

CBO TESTIMONY

Statement of
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before the
Subcommittee on Human Resources
Committee on Ways and Means
U.S. House of Representatives

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NOTICE

This statement is not available for public release until it is delivered at 10:30 a.m. (EST), Thursday, December 19, 1991.



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Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to discuss the recent upsurge in the number of families receiving payments from the Aid to Families with Dependent Children (AFDC) program. With your permission, I would like the record to include the Congressional Budget Office Staff Memorandum on AFDC caseloads. This morning I will cover two topics from that memorandum:

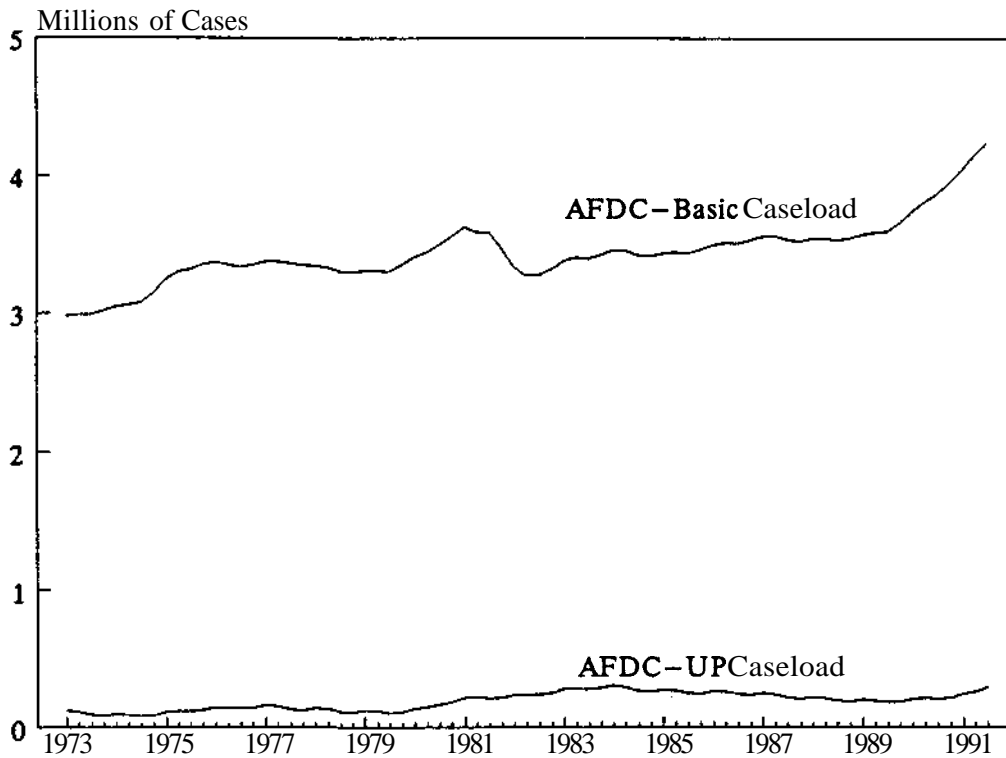
- o The recent growth in AFDC caseloads compared with earlier periods; and
- o Recent changes in some of the major economic, demographic, and policy factors that cause AFDC caseloads to vary.

HOW HAVE AFDC CASELOADS CHANGED? _____

Caseloads in the AFDC program began to rise at a rapid rate toward the end of 1989, as shown in Figure 1. Since then, the number of cases has risen by almost 700,000, or 18 percent, to an all-time high of 4.5 million in September 1991.

The AFDC-Basic caseload, which is composed primarily of families headed by single parents, accounts for most of the caseload: 4.3 million families in September. With each passing month, the basic caseload

FIGURE 1.
AFDC Caseloads



SOURCES: Congressional Budget Office; Administration for Children and Families.

