Welfare Reform
Remedy for Persistent Poverty in the Rural South?

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During the 1990's the South was more successful in reducing welfare caseloads than other regions, most likely because of strong employment growth in its metropolitan centers. However, poverty persists in many rural areas of the South, and participation in welfare programs would likely increase should the economy cool. Without open-ended Federal matching funds to meet added demands for cash assistance, Southern States would be forced to cut work support programs or use general revenues to supplement the Federal Temporary Assistance to Needy Families block grant.

Allendale County in South Carolina is rural and poor. Its school district was declared a failure and "taken over" by the State department of education in 1999. The school district struggles to galvanize parents, many of whom travel 2 hours by bus to low-paying jobs in the booming resort and retirement communities on Hilton Head.

Some low-income households in Allendale have been getting by this way for years–long before the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) reforms in 1996. As more Temporary Assistance for Needy Families (TANF) recipients in Allendale reach the 2-consecutive-year limit to welfare participation, they will have little choice but to make the same journey by bus or to move to coastal or urban job growth centers. For those remaining in Allendale, earnings from the hospitality industry alone seem unlikely to elevate their households above the poverty threshold. Meanwhile, the local school district continues to struggle with a small tax base and poor educational attainment scores. Poverty persists even as welfare reform succeeds in reducing caseloads.

Does this scenario depict the future for low-income residents of Allendale and others in similar low-income traps? Will welfare reform deepen and prolong poverty in many counties of the rural South? Or will welfare reform promote the comprehensive set of support services and upgrade education and the labor force so as to move lagging rural counties of the South into the economic mainstream? This article examines welfare reform's impact on caseloads and the implications for poverty in the rural South.

Welfare Reform Accelerated the Pace of Caseload Declines in the South

Welfare reform in the 1990's, especially under PRWORA, ushered in a wide array of State initiatives. While many States had experimented with welfare reform, by 1997 all States began to implement new eligibility rules for cash assistance, time limits on benefits, and work requirements. These reforms generally provide greater incentives to leave welfare. After 1993, as these reforms began to take hold and the economic expansion strengthened, caseloads began to tumble. The pace accelerated after October 1996 when the old Federal open-ended, matching grant program, Aid to Families with Dependent Children (AFDC), became the new block grant program, Temporary Assistance for Needy Families (TANF).

Ellwood attributes the dramatic fall in welfare caseloads since 1993—after rising in most years from 1960 to 1992—to several key factors:

- A falling level of real welfare benefits per recipient since the 1970's. Inflation ravaged the purchasing power of AFDC benefits, with real benefits about half their level in 1970 (in the median State).

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- Growing support for low-income families with an attachment to the workforce, primarily because of expansion in the Federal Earned Income Tax Credit (EITC). Since 1996, the value of EITC payments—often supplemented by State funding—has exceeded the real value of welfare benefits.

- Growth in the economy since 1993.

- An expansion of Medicaid coverage to all children 18 or under if the family income is at or below the poverty level.

- Expanding support for children in some States.

U.S. welfare ranks declined 44 percent from August 1996 to June 1999. Among Southern States, the declines ranged from 73 percent in Mississippi to 42 percent in Tennessee (table 1). The rate of decline in welfare recipients has outpaced the national average in all Southern States except Tennessee. This performance is surprisingly robust in States that continue to lag the national average in per capita income and contain the lion's share of the Nation's persistent-poverty counties, and may have several explanations:

- The sanctions for noncompliance with TANF rules in the South may be particularly harsh.

- Employment in Southern States may be growing more rapidly than elsewhere, with greater demand for entry-level employees.

