CARROTS, STICKS, AND WELFARE REFORM: ARE STATES RACING TO THE BOTTOM?

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Paper prepared for presentation at the 2nd Annual Conference on State Politics and Policy, Milwaukee, Wisconsin, May 24-25, 2002. The author wishes to thank Ben Deufel, Scott Hays, and Lisa Sanbonmatsu for comments on an earlier draft. Comments and suggestions are welcome, but please do not cite or distribute this paper without the permission of the author.

The landmark domestic policy accomplishment of Bill Clinton's presidency was welfare reform. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 fundamentally reoriented American income support policy. This sweeping reform legislation ended the federal guarantee of cash welfare to eligible low-income women and children. It replaced the Aid to Families with Dependent Children (AFDC) program with Temporary Assistance for Needy Families (TANF). TANF imposed stringent work requirements and set time limits on the receipt of welfare benefits. Welfare recipients would be limited to five years of aid, and they would be required to work within two years. This iteration of welfare reform prompted a profound shift in the structure of American income support policy and marked the culmination of Clinton's 1992 campaign pledge to "end welfare as we know it" (Weaver 2000).

While work requirements and time limits would have been sufficient to establish the status of PRWORA as one of the most important pieces of social policy legislation in a generation, the statute also altered the relationship between the federal government and the states. In ending the entitlement status of welfare, lawmakers in the nation's capital devolved significant responsibilities to their counterparts at the state level. Block grants would give state officials almost complete control over TANF; they would be able to restructure their welfare programs as they saw fit. Potential changes encompassed the entire political spectrum, from increased earnings disregards to the implementation of family caps.

This transfer of authority recalls the characterization of the fifty states as "laboratories of democracy." In a 1932 dissent Supreme Court Justice Louis Brandeis wrote, "It is one of the happy incidents of the federal system that a single state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."[1] Policymakers and policy advocates frequently invoke the innovative potential of the states. They contend that lawmakers in the states are better able to adapt programs to take account of local needs, preventing the implementation of "one size fits all" solutions to complex policy problems. In addition, supporters of state-based policymaking contend that these programs facilitate feedback and institutional learning, providing a test of policy recommendations and demonstrating which ones achieve their objectives.

Another set of policymakers and advocates, however, openly wonder whether this innovative potential comes at a cost. Does competitive pressure force state officials to cut corners in providing public goods, sacrificing them in the pursuit of private interests? In the context of income support policy, these concerns take a more specific form. Persons wary of granting state policymakers control over the shape of welfare policy worry about a "race to the bottom." Officials in the fifty states, they argue, will not want their state's welfare policy to exceed the generosity of those in their neighbors because it might draw additional welfare recipients into the state. Due to competitive pressures, officials in the states might keep benefits lower than they otherwise would.

With the passage of PRWORA, these concerns moved to the forefront both in the policymaking community and among academic researchers. Some wondered whether the states could be trusted with the prerogatives bestowed upon them by this landmark piece of legislation. Most research relied on retrospective judgments, utilizing historical patterns to predict the likelihood of a "race to the bottom" under the provisions of PRWORA. With five years of collective experience under this new welfare regime, it is

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[1] *New State Ice Co. v. Liebmann,* 285 U.S. 262 (1932).

appropriate to examine states' reactions on their own terms rather than relying on these precedents. Furthermore, the conventional means for assessing the existence of a race to the bottom – examination of variation across the states in benefit levels – is only one facet of the innovative outburst prompted by the devolution of these prerogatives. Other programmatic changes have been just as, if not more, important as the size of the checks cashed by welfare recipients.

As its proponents predicted, PRWORA unleashed an astonishing array of policy innovations at the state level. Are these innovations part of a race to the bottom? The remainder of this paper traces the emergence and diffusion of twelve new welfare provisions put in place at the state level. Its systematic examination of the factors that affect program enactment assesses whether competitive pressures, particularly developments in neighboring states, affected the enactment of these innovations. This analysis finds little evidence that a race to the bottom is taking place. Though state lawmakers are racing to innovate, they are not racing to the bottom.

Welfare Magnets and the Race to the Bottom

After the enactment of PRWORA in 1996, policymakers in the fifty states responded almost simultaneously to a single policy mandate. This episode provides scholars with the opportunity to investigate a number of theories about the determinants of state-level policy choices. This paper emphasizes the role of competitive pressures. While these pressures are by no means unique to welfare policymaking, the dual concepts of welfare magnets and a race to the bottom have long preoccupied both those who make public policy and those who study and analyze it.

In part, this concern grew out of the structure of Aid to Families with Dependent Children (AFDC). Under this system, policymakers at the two levels shared the authority to make policy, but the state share of this power depended on the permission and the permissiveness of the federal government. Some labeled this interaction of federal and state prerogatives "permissive federalism" (Arsneault 2000). In the six decades of AFDC's existence, the fifty states exhibited remarkable diversity in their income support programs. Scholars traced these differences to factors such as demographic composition, economic context, fiscal resources, political alignments, and political values (Dye 1966, 1984; Cowart 1969; Jennings 1979; Brown 1995; Johnson 2001).

