



SPENDING ON COUNTY HUMAN SERVICES PROGRAMS IN CALIFORNIA: AN EVALUATION OF ECONOMIC IMPACTS

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Presented to

Child and Family Policy Institute of California

March 17, 2009

Executive Summary

This report provides an analysis and evaluation of the economic effects of Human Services expenditures in the State of California. Methods of analysis include an input-output analysis of the current economic stimulus effects of spending on human services programs, and a literature survey of the hidden costs of expenditure reductions. Results indicate that there are significant direct economic benefits of these expenditures and that the hidden and indirect costs of reducing these expenditures are also substantial.

The report finds that, on average, human services expenditures generate 1.32 dollars of economic activity for each dollar spent. Further, because of federal matching dollars, particularly the enhanced matches newly available through the American Recovery and Reinvestment Act (ARRA) multipliers for specific programs currently range up to 5 or 7 for a single additional dollar of state expenditures. In terms of costs, the report concludes that increased incidences of homelessness, poverty, child maltreatment, poor health outcomes, and other negative consequences of reduced service provision result in considerable costs to society.

Select findings include:

- Expenditures on CalWORKs and Food Stamp Program benefits have comparable multipliers: 1.47.
- Federal matching funds currently available through the ARRA make cuts in state spending on human services especially costly. Specifically:
 - ⇒ One dollar of additional state spending on CalWORKs grants brings in \$4 in federal funds.
 - ⇒ One dollar of state spending on In-Home Supportive Services brings in \$2.70 in federal and county funds.
- Hidden or indirect costs of reducing services include:
 - ⇒ Homelessness has been estimated to cost society as much as \$40,000 per individual.
 - ⇒ Substance abuse costs to society are estimated to be as much as \$11,487 per individual.
 - ⇒ Victims of domestic violence incur medical costs of \$2,665 and lost wages of \$435 per assault.

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1 Introduction

With California's fiscal crisis reaching epic proportions, and the outlook for the U.S. economy grim, it has become critical for public agencies and other organizations to fully understand the economic impacts that result from the funding of their programs. In pursuit of this goal, this report provides a comprehensive evaluation of the economic impacts that result from government spending on California's county human services programs. This evaluation discusses federal, state, and county spending on programs including Medi-Cal (Medicaid), Food Stamps, CalWORKS (TANF), In-Home Supportive Services, Child Welfare Services, and Foster Care.

The provision of these services has economic impacts that occur in both the short-run and the long-run. In the short-run, these services provide cash, or sometimes cash equivalents, to beneficiaries. This cash is then spent in local communities on goods and services, in turn, having a stimulative effect on the local economy. For example, going to the grocery store and buying food, increases demand for employment at grocery stores and increases their contribution to local economic output. In other words, payments from human services programs have a direct benefit in that they increase spending by recipients, have an indirect benefit in that the provision of goods and services to program recipients stimulates demand for economic activity, and have an induced benefit in that those employed in the provision of services to recipients also increase their spending, further stimulating the state economy.¹

In addition to these economic effects, receiving benefits through these programs forestalls a host of negative outcomes for the recipients. As discussed below, denying or reducing access to these programs often leads to an increased likelihood of poverty, homelessness, substance abuse, and a deterioration of mental health status. While this report is not able to quantify the economic cost of these deteriorated outcomes, the literature quite clearly reveals a significant link and suggests that society as a whole shares an increased burden when program services are reduced. This literature, and the likelihood that ongoing economic turmoil will significantly increase the need for human services programs, is discussed at length in this report.

¹ These effects are spelled out in detail later in this document.

In a time of limited government resources, it is critical to evaluate the benefits and costs of various publicly funded programs and to weigh the cost of making cuts in one versus the cost of making cuts in another. To that end, this report calculates the cost in foregone economic activity associated with cuts made to the state's human services programs. We find that these programs not only provide an economic boost in the short-term, but also provide substantial benefits and cost savings over the longer-term.

We begin our analysis by detailing recent expenditures among select human services programs. We then evaluate the short-term impacts of expenditure cuts in human services spending. This is followed by a look at the longer-term, or hidden, implications of denying recipients benefits today. We finish with a summary of our results and a discussion of the implications that spending on human services programs has for the economy of today and tomorrow.

2 Program Expenditures: 2007-08

There are a wide variety of county level Human Services Programs in California. These programs range from CalWorks, which provides cash and services, to In-Home Supportive Services (IHSS), which provides services that allow aged and disabled clients to remain safely in their homes. In all, \$19.8 billion was spent in 2007-08 on county human services in California (Table 2-1). Some \$12.2 billion of this spending was in the form of direct payments to families and individuals, including IHSS providers.

These funds come from federal sources (\$12.0 billion), state sources (\$5.6 billion), and county sources (\$2.2 billion). At all levels of government, in the current economic environment, these services are likely to face pressure to cut, or to "do more with less." In the following sections, we discuss the economic impacts of reducing human services expenditures.

Table 2-1: Program Expenditures (dollars in thousands)

| | Total | Federal | State | County |
|---|-------------------|-------------------|------------------|------------------|
| Grants* | 3,081,978 | 1,903,976 | 1,101,894 | 76,108 |
| Employment Services | 1,067,513 | 926,891 | 140,622 | |
| Eligibility Services | 485,896 | 311,524 | 153,704 | 20,668 |
| Child Care | 535,664 | 503,857 | 30,861 | |
| CalWORKs Total | 5,171,051 | 3,646,248 | 1,427,081 | 96,776 |
| Food Stamp Benefits* | 2,889,638 | 2,889,638 | | |
| Food Stamp & CFAP Eligibility Services | 810,042 | 405,021 | 266,715 | 138,306 |
| California Food Assistance Program (CFAP) Benefits* | 27,397 | | 27,397 | |
| Food Stamps Total | 3,727,077 | 3,294,659 | 294,112 | 138,306 |
| Medi-Cal Eligibility Services | 1,417,706 | 708,853 | 708,853 | |
| In Home Supportive Services Provider Payments* | 4,211,388 | 2,105,694 | 1,389,758 | 715,936 |
| In Home Supportive Services County Services | 321,558 | 159,264 | 114,077 | 48,217 |
| In Home Supportive Services Total | 4,532,946 | 2,264,958 | 1,503,835 | 764,153 |
| Child Welfare Services | 2,130,690 | 1,133,252 | 666,255 | 331,183 |
| Foster Care Payments* and Eligibility | 1,717,334 | 527,611 | 481,978 | 707,745 |
| Total Child Welfare | 3,848,024 | 1,660,863 | 1,148,233 | 1,038,928 |
| KinGAP* | 120,737 | | 93,922 | 26,815 |
| Adoption Assistance Program Payments* and Services | 843,375 | 356,124 | 380,712 | 106,539 |
| Refugee Program Payments* and Services | 23,233 | 23,051 | 182 | |
| Adult Protective Services | 128,592 | 56,368 | 61,288 | 10,936 |
| Total, All Programs | 19,812,741 | 12,011,124 | 5,618,218 | 2,182,453 |
| Total Payments to Families/Individuals* | 12,206,330 | 7,533,764 | 3,254,740 | 1,417,826 |

* Indicates expenditures that are made directly to program clients, their families, or IHSS providers.