Table 1

Decline in welfare recipients, 1996-99

Every Southern State except Tennessee had above-average caseload declines

	Number of recipients		
State	Aug. 1996	June 1999	Percent change
Alabama	100,662	45,472	-55
Arkansas	56,343	29,350	-48
Florida	533,801	173,341	-68
Georgia	330,302	130,210	-61
Kentucky	172,193	93,444	-46
Louisiana	228,115	100,577	-56
Mississippi	123,828	33,853	-73
North Carolina	267,326	124,432	-53
Oklahoma	96,201	50,910	-47
South Carolina	114,273	40,293	-65
Tennessee	254,818	147,137	-42
Texas	649,018	288,525	-56
Virginia	152,845	83,733	-45
U.S. total	12,241,489	6,889,315	-44

Source: U.S. Department of Health & Human Services, Administration for Children and Families, December 1999.

- The gap between the benefits of work and staying on TANF may be increasing faster in the South, where welfare benefits are lower than in the rest of the Nation.

Sanctions for Noncompliance With TANF Rules in the South

TANF now imposes a 5-year lifetime limit for cash assistance, new work requirements, and a host of sanctions for clients who do not comply with the new rules. Depicting a typical TANF program in the South is difficult because each State has designed its own set of eligibility rules, time limits, and work requirements (Tootle). However, all States have taken a dual-track approach, adding "push" incentives to leave TANF and major "pull" efforts to support former clients as they enter the workforce. Focusing on the "push" incentives, Rector and Youssef (pp. 2-3) assign States to one of four categories reflecting the severity of sanctions under welfare reform:

Very strong sanction. "Initial full-check sanction—States that have the option of sanctioning the entire TANF check at the first instance of non-performance of or non-compliance with required work or other activities."

Strong sanction. "Delayed full-check sanction—States that generally have a sequence of progressively more severe sanctions. But these States will sanction the full TANF check only after a number of months of non-compliance or repeated performance infractions."

Moderate sanction—"States that may sanction more than a third of the TANF check or the full check in certain circumstances."

Weak sanction—"States that sanction only the adult portion of the TANF check, except in unusual circumstances. This enables recipients to retain the bulk of their TANF benefits even if they fail to perform workfare or other required activities."

Rector and Youssef argue that stronger sanction rules are the driving force in reducing caseloads, while the strength of the State economy has little impact. Eight of the 14 States with very strong sanction rules are in the South. However, inspection of recent caseload changes and the sanction rules in each Southern State reveals several exceptions to this conclusion. For example, North Carolina has weak sanctions, but reduced caseloads faster than Louisiana, Oklahoma, Tennessee, and Virginia—States with strong or very strong sanction rules (table 2).

The weak congruence of the severity of sanction rules and caseload reductions suggests other forces at work. Many analysts point to robust economic growth, finding that stronger State economies have the expected effect of reducing participation in welfare programs (Council of Economic Advisors, Figlio and Ziliak, Wallace and Blank, Bartik and Eberts, and Moffitt). Ellwood attributes about 30 percent of the recent increases in the employment rates of unmarried women with children to the EITC, about 50 percent to welfare reforms, and about 20 percent to a stronger economy.

Strength of the Southern Economy in Providing New Jobs

The unemployment rate is often used as a measure of the capacity of the local economy to absorb new entrants—like former welfare recipients—into the labor market. Many of the rural counties that experienced both high unemployment and high reliance on AFDC in the mid-1990's are in the South (fig. 1). However, a county's prosperity is difficult to identify by looking only at the unemployment rate. Many counties with high rates of employment growth from 1990 to 1996 also had high unemployment rates (Kusmin).

Table 2

State changes to welfare sanction rules by 1996, and caseload reductions, January 1997 to June 1998

The strength of TANF rules is an imperfect predictor of caseload reductions

State	TANF rules	Caseload reductions	Rank
		Percent	
Alabama	Strong	40.2	9
Arkansas	Very strong	40.0	10
Florida	Very strong	45.8	6
Georgia	Very strong	39.4	11
Kentucky	Weak	25.9	25
Louisiana	Strong	19.6	36
Mississippi	Very strong	48.9	5
North Carolina	Weak	34.2	15
Oklahoma	Very strong	32.3	17
South Carolina	Very strong	37.1	12
Tennessee	Very strong	23.4	32
Texas	Moderate	42.0	7
Virginia	Very strong	27.1	22

Source: Rector and Youssef.