Although state officials have always made many important decisions about welfare policy, the passage of PRWORA enhanced state prerogatives by removing most of the requirements that the federal government had imposed. It shifted the welfare funding formula from matching grants, through which federal spending responded to the expenditures of the states, to block grants, through which federal policymakers gave state policymakers a fixed amount of money regardless of how much the state spent on income support. With state lawmakers released from the federal strictures, both observers and scholars wondered whether competitive pressures would be more important in state-level welfare policymaking.

What are the sources of these competitive pressures? Their two related sources can be characterized as "welfare magnets" and the "race to the bottom." The welfare magnets concept describes the potential response of recipients to state-level diversity in income support policy. The notion of a race to the bottom invokes policymakers' responses to the potential reactions of these recipients. While the empirical analysis contained in this paper focuses on the race to the bottom due to its implications for state policymaking, one cannot understand this dynamic without an appreciation of the welfare magnets hypothesis.

This hypothesis is straightforward. Welfare magnets exist when differences between states' welfare benefits entice recipients to relocate. Consider a welfare recipient living in Virginia. If lawmakers in Virginia reduce her benefits such that the state of Maryland now offers a more generous package, perhaps the difference will spur her to move across the Potomac. As a result, a state whose benefits are out of line with those of its neighbors or other nearby states is likely to serve as a "magnet," drawing welfare recipients to reside in its borders (Peterson and Rom 1990).

Is there evidence that welfare recipients relocate based on the relative generosity of state benefit packages? Peterson and Rom (1990) contend that the residential choices of poor people are influenced by the welfare benefits available in a state and supplement their statistical findings with a case study. Welfare migration was a prominent issue during welfare reform debates in Wisconsin during the mid-1980s. Individuals who saw migration as problematic relied on anecdotes about changes occurring in Wisconsin border towns. Those denying its relevance relied on interview data about new welfare recipients' reasons for coming to Wisconsin. These recipients rarely described generous welfare benefits as a motivating factor for their move.

The committee that studied this topic and reported back to policymakers produced so much data that both proponents and opponents of the welfare magnet hypothesis could find evidence to support their position (Corbett 1991). This political debate mirrors scholarly discussion on this topic. Hanson and Hartman (1994) analyzed six Current Population Surveys and found that poor people do not move from one state to another to receive more public assistance. In fact, they found that the poor hardly move from their home state at all. The contrast between these results and the work of Peterson and Rom (1990) epitomizes a debate that has produced mixed evidence regarding the existence of welfare magnets. The existence and size of these effects is still a matter of dispute (Brueckner 2000).

The race to the bottom hypothesis describes how policymakers might react to welfare migration. This potential migration implies that state policymakers' decisions have implications for their counterparts in neighboring states. Programs in one state may impose externalities on other states even if they take no action. Consider the hypothetical welfare recipient described earlier. If changes in Virginia entice many recipients to move then this impact could prompt policymakers in Maryland to respond. If Maryland lawmakers see this in-migration as undesirable then they might respond by lowering their welfare benefits as well. This is the oft-cited race to the bottom. It is not necessarily a draconian tendency to slash benefits to the bare minimum, and it does not imply that all states will mimic the outcome in the least generous state. Instead, it should be understood as a "downward bias" that prompts state policymakers to be less generous than they might otherwise be (Brueckner 2000).

One might expect the mixed findings on welfare-induced migration to produce skepticism about the race to the bottom. If welfare recipients do not base their residential decisions on welfare benefit generosity, will state lawmakers base their policy decisions on this migration effect? At this point, it is important to remember that the race to the bottom hypothesis explains state policymakers' choices. As a result, perception is more important than reality. The existence of welfare-induced migration is not necessary if state officials believe that these effects are real or if they are concerned with the benefit levels offered elsewhere (Figlio, Koplin, and Reid 1999). Policymakers may take this issue into account even if the evidence to support these effects is not clear-cut.

Empirical support for the race to the bottom hypothesis is stronger than evidence of welfare migration. While the constitutionality of such provisions is disputed, many states limit new residents' receipt of welfare benefits. Some states provide newcomers with a smaller grant than that which they provide long-term state residents. Others carry over the time limit of the state in which the newcomer previously resided. The third form is unique to Vermont; new arrivals must comply with the state's work requirement after five months even though residents have thirty months to comply. Some scholars argue that these restrictions indicate that policymakers act as if welfare migration is significant (Brueckner 2000).[2] This type of provision is not unique to the state programs enacted under PRWORA. Similar restrictions have been applied to income support programs such as General Assistance.

Most studies, however, examine the race to the bottom from another perspective. These analyses assess whether benefit levels in neighboring states affect the level at which policymakers set their own state's benefits. Their results suggest that strategic

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[2] These policies exist in fifteen states: California, Florida, Georgia, Maryland, Minnesota, New Hampshire, New Jersey, New York, North Carolina, North Dakota, Pennsylvania, Rhode Island, Vermont, Washington, and Wisconsin. Source: U.S. Department of Health and Human Services, "Temporary Assistance for Needy Families Program (TANF): Annual Report to Congress," (Washington, D.C.: U.S. Department of Health and Human Services, various years); National Governors' Association, "Round Two Summary of Selected Elements of State Programs for Temporary Assistance for Needy Families," (Washington, D.C.: National Governors' Association, March 14, 1999). See Allard (1998) for more on residency requirements in the aftermath of PRWORA.

interaction among state policymakers does occur. Peterson, Rom, and Scheve (1998) examine state-level data ranging from 1976 to 1994 and find that state lawmakers respond to the welfare policy choices of their neighbors. Figlio, Koplin, and Reid (1999) analyze state-level benefits between 1983 and 1994 and find substantial evidence of welfare competition. Wheaton's (2000) formal model and simulation results also raise concerns about a race to the bottom and considerable welfare underprovision.

