Non-exempt adult recipients who are unemployed must participate in community service two months after they start receiving benefits. Unmarried teenage parents must live in an adult supervised setting to qualify for TANF. These teenage parents must actively pursue a high school diploma, GED, or alternative education in order to receive benefits. Failure to meet work requirements under TANF by any adult can result
in reduction or termination of benefits to the family.

**IMPACTS OF TANF**

It is likely that general economic conditions will be a critical factor in understanding why caseloads change and in helping TANF recipients make the transition from welfare to work under the new welfare program. A report published by the Council of Economic Advisors (CEA) reported that over 40 percent of the decline in national welfare caseload levels from 1993-1996 could be attributed to economic growth and about a third to waivers which sanction recipients not complying with work requirements. Nationally, job placement/opportunities for welfare recipients are increasing. However, for welfare recipients in many rural high unemployment regions of the South, job openings are limited. Additionally, because the majority of these poor rural areas have no public transportation system and many of the people have no reliable personal transportation, they cannot be transported to urban or sub-urban job sites (Nord and Beaulieu; Henry and Lewis). Rural states (such as Mississippi) may have significantly greater problems meeting work requirements due to a lack of opportunities and resources in rural areas (Goetz and Freshwater).

In many rural counties of the South, general job availability is a major factor hindering the welfare-to-work transition. The scarcity of jobs (particularly in rural areas) is a major problem because TANF recipients must find work in order to maintain access to their benefits (Nord and Beaulieu). The declining number of non-agriculture industries in rural areas is directly related to low-incomes, rising unemployment, and poverty in rural communities (Miller, 1998). Hence, rural job shortages could have a substantial negative effect on current and former TANF recipients' standard of living.

Despite the above, reductions in caseloads have been occurring throughout the South.
Mississippi cases declined by 66 percent from January 1993 to June 1998 with a single year reduction of 16% reduction between August 1996 and August 1997, whereas national TANF caseloads fell by only 10% over the same one-year time period. These statewide results are due in part to highly productive local labor markets in particular areas. For example, many counties located in the northeastern and Gulf Coast areas of Mississippi have projected several new jobs to be produced per ex-AFDC recipient (Howell). However, the spatial mismatch of jobs to available workers still persists in areas such as the rural Mississippi Delta where there are over 200 welfare recipients per new job projected to be produced.

**OBJECTIVE**

The primary objective in this paper is to determine the underlying factors affecting the demand for welfare in Mississippi. Specifically, a statistical relationship between local economic conditions and participation in TANF programs will be examined.

**PREVIOUS WORK**

Bartik and Eberts (1999) used pooled time-series cross section data at the annual level for all 50 states including the District of Columbia for the period 1984 to 1996. Their focus was on labor demand factors affecting welfare caseloads. Their study used five variables to measure qualities of the structure of local labor demand that could possibly affect welfare recipients and be exogenous to welfare case loads, as well as labor supply behavior of potential welfare recipients.

These five economic characteristics included: unemployment rates, employment growth, demand for high school graduates as predicted by industrial composition, demand for welfare recipients as predicted by industrial composition, and state wage premium as predicted by industrial composition. Stated differently, the industrial composition or industrial mix measures dealt with
the extent to which state industries are likely to hire only those with high school degrees, and how likely state industries are to hire welfare recipients.

Their findings suggest that of the three models examined, the model containing the lagged level of caseloads per capita as a regressor was the most plausible. It was clear that unemployment in a state's economic environment was important, but not the only variable that mattered to caseloads. Employment growth and the three industrial composition mix variables were highly statistically significant in explaining state caseloads. Interestingly, it was found that a shift in industrial composition towards industries that tend to employ high-school graduates also increased welfare rolls. This implied that industries that employed welfare recipients are those likely to be less stable in job security, adding to the chances of increasing welfare.

Burtless (1990) determined that work, single parents, and economic conditions were major factors to be considered in welfare needs. Burtless countered claims that the availability of welfare has led to an increase in single parent households. His findings suggest that the trend toward single parents is not a function of welfare, but, welfare is a function of single parents. Previously, Burtless reported that it took $3 of transfer payments to raise the income of recipients $1, thereby suggesting self-sufficiency (private employment) incentives to be more efficient than direct subsidies.