Previous studies have found that unemployment rates, as an indicator of economic robustness, failed to explain either the post-1993 caseload declines or the late 1980's caseload increases (Bartik and Eberts). Other features of the local labor market—employment growth rates and some industry mix variables—also need to be included to accurately gauge the robustness of the local economy. Specifically, are jobs growing in the local labor markets that most directly need to provide opportunities for those leaving welfare in the South? And has recent job growth in the South been in the kinds of jobs—low-skill—needed to absorb former welfare recipients?

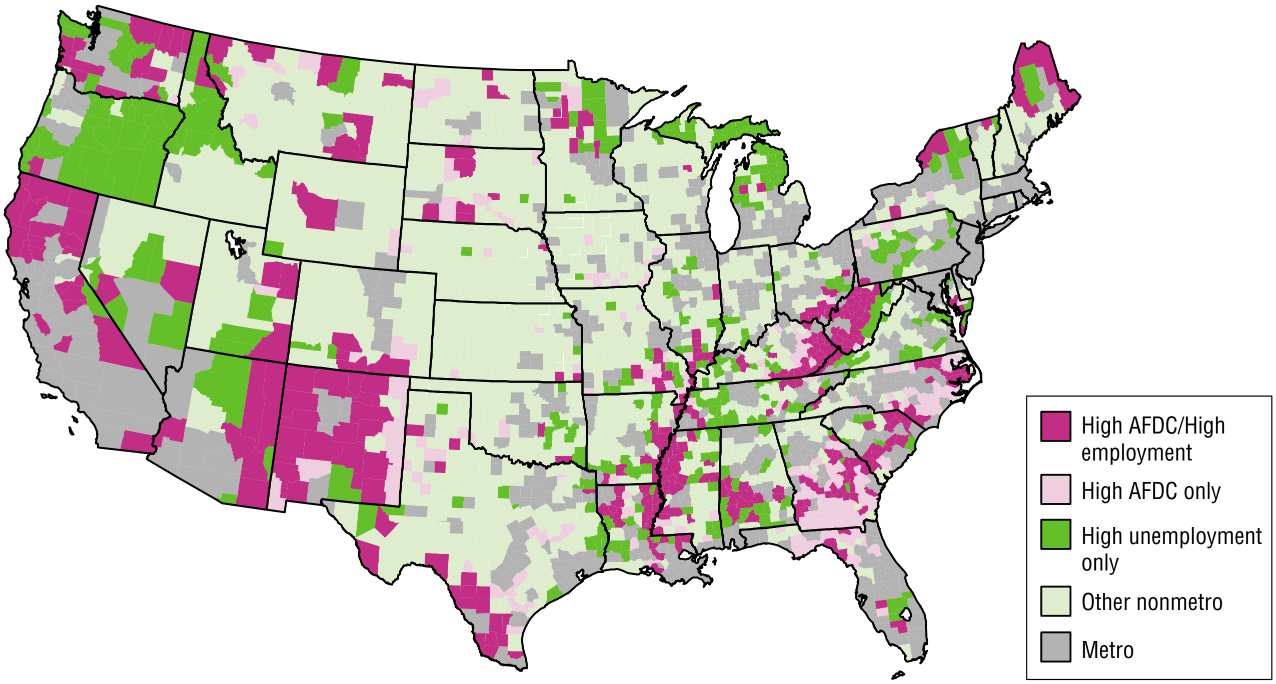
Job growth from 1993 to 1997 was faster in metro counties in the South (13.4 percent) than the national metro average (9.8 percent). Growth in the nonmetro South (8.7 percent) was about the same as the national nonmetro average (8.8 percent). Using this indicator of local economic vitality, urban centers in the South should have more success in reducing welfare caseloads than urban places in the rest of the United States. Likewise, the relatively slow employment growth in the rural South means that rural places should be less successful than urban centers in reducing welfare caseloads.