Other scholars, however, are skeptical of the magnitude of these effects. In a literature review, Chernick (1998) argues that interstate competition reduces benefit differentials but that other factors mute this effect. Block grants, he claims, will not produce a "strong" race to the bottom. Most states will reduce cash benefits but only some of this reduction will be attributable to a response to its neighbors.[3] Another review concludes that benefit levels in nearby states affect a state's benefit choice and that a concern about welfare migration is most plausible source of this strategic interaction (Brueckner 2000). The race to the bottom hypothesis is on much stronger footing than is the welfare magnet hypothesis. As a result, even some skeptics acknowledge the political power of appeals to welfare migration. The argument resonates because it is intuitively plausible and due to the ease with which one can find anecdotal evidence to support it (Corbett 1991).

Are states racing to the bottom after PRWORA devolved substantial policymaking responsibility to the state level? The establishment of block grants might have removed the minimal federal standards that prevented the full-fledged onset of

[3] Piven (1998) advances a more radical critique of research on both welfare magnets and the race to the bottom. This critique contends that poor people do not play much of a role in this race. Well-endowed economic actors who move funds and goods are the driving force behind the game of locational advantage rather than the poor that have to relocate themselves. Because the observable implications of this critique are equivalent to those of the race to the bottom, it will not be explicitly addressed in this paper.

interstate competition. Now that the federal government provides wider bounds within which state officials may innovate, these policymakers might pay closer attention to developments in neighboring states.

Existing research is not well equipped to address this issue for two main reasons. First, it relies almost exclusively upon experience with the AFDC program. It made sense to rely on these precedents before states had much experience with TANF. With PRWORA up for reauthorization and five years of experience, however, it is time to examine how state lawmakers have responded to their newfound prerogatives. Thinking about the most significant provisions of the legislation reveals another reason why existing research is less applicable to the new policymaking milieu. The most profound changes did not involve benefit increases or decreases. Instead, the establishment of work requirements and the implementation of time limits marked the signature elements of PRWORA. The statute attempted to reduce welfare dependency by giving recipients an incentive to pursue employment or by requiring them to do so. This emphasis responded to the long-standing critiques of AFDC put forward by both liberals and conservatives. Liberals argued that the system didn't "make work pay" for recipients (Ellwood 1988), while conservatives said the program fostered a culture of welfare dependency (Murray 1984).

As a result, the most significant recent welfare policy innovations have not involved the benefits received by program recipients. The most profound changes, instead, surround the incentives and sanctions designed to move these individuals into the workforce. It therefore makes sense to shift the terms of the scholarly debate over welfare magnets and a race to the bottom. Rather than focusing on benefit levels in the states, it makes sense to see whether policymakers are competing with one another in the extent to which they implement these work-related innovations. The remainder of this paper examines twelve of these innovative programs and assesses the impact of interstate competition by looking at the effect of state officials' actions on their counterparts in neighboring states.

Carrots and Sticks in the Aftermath of PRWORA

In the late 1980s and early 1990s, rising caseloads and other trends prompted widespread dissatisfaction with AFDC. Section 1115 of the Social Security Act authorized the Department of Health and Human Services (HHS) to grant waivers of laws governing the AFDC and Medicaid programs; numerous states took advantage of this opportunity. The Clinton administration openly solicited proposals from state officials, encouraging them to design innovative responses to the perceived shortcomings of the existing system. Consequently, HHS approved demonstration projects in forty-three states between January 1993 and August 1996.[4] These wide-ranging demonstration projects sought to require work, time-limit assistance, make work pay, improve child support enforcement, and encourage parental responsibility.[5] Given these broad objectives, it is not surprising that state policymakers pursued identical goals through different policy instruments. When Congress put its own stamp on welfare reform in 1996, PRWORA placed a tremendous amount of discretion in the hands of state

[4] HHS also approved a waiver for the District of Columbia three days before Clinton signed PRWORA.
[5] This categorization scheme comes from U.S. Department of Health and Human Services, "State Welfare Demonstrations," (Washington, DC: U.S. Department of Health and Human Services, August 22, 1996).

policymakers. As a result, these state officials established welfare innovations and their constituents, to a great extent, were subject to fifty distinct income support programs.

Despite this variety, it is possible to distill two main types of innovations. The first category of policies establishes incentives for potential benefit recipients to find remunerative employment or develop their own asset base. This paper will refer to these policies as "carrots." They are positive inducements that reward individuals for moving off welfare and pursuing gainful employment. These rewards take a variety of forms, but all of them make employment more appealing to potential welfare recipients. Supporters expect that carrots will enable employed individuals to achieve self-sufficiency. Six carrots are incorporated into this study.