NOTES: AFDC is an abbreviation of the Aid to Families with Dependent Children program. The **AFDC-Basic** caseload is comprised primarily of **single-parent** families headed by women. The **AFDC-Unemployed Parent (UP)** caseload is comprised of two-parent families in which the primary earner works fewer than 100 hours a month.

States that initiated the **AFDC-UP** program in or just before October 1990 in accordance with the Family Support Act of 1988 are not included in the AFDC-UP total.

establishes new records. All regions of the country have experienced accelerated growth in their **AFDC** caseloads, but not equally. Consistent with the relative weakness in their economies, the New England states and selected states in the South and West showed the most growth in caseloads, and the Midwestern states the least, as we cover in more detail in the CBO Staff Memorandum.

In contrast, the **AFDC-Unemployed Parent (UP)** caseload, which is composed of two-parent families in which the primary earner works fewer than 100 hours a month, stands at 260,000 cases, a level that is still below its previous peak. (The 31,000 new cases in the states required by the Family Support Act of 1988 to begin a program are **not** included in these numbers.)

Taking a longer view, AFDC caseloads during most of the past two decades have been relatively stable. Before the recent spurt of growth, the AFDC-Basic caseload increased from 3 million in 1973 to 3.6 million in mid-1989, a 20 percent increase over 16 years. The AFDC-UP caseload accounts for only about 6 percent of total caseloads, although its program share increases during recessions.

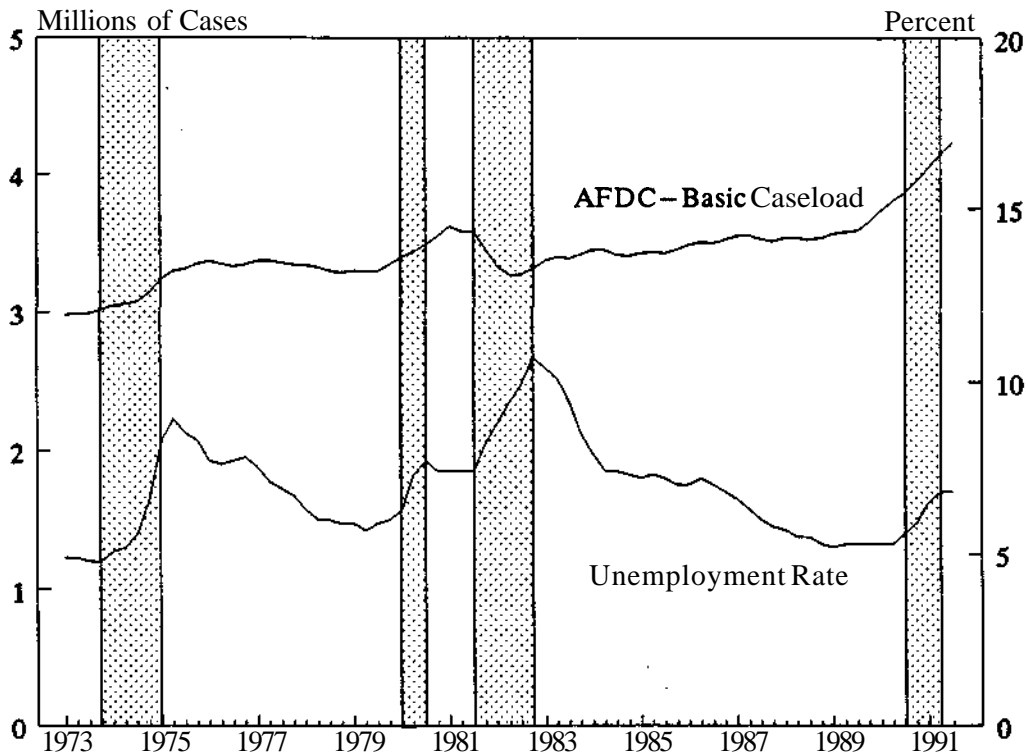
WHAT HAS CAUSED AFDC CASELOADS TO INCREASE?

