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BACK ON THEIR FEET:

The Success of Welfare Reform in
Wisconsin and Other Midwestern States



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Executive Summary

States are the laboratories for democracy and following the Great Recession, we saw this in how they took varying paths in reinstating work requirements for food stamps. Governors Mike Pence of Indiana and Scott Walker of Wisconsin chose not to seek a waiver of federal work requirements that the state had become eligible for during the Great Recession. Around the same time, another Midwestern state, Iowa, became ineligible for a waiver and the legislature of Missouri overrode the veto of the Governor to pass a similar measure. These measures were controversial at the time, with many arguing that they were too harsh and fast. Now, with hindsight, we can better assess the effectiveness of food-stamp eligibility reform and whether the consequences predicted at the time, ever came to pass. We do this by using statistical analysis and a host of control variables to examine the changes in unemployment and labor-force participation before and after welfare-reform measures were implemented across the Midwest.

The Key Findings:

- **Food stamp reform led to a decrease in unemployment.** The four Midwest states (Wisconsin, Iowa, Missouri, and Indiana) that enacted welfare reforms experienced, on average, a 0.53% decline in unemployment.
- **Reform brought a significant number of people back into the labor force.** Our study estimates more than 15,324 people rejoined the labor force in Iowa, as did 28,786 in Wisconsin, 29,885 in Missouri and more than 32,623 in Indiana since the 2008 Great Recession relative to waiver states.
- **Food stamp reform led to an increase in labor force participation.** The four Midwest states (Wisconsin, Iowa, Missouri, and Indiana) that enacted welfare reforms experienced, on average, a 0.62% increase in labor force participation.

Policy Implications

Wisconsin, like the nation entered a recession as a result of COVID-19. In scope, cause, and speed, it is a recession unlike any other in recent memory. While the response has been and may continue to look different due to the presence of the virus, policymakers must carefully balance public health with an economic recovery. The evidence in this paper suggests that, under normal circumstances in the recent past, policymakers in Wisconsin, Indiana, Iowa and Missouri successfully tailored government policy to incentivize increases in labor-force participation and transition people back to work. As the threat of the virus hopefully shrinks, policymakers should keep these lessons in mind to incentivize work and spur recovery.

Introduction

Wisconsin is a state with a long history of welfare reform. Under Governor Tommy Thompson, the state pioneered reforms that transitioned people from welfare to work, a model successfully used at the federal level by President Clinton and Speaker Gingrich in 1996. However, many of the meaningful reforms of the Clinton-era were rolled back in the aftermath of the 2008 Great Recession. Many states, including Wisconsin, received waivers from federal food stamp work requirements.

With a slew of reform-minded governors elected in 2010, job creation and labor-force participation became key focuses. Under Governor Walker, the 2013-15 Wisconsin state budget included a reform to the state's food stamp program that required able-bodied adults without school-aged children to seek work if they wanted to receive food stamps for more than three months. This was made possible because the state chose not to pursue a federal waiver of the work requirements for food stamps that the state had become eligible for in the midst of the Great Recession. Beginning in April of 2015,¹ Wisconsin's FoodShare recipients were required to work at least half time (80 hours per month) or participate in a number of work-training programs as a condition for receiving benefits.

Two other Midwestern states instituted similar reforms during the same time frame. Under then-Governor Mike Pence, Indiana declined to ask for another waiver from federal work requirements in October 2015,² reinstating time limits on how long able-bodied adults could receive food stamps and increasing support for job-training programs to transition people back into the workforce. Missouri's Republican legislature overrode the governor's veto to pass a similar measure that took effect in January of 2016.³ A fourth state—

Iowa—became ineligible for a waiver of work requirements in 2014 and took no action to partially reinstate them for certain counties, as other states did.⁴

The measures were controversial at the time. The Executive Director of the Hunger Task Force in Milwaukee worried that, “our network of charities will begin to experience food shortage.” A few months after the implementation of the program, then-state Representative Mandela Barnes said “We’re experiencing a lot of collateral damage -- a lot of people who have done nothing wrong except live in a place where the job opportunities are limited.”⁵ Professor Mark Rank of the University of Washington said of such reform efforts around the country,⁶ “It’s this old idea that the poor and welfare recipients are somehow different than the rest of us, that we need to put in place controls and regulations. It is also feeding into this stereotype that people have a good life on welfare and are living it up and having lobster and steak.”