Increased earnings disregards represent the first carrot. When an AFDC recipient got a job, she kept a specific percentage of her earnings. She received a $90 work expense disregard and a $30 work incentive disregard for the first twelve months of her employment. In addition, for the first four months the AFDC program disregarded one-third of her gross income. Critics felt that this set of incentives did not sufficiently reward welfare recipients who accepted employment. Allowing them to keep more of their earnings, it was believed, would spur more recipients to find work. As a result, many state TANF programs permit workers to keep a larger percentage of their paychecks. While PRWORA did not specify how earnings should be treated, increased earnings disregards proved extraordinarily popular. By 1998, only nine states retained the original AFDC treatment of earnings. By 2000, only three states did so.

Increased asset limits constitute the second carrot. Some critics felt that AFDC unintentionally penalized individuals seeking to achieve self-sufficiency by setting unnecessarily low asset limits. Those who saved some of their paychecks were ineligible for benefits once their assets exceeded a relatively low bar. Policymakers in five states included higher asset limits in their Section 1115 waivers, and after the enactment of PRWORA this strategy became a relatively common component of state TANF programs. By 2000, thirty-nine states had expanded their asset limits beyond the $1,000 bar prescribed by AFDC. Most limits fell between $2,000 and $3,500.[6] The widespread implementation of this policy illustrates the increasing popularity of an asset-based income support strategy.

The third carrot, *individual development accounts (IDAs)*, also coheres with an asset-based strategy. These accounts provide incentives for low-income families to save money and operate much like 401(k) plans. Funds are earmarked for specific purposes such as a home purchase, post-secondary education, or business capitalization, and public or private sources often match individuals' deposits. IDA supporters contend that this innovation improves household stability, fosters an orientation toward the future, raises political participation, and increases personal efficacy (Sherraden 1991). PRWORA authorized state funding of IDAs established by TANF-eligible individuals. After this explicit endorsement, this policy gained widespread enactment. Whereas IDAs existed in only five states in 1996, the number of states with IDA programs reached thirty by 2000. These policies vary slightly in the amount one can place in an account, the match rate, and the uses for which these monies can be spent.

Primary vehicle exclusions constitute the fourth carrot. This innovation marks a sharp departure from the AFDC program. Under AFDC, administrators counted the

[6] In only three states did the limit exceed $3,000, while lawmakers in Ohio abolished the asset limit. This study analyzes the asset limits for applicants rather than recipients. Some TANF programs retain different requirements for those already receiving aid, but those limits are not considered here.

value of one vehicle against the asset limit with a $1,500 disregard. PRWORA did not outline a specific policy, but lawmakers in all fifty states increased the vehicle disregard. The most dramatic policy adjustment occurred when state policymakers completely disregarded the value of one automobile per family. This policy existed in only four states prior to the enactment of PRWORA, but it was put in place in twenty-seven states by 2000. This policy resonates with other asset-based welfare programs, but it also acknowledges that employment often depends on the availability of an automobile. For this reason, some states exempt the value of a second car if two household members use them to get to work.

Transitional Medicaid assistance, the fifth carrot, eases the transition from welfare into work. It provides health coverage to former welfare recipients who are ineligible for Medicaid due to increased earnings from work. In many cases, these jobs do not include health insurance and some observers worried that the loss of Medicaid would provide a work disincentive. PRWORA addressed this potential problem by providing one year of Transitional Medicaid Assistance. Lawmakers in many states extended the period during which individuals could receive transitional Medicaid. In a few states, there is no limit on eligibility as long as the individual's income remains below a certain level. By 2000, state policies exceeded the twelve-month federal mandate in a dozen states.

Transitional childcare represents the final carrot. This innovation also eases the transition from welfare to work. Under AFDC, states guaranteed necessary childcare whenever a family ceased to receive assistance due to increased employment hours or increased income. This childcare assistance was available for twelve months, and the family contributed in accordance with a sliding scale based on ability to pay. Lawmakers in many states felt that childcare was essential to an income support program that emphasizes the transition into the labor market. As a result, this twelve-month transition period was extended in twenty-six states by 2000.

At this point, it is necessary to return to the race to the bottom. When state policymakers implement a carrot, what are the implications of their actions? Thinking about the potential reactions of welfare recipients, one might crudely describe these policies as changes that make states more attractive. Making a successful transition from welfare to work might be easier in a state with extended Medicaid and childcare benefits. A person who is saving for a home or who wants to attend college might be attracted to a state that offers individual development accounts. Given the mixed evidence of welfare migration and the low salience of some of these policies, significant migration might not occur. This remains an empirical question.

For this paper, the more central question concerns how the mere possibility of migration affects the likelihood that state officials will endorse these policies. Carrots might entice potential welfare recipients to relocate. States might serve as welfare magnets. Therefore the enactment of these policies might impose positive externalities on neighboring states. If policymakers in Maryland implemented these carrots, a TANF recipient living in Virginia might relocate to the north. Would policymakers in Virginia follow in the footsteps of their Maryland counterparts? It is doubtful. Instead, this dynamic would give Virginia a potential competitive advantage. Even without taking action, the state might gain through the exit of some of its TANF recipients. As a result, the establishment of carrots is unlikely to inspire neighboring politicians to follow suit.

The presence of this policy might even make them less likely to enact it if they perceive its existence as especially advantageous.