3 Understanding Forecasts that Use Input-Output Accounts

The national accounts of the United States are based upon detailed studies of the flows of commodities between industries. Comparable data are also available at the state and county level. Our forecasts are based on these data, and it is important to understand the strengths and limitations of this type of analysis.

The sector called “Motion picture and video industries” provides a vivid example. In 2007, this sector used \$18.1 billion of inputs to produce \$39.6 billion of output in California. The other \$21.5 billion was the industry’s value added, paid out as income in California. Of course making a movie involves buying products from a lot of different industries such as insurance, sound

recording, and truck transportation. So which industries constitute the most important inputs into the production of “Motion picture and video industries”? They are: the Motion picture and video industries themselves (24.8%); Advertising and related services (13.5%); real estate establishments (11.7%); Software audio and video media for reproduction (4.8%); and Management scientific and technical consultants (3.5%). These five industries account for 58.3 percent of the costs of inputs into making movies and videos.

If discretionary spending declines, fewer people will go to the movies or buy videos, and thus fewer movies and videos will be made. This will have a direct effect on employment and economic activity in Hollywood. Fewer new actors will be hired, and directors will have smaller paychecks. There will also be important repercussions for the local advertising industry and real estate market. Advertising agencies may well have to lay off workers, and income generated from activity in the local real estate market will decline as well. Finally, local businesses that sell to actors, directors, workers at advertising agencies, and local landlords will also experience a decline in economic activity. The local super market may have to stock less sushi, and business at local restaurants will be more subdued.

Any decrease in spending then has three effects. First, there is a *direct effect* on the movie industry itself. Second, there is a chain of *indirect effects* on all the industries whose outputs are used by the motion picture business. Third, there are *induced effects* that arise when employment drops and households’ spending patterns are curtailed.

In this example, we have been referring to the effects a decrease in spending has on different sectors of the California economy. It is perhaps simpler to ask for a *summary effect*. What is the overall effect if spending on movies and videos decreases by \$1 million? There are three ways to answer this question. First, the effect on *value added* is a \$1.07 million decrease – the take-home pay of all the people affected will be diminished by that amount. The secondary and tertiary effects of the industry on the rest of the local economy are not very large. Second, the *employment effect* is a loss of about ten jobs. About half of these job losses are in the motion picture industry itself, and the other half are spread through the California economy. Third, the *output effect* is \$1.9 million. The difference between value added and output is that the former concentrates on people’s paychecks, whereas the latter includes the costs of intermediate inputs. If a motion picture costs \$25 million to produce, then a significant fraction of that sum

covers the costs of advertising, computer animation, and other inputs into production. Not every dollar spent on advertising or graphics becomes part of someone's paycheck; some of that money covers the costs of raw materials. National income accounting avoids double counting by excluding the costs of intermediate inputs.

So a \$1 million decrease in spending in the movie industry leads to a decrease of \$1.07 million in income earned by the people of California. And any economic shock has a *multiplier effect*. For the motion picture industry, this multiplier is 1.07. By comparison, a million dollar decrease in spending on "State and Local Government Investment" has a much larger multiplier of 1.72. Why? A sector can have a large multiplier if it induces economic activity in industries whose employees have a high propensity to spend from take-home pay. Also, if the sector does not import many materials from abroad or from out of state, then its multiplier effect on the local economy will be high. In essence, some of the spending in the local economy may "leak out" into other states and countries. If raw materials are imported, then a shock to a local sector will result in decreased economic activity abroad. The same is true if a California business buys inputs from firms in different states.

In sum, our analysis using input-output accounts is based on three important assumptions. First, there are constant returns to scale. This means that a ten percent cut in spending will be ten times as severe—across every sector in the economy—as a one percent cut. Second, there are no supply constraints. This means that any marginal increase in output can be produced without having to worry about bottlenecks in labor markets, commodity markets, or necessary imports. This assumption is quite realistic in a free-market economy like California's where there is some unemployment. Third, the flow of commodities between industries is fixed. This means that it is not possible to substitute in the short-run the many different inputs that go into the motion picture industry. This assumption is quite valid for short-run analysis, but the structure of the California economy will change in the long-run.

There are two ancillary assumptions that make the statistical analysis of the flows of commodities among industries cohere. First, each sector is assumed to produce homogenous output. This means that the proportion of motion pictures and videos is constant, no matter what the current scale of operation in Hollywood. Second, each industry only has one primary product and all other byproducts are of secondary importance. Both of these assumptions hold

in the data describing the flows of commodities in the California economy, and they are a necessary foundation for accurate accounts of the state and national economies.

4 Social Welfare Spending

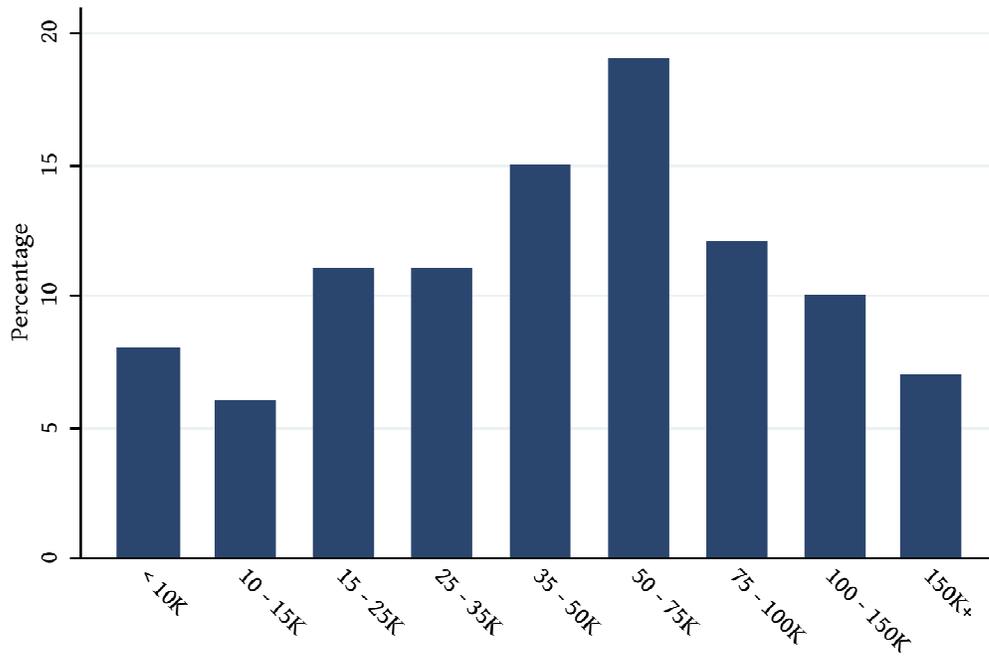
Spending on social welfare programs in California was \$19.8 billion in 2007. The majority of funding came from the federal government, while 28 percent came from the state, and 11 percent from local counties. We analyze five programs: (1) CalWORKS; (2) Food Stamps; (3) In-Home Supportive Services (IHSS); (4) Child Welfare Services;² and (5) Medi-Cal Eligibility Service. The first three programs have county staff components, but they consist primarily of payments to the clients themselves or low-income providers. Child Welfare Services includes both payments to clients (via Foster Care grants) and county social work staff. The last program, Medi-Cal Eligibility Service, involves payments primarily to county staff who ensure that clients are enrolled in, and maintain access to, health care.