Governor Evers rolled back Wisconsin's FoodShare reforms during the 2019-21 budget cycle. Using his expansive line-item veto power, he nixed the requirement that individuals with school-aged children seek work in order to receive benefits.⁷ This veto rolled-back a later Walker reform that added parents to the list of those required to seek work, but the requirement from the 2013-15 budget that those without children work remains in place.⁸ Protecting the remaining requirements from the governor's veto pen may require evidence that such work requirements have had a positive effect on the state. This paper explores that question.

Literature Review

A substantial amount of research has been conducted on the welfare reforms of the mid-1990s. Schoeni and Blank (2000)⁹ utilize a time series technique to examine the impact of both state-specific waivers and federal policy on a number of related topics, including family income and poverty. They find that state-level reforms had a significant impact on the labor-market participation of individuals from lower-income levels, while federal policies were less impactful. Similarly, Kaushal and Kaestner (2001)¹⁰ estimate that welfare reform resulted in a 28% reduction in the welfare caseload among unmarried women with less than a high-school diploma.

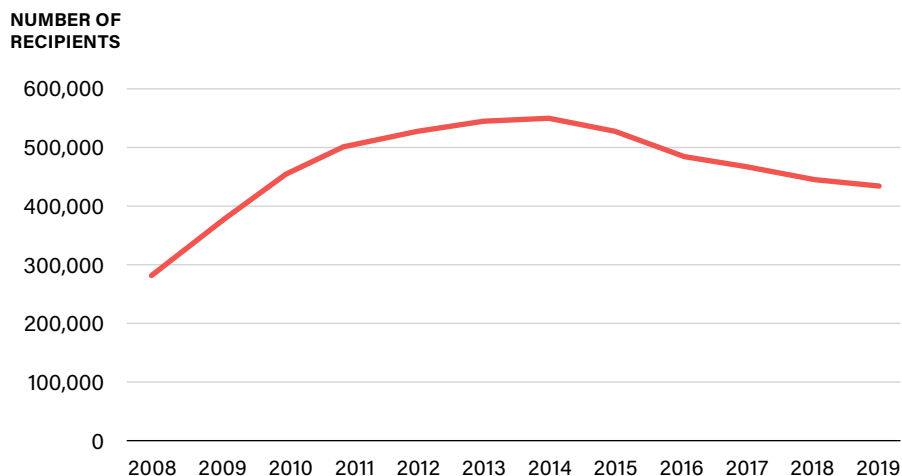
More specific to Wisconsin, Wiseman (1996)¹¹ found that a 22.5% decline in the caseload for welfare case workers in the state could be partially attributed to the reform measures undertaken by Governor Tommy Thompson (with a strong economy also playing an important role). Mead (2001)¹² credits Wisconsin's implementation of a more bottom-up system of welfare case management with helping the state to achieve the "most thorough reform of welfare in the nation." The existing research suggests that we ought to

observe a relationship between renewed welfare reform measures and labor-market improvement.

A preliminary look at the ability of restored reforms to Wisconsin's FoodShare program can be found by examining data from the Wisconsin Department of Health Services (DHS).¹³ The DHS website includes the number of recipients of FoodShare Benefits annually from 1995 to today. This data is partially replicated below.

The DHS data clearly shows a spike in the number of recipients during the Great Recession era. That number begins to trail off around 2015, but at a noticeably more gradual rate than the increase. The number of participants in the state's FoodShare Employment and Training program has also declined in recent years. According to data from the Legislative Fiscal Bureau,¹⁴ enrollment in the program declined from 29,694 in 2015-16 to 18,893 in 2017-18—a decline of more than 36%. All of these numbers provide suggestive evidence that welfare reforms were effective at reducing enrollment, but were they effective at getting people into the work force?