"Sticks" comprise the second category of welfare reform innovations. Rather than luring individuals into the workforce or rewarding them when they find a job, sticks penalize benefit recipients when they do not make the transition from welfare to work. Carrots are a reward; sticks are a reprimand. Carrots induce individuals out of the welfare system; sticks impose sanctions to punish those who do not leave it behind. Both strategies – reward and punishment – pursue the same goal, urging individuals to substitute employment for welfare receipt. The means to that end, however, are starkly different. Supporters of sticks argue that reprimanding individuals will more effectively promote the transition from welfare into the labor market. Six sticks are incorporated into this study.

Work requirements constitute the first stick. Under TANF, parents and caretakers are required to engage in work when determined ready or within 24 months. The motivation behind this requirement is clear. In seeking to make welfare a transitional support system rather than a way of life, this requirement pushes recipients into the workforce. In addition, PRWORA permits state policymakers to define what counts as work and to impose more stringent requirements. The latter prerogative is particularly important, and many states require work immediately or after a period of less than 24 months. These more stringent requirements spread rapidly across the states. While 21 states imposed them by 1997, 37 states did so by 2000.

Youngest child exemptions constitute the second stick. This provision represents another attempt to move parents into the labor market. The issue is whether the parents of especially young children should be exempt from work requirements. Under AFDC, anyone providing care to a child under age three was exempt from the work requirements imposed by the Job Opportunities and Basic Skills (JOBS) program. Under TANF, state officials can exempt single parents with children up to one year of age from work requirements. Some states exempt those with older children, while others provide no automatic exemptions. The elimination of an automatic exemption represents the most forceful stick. Most states require work after a period of less than twelve months, and the youngest child exemption was eliminated entirely in only four states.

Diversion payments constitute the third stick. PRWORA did not mention diversion payments specifically, but the law allows states to provide them. This policy is designed to prevent families from going on welfare at all. Rather than receiving welfare benefits, they accept a lump-sum payment and agree not to apply for cash assistance for a specified period. Some diversion programs provide job search and related services. While supporters claim that diversion payments provide short-term financial assistance to meet critical needs, critics argue that they only serve to shrink caseloads and keep people off welfare at any cost. This analysis categorizes them as a stick that prods individuals into the workforce. Policymakers in approximately twenty-five states found this strategy appealing and enacted diversion payment provisions. This number has held fairly steady since 1997.

The fourth stick is *time limits*. The importance of this innovation cannot be understated. It ended the federal entitlement to income support by limiting the duration for which recipients could receive benefits. PRWORA prevented states from using federal funds to provide assistance to a family with an adult who has received assistance for 60 months, even if these months were not consecutive. In other words, benefit receipt is limited to five years over the course of a lifetime. Under TANF, state policymakers can set lower time limits, and many have chosen to do so. In some states a more stringent time limit, such as 21 months, applies. A second set of states imposes an intermittent time limit, such as thirty-six out of sixty months. Policymakers in a third group of states have retained the sixty-month federal limit.

Sanctions represent the fifth stick. What happens when a recipient does not meet work requirements? AFDC required states to develop an employment plan for program participants; when they did not cooperate, states could remove benefits equal to the non-complying individual's needs. PRWORA preserved this state prerogative and gave it additional force. If an individual refuses to engage in required work, the state can either reduce or terminate all assistance payable to the family. This policy provision does not provide incentives to move from welfare to work. Instead, it punishes those who refuse to make this transition. The states fall into two categories: those in which benefits are reduced in the event of noncompliance and those in which cash assistance is terminated.

Family caps comprise the sixth stick. Family caps are not explicitly tied to workforce participation. They respond to those who claimed that AFDC encouraged women to have additional children in order to receive higher benefits. Motivated by concerns about intergenerational welfare dependency and a desire to promote parental responsibility, many states incorporated family caps into their Section 1115 waivers. These states do not increase welfare grants when a welfare mother gives birth to another child.[7] PRWORA did not endorse family caps, but it gave state officials the ability to

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[7] This policy took a slightly different form in some states. Some family cap policies gave mothers only a partial increase upon the birth of an additional child, others provided an increase in the form of a voucher,

implement this policy. Approximately twenty states enacted this policy innovation, but its spread was limited after 1997.

The existence of sticks sparks a different dynamic than does the existence of carrots. What are the implications for the race to the bottom? One might crudely describe these policies as changes that make the states less appealing to potential welfare recipients. Families depending on TANF benefits would be unlikely to relocate to a state where they can receive them for less than sixty months. Women debating whether to have an additional child are unlikely to move to a state with a family cap. Thus sticks are the functional equivalent of a benefit reduction. A Virginia welfare recipient probably would not relocate to Maryland if these reprimand-based policies existed. Instead, recipients in Maryland might move to Virginia to take advantage of that state's more generous benefit package.

Again, this is an empirical question. Welfare recipients themselves might not be aware that these policies exist. Lawmakers might feel, however, that competitive pressures and program externalities force them to follow in their neighbors' footsteps. The possibility of negative externalities means a race to the bottom might ensue. Lawmakers in Virginia might feel pressure to mimic Maryland so as not to appear "soft" on welfare. Even without taking action, the state might lose through the entry of more TANF recipients. In other words, the existence of these policies in a neighboring state might make policymakers more likely to enact them. Fearing the in-migration of new welfare recipients, lawmakers might follow the lead of their neighbors and enact these restrictions.