Decreasing funding to any of these programs has an effect on the incomes of some of the poorest households in California. Hence, we model the effects of reduced spending as a shock to household income. This reduction impinges upon the sectors where households spend most of their income, and it has secondary effects that ripple through the state's economy. We highlight the overall effects of the spending shock on output, employment, and sales tax revenue.

Our analysis is based on a demographic survey of the 12.4 million households that existed in California in 2007, the latest year for which data are available. In 2007, the Federal Poverty Guidelines set the poverty level for a household of three at \$17,170. About 14 percent of the households in these data fall below that level.

² We are including Foster Care in with Total Child Welfare Services.

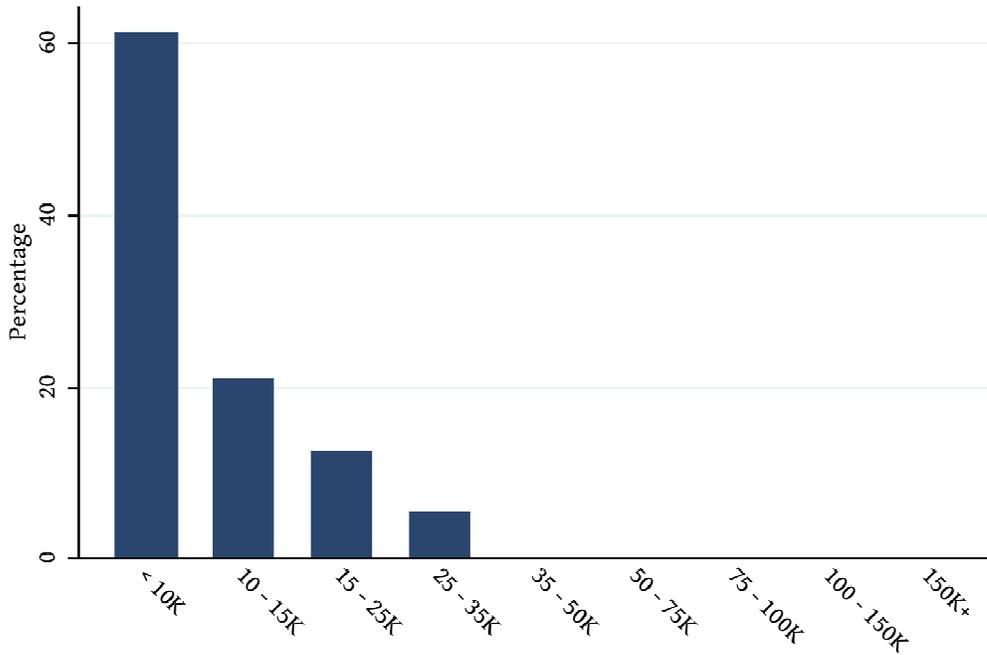
Figure 4-1: Distribution of Income for all California Households



Source: Calculations by Beacon Economics

Human Services clients generally fall into the poorest three categories of households (Figure 2). Those providing In-Home Supportive Services are in the four poorest categories.

Figure 4-2: Distribution of Income for Clients and IHSS Provider Households



Source: Calculations by Beacon Economics

Each program has a service provision component, primarily county staff, but also some contract service providers. We model county staff and contract service providers as people in the household income brackets between \$25,000 and \$75,000. Although these individuals generally have salaries between \$30,000 and \$50,000, we model the economic impact based on household income, which in many cases is assumed to be substantially higher than the individual incomes.

Each type of household has different spending patterns. Also, money that is spent on service providers becomes someone’s taxable income, and we assume that middle class people spend 70 percent of gross income. We postulate that households with incomes less than \$35,000 spend 100 percent of the income they receive.³

4.1 CalWORKs

The California Department of Social Services describes the CalWORKs program as follows: “CalWORKs is a welfare program that gives cash aid and services to eligible needy California

³ See Browning and Lusardi, 1996, Carney and Gale, 2001, and Hurst and Ziliak, 2004.

families. The program serves all 58 counties in the state and is operated locally by county welfare departments. If a family has little or no cash and needs housing, food, utilities, clothing or medical care, they may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance receive money each month to help pay for housing, food and other necessary expenses.”

This program had a total expenditure of \$5.2 billion between July 2007 and June 2008. We estimate that approximately 60 percent of those funds were paid directly to eligible families and the other 40 percent were used for employment services, child-care, and eligibility services. About 490,000 households in California receive this benefit, and the average monthly payment per household is \$543. We calculate that \$3.1 billion reached these households directly, and the other \$2.1 billion was used for client services and child-care. Clients who receive CalWORKs have few tax obligations and are not in a position to save much income; we assume that they spent each dollar received. The county employees and contract service providers, whose income is the bulk of the non-benefit costs, are middle class, and they spend 70 percent of every dollar in gross income.

We modeled expenditures in this program in two parts. First, we assumed that CalWORKs clients were in the three lowest income groups in our data: (1) less than \$10,000; (2) \$10,000 to \$14,999; and (3) \$15,000 to \$24,999. Thus the entire \$3.1 billion directed towards clients reached households in the lowest 25 percent of the income distribution. Second, we assumed that the other \$2.1 billion was paid to county staff and contract service providers whose households fell into these three income brackets: (1) \$25,000 to \$34,999; (2) \$35,000 to \$49,999; and (3) \$50,000 to \$74,999. The highest of these income brackets is slightly below the median income for a household in California. These households represent the middle 36 percent of the income distribution; they are the middleclass. We assumed that their disposable income was 70 percent of their take-home pay.⁴

We note that due to data and model limitations, our analysis uses a conservative methodology for CalWORKs in two respects: first, it does not account for the economic impact of increases in employment and income among clients that result from the array of employment services provided by the CalWORKs program, and second, it assumes that child care payments are made

⁴ Disposable income is that part of income that is left over once taxes have been paid.

to households with income distributions similar to county staff, although a significant portion of child care providers may be in lower income categories.

4.2 Food Stamps

California's Food Stamp program primarily includes federal benefits funded by the Supplemental Nutrition Assistance Program, and is supplemented by the small, state-only California Food Assistance program. The two programs put healthy food on the table for over one million households in California. Clients in the state receive about \$2.9 billion in federally funded benefits for food purchases. Hence each household receives about \$3,225 annually. Eligibility expenditures are about \$950 million from the two combined programs. Total spending is about \$3.9 billion.

We modeled expenditure in this program in exactly the same way as we did for CalWORKS. We used the same demographic assumptions about the clients and the county eligibility staff, although the program totals are of course different.