Nonmetro counties in the South with the greatest need to absorb welfare leavers into the labor market are identified as high AFDC counties in figure 1. From 1993 to 1997, these high AFDC counties—rural counties whose share of families on AFDC placed them in the top quartile of all counties in 1996—added jobs at about 10 percent per year slower than metro growth (12 percent), but

Figure 1

High AFDC use and unemployment rates in nonmetro counties

The majority of high AFDC counties also had high unemployment rates in 1996

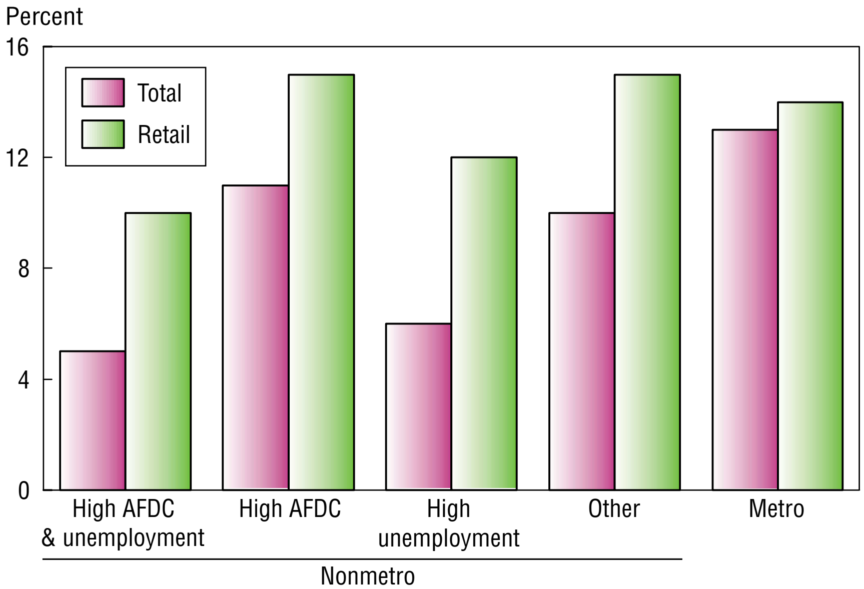


Note: "High" means in the top 25 percent of nonmetro counties.
Source: ERS using data from the U.S. Departments of Labor and Commerce.

Figure 2

Total and retail employment growth in the South by county type, 1993-97

Employment growth was lower in counties that experience both high AFDC use and high unemployment rates



Source: Bureau of Economic Analysis and the Census Bureau.

faster than other rural counties (fig. 2). High-AFDC and high-unemployment (1996) counties scored lowest in job growth from 1993 to 1997.

While overall job growth is strong in most of the rural South, there may not be enough jobs with skill requirements matching the skills of the typical welfare recipient. Many local labor markets are unlikely to generate enough jobs over the next few years to absorb former welfare recipients—especially those in the persistent-poverty counties of the Delta region (Howell). Other areas in the South with pockets of persistent poverty might be expected to have similar difficulties (Henry et al.).

Other analyses foresee a less pessimistic outcome. The share of low-wage jobs in rural areas increased from 1988 to 1997, suggesting that many rural areas have had growth in the kinds of jobs needed by new labor force entrants with few skills (Smith and Woodbury).

An analysis of retail trade growth in the rural South yields similar conclusions. Most retail trade jobs require limited education and training (low-skill jobs). The good news is that retail trade jobs grew faster than average across all county types in the South from 1993 to 1997 (fig. 2), and fastest—15 percent—in high-AFDC rural counties. The bad news is that those rural counties that are both high-AFDC and high-unemployment lagged in retail trade job growth, at under 10 percent. Still, the steady growth of low-wage jobs in all types of counties should allow welfare recipients to find jobs in most areas of the South.

Opportunity Cost of Staying on Welfare

Also contributing to declining welfare caseloads is the rising opportunity cost of staying on welfare without entering the formal labor market. Several changes in the 1990's in both means-tested programs (AFDC and food stamps) and work support programs dramatically increased these opportunity costs. First, the real value of welfare benefits in the median State is now about half the 1970 level. Second, the value of the Earned Income Tax Credit benefits expanded dramatically in the early 1990's. Third, both support for childcare and Medicaid coverage for children (of a single parent working full time at the minimum wage) were increased.