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and one state paid the increase to a third party. For the purposes of this paper, all of these alternatives are functional equivalents to more traditional family caps.

In sum, PRWORA allowed state policymakers to make significant changes to their existing programs. These changes can be sorted into two categories, carrots and sticks. Carrots give recipients an incentive to move from benefit receipt into the labor force. They permit recipients to build assets or to keep a larger percentage of their earnings. Because they might impose positive externalities on neighboring states, carrots are unlikely to spark a race to the bottom. Sticks, policies based on punishment, are likely to have the opposite effect. These policies make states less attractive to welfare recipients and therefore might spark a race to the bottom. Fearful of serving as a welfare magnet, lawmakers in states that border others with these policies might be likely to follow suit.

Analysis: Are States Racing to the Bottom?

There is no doubt that PRWORA sparked an innovative outburst in the states. As Table One demonstrates, all twelve of the policies profiled here diffused at least moderately across the states between 1997 and 2000. In many cases, the lion's share of this diffusion occurred in 1997 and 1998. The transition from AFDC to TANF caused state officials to reconsider the shape of their income support programs.

The following analysis examines the enactment of these twelve policy innovations between 1997 and 2000. This analysis constructs two indices. One is a carrot index that gauges the extent to which state lawmakers relied on positive inducements to move people from welfare to work. The second is a stick index that gauges the extent to which these policymakers relied on punishment and sanctions. These indices were constructed in the following manner. For every innovation present in a state in a given year, that state received two points. A state received twelve points (the maximum score) on the carrot index if its TANF recipients were subject to earnings disregards exceeding 50 percent, increased asset limits, individual development accounts, a primary vehicle exclusion, extended transitional Medicaid, and extended transitional childcare. If recipients were subject to three of these provisions, the state received six points for that year. Each state received four scores, one for 1997, 1998, 1999, and 2000. The stick index was constructed in an identical fashion.

Table One: Number of States with Each Policy, By Year

Policy	***1997***	***1998***	***1999***	***2000***
Carrots				
Earnings Disregards	17	25	26	26
Asset Limits	24	34	38	39
Individual Development Accounts	27	27	29	30
Primary Vehicle Exclusions	19	25	26	27
Transitional Medicaid	12	12	12	12
Transitional Childcare	29	28	33	26
Sticks				
Work Requirements	21	34	27	36
Youngest Child Exemptions	14	19	20	22
Diversion Payments	26	21	22	28
Time Limits	21	21	22	20
Sanctions	25	36	36	35
Family Caps	21	23	23	23

Note: Values for earnings disregards include states with disregards exceeding fifty percent. Values for primary vehicle exclusions include states that disregard the value of at least one automobile per family. Values for youngest child exemptions include states with exemptions below twelve months and states with no exemption at all. Values for time limits include states with intermittent time limits and states with overall time limits less than sixty months.

An index generates more confidence in the analysis than does reliance on a single provision. It also constructs a more realistic model of the policy process since state officials generally considered reform packages. Relying upon an index is not without its weaknesses, however. The foremost shortcoming is that an index says little about the substantive content of this provision. A policy may exist in both Massachusetts and Mississippi but look significantly different in the two states. For eight of its twelve policies, this analysis makes no distinction among policy provisions. All states in which the innovation exists receive two points.[8] In four cases, however, this index accounts for some of these differences by establishing a middle category. This adjustment marks a preliminary effort to account for differences in program content.[9]

These twelve policies have been very visible elements of state welfare reform. Time limits and family caps generated especially heated discussion when federal policymakers debated PRWORA (Weaver 2000). These innovations have been tracked by bodies including the Urban Institute, the National Governors' Association, and the Department of Health and Human Services (HHS). This wide-ranging interest is significant in the context of the race to the bottom. In order for this race to take place, these policies must be visible to the state policymakers deciding whether to implement

[8] These eight policies are increased asset limits, individual development accounts, transitional Medicaid assistance, transitional childcare, work requirements, diversion payments, sanctions, and family caps.

[9] These four policies are increased earnings disregards, primary vehicle exclusions, youngest child exemptions, and time limits. For increased earnings disregards, states received a 0 if they preserved the requirements that existed under AFDC, a 1 if they disregarded up to 50 percent of an individual's earnings, and 2 if they disregarded more than 50 of these earnings. For primary vehicle exclusions, states received a 0 if they preserved the requirements that existed under AFDC, 1 if they raised this monetary limit, and a 2 if they excluded the value of at least one car. For youngest child exemptions, states received a 0 if this exemption applied to the parents of children over one year old, a 1 if this exemption applied to the parents of children under one year old, and 2 if the state had no automatic exemption at all. For time limits, states received a value of 0 if they applied the 60-month time limit mandated by PRWORA, a 1 if they applied an intermittent limit (e.g., 36 out of 60 months), and a 2 if they limited recipients to a number of months that was lower than the 60-month limit.

them.[10] The visibility of the twelve policies analyzed here suggests that they meet this prerequisite.