There is an important issue to consider in thinking about the effect of food stamps. As long as a household is purchasing more food than its coupon allotment, payment in food stamps should have an equal effect as payment in cash. But Senauer and Young (1986) find that households seem to increase food expenditures when they receive food stamps more than predicted by economic theory. We made the assumption that payment in food stamps was equivalent to payment in cash. In essence, we are assuming that the typical household's expenditure on food exceeds \$270 per month. Thus, receipt of food stamps enables cash that otherwise would have been spent at the grocery store to be used for rent or other household expenses. This may be a more conservative approach than other models, such as those developed by the US Department of Agriculture.

4.3 Medi-Cal Eligibility Services

This program has no component of spending provided directly to clients themselves. All the spending is on county staff who evaluate and process the eligibility of potential clients for receipt of benefits under Medi-Cal. Spending on Medi-Cal Eligibility Services is about \$1.5 billion. Spending patterns are modeled in the same way as county staff under CalWORKS, including the marginal tax rate of 30 percent.

In addition to the direct economic benefits of Medi-Cal eligibility expenditures, those expenditures enable communities to realize the enormous economic benefits of Medi-Cal provider payments on behalf of families and individuals whose access to Medi-Cal is controlled by county Medi-Cal eligibility workers. Statewide, Medi-Cal provider payments equal \$32.3 billion; for every dollar in Medi-Cal eligibility expenditures, communities realize \$1.85 in direct economic benefits from Medi-Cal provider payments.

4.4 Child Welfare Services and Foster Care

Child Welfare Services provides a continuum of specialized services to maintain child safety and well-being, both in their own homes and in out of home placements. In some cases, emergency response services are provided to assess the risk a child may be in. In the event that children are removed for their own safety, reunification services are provided to their families. This program emphasizes keeping families together in a safe, nurturing environment, and providing them with skills that will endure after they leave the program.

California's Foster Care Program is also included in this category and is designed to meet the material needs of children placed in foster homes. Because these benefits go to support children in foster care, it is most appropriate to model expenditures under this program according to the patterns of the least affluent of all the income groups.

Spending on Child Welfare Services, including Foster Care, is about \$3.7 billion, including \$2.2 billion for the take-home pay of service providers whose marginal tax rate is 30 percent, and \$1.6 billion for foster care payments.

4.5 In-Home Support Services

Total spending on In-Home Support Services is \$4.5 billion, only \$0.3 billion of which is paid to county staff for this program. The program is estimated to serve about 400,000 individuals, with an average annual payment to care providers per client of around \$11,500.

Again, we modeled expenditure in this program in two parts. First, we assumed that In-Home Support Services providers were in the *four* lowest income groups in our data: (1) less than \$10,000; (2) \$10,000 to \$14,999; (3) \$15,000 to \$24,999; and (4) \$25,000 to \$34,999. The program reaches households in the lowest 36 percent of the income distribution. Second, we made the same assumptions about money received by county staff; they fall into three income

brackets: (1) \$25,000 to \$34,999; (2) \$35,000 to \$49,999; and (3) \$50,000 to \$74,999.⁵ We assumed that their disposable income was 70 percent of their take-home pay.

4.6 Summary of Income Distribution Assumptions

Table 4-1 provides a summary of the assumptions regarding household incomes of both program clients/recipients and service providers. The top panel indicates the share of expenditures for each program that are paid to recipients, and the assumed distribution of the recipients across the income categories.⁶

Table 4-1: Allocating Welfare Spending to Income Categories (%)

| | Share of Program Spending | <10k | 10-15k | 15-25k | 25-35k | 35-50k | 50-75k |
|--------------------------------|----------------------------------|----------------|---------------|---------------|---------------|---------------|---------------|
| Beneficiaries | | | | | | | |
| CalWorks | 59.6 | 76.7 | 7.4 | 9.1 | 6.7 | | |
| Food Stamps | 75.1 | 73.4 | 7.4 | 11.9 | 7.3 | | |
| Child Welfare/Foster Care | 42.0 | 100.0 | | | | | |
| Service providers | | | | | | | |
| CalWorks | 40.4 | | | | 24.4 | 33.3 | 42.2 |
| Food Stamps | 24.9 | | | | 24.4 | 33.3 | 42.2 |
| Child Welfare/Foster Care | 58.0 | | | | 24.4 | 33.3 | 42.2 |
| Medi-Cal Eligibility | 100.0 | | | | 24.4 | 33.3 | 42.2 |
| IHSS: County Staff | 6.5 | | | | 24.4 | 33.3 | 42.2 |
| IHSS: Service Providers | 93.5 | 21.3 | 61.4 | 16.6 | 0.7 | | |

**Calculations by Beacon Economics*

With two exceptions, we assume benefits are distributed across the lowest income categories. The exceptions are Foster Care, where the benefits are assumed to accrue only to children in the very poorest income category, and In-Home Supportive Services, where providers are assumed to have a slightly wider distribution of income, with those in the \$25,000-35,000 range also receiving some benefits.

The second panel indicates the income category of those providing the services. The first column indicates the share of program expenditures accruing to service providers. This ranges from 100 percent for Medi-Cal Eligibility Services, to 6.5 percent for In-Home Supportive Services staff. The lower the percent, the more the program's financial resources are provided to beneficiaries. Subsequent columns indicate the proportion of service providers that fall into each income category. Their earnings are assumed to be spent according to the baseline for

⁵ It is important to note here that what is being measured is household income, and not simply the income of the county staff member. Accordingly, the income brackets are higher than might be expected.

⁶ The distributions assumed are based on caseload data from Los Angeles and San Bernardino Counties.

each of these categories. In all cases, we assume that program employees are distributed between \$25,000 and \$75,000 within the income distribution.

5 The Economic Impacts of Program Expenditures

Government spending has an economic impact on the community in which the spending occurs, as does spending of any sort. Measured in this section are the economic impacts that result from program expenditures by both program beneficiaries (recipients) and service providers (county and contract staff). The model used, ImPlan, measures the impact of expenditures differently based on the income category of those spending the money.⁷ Figure 4-1 above displays the income categories of the model and the distribution of household incomes in California.

Table 5-1 provides an indication of the economic impact of total spending in each category in the state of California. The first column gives our estimate of the overall effect on output. It is important to state again that this effect includes output for final demand and the intermediate inputs produced by local businesses. It is the correct measure of economic activity if one is concerned with gross output in the state’s economy. The second column includes the estimates of the private-sector jobs generated by spending under each program. The third column includes estimates of the sales tax revenue that is generated by increased expenditures funded by program payments to both clients and service providers.

Table 5-1: Economic Impact of Total Program Spending

| Program | Output (millions) | Employment | Sales Tax Revenues (millions) | Multiplier |
|-------------------------------|-------------------|------------|-------------------------------|------------|
| CalWORKs | 6,950 | 36,573 | 129.1 | 1.34 |
| Food Stamps | 5,235 | 27,489 | 96.7 | 1.37 |
| Medi-Cal | 1,523 | 8,421 | 30.7 | 1.05 |
| Child Welfare/Foster Care | 4,777 | 25,536 | 91.1 | 1.23 |
| IHSS | 6,529 | 33,943 | 118.8 | 1.44 |
| All Programs Combined | 25,007 | 131,962 | 466.6 | 1.32 |
| <i>Clients Only</i> | 12,008 | 62,247 | 217 | 1.47 |
| <i>Service Providers Only</i> | 12,999 | 69,715 | 249 | 1.25 |

**Calculations by Beacon Economics*

The fourth column is the *multiplier* and merits further discussion. For example, the total spending on CalWORKs—from federal, state, and local sources—is \$5.17 billion. We estimate

⁷ See: www.ImPlan.com for details of the model.

that this spending generates \$6.95 billion in output in the state. The ratio of economic activity generated to dollars spent in the program is the program's multiplier.