Blank (1997) used state panel data to investigate changes in public assistance caseloads. This study focused on participation in the AFDC program and investigated the role of macroeconomic forces, public policies, and demographic changes in attempting to explain caseload changes over time. Caseloads remained constant from the early 1970s until approximately 1990, when they began to rise sharply. This sharp increase was driven by 3
elements. The elements were: a rise in child only cases; increases in take-up rates over the early 1990s; and a long-term increase in eligibility not well explained by the control variables. Major findings were: caseloads should have declined in the mid 1980s when instead they rose; take-up rates and eligibility rose during the early 1990s among single parent families; for the AFDC-up program, changes in unemployment produced caseload changes of 15 to 20 percent; demographic variables had a mixed affect on case loads; and state waivers largely designed to strengthen a state's ability to enforce work requirements among recipients are correlated with caseload designs.

Hamrick (1996) showed that while metro and non-metro unemployment rates register similar responses to changes in GDP, the non-metro labor market leads metro areas in responding quickly to business cycle movements. That is, the on-set of a recession is felt earlier in rural labor markets than non-rural, and economic expansions are less likely to benefit these areas as compared to urban ones. Blank (1997) also reported that recent economic expansions have failed to automatically lift large numbers of families out of poverty.

Goetz and Freshwater (1997) developed a model to study the effects of welfare reform on rural labor markets. Their model was based on unemployment and wage flexibility. In order to separate rural/non-rural counties, Beale codes\(^2\) were used. Their results found larger negative wage effects in rural counties.

Jenson and McLaughlin looked at implications of the former program of AFDC in non-

\(^{2}\) The Beale code represents an urban-to-rural continuum including adjacency to metropolitan centers---counties 0-3 are metropolitan, and 4-9 are non-metropolitan---with decreasing populations. Counties with codes 4, 6, and 8 are adjacent to metropolitan areas whereas those with codes 5, 7, and 9 are not. Counties with codes 8, and 9 are completely rural.
metropolitan areas. The major characteristics they used for eligibility were income and unemployment. Two additional factors highlighted by the authors were child care assistance and transportation. These may be of importance to Mississippi because of the rural status of the state. While these variables are not directly measured, they should be considered. One way they are indirectly measured is through income, i.e., the ability to provide (pay) for transportation by the individual.

**METHODS and DATA**

The dependent variable in the analysis is the number of TANF cases per capita per county. This variable will be regressed against the factors revealed through current literature and research as contributing to the demand for TANF. The basic model for the analysis is:

\[
C_{mp} = f(R_{ub}, A_{e}, U_{e}, E_{d}, S_{p}, P_{v}),
\]

where \(C_{mp}\) is annual county average cases per capita, \(R_{ub}\) is a rural/urban code which has been aggregated to three rural/urban spatial categories (Ghelfi and Parker). Aggregation to three levels contributes to the ability of the model to capture rural/urban effects, i.e., statistical significance. Level 1 represents the aggregate of rural/urban continuum codes 1 & 2; level 2 represents codes 3-6; and level 3 represents codes 7-9. \(A_{e}\) is average earnings per job per county, \(U_{e}\) is unadjusted average unemployment rates per county, \(E_{d}\) is the average educational level per county, \(S_{p}\) is the number of single parent head of households per county and \(P_{v}\) is percent of the county population below the poverty level. The time period for the study was January 1992 through December 1997.

Per county case load data and rural/urban codes were obtained from the Mississippi Department of Human Services. Case loads were provided on a monthly basis and were aggregated to an annual basis and averaged to form to an annual monthly average. The monthly
average case load was then divided by each county’s respective population to obtain average monthly case loads per capita. Rural/urban codes, educational levels, and single parent head of household data were based on the 1990 census and consistent throughout the study. The data for educational levels and single parent head of households were obtained from the Center for Population Studies at the University of Mississippi. Average earnings per job, unemployment levels and poverty levels were obtained from the Mississippi Employment Security Commission. These data were on an annual basis. Unemployment levels were on a monthly basis, and therefore aggregated to an annual average basis.