The trajectory of the six sticks supports the race to the bottom hypothesis. These reforms became more popular after the enactment of PRWORA. The race to the bottom hypothesis predicts that the average stick index score will increase over time. As Table Two indicates, that is precisely what occurred. The average stick index score rose from 5.30 in 1997 to 6.70 in 2000. The race to the bottom predicts stability, or even negative trends, for carrots. States' carrot index scores, however, rose even more substantially, from 5.62 in 1997 to 7.32 in 2000. The magnitude of these scores is less important than change over time, but it must be noted that states received higher average scores on the carrot index for all four years. In addition, the gradual increase on both indices might mean that something aside from program externalities is driving policy enactment. One must therefore consider alternative explanations that would predict uniformly positive trends.

As a result, this analysis also develops a total index that combines the carrot and stick indices. One can now evaluate an alternate hypothesis that might be termed the "competitive emulation" hypothesis. This hypothesis emphasizes a different kind of competition. When state policymakers significantly reform welfare policy, this might put pressure on their neighbors to "do something." Constituents might perceive welfare reform as an issue that needs to be addressed. When they see another state's lawmakers

[10] Widespread interest in these reforms also makes them easier to track over time, and these various reports represent the sources of the data incorporated into the study. Sources: U.S. Department of Health and Human Services, "Temporary Assistance for Needy Families Program (TANF): Annual Report to Congress," (Washington, D.C.: U.S. Department of Health and Human Services, various years); National Governors' Association, "Summary of Selected Elements of State Programs for Temporary Assistance for Needy Families," (Washington, D.C.: National Governors' Association, November 20, 1997 and March 14, 1999); Rowe, Gretchen, "State TANF Policies as of July 1999," (Washington, DC: Urban Institute, 2000); and Urban Institute Welfare Rules Database (available online).

take these steps, they may want their own representatives do the same. Competitive emulation might also result when intergovernmental lobbies or think tanks praise specific state programs, leading other states to copy them in an effort to keep up. This hypothesis predicts that reforms will have a positive impact on the likelihood of program enactment in neighboring states.

Table Two: Average Index Scores, By Year

Index	*1997*	*1998*	*1999*	*2000*
Carrot Index	5.62	6.82	7.36	7.32
Stick Index	5.30	6.30	6.08	6.70
Total Index	10.92	13.12	13.44	14.02

Crucial to this study is the effect of policy enactment on a state's neighbors. In developing a proxy for this impact, this analysis relies on the voluminous literature on the diffusion of policy innovations across the states. These studies compute either the percentage or the number of a state's neighbors in which an innovation existed in the preceding year. The neighboring state value for Maryland in 1999, for example, would be 0.5 if an innovation existed in Delaware and in West Virginia in 1998 but not in Virginia or in Pennsylvania (Mintrom 1997, Mooney 2001, Haider-Markel 2001).

Because this study relies on an index, it modestly adjusts this standard protocol. For each of the indices (carrot, stick, total), this value is the difference between the state's score in the preceding year and the average score of its neighbors in the preceding year. A positive score indicates that a state has pulled ahead of its neighbors. By contrast, a negative score means that a state has fallen behind its neighbors. According to the race to the bottom hypothesis, one would expect a negative relationship between this score and the enactment of sticks. Consider the following example. If Virginia, West Virginia, Pennsylvania, and Delaware have average stick index scores of 6 in 1997 but Maryland receives a score of 3, then this "difference" score would be –3. Policymakers in Maryland would be inclined to enact these programs to keep up with their neighbors. If Maryland's score were 9, then this score would be +3 and these lawmakers would not feel competitive pressure. State lawmakers who have "fallen behind" would be under pressure to catch up, while officials who have enacted more reprimand-based policies than their counterparts in neighboring states would feel no such pressure. In the context of carrots, the race to the bottom hypothesis predicts either no effect or a negative impact on program enactment. States that pull ahead of their neighbors might feel pressure to come back to the pack, but states that have fallen behind would feel no pressure to catch up with their neighbors.[11]

Program externalities, welfare magnets, and the race to the bottom are not the only factors that affect welfare policymaking. Neighboring state effects are the primary quantity of interest here, but one cannot be certain about their direction or magnitude without accounting for other factors. The extensive literature on state AFDC programs highlights a diverse array of potential influences, and these variables serve as controls. They capture states' needs and resources as well as the diverse political environments within which state officials operate.

[11] Three alternative measures of neighboring state effects were utilized, none of which affected the primary findings of this analysis. The first proxy was the number of neighbors whose index score exceeded that of the state itself. The second proxy expressed this value as a percentage of the state's total neighbors. The average index score in a state's neighbors represented the third proxy. The results of the analysis were the same regardless of the proxy used, indicating that these results were not an outgrowth of how neighboring state effects were operationalized.

One might expect state policymakers to enact these reforms when economic conditions require it. This analysis includes both state unemployment and state poverty rates. The correlation between these factors makes their coefficients less informative than they might potentially be. Because the foremost objective of this analysis is to examine neighboring state effects, however, their role as controls outweighs concerns about multicollinearity. Unemployment and poverty rates are proxies for state needs. States with higher rates might be more likely to enact these innovations. Detrimental economic conditions might make residents more likely to depend on income support programs, moving welfare policy to a more prominent place on the political agenda.