Consider a dollar spent on CalWORKs. Most of that money is directed to program clients, with a small part going to the salary of service providers. We have assumed that the client spends 100 percent of what he or she receives, but the service provider spends only 70 percent of his or her gross salary. This spending creates economic activity in California, and some leaks out of state as people buy goods made abroad or made in other states. The multiplier also takes into account that increased economic activity raises the take-home pay of workers in many different industries. These workers spend part of their paychecks, and there is an ancillary induced effect on economic activity in the state.

How important is the fact that some spending creates economic activity outside California? Consider households in the lowest income group, those earning less than \$10,000 per year. They are estimated to spend about \$0.07 of any extra dollar on "imputed rental activities of owner occupied dwellings" and another \$0.07 on "real estate establishments." All of the former is recorded as local economic activity but only 70 percent of the latter is recorded in the same way. There are some economic activities—such as commercial fishing—that receive a small fraction of every marginal dollar spent but have very little local content. Hence, the multiplier effect is attenuated to the extent that a household's spending pattern places heavy weight on industries that have relatively low local content. Another good example of that kind of industry is automobile manufacturing, which has only 8.2 percent local content. Therefore, multipliers for particular programs at the state level will necessarily be smaller than will equivalent multipliers at the national level.⁸

The multiplier is the best way to think about the overall effect of a particular program. It is no coincidence that the programs with the highest multipliers are In-Home Supportive Services, CalWORKs and Food Stamps. These programs provide funding directly to disadvantaged households who have a high marginal propensity to spend an extra dollar of income. Likewise, the program with the lowest multiplier is Medi-Cal eligibility services. The multiplier is lower because 30 percent of these funds are paid in federal and state taxes on the salaries of the

⁸ For instance, Mark Zandi, of Moody's Economy.com, found a multiplier of 1.64 for the Food Stamp program nationwide, while we have found a multiplier of 1.37 for the state of California.

county staff. This effect is illustrated in the final two rows of the table where the cumulative effect of payments to clients and service providers (including IHSS) are separated. The multiplier for payments to clients is 1.47 while payments to service providers is 1.25. Without IHSS provider payments, this multiplier would be 1.05, precisely because 30 percent of service provider income is paid in state and local taxes.

It is important to remember, however, that reductions in expenditures on the evaluation of the eligibility of applicants may reduce the amount of service provision under Medi-Cal. The medical services tend to have a high value to the local economy and fewer eligible residents results in a further decline in economic activity. The true multiplier effect for Medi-Cal eligibility services is therefore higher than is presented here.

We have estimated that the aggregate effect on output of all these programs is approximately \$25 billion – about 1.4 percent of the California economy. Likewise, we estimate that the aggregate employment effect of all these programs is that they generate 131,962 jobs in the state. These jobs represent about 0.7 percent of our state’s total labor force.

It is fair to conclude that the In-Home Support Services has the highest effect per dollar. In particular, the multiplier for IHSS is 1.44. This indicates that there is a 44 percent boost to the state economy above and beyond the dollars received by the service providers. CalWorks and Food Stamps also have significant multipliers at 1.34 and 1.37, respectively. The difference in these multipliers is in the proportion that is received by low-income populations, generally program clients.

Table 5-2 provides results similar in spirit to those of Table 5-1, but reflect the impact of a change in spending by program of just \$1 million. This table is included to more clearly illustrate the notion of the multiplier. The “Output” and “Multiplier” columns are identical in this table, reflecting the fact that the multiplier simply translates one dollar of increased or reduced spending into the impact on the economy.

Table 5-2: Economic Impact of \$1 Million in Program Spending

| Program | Output (millions) | Employment | Sales Tax Revenues (millions) | Multiplier |
|-------------------------------|----------------------|------------|-------------------------------------|------------|
| CalWORKs | 1.34 | 7 | 0.025 | 1.34 |
| Food Stamps | 1.37 | 7 | 0.025 | 1.37 |
| Medi-Cal | 1.05 | 6 | 0.021 | 1.05 |
| Child Welfare/Foster Care | 1.23 | 7 | 0.023 | 1.23 |
| IHSS | 1.44 | 7 | 0.026 | 1.44 |
| All Programs Combined | 1.32 | 7 | 0.025 | 1.32 |
| <i>Clients Only</i> | 1.47 | 8 | 0.027 | 1.47 |
| <i>Service Providers Only</i> | 1.25 | 7 | 0.023 | 1.25 |

**Calculations by Beacon Economics*

The multipliers presented in Table 5-2 reflect the multipliers for expenditures of any sort on the various programs. In Table 5-3, we present revised multipliers that indicate the importance of state spending. For several categories of expenditures in these programs, there are federal matches. In particular, for CalWORKs, \$1 of additional state grant expenditures brings in \$4 in federal funds for CalWORKs clients. The “multiplier” for state expenditures is therefore five times that of Table 5-2, of 7.35. Because of the federal match, expenditures by the state effectively bring about economic activity that is in excess of *seven* times the level of state expenditures. Therefore, were state expenditures on CalWORKs grants to increase by \$1 million, output would increase by \$7.35 million and employment would experience a comparable boost. This is also the case for In-Home Supportive Services spending (which also includes matching county funds), and holds for spending on service provision under the Food Stamp and Medi-Cal eligibility programs. Because of matching federal dollars, reductions in state spending in these categories come at a very significant cost.

Table 5-3: The Effect of Federal and County Matches on Multipliers for State Expenditures

| | State (\$) | Total (\$) | Total Multiplier |
|---------------------------------------|------------|------------|---------------------|
| Client Expenditures: | | | |
| <i>CalWORKs</i> | 1 | 5.00 | 7.35 |
| <i>IHSS</i> | 1 | 3.70 | 5.44 |
| Service Provider Expenditures: | | | |
| <i>Food Stamps</i> | 1 | 2.86 | 2.99 |
| <i>Medi-Cal</i> | 1 | 2.60 | 2.72 |
| Combined Expenditures: | | | |
| <i>Child Welfare/Foster Care</i> | 1 | 2.33 | 2.87 |

**Calculations by Beacon Economics*

The conclusion of this analysis is that a) reducing expenditures on these programs does have a negative consequence for the economy in which both program recipients and service providers live; b) putting money directly into the hands of program beneficiaries provides the greatest economic impact to the local community; but also c) spending cuts in areas where there is a federal match of funds comes at a particularly high price, with multipliers up to 5 times what they would otherwise be.⁹ These direct economic effects of program spending are but one element of the implications of these expenditures. Other elements, longer-term implications, are explored in the next section.