Figure 1. Annual FoodShare Enrollment Over Time, Wisconsin



The Model

To answer this question, we will utilize two measures that capture different aspects of employment—the labor-force-participation rate and the unemployment rate. Both of these measures are gathered, on a monthly basis, from the Bureau of Labor Statistics. The unemployment rate is a measure of the number of people who are currently in the labor force but out of work, while the labor-force-participation rate is a measure of the number of people over the age of 16 who are working or looking for work. Many economists consider the labor force participation rate to be a better way to capture employment, as individuals tend to leave the labor force during a recession, potentially shrinking unemployment numbers.¹⁵

Our key independent variable is whether the state instituted reforms to its FoodShare program during the time frame in question. “Foodshare Reform” is an indicator variable that takes on a value of ‘0’ for the time period of no reform, and ‘1’ for the time period after reforms were implemented. Note that this variable only takes on a ‘1’ in Wisconsin, Indiana, Iowa and Missouri.*

We include 10 Midwestern states with monthly data beginning in 2008—the year the Great Recession began. Control variables include the size of the labor force in the state, the population of the state, the percent African American residents in the state, and the average age of residents of the state. Indicator variables are also included for state and year to capture the unique effects of time and place on our variables of

interest. Formally, for each state s in month m and year y :

$$\begin{aligned} & \text{Labor Measure}_{msy} \\ & = \\ & \alpha + \beta_1 \text{Welfare Reform}_{msy} + \beta_2 \text{Controls}_{msy} \end{aligned}$$

* Other states became ineligible, but maintained expanded benefits for portions of the state. We only consider states for which waivers were fully repealed. This is a conservative assumption that makes it more difficult for us to find significant results.

Results

As a preliminary look at the data, Figures 1 and 2 on the following two pages chart the annual unemployment rate in each state in our sample over time.

The figures show that most states in this region followed a similar pattern in terms of unemployment and labor force participation. Both have negative spikes between 2008 and 2009—the height of the Great Recession—while experiencing subsequent gradual declines. The outlier on the negative side, to some extent, is Michigan. Michigan, in blue, had the biggest spike on both variables and had persistently

greater negative numbers for several years afterwards. The outlier on the positive side is North Dakota. Bolstered by increased oil drilling, the state weathered the previous recession better than most.

There is also no immediately obvious impact of welfare reform. Teasing out any effect of the legislation that went into effect in 2015 in Indiana (orange), Wisconsin (dark green), Missouri (black) or Iowa (gray) will require careful statistical analysis given the declines in unemployment that were seen in surrounding states.