The major periods of growth in caseloads have surrounded economic downturns, as shown in Figure 2. In **fact**, during periods of economic growth between recessions, the caseload has been relatively stable, decreasing slightly in the late 1970s and increasing modestly in the 1980s.

In the **1990-1991 recession**, the **AFDC-Basic** caseload has shown a more marked increase just before and during the slump than in the previous three recessions, even though some aspects of the latest recession have been milder. Legislative changes in the AFDC program in 1981 almost certainly exaggerated the effects of subsequent business cycles. The Omnibus Budget Reconciliation Act (OBRA) of 1981 made about 450,000 families ineligible for AFDC, largely because of the provisions limiting the amount of earnings families are allowed to have and still remain eligible for benefits. If workers in such families lose their jobs, they would form an additional pool of probable AFDC recipients, although later legislation has reduced the potential size of this pool to some extent.

The **AFDC-UP** caseload is even more closely related to the economy, with changes often mirroring changes in unemployment rates, as shown in Figure 3. (Note that the scale used in this figure is much larger than that used in the previous figures so that the cyclical variation can be seen.) In

FIGURE 2.
AFDC—Basic Caseload and Unemployment Rate

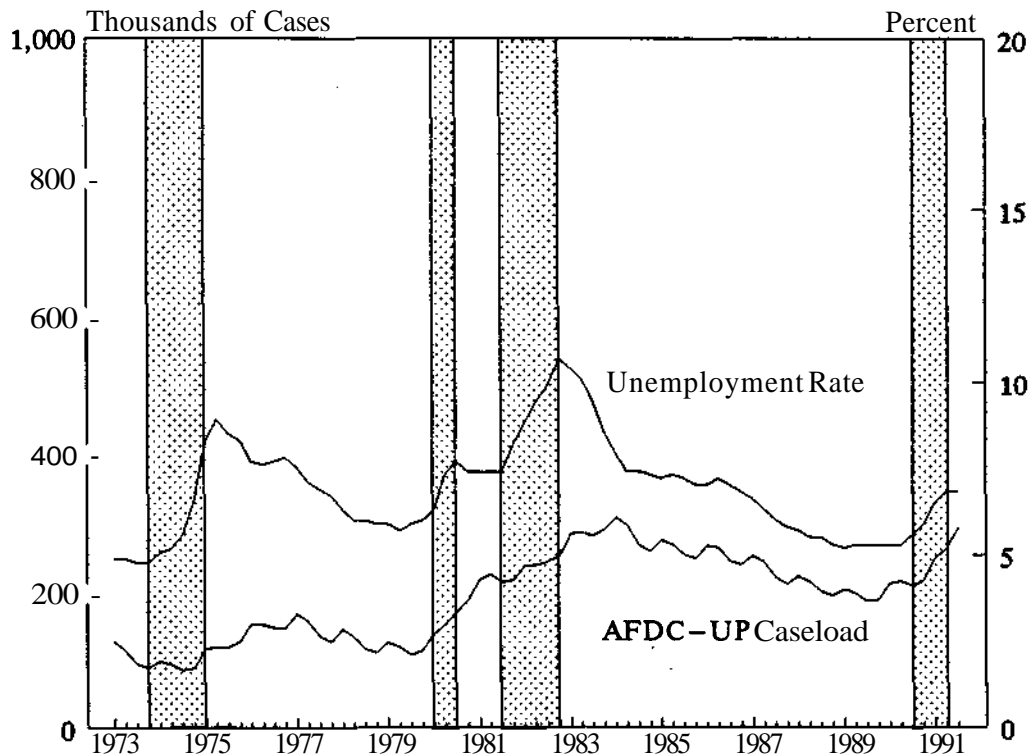


SOURCES: Congressional Budget Office; Administration for Children and Families; Bureau of Labor Statistics.

NOTES: The shaded areas show periods of recession. The shaded area for 1990–1991 assumes the recession trough occurred in the second quarter of 1991.