6 The Long Term Effects of Program Cuts

The purpose of this section of the report is to consider the implications of cuts to CalWORKs, Food Stamps, and Medi-Cal programs by providing a survey of the welfare literature of the impacts of cuts to welfare caseworker staff levels and benefits on low-income families. In our discussion in Section 8 we include impacts on child welfare, poverty, homelessness, substance abuse, and mental health. We also examine the relationship between unemployment and the demand for social services, and discuss the implications for worsening economic conditions on poverty and CalWORKs and Food Stamp program caseloads.

6.1 Impact of Cuts to Caseworker Staff Levels

Cuts to eligibility staff for CalWORKs, Food Stamps and Medi-Cal programs will lead to an increase in case processing time and to delays or errors in benefit issuance for clients. These delays or errors can lead to negative family outcomes, similar to the outcomes for benefit cuts described in Section 6.2 below. Recent data from California counties indicate that benefit delays are already occurring in many counties. Some counties report that due to the increase in caseload and funding reductions, client wait times for application appointments have increased, so that clients have to wait at least a week for their appointment, and in some cases even longer. In a recent 32-county survey, undertaken by the County Welfare Directors Association, 6 counties responded that intake appointments were booked out more than two weeks, 6

⁹ These multipliers are particularly high at present because of important provisions of the national stimulus package, the American Recovery and Reinvestment Act, passed in February, 2009. The higher Federal contributions for CalWORKs will revert to the previous lower levels in October, 2010, and the higher federal contributions for Medicaid and Foster Care will revert to lower levels in January 2011.

responded that appointments were booked out 1-2 weeks, and 17 had appointments booked out within one week.

As discussed below, cuts to CalWORKs (TANF) Welfare-to-Work caseworker staff will likely result in a decrease in the screening and identification of client barriers to employment, and a decrease in client access to supportive services. This can negatively affect client outcomes, such as successful transitions from welfare to work.

The role of the TANF caseworker goes far beyond eligibility determination. Duties for caseworkers include communicating new program rules such as work participation requirements and time limits, referring clients to supportive services such as child care and employment training and assessing clients for barriers to employment such as substance abuse or domestic violence issues (Bell, 2005; Hagen and Owens-Manley, 2002).

Caseworkers oversee large caseloads, which limits their ability to provide individualized service to clients. In Bell (2005), interviewed caseworkers cited high caseloads as one of four structural obstacles to the successful implementation of TANF policies.¹⁰ In LeRoy et al. (2004), caseworkers reported that large caseloads restricted the time they could spend helping families with children with disabilities find needed services.

Finally, the relationship between the caseworker and client is an important factor in determining whether or not barriers to employment are identified and addressed, and large caseloads and high caseworker turnover can hinder the establishment of a productive caseworker-client relationship.

Given this description of the caseworker role and environment, and based on our review of the literature, we believe that cuts to caseworker staff levels will likely result in a decrease in the screening and identification of client barriers to employment and a decrease in client access to supportive services. Caseworker staff cuts and larger caseloads per caseworker will constrain remaining caseworkers time even further and will restrict a caseworker's ability to identify client needs and refer them to essential supportive services. Because barriers to employment can only be treated if they are identified, client's access to supportive services will be reduced. Many

¹⁰ Caseworkers also cited inadequate support services for clients, a lack of coordination between public assistance and employment and training agencies and the realities of low-wage work as a barrier to client self-sufficiency as structural obstacles to TANF implementation.

studies (Bell, 2003; Hagen and Owens-Manley, 2002; LeRoy et al., 2004; DeLapp, 2001) report that caseworkers also lack the training necessary to effectively identify barriers to employment. To the extent that increasing caseloads will restrict the time available for caseworker training, client's access to supportive services will be negatively affected.

6.2 Impacts of Cuts to TANF Benefits

Because of the TANF program's emphasis on work and self-sufficiency, TANF benefits alone are not designed to lift families out of poverty.¹¹ However, this does not imply that the marginal benefit of the TANF grant is too small to have a positive impact on participant families. The literature shows that the marginal effects of additional income are significant for families at lower levels of income. Two random assignment studies of welfare reform programs that resulted in increases in employment and income for long-term welfare recipients (Morris and Gennetian, 2003; Loeb et al., 2003) found that increases in family income resulted in positive impacts on child behavioral and developmental indicators.¹² Berger (2004) found that higher levels of AFDC/TANF benefits are correlated with increased dental care and decreased spanking. Similarly, decreases in TANF benefits can increase the risk for negative outcomes. Numerous studies have cautioned that cuts to welfare benefits associated with welfare reform may lead to increases in child maltreatment (Courtney, 1997; Kamerman & Kahn, 1997; Geen & Waters, 1998; Waldfogel, 1998; Zaslow, Tout, Botsko & Moore, 1998; Paxson & Waldfogel, 2002). Swann and Sylvester (2006) found that reductions in welfare benefits accounted for 15 percent of the growth in foster care caseloads between 1985 to 2000. Finally, Shook (1999) found that a decline in welfare income has a more powerful effect on child welfare risk than a decline in employment income.¹³

Reductions in welfare benefits also increase the risk that participants will fall even farther below the poverty threshold and become homeless. This would exacerbate an already serious problem for CalWORKs families – in January 2009 alone, there were over 12,000 requests for CalWORKs

¹¹ In 2008, Maximum Aid Payment for CalWORKs for a family of four was \$862, well below the monthly income for a family of four at the federal poverty line (\$1,767).

¹² The income increases were moderate. As an example, a single parent with two children earned an increase in benefit of \$250 per month if they worked part-time and \$150 if the parent worked full-time.

¹³ Respondents in the study also received food stamps as part of their monthly income package.

homeless assistance aid.¹⁴ In Los Angeles County, it was estimated that over 7 percent of CalWORKs cases met the criteria for homelessness (Bono et al. (2005)). Severe poverty, lack of affordable housing, unemployment or underemployment and low levels or reductions in entitlement benefits are cited as major causes of homelessness (Ji, 2007; Wright and Rubin, 1997). Some researchers and advocates assert that entitlement benefits are already insufficient in themselves to prevent homelessness, and thus a reduction in such benefits would increase the likelihood of homelessness for CalWORKs families. The negative consequences for homeless families are especially high; because of the struggle to find shelter, food and clothing, the emotional, physical and educational needs of homeless children are neglected (Nunez, 2000). One study documents that homeless children experience barriers to educational access because of educational bureaucratic procedures such as residency and school/medical record requirements. In addition, homeless children face barriers to success in school due to the lack of stability in their daily lives and the resulting physical, social, and psychological problems they experience (Stronge, 2000).