In one comparison, a single parent working full time at the minimum wage in 1986 would gain total real "disposable" income of $2,005—a 24-percent gain over AFDC—and lose all Medicaid coverage by leaving AFDC. By 1997, the same parent would gain real disposable income of $7,129 by leaving TANF for a full-time minimum-wage job (Ellwood). This gain roughly doubles the disposable income of the working parent in 1997 in the median State. The percentage gain in real disposable income when a welfare recipient joins the workforce will be even larger in most Southern States given their low levels of TANF benefits compared to the rest of the Nation.

As the minimum wage is increased and cash assistance from a State's TANF program declines in real terms, the opportunity cost to the welfare recipient of staying on welfare will continue to rise. Even if full-time jobs are not available, the EITC has substantially increased the benefits of moving from no work to at least part-time work (Chernik and McGuire).

Persistent Poverty in the Rural South–Will Welfare Reform Help?

Over half of the Nation's rural poor reside in the South (table 3). Moreover, while 23 percent of the Nation's rural counties were persistent-poverty counties (poverty rates of 20 percent or more in each decennial census year since 1960) in 1995, all Southern States except Virginia had shares of rural poor counties above the national average (table 4). Mississippi and Louisiana each had over 80 percent of their rural counties classified as persistent poverty.

Given that these counties have been beset by poverty for at least 30 years, welfare reform and local economic development initiatives will be futile unless solutions to the following problems can be found (Burtless):

- How to find employment for the single mothers who have remained on welfare despite the strong regional economy—those with fewer skills, less work experience and/or weaker work support systems in their community than welfare leavers who have already found employment.

- How to provide stable employment for those with the least experience and lowest skill levels—often single mothers that are recent leavers from TANF—when the next recession takes hold.

Table 3
Poverty rates by region, 1995
Over half of the Nation's nonmetro poor live in the South

Region	Poverty rate: Nonmetro	Poverty rate: Metro	Share of U.S. poor: Nonmetro	Share of U.S. poor: Metro
	Percent			
Northeast	11.3	12.7	7.9	20.5
Midwest	11.6	10.8	22.8	17.4
South	19.2	14.6	53.6	35.7
West	16.5	14.7	15.6	26.4
Total	15.6	13.4	100.0	100.0

Source: Economic Research Service, 1998.

Table 4

Poverty in the South, 1995

Virginia is the only Southern State with a below-average share of persistent-poverty counties

State	Share of nonmetro counties with persistent poverty[1]	People in poverty: Metro	People in poverty: Nonmetro
		Percent	
United States	23	13.3	16.0
Alabama	52	16.2	20.6
Arkansas	48	15.0	21.0
Florida	36	14.9	18.9
Georgia	54	13.8	19.4
Kentucky	55	13.8	21.7
Louisiana	82	20.1	24.8
Mississippi	83	16.5	23.6
North Carolina	29	11.6	16.1
Oklahoma	32	15.9	21.6
South Carolina	53	14.0	19.5
Tennessee	30	14.0	16.0
Texas	37	17.8	25.9
Virginia	7	10.2	15.0

[1]These counties had poverty rates of 20 percent or more in each decennial census year since 1960 (before the 2000 census) and were home to 44 percent of all rural poor in 1990 (Nord, p. 2).
Source: Tootle.

- How to move former welfare recipients into jobs that have "ladders" to pay levels high enough to lift families above the poverty level.

If, as most analysts agree, the jobs taken by former welfare clients are poorly paid and sensitive to the business cycle, their long-term impacts on the incidence of poverty in the rural South will be minimal. Moreover, persistent-poverty counties of the South may be particularly hard-pressed to provide even entry-level employment opportunities for the increased number of willing participants in an economic downturn.