AFDC is an abbreviation of the Aid to Families with Dependent Children program. The AFDC-Basic caseload is comprised primarily of **single-parent** families headed by women.

FIGURE 3.
AFDC-UP Caseload and Unemployment Rate



SOURCES: Congressional Budget Office; Administration for Children and Families; Bureau of Labor Statistics.

NOTES: The shaded areas show periods of recession. The shaded area for 1990-1991 assumes the recession trough occurred in the second quarter of 1991.

AFDC is an abbreviation of the Aid to Families with Dependent Children program. The **AFDC-Unemployed Parent (UP)** caseload is comprised of two-parent families in which the primary earner works fewer than 100 hours a month.

States that initiated the AFDC-UP program in or just before October 1990 in accordance with the Family Support Act of 1988 are not included.

contrast with the **AFDC-Basic** caseload, **AFDC-UP** cases (excluding those in the newly mandated states) do not appear to be increasing more rapidly now than in some previous recessions.

The business cycle is, however, only one of many factors that affect AFDC caseloads. Increasing population naturally brings with it a rising caseload. Families that are headed by mothers who have children under the age of 18 constitute the major group eligible to receive AFDC, and their number has increased **two-and-one-half** times since 1970 (see Table 1). Moreover, the number of families headed by mothers who had never married grew more than tenfold since 1970, and these mothers participate in AFDC at much higher rates.

AFDC caseloads have not risen as rapidly as these changes in family structure might **indicate**, because legislative changes in 1981 reduced caseloads significantly. In **addition**, states allowed AFDC eligibility thresholds to decline sharply in real terms. From 1970 to 1991, the median maximum benefit for a three-person family, adjusted for **inflation**, fell by 42 percent. Only one **state--California--had** an increase in real terms. As a result, many families with real incomes that would have made them eligible for AFDC in previous years are not now eligible.

TABLE 1. COMPOSITION OF FAMILIES WITH CHILDREN
UNDER AGE 18

	1970	1980	1990
All Families With Children	29,631,000	32,150,000	34,670,000
Families Headed by Mothers	3,415,000	6,230,000	8,398,000
Families Headed by Mothers Who Never Married	248,000	1,063,000	2,775,000
Families Headed by Mothers as a Percentage of All Families With Children	11.5	19.4	24.2
Families Headed by Mothers Who Never Married as a Percentage of Families Headed by Mothers	7.3	17.1	33.0

SOURCES: Congressional Budget Office calculations based on data from Bureau of the Census, *Household and Family Characteristics: March 1990 and 1989*, Current Population Reports, Series P-20, No. 447.

More recently, other policy changes may have played some part in the rapid growth in **AFDC** caseloads. Perhaps the most important of these policies is in the Medicaid **program**, in which outreach efforts may be increasing participation among eligible families, not only in Medicaid but in AFDC as well.

These various strands of change-economic, demographic, and policy--weave together to explain most of what has happened to AFDC caseloads in the 1980s and 1990s. During most of the 1980s, after **OBRA** 1981 had taken full effect, the number of AFDC-Basic cases rose by an average of only about **35,000** a year. These increases were well below the growth in AFDC caseloads that would have been expected as a result of the rising number of families headed by mothers. The expanding economy, in conjunction with falling real payment standards in AFDC, probably explains much of the relative stability in caseloads during this period.

By early 1989, the unemployment rate had fallen to 5.3 percent, where it remained for more than a year. Despite this low unemployment rate, later that year the AFDC caseload began its rapid **increase--an** increase that is not unlike those in previous economic downturns. Thus, although it is too soon in CBO's research to pinpoint the causes of the current increase in caseloads, it does seem clear that the economy's deterioration has been strong enough

to account for some, and probably most, of the accelerated growth. Further exploration of the impact of recent policy changes may tell us about the extent of growth in the **AFDC** caseload beyond that caused by the recession.