Research on sanctioned families and their outcomes can also shed light on the marginal benefit of TANF income by demonstrating how families fare when benefits are reduced or taken away. Sanctions impose financial penalties on participants for failure to comply with work activity participation or child support rules. Penalties can result in a reduction in the TANF benefit, which can range from 5 to 52 percent nationwide, or case closure.¹⁵ Numerous studies on sanctions find that families are negatively impacted by involuntary benefit reductions. Being sanctioned is associated with an increased likelihood of material hardship in the form of food insecurity, housing problems, and utility shutoffs – which can have serious ramifications for the physical and emotional well-being of the affected families (Kahil et al., 2002; Lindhorst and Mancoske, 2006; Lee et al., 2004; Lindhorst, Mancoske and Kemp, Smith and Brooks-Gunn, 2002). Lindhorst and Mancoske (2006) also found that sanctioned participants had more difficulty accessing Medicaid and medical care than those who remained in TANF. McLeod and Shanahan (1996) studied the relationship between poverty persistence and children’s mental health, and conjecture that the persistent poverty that is most likely to be a part of the lives of

¹⁴ CalWORKs Homeless Assistance Program Monthly Statistical Report, California Department of Social Services, January 2009.

¹⁵ Kaplan, J. “The Use of Sanctions Under TANF”, Welfare Information Network, April 1999.

families forced off welfare because of sanctions or time limits, has been shown to have an especially negative affect on children's behavioral outcomes over time. Shook-Slack (1998) found that receipt of TANF sanctions increased the rate of having an investigation for neglect, though it did not find a statistically significant effect of sanctions on having an indicated report of neglect or abuse. Finally, Cook et al. (2002) found that sanctioned families with infants and toddlers have a higher incidence of negative health outcomes and food insecurity than families whose benefits have not been decreased or terminated. The results of the sanction outcome studies show that participants are at a greater risk for negative outcomes such as food insecurity, negative behavioral and health outcomes, and housing hardship when welfare benefits are reduced or eliminated.

7 Economic Costs of Negative Outcomes

The discussion above highlights the fact that decreases in CalWORKs funding could increase the risk of negative outcomes such as child maltreatment, food insecurity, homelessness and negative health outcomes. Additionally, decreases in CalWORKs spending could lower the chance that serious barriers to employment such domestic violence, substance abuse and mental illness, will be identified and treated. Research on the economic costs of these negative outcomes show them to be very high and indicate that the savings achieved by decreasing CalWORKs funding could be negated by the societal costs of each negative outcome. In order to portray the individual risks to negative outcomes more clearly, wherever possible, we describe negative outcome costs in terms of costs per negative outcome incident or affected individual.

7.1 Child Maltreatment

The direct economic costs associated with child maltreatment include hospitalization, child welfare system, law enforcement, and judicial system costs. It is well-documented that child maltreatment can lead to adverse child outcomes such as chronic health issues, cognitive dysfunction, and behavioral problems. These outcomes imply that there are also substantial indirect costs associated with child maltreatment, including special education, juvenile delinquency, and lost productivity costs. One study found that the average total hospitalization charges for abused or neglected children were nearly \$10,000 more per hospitalization than those for other hospitalized children (Rovi et al., 2004). A 2004 study on special education

expenditures reported that the additional expenditures to educate a student with a disability cost about \$6,000 per pupil (Chambers et al., 2004).

7.2 Homelessness

Although estimates vary across studies, research on the costs and benefits of programs that provide housing for homeless individuals show that the costs incurred because of homelessness are high. These costs include hospital care to treat illnesses caused by homelessness (including respiratory disorders, trauma, skin disorders, infectious diseases, substance abuse, and mental illness), shelter, incarceration, and detox services. One study conducted in New York found that annual service costs for homeless individuals were over \$40,000 per individual (Culhane et al., 2001). A national study of supported housing programs found that the average in-patient hospital cost of providing medical services alone to homeless individuals was \$9,000 (Rosenheck, 2004).

7.3 Substance Abuse

Research on the impact of substance abuse assessment and treatment services demonstrate that the societal costs of substance abuse far outweigh assessment and treatment service costs. Untreated substance abuse increases, for example, the costs for the criminal justice system, Medicaid, child welfare, juvenile justice, and mental health systems. Society also bears the cost of lost productivity of the affected individual. A study of 43 substance abuse treatment centers in California found that the per-patient benefit to society from treatment (and therefore the cost to society for the absence of treatment) was \$11,487 (Ettner et al., 2006).

7.4 Domestic Violence

As discussed previously, caseworker staff cuts will likely lead to higher caseloads per caseworker and will undermine the conditions under which barriers to employment, such as domestic violence, can be identified and addressed. The economic costs associated with domestic violence are significant. These costs include the substantial medical costs borne by victims, as well as the costs for the victim's lost productivity. A detailed Center for Disease Control and Prevention report, "The Costs of Intimate Partner Violence," reported that mean medical care cost assault among victims who actually receive treatment was \$2,665 *per physical assault*. They also found that, on average, physical assault victims lost 7.2 days of paid work per physical

assault; for a woman earning \$15,000 annually, this would equal \$435 in lost earnings per physical assault.

7.5 Unemployment and Demand for Human Services

Deteriorating conditions in the labor and housing markets will likely push more families into poverty and drive the demand for social services higher. In December 2008, the unemployment rate in California had hit 9.3 percent, a level it hasn't reached since 1992.¹⁶ Beacon Economics forecasts' indicate that unemployment will remain high well into 2010 and likely into 2011. Figures 7-1 and 7-2 display the upward trends in unemployment rates, CalWORKs, and Food Stamps caseloads since September 2006.

The fact that rising unemployment rates result in increases in poverty rates has been well-established in economics literature. Tobin (1994) studied national poverty rates and unemployment from a macroeconomic perspective and found that poverty rates from year-to-year can be explained by unemployment rates and average changes in real weekly earnings. Other studies utilized state and regional panel data to analyze poverty rate and also found that rising unemployment rates have a significant effect in raising poverty rates (Hoynes et al., 2006; Blank et al., 1993).

One would expect that increases in poverty rates due to increasing unemployment rates would also result in rising welfare caseloads. Mounting unemployment rates can increase welfare caseloads in two ways: (1) by increasing the number of non-participants who are eligible and apply for benefits, and (2) by delaying welfare exit for current participants. Research on the relationship between welfare spells and local labor market conditions indicate that poor labor market prospects prolong welfare spells for existing participants and can therefore increase welfare caseloads (Hoynes, 2000). Other studies using state panel data have found that a one-point rise in unemployment rates raised AFDC caseloads by as much as 6 percent (Blank, 2000; Figlio and Ziliak, 1999; Ziliak et al., 2000). More recent studies (Klerman and Danielson, 2004; Hill and Murray, 2008) have shown that the relationship between unemployment and welfare caseloads remained strong in the post-welfare reform period, and studies that analyzed unemployment and welfare caseloads in California (Klerman and Haider, 2004; Green et al.,

¹⁶ Bureau of Labor Statistics, Local Area Unemployment Statistics.

2003; MaCurdy et al., 2002) show that the relationship is also strong, if not stronger, when applied to California data.

Research on food stamp participation show an even stronger relationship between unemployment and food stamp caseloads (Wallace and Blank, 1999; Hanson and Gundersen, 2002; Danielson and Klerman, 2006). Figure 7-2 confirms this relationship in California in the current recession. These results from the economics and welfare literature indicate that the demand for CalWORKs and Food Stamp Program benefits will most likely climb higher in 2009.