The outlook for persistent-poverty counties in the rural South is not favorable. Persistently low per capita incomes translate, at the community level, into low levels of human capital investment. Labor in these rural counties will not be competitive in emerging high-skill industries, yet the movement of low-skill manufacturing jobs to other countries also limits the prospects for growth in low-skill jobs. Labor supply shifts from welfare reform in the low-wage market will mean continuing downward pressure on wages in these regions. With little growth in rural high-skill jobs and downward pressure on wages in low-skill jobs, the possibility that welfare reform will perpetuate the persistent-poverty status of many rural counties in the South, like Allendale, SC, is real (Rowley and Freshwater).

Several other features of the low-wage labor market are likely to handicap efforts to reduce welfare caseloads and the incidence of poverty. First, unemployment rates for women with high school or less education are higher and less sensitive to business cycle upswings than for other women. Second, low-wage jobs are more likely than others to be eliminated during recessions (Smith and Woodbury). These features pose a quandary for those who champion strict sanction rules and time limits to welfare participation as caseloads rise in the next recession. Under the TANF rules, States will have the following options:

- Continue to enforce time limits and force recipients from the TANF program even though the needed jobs do not exist;
- Modify the time that TANF recipients can stay on the program;
- Develop new or expanded public sector employment programs for former TANF recipients who cannot find jobs in the private sector (Ellwood).

Summary

Many rural areas of the South, like Allendale, SC, will likely see welfare program participation increase when the next recession hits. Why? First, the rural South has a disproportionate reliance on low-wage jobs—those most sensitive to the business cycle. Second, high-skill jobs are not likely to come to the rural South until there are substantial gains in human capital attainment. Third, overall job growth is faster in metro areas than in rural counties of the South—enabling urban areas to absorb the increasing supply of low-skill labor associated with welfare reform in low-wage jobs and to provide jobs with "ladders" to higher wage occupations.

These employment trends also indicate that welfare reform in the South may have limited success in reducing the incidence of poverty in many rural counties. Rural job growth in the low-wage labor market can lift some families above official poverty thresholds. For example, a full-time minimum-wage job in 1997, along with the expanded EITC, was enough to lift a family of three above the poverty threshold (Parker and Whitener). From this perspective, a key to reducing the incidence of poverty in the rural South is to ensure that low-wage jobs expand fast enough to absorb new low-skill entrants to the labor force. However, since low-wage jobs have limited job ladders to higher income occupations and a high sensitivity to the business cycle, reducing rural poverty rates hinges on a continuing expansion of the rural economy. Unfortunately, recent job growth has been slowest in high-unemployment counties, and labor supply shifts induced by welfare reform will put downward pressure on wages in the low-wage market.

Necessary investments in human capital in the rural South often lag those in urban centers of the South, making it difficult to provide the labor force needed to attract higher skill jobs to the rural South. Improved transit to link rural residents to urban employment growth may be needed to reduce rural caseloads over the long term. Childcare, job training, and other assistance to rural welfare clients may have to expand. Since rural clients tend to be remote, rural efforts to reduce barriers to leaving welfare are likely to be more expensive case by case than in urban centers.

Finally, Southern States have embraced the fixed block grant feature of TANF since it allows a great deal of flexibility in deciding how to use their Federal allotment to address needs of clients—cash assistance, training, child care, transportation, etc. In a booming economy, caseload reductions free up cash assistance for work support programs. However, when the economy cools and caseloads increase, there may no longer be an open-ended match from the Federal Government to support the added demands for cash assistance. States would then have to adapt to a changing economy either by reducing expenditures, such as work support programs, or by tapping other revenue sources.

Specific challenges that will confront State leaders include (Pavetti):

- Reallocating program expenditures to account for larger assistance to caseloads.
- Reassessing what constitutes work participation, and for whom participation is required.
- Continuing to provide work incentives and work supports.
- Reassessing time limits.
- Addressing job retention and job advancement, and aiding the hard-to-employ.

While no one knows how Southern States will respond to these challenges, State leaders need to prepare now for the next recession—perhaps by establishing rainy-day funds from current TANF surpluses—to continue the needed workforce and educational supports for former welfare clients when the economy slows. RA

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