

Houston Business

A Perspective on the Houston Economy

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Welfare to Workfare... Texas Style

If judged by the rhetoric that surrounds it, welfare reform is surely one of the most controversial issues of our era. Reform proponents claim the old system destroyed the lives of those it was meant to help, while reform opponents predict a rising wave of homelessness with children sleeping on grates.

The reality is less dramatic but still interesting and important. Recent welfare reform marks the end of a 20-year shift away from federal entitlement and toward work as the organizing principle for American public assistance. Confounding public debate has been a series of controversial cuts in food stamps, benefits for legal immigrants and supplemental Social Security that is not central to welfare reform. This article sorts out some of the key issues in the welfare debate.

EVOLUTION OF AMERICAN WELFARE

Before 1933, Americans dealt with the poor and their needs as a local problem. However, New Deal legislation passed during the Great Depression treated public welfare as a federal responsibility for the first time. In 1933, the Social Security Act created what became Aid for Families with Dependent Children, or AFDC, the cornerstone of American public welfare for 63 years. The intent of AFDC was to preserve family life by allowing mothers to stay home with their children when no other adult was available by reason of death, desertion or confinement.

The philosophy guiding AFDC has changed over the years, from family preservation to moving families from welfare to work. In 1964, the Economic Opportunity Act provided job training for the needy, and successive legislation has moved

from simply encouraging participation in job training to mandating it. In 1988, the Family Support Act altered the basic purpose of AFDC, requiring able-bodied recipients with children older than age 3 to participate in a program of education, training and employment.

AFDC continued to provide cash support to needy children deprived of support because a parent was continuously absent. A typical AFDC family in 1995 consisted of a single female with two children, receiving no support from the father. In Texas, such a family received \$778 in monthly benefits: \$188 in AFDC, \$304 in food stamps and \$288 in basic health insurance through Medicaid. They also might qualify for rent subsidies, energy assistance, school lunches and infant formula.

FEDERAL WELFARE REFORM

On October 1, 1996, federal welfare reform ended the AFDC entitlement. This federal bill consolidated funds for AFDC, job training for welfare recipients, emergency assistance and administrative funds into a block grant called Temporary Assistance for Needy Families (TANF). To maintain this grant, a state must maintain 75 percent of current spending for these programs.

The federal bill again shifts the program emphasis sharply from welfare and toward work. This legislation imposes a time limit of two years of welfare for those mentally and physically able to work, and those unable to find work in two years—and their families—are removed from welfare. For those who work but later find themselves applying for welfare, a lifetime limit of five years is imposed. States use their TANF block grants to provide a temporary safe harbor for the needy, but they also must train and move welfare recipients into jobs. In 1997, states must have 25 percent of welfare recipients in work programs, and they must have 50 percent in these programs by 2002.

Also ended was the federal entitlement to child care for job training or transition to work, with funds folded into a child care and development block grant. These funds are an essential tool for states to provide a “bridge” between jobs, or to move welfare clients back to work. In Texas, for example, about 60 percent of welfare recipients are cyclers, people who alternately leave and are forced back into welfare by unemployment or a child’s illness;

only about 25 percent are long-term recipients, defined as receiving benefits for five or more consecutive years.

Texas policymakers intend to continue the guarantee of child care to participants in job training programs and to those leaving welfare, including those in jobs whose time limit is exhausted. Federal welfare reform substantially increases overall funding for child care, although critics question whether this amount is sufficient to meet the new needs imposed by work requirements.

Proponents of welfare time limits see work as a means to engender dignity and self-esteem. AFDC provided a safe harbor for recipients, but to the extent AFDC was a barrier to work, it promised at most a lifetime of poverty. Work requirements create opportunities for parents to earn support for their children and to sustain this support.

Opponents, in contrast, do not think that two years is enough to create self-sufficiency, the minimum wage is too low, child care funds are inadequate and time limits will lead to homelessness, child neglect and deeper poverty.