As discussed earlier, the increased demand, when combined with reductions in caseworker staff levels, could have serious ramifications for current and potential participants, including increasing delays in benefit issuance and restricting client’s access to needed services. To the extent that delays in benefit issuance decrease family income, benefit issuance delays and benefit reductions could lead to increased risk for negative outcomes, including child maltreatment, food insecurity, negative health outcomes, and homelessness.

Table 7-1: Literature Review on Consequences of Benefit and Caseworker Staff Reductions and Increased Unemployment, Summary of Findings

| Event | Outcome |
|---|--|
| Reduction In Caseworker Staff Levels | Delays In Benefit and Case Processing Lower Likelihood of Identifying Barriers to Employment Substance Abuse Domestic Violence Mental Health |
| Reduction In TANF Benefits | Higher Likelihood of Child Maltreatment Higher Likelihood of Homelessness Higher Likelihood of Food Insecurity Higher Likelihood of Problems Accessing Medicaid Higher Incidence of Negative Health Outcomes for Infants and Toddlers |
| Increased Unemployment | Increase In TANF Caseload Increase In Food Stamp Program Caseload |

Figure 7-1: California Statewide Unemployment Rates and Total CalWORKs Cases by Month

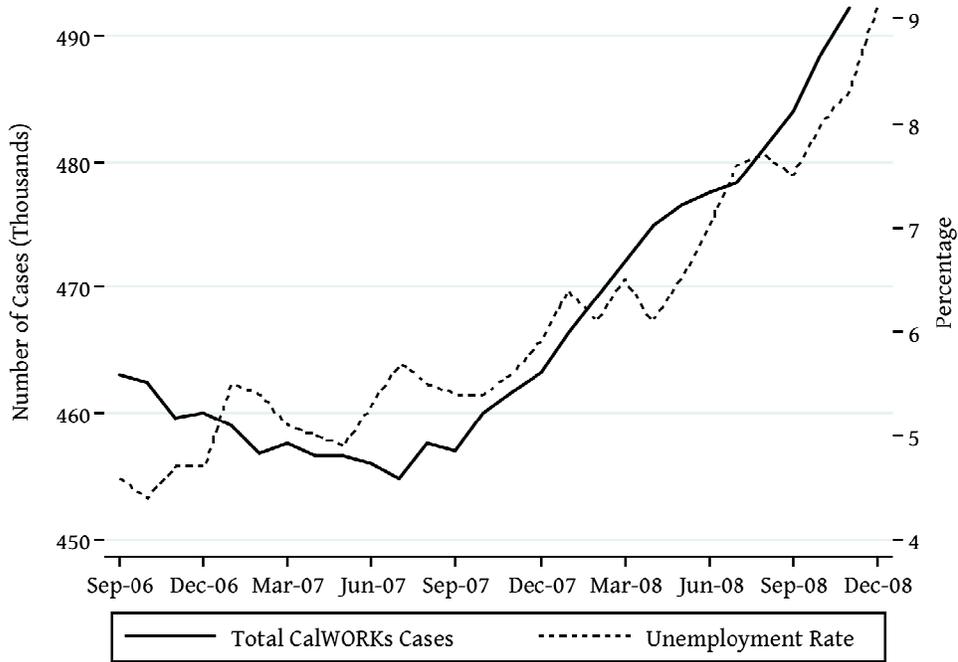
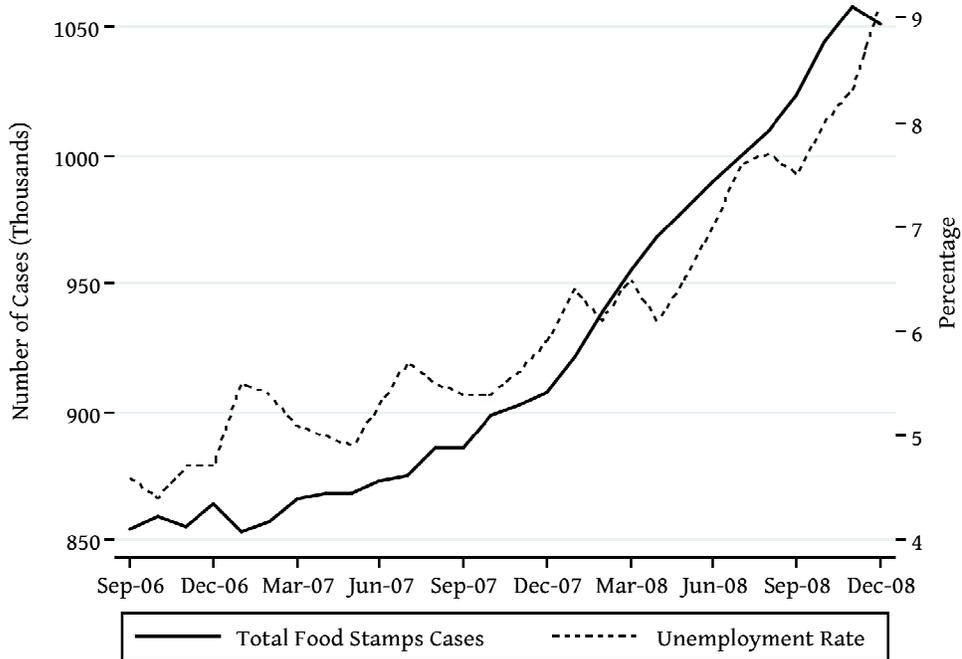


Figure 7-2: California Statewide Unemployment Rates and Total California Food Stamps Cases by Month



8 Summary and Conclusions

This document explores the economic impact of spending on county human services programs in California. The effects are found to be significant in both the short- and longer-term. In the short-term, expenditure reductions in any of these programs have significant implications for the state economy. The multiplier effects for these programs are found to range between 1.05 and 1.44, meaning that output and employment resulting from human services program expenditures are greater than the expenditures alone would suggest.

In particular, In-Home Supportive Services are found to provide in excess of a 40 percent boost to the local economy. The multipliers for CalWORKs and Food Stamps are also significant and comparable at 1.34 and 1.37, respectively. Other programs, those that provide primarily services and less in the way of cash benefits, are found to have a smaller multiplier effect. The importance of these services, however, should not be diminished by the smaller multipliers that were found. This report discusses the likelihood that service reductions in many of these programs may result in the following: a higher incidence of homelessness, poverty, malnutrition, substance abuse, violence, and negative health outcomes for toddlers and infants. Aside from the toll these harmful circumstances have on the individuals involved, a higher incidence of these maladies produces not only higher economic costs today, but in the future as well. This suggests another sort of multiplier that ought to be included in the analysis – the indirect effect of reducing the demand for services tomorrow by providing them today.

Finally, many of these programs are funded by federal in addition to state expenditures. These federal dollars are often only available as matching funds to state expenditures. The effect of matching funds was found to raise the multiplier for some state spending as high as 7.35. With matching funds, \$1 in state spending translates into between roughly \$3 and \$5 in total spending on most of these programs. The effect on output and employment, and on the economic stimulus effect of state spending on these programs, is thus significantly magnified.

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