Figure 1. Labor Force Participation Rate by Year

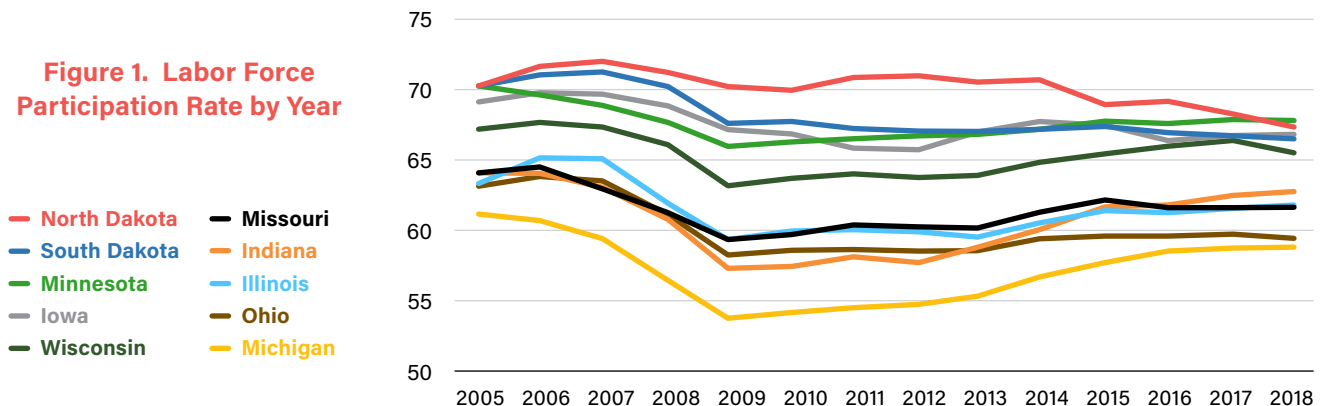
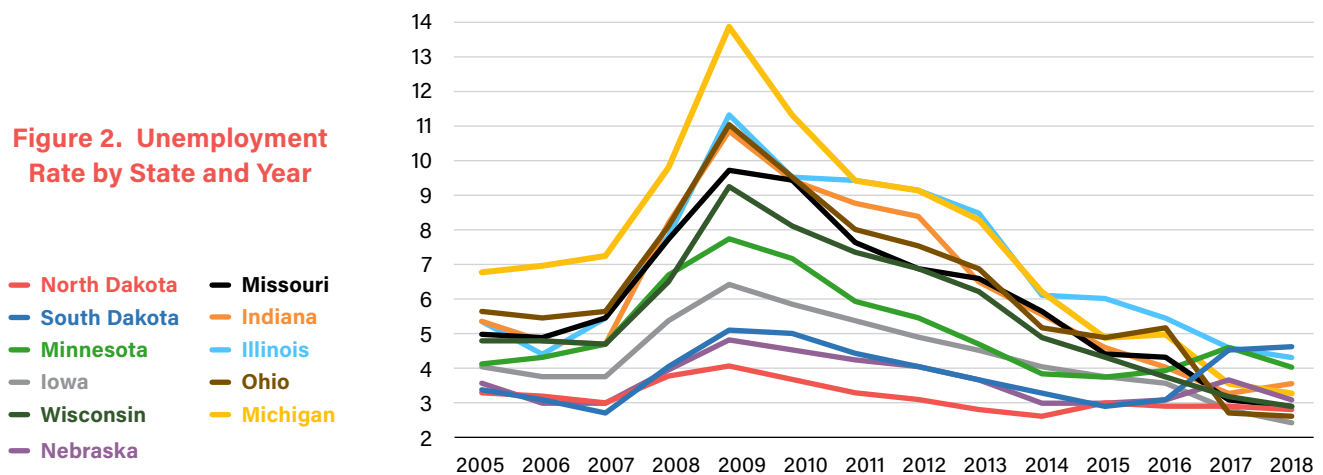


Figure 2. Unemployment Rate by State and Year



To determine whether there is any relationship between welfare reform and employment, we move on to statistical analysis. Table 1 below depicts the relationship between food stamp work requirements and two measures of employment—labor force participation rate and the unemployment rate. In each case, the findings yield strong support to the hypothesis that the reforms were beneficial to employment prospects across the Midwest.

Implementation of food stamp reform is associated with a 0.62% increase in labor force participation. This finding is strongly significant,

with a p-value of less than .01. This means that the chances of the finding happening at random are less than 1%. Similarly, food stamp reform is associated with a decline of 0.53% in the unemployment rate. This finding is also strongly significant ($p < .01$). The results of this analysis are depicted in Figure 3.

In terms of the actual number of people brought back into employment, this represents an increase of about 15,324 in the labor force in Iowa, 28,786 in Wisconsin, 29,885 in Missouri and 32,623 in Indiana since the beginning of 2008.¹⁶

Table 1. Relationship of Food Share Reform and Measures of Employment

Variables	(1) Labor Force Participation Rate	(2) Unemployment Rate
<i>Food Share Reform</i>	0.622*** (0.0930)	-0.533*** (0.0989)
<i>Labor Force</i>	9.05e-06*** (4.95e-07)	-4.44e-07 (5.26e-07)
<i>African American</i>	-0.452*** (0.126)	-0.264** (0.134)
<i>Population</i>	0.786** (0.324)	0.456 (0.345)
<i>Age</i>	0.0287*** (0.00436)	-0.0149*** (0.00464)
<i>Observations</i>	1,430	1,430
<i>R-squared</i>	0.609	0.805
<i>Number of States</i>	10	10

Standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Figure 3. Relationship Between Food Stamp Reform and Labor Measures

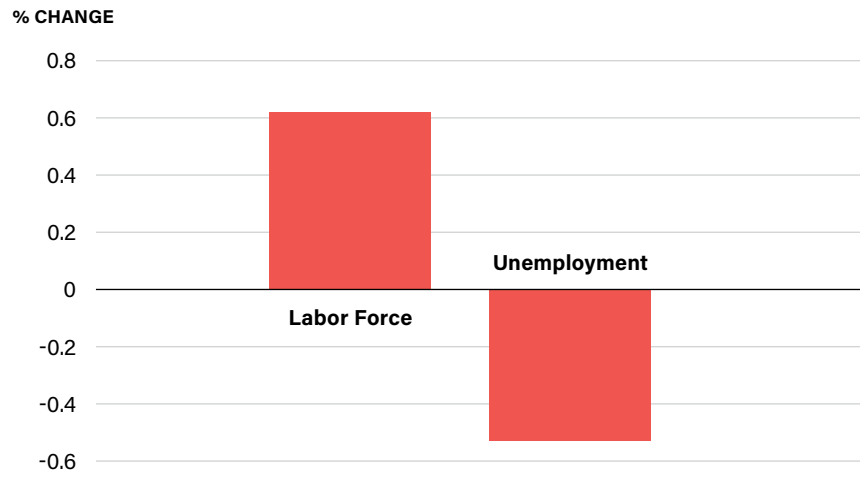
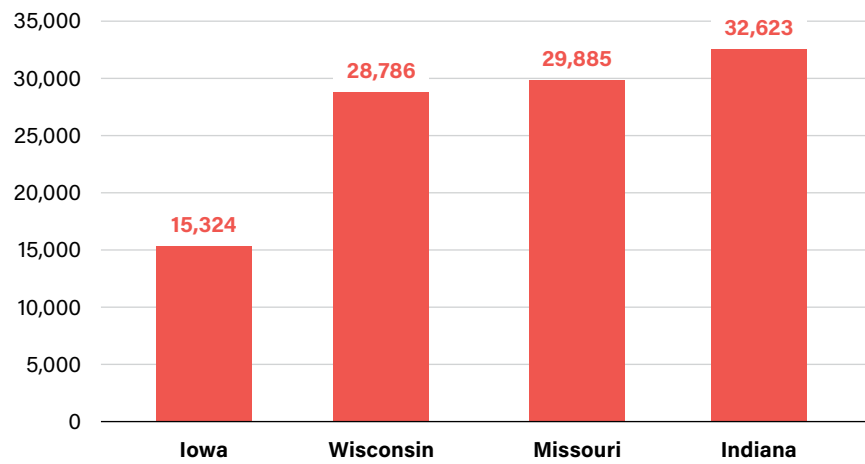


Figure 4. Increase in Labor Force Participation by State



Limitations

Of course, changes in labor force participation and unemployment are not entirely attributable to these reforms. While the inclusion of control variables for time and state among other things help alleviate concerns about unmeasured variables, one must recognize the reality that measuring the impact of policy interventions is challenging. That said, the fact that significant differences exist in both participation and unemployment suggests that the effects observed here are more than simple correlations.

Conclusion

The near future will no doubt be a challenging time for the economy. The economic shutdown for COVID-19 has led to high unemployment in the short term as companies struggle to ‘restart.’ When it comes to welfare policy at a time like this, it is vital that we learn and apply the lessons of the previous recession. More stringent work requirements on food stamp programs do appear to have a positive impact on getting people back to work.

Particularly given the current circumstances, welfare reform opponents will likely work to remove the remaining work requirements that Governors Walker and Pence put in place. This paper provides evidence that such a rollback would have a negative impact on the long-term health of the Wisconsin economy. Getting people back into the work force after the coronavirus will be challenging, and the food stamp system should not represent a roadblock between employers and potential workers, but instead aid in getting people back to the daily grind.

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