TEXAS-STYLE REFORM

Federal welfare reform lagged many state governments in making work the central principle for public assistance programs. In recent years, the federal government granted 37 states some 60 different waivers to rules governing the administration of AFDC, covering about three-quarters of the nation’s welfare recipients. Where waivers exist, as they do in Texas, they may override the recent federal welfare reform act.

In 1995, the Texas Legislature passed a comprehensive welfare reform bill and received federal waivers to operate under its guidelines. The Texas bill imposed time limits on welfare recipients of one to three years, with a five-year bar after time limits are exceeded. Depending on work history and an assessment of each client’s skills, a time limit is set, and those deemed least capable receive the longer time limits.

Each adult recipient signs a personal responsibility agreement to cooperate with child support collection, participate in work programs, immunize children and abstain from abuse of drugs or alcohol. Each welfare client is assigned a time limit, but the clock does not start in Texas until the client is called to enter a train-

ing program; the clock will never start in many rural areas where programs are not available. Federal rules, in contrast, start counting time with the first month on welfare. Also, if Texas time limits are exceeded, only payments to adults are withheld; federal rules withhold funds for the entire family. Texas is also seeking exemption from the requirement of 25 percent participation in work programs in 1997 and 50 percent by 2002, goals the state regards as unattainable. Finally, the state is moving quickly to privatize much of the administration of welfare and shift cost savings to jobs programs.

RISKS AND UNINTENDED CONSEQUENCES

A *Houston Chronicle* editorial that praised the Texas welfare plan as well-crafted and sensible also predicted severe unintended consequences for our neediest and most vulnerable citizens. Welfare reform remains a leap of faith that jobs will be found, the bureaucracy privatized and costs controlled.

Under the Texas plan the poor ultimately bear the risk of a shortfall of jobs. A widely copied Wisconsin plan, in contrast, uses public-sector jobs as a buffer between welfare and the private sector. These public jobs soon become expensive if private-sector jobs aren't found quickly, forcing the state to financially share the risk of failure in its training and placement programs.

There are brakes on failure in the program, including a \$2 billion national contingency fund. The Texas plan is well funded for the near term, with a federal formula based on 1994 caseloads, which have since shrunk by 12 percent. And both Texas and federal guidelines allow the wholesale exemption of recipients from time limits for reasons of economic or personal hardship.

Ultimately, the success of welfare reform depends on the willingness of Texas employers to hire from a job pool that is mostly female, young and inexperienced. The current tight labor market has pushed many businesses that depend on a low-wage workforce to find innovative ways to reach, manage and retain such workers. Recent *Wall Street Journal* and *Business Week* articles that featured Marriott International make clear the training and commitment required of companies that reach deeply into this poorly prepared pool of workers. Welfare reform basically means such commitments must be assumed by more employers and extended

Table 1

Annual Government Expenditures for
Income Maintenance Programs in Houston
(Millions of dollars)

Total Income Maintenance	\$982.1
Supplemental Security Income	219.9
Aid for Families with Dependent Children	123.9
Food stamps	464.7
Other*	173.5

* The "other" category includes general assistance, emergency assistance, refugee assistance, foster home care, earned income tax credit and energy assistance.

SOURCE: Bureau of Economic Analysis, Regional Economic Information System.

beyond the peak of the business cycle.

Finally, while federal legislation redefined and reshaped welfare, it made other changes that shrank the social safety net. Cost savings of \$55 billion are expected from federal welfare legislation, almost all from a 20-percent reduction in food stamps, more narrowly defined eligibility categories that cut large numbers of children from Supplemental Security Income (SSI) and the removal of legal immigrants from food stamps and SSI. Food stamps cuts will average \$500 per year per Texas family; next April, 187,000 Texas immigrants will lose food stamps, 53,000 will lose SSI, and 12,700 Texas children may lose their disability status under SSI. Texas is given the option to remove legal aliens from TANF and Medicaid but has shown no inclination to do so.