A pooled regression procedure was used to estimate the model. This was necessary due to 82 cross-sectional units (counties) and 6 years of time-series data. The pooled regression procedure in Shazam corrects for heteroscedasticity and autocorrelation, which are often found in models that contain both cross-sectional and time series data (Greene). Initial results were promising with all the variables having appropriate signs with the exception of education. Further analysis of this variable revealed two problems. First, it was highly correlated with single parents, and maybe more importantly from a regression standpoint, there was little variation on a per county basis within the state. Further research into educational levels on TANF recipients versus non-TANF recipients, however, is probably warranted based on previous research.

RESULTS and IMPLICATIONS

The results, after dropping education level from the model, are presented in Table 1. The results indicate that rural counties tend to have higher TANF caseloads per capita than urban counties. This is consistent with the research conducted by Goetz and Freshwater. Average earnings per job indicated that as earnings increased the number of caseloads decreased, which is
consistent with economic theory. The Ue, Sp, and Pv variables are also consistent with the literature and economic theory, indicating that as these variables increase so will the number of TANF cases per capita. All variables were inelastic with the exception of poverty which had an elasticity at the mean of 1.4. The model has an R-square value of .6683.

This preliminary study has revealed several interesting characteristics of TANF recipients in Mississippi. Rural counties are prone to have higher levels of TANF recipients per capita. This may be a result of many factors previously discussed in addition to the rules and guidelines of the program. Reductions in poverty will have the greatest impact on reducing case loads. The elasticity estimate of 1.4 indicates that a 1% drop in poverty will reduce case loads by 1.4%. A 1% increase in average earnings per job will result in a .88% decrease in case loads. This is almost a one for one reduction. This combined with the fact that increased earnings will also reduce the poverty level suggests that increasing average earnings per job would be a starting point to reducing TANF case loads. Because rural counties are more likely to have greater caseloads per capita, the benefits from increasing average earnings in these counties would decrease case loads by a greater amount than in less rural counties. Reducing single parent households by 1% would reduce case loads by .2%. Therefore, the cost of reducing single parent households would need to be evaluated as an alternative with the costs of increasing average earnings. Unemployment has the lowest elasticity estimate (.07), indicating a 1% decrease in unemployment would reduce caseloads by .07%. This suggests that simply decreasing unemployment does not automatically reduce welfare demand.

It is hoped that this preliminary study has initiated sufficient interest to commission a definitive study on welfare reform and the need for TANF in Mississippi. The study has revealed
several points for policy makers interested in Mississippi economic conditions. The results indicate that for Mississippi, TANF as a rural issue needs to be addressed. Increasing average earnings per job will lead to reductions in the demand for TANF, but a method of doing so in rural areas must be developed. Cost effect programs for reducing single parent households and increasing job skills are also areas that need policy makers attention.
REFERENCES


Center for Population Studies, File Data 1990 Census, University of Mississippi.


Ghelfi, Linda M. and Timothy S. Parker, “A County-Level Measure of Urban Influence”, Rural


Mississippi Department of Human Services, Unpublished data on Mississippi TANF caseloads
provided by Chris Christmas, Division of Economic Assistance.


### TABLE 1. Pooled Regression Analysis Estimates of Variables Affecting TANF Caseloads

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Coefficients</th>
<th>Elasticity at Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUB</td>
<td>0.17960E-02**</td>
<td>.22</td>
</tr>
<tr>
<td></td>
<td>(2.4000)</td>
<td></td>
</tr>
<tr>
<td>AE</td>
<td>-0.10081E-05**</td>
<td>-.88</td>
</tr>
<tr>
<td></td>
<td>(-14.60)</td>
<td></td>
</tr>
<tr>
<td>UE</td>
<td>0.20070E-03**</td>
<td>.07</td>
</tr>
<tr>
<td></td>
<td>(3.777)</td>
<td></td>
</tr>
<tr>
<td>SP</td>
<td>0.58315E-05**</td>
<td>.20</td>
</tr>
<tr>
<td></td>
<td>(7.579)</td>
<td></td>
</tr>
<tr>
<td>PV</td>
<td>0.10456E-02**</td>
<td>1.41</td>
</tr>
<tr>
<td></td>
<td>(23.07)</td>
<td></td>
</tr>
<tr>
<td>CONSTANT</td>
<td>-0.22447E-02**</td>
<td>-.10</td>
</tr>
<tr>
<td></td>
<td>(-0.8057)</td>
<td></td>
</tr>
</tbody>
</table>

*indicates significance at the .10 level.

** indicates significance at the .05 level.