As Table 1 makes clear, these cuts—having no inherent relation to welfare reform—have a much bigger impact throughout the Houston metropolitan area than tinkering with welfare. Indeed, a 20-percent cut in local food stamps is equal to 75 percent of all local AFDC payments.

The immediate effect of these cuts will be to force some previous recipients to turn to private charity. Yet here we find agencies pressured from both sides. Service-providing agencies affiliated with the United Way of the Texas Gulf Coast, for example, receive an average of 14 percent of their funds from the United Way and 40 percent from different levels of government. These providers now must turn to the United Way and private sources both to replace public funding and to meet rising short-term needs for services.

As we return to a philosophy of local responsibility for our neighbors, the burden comes home as well—to each of us as businesses and private individuals.

Houston showed broad-based economic strength in September and October. Energy and a strong national economy continue to provide the momentum for local expansion.

RETAIL AND AUTOMOBILE SALES

Retail sales have finally firmed up, with early fall merchandise moving well, inventories staying in line and margins improving over earlier this year. Local retailing remains highly promotional, with markups difficult to maintain on widely identifiable merchandise. Despite Houston's poor 1995 holiday season, concerns about the coming holiday season are focused on a late Thanksgiving that leaves five fewer shopping days than last year.

Local August auto and truck sales were flat compared with those of 1995, but September figures came in 12 percent ahead of September 1995 numbers. Inventories of last year's models have cleared out, and new models are selling well. Overall 1996 sales are running 4 percent ahead of 1995 levels.

CRUDE OIL AND NATURAL GAS PRICES

Crude oil prices have strengthened steadily in recent weeks, with prices rising and staying near \$25 per barrel—near six-year highs. Crude prices had settled close to \$21 per barrel as details of the Iraqi food-for-crude deal seemed to be worked out, with unexpectedly strong global demand for crude propping its prices. With the end of this Iraqi arrangement and with further violence in the Middle East, prices moved up to \$25 per barrel and stayed near that level for most of October.

Natural gas prices, hurt by mild summer weather, weakened in August and September. At the Henry Hub in Louisiana, for instance, the price of natural gas slipped to \$1.70 per thousand cubic feet by mid-September. However, the approaching heating season, near misses from hurricanes in the crucial Gulf of Mexico producing region and early cool weather recently pushed prices back to near \$2.50. Natural gas storage remains about 10 percent below 1995 levels.

REFINING AND ENERGY PRODUCT PRICES

Low inventories of heating oil and gasoline have kept oil product prices strong. Respondents offer two reasons for low inventories: just-in-time inventory management and strong global demand for crude and product. Inventories of heating oil in late October remained 30 percent below last year's level, and efforts to build these stocks have come at the expense of gasoline inventories—pulling gasoline prices up. Mild winter weather is probably the only way to cool off this market.

Crude prices have risen as fast or faster than product prices, leaving Gulf Coast refiners with weak or mediocre margins despite rising prices for refined products.

PETROCHEMICALS

Petrochemical demand continues to pick up, along with prices and profits. Current results don't compare well with the record-breaking profits of 1995, but they show substantial improvement over the slow start to 1996. Demand for synthetic fiber remains the weakest part of the market, while demand for plastic film and packaging remains strong.

OIL AND NATURAL GAS SERVICES AND MACHINERY

Demand for oil services remains extremely strong, with little capacity available anywhere in the industry. Offshore drilling is at full capacity in the Gulf of Mexico and remains heavily oriented to natural gas. Growing strength in inland drilling is mostly spreading out of the Gulf and into South Texas and Louisiana. The industry is having trouble meeting demand and reports shortages of drill pipe, geophysical talent, drilling crews and offshore rigs.

NEW AND EXISTING HOME SALES

September new home sales were off about 10 percent from a year ago, home starts up 4 percent and existing home sales up only 1 percent. However, falling interest rates in late 1995 made last September an unusually strong month, and current sales remain strong for a fall month. Home starts are on track for the best year since 1983.

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