Alternatively, welfare reform might relate to state resources. Policymakers might be more likely to implement reforms if they have the means to do so. One way to assess relative state resources is through state per capita personal income.[12] States with wealthier citizens might be more likely to enact (especially expensive) innovations. This effect is probably indirect. In other words, higher personal incomes enable state officials to draw on more substantial tax revenues (Tweedie 1994). These revenues provide lawmakers with the slack resources that are conducive to the enactment of innovations (Walker 1969, Rogers 1995). Studies of welfare policy have tied state wealth to the enactment of carrots (Gais and Weaver 2002).

Any analysis of welfare policymaking must also include political factors. Political alignments might also affect program enactment. Unified partisan control of a state's bicameral legislature and the governorship may make it easier for a party to enact legislation, while divided control might make any action less likely. It is also necessary

[12] State per capita personal income is expressed in constant terms by dividing this value by the implicit price deflator.

to account for the enthusiasm with which the parties support specific policies. Whereas conservative Republicans tend to endorse sticks, their Democratic colleagues tend to support carrots. As a result, this analysis incorporates a dichotomous independent variable indicating the presence of unified Republican government and a similar variable indicating the presence of unified Democratic government. Unified control is defined as control of both houses of the legislature as well as the governorship.[13]

An exclusive focus on partisan alignments overlooks the meaning these partisan identities, which vary across the country. Republicans and Democrats in Massachusetts differ from their counterparts in Alabama because these politicians make decisions in different ideological environments. To account for these differences, this analysis incorporates a "general policy liberalism" state index (Klingman and Lammers 1984).[14] This index supplements the partisan control variables with a measure of the states' conservative or liberal leanings. One would expect it to be positively related to the enactment of carrots but negatively related to the implementation of sticks.

Regional effects might also affect the enactment of specific welfare provisions for a number of reasons. "Region" may capture shared internal characteristics that have not been included. States in a region may confront similar problems. Alternatively, state policymakers may take cues from other states in their region. States may serve as bellwethers even if they are not among the first to put a particular policy in place (Foster 1978). Officials in New England, for example, might turn to Massachusetts or New York for examples of "best practices," while their counterparts in the Midwest might look to

[13] The state of Nebraska has a unicameral, nonpartisan legislature. It receives a value of zero regardless of which party controls the governorship.
[14] Alternative specifications of the liberal or conservative leanings of the fifty states focus on the structure of the electorates within these states (Wright, Erikson, and McIver 1985). Utilizing this measure does not affect the primary findings of this analysis.

Wisconsin or Michigan for similar information. Regional variables cannot distinguish among these mechanisms, but they illuminate whether regional patterns exist at all.[15]

It is impossible to divorce welfare policymaking from issues of race. Popular perceptions of recipients as primarily African-American are one reason why race is so important. Recent analyses of state TANF programs find that restrictive welfare policies are positively related to the percentage of a state's welfare caseload that is African-American (Soss et al. 2001; Gais and Weaver 2002). This analysis incorporates this percentage as a result. One would expect it to have a positive effect on the enactment of sticks, but its implications for carrots are less clear. This relationship might operate in the reverse manner. It is equally plausible, however, that race does not play a significant role in the enactment of positive incentives.

This analysis incorporates four values for each state, so it is also necessary to think carefully about how policies change over time. Although "big bangs" of reform sometimes take place, it is more likely that the best predictor of a state's index score will be its score from the preceding year. Indeed, the reforms examined here proceeded incrementally. Profound changes took place in 1997 when state officials established TANF programs in response to PRWORA. The pace of reform slowed significantly during the next three years. Thus this analysis incorporates each state's score in the preceding year as an independent variable.[16]

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[15] This analysis divides the states into the four regions described by Thomas and Hrebenar (1992).

[16] For 1997, this lagged variable relies on each state's 1996 policy profile. It thus takes account of those instances where states put these policy innovations in place through Section 1115 waivers before federal legislation passed in August 1996.

Table Three: Program Enactment and the Race to the Bottom

	Carrot Index	*Stick Index*	*Total Index*
Score in Previous Year	**0.80**	**0.65**	**0.64**
	(0.13)	(0.14)	(0.11)
Neighboring State: Difference	**0.20**	**0.33**	**0.29**
	(0.07)	(0.07)	(0.06)
Resources and Needs			
Per Capita Personal Income	-0.0000081	0.000056	0.000071
	(0.000073)	(0.000065)	(0.000103)
Unemployment Rate	0.27	0.15	0.32
	(0.23)	(0.21)	(0.33)
Poverty Rate	0.031	-0.074	-0.024
	(0.076)	(0.068)	(0.108)
Race and Ideology			
Black Proportion of Welfare Recipients	0.0017	0.0085	0.010
	(0.0081)	(0.0075)	(0.011)
Unified Republican Government	-0.43	0.12	-0.34
	(0.37)	(0.34)	(0.53)
Unified Democratic Government	-0.26	-0.43	-0.67
	(0.43)	(0.39)	(0.62)
Policy Liberalism	0.062	-0.04	-0.01
	(0.27)	(0.24)	(0.38)
Region			
West	0.57	**1.30**	**2.00**
	(0.55)	(0.52)	(0.81)
South	-0.08	**1.30**	1.22
	(0.56)	(0.52)	(0.81)
Northeast	0.26	-0.75	-0.49
	(0.52)	(0.47)	(0.73)
Constant	0.26	2.70	5.96
	(0.52)	(2.01)	(3.15)
Number of Observations	192	192	192
R-Squared	0.5052	0.6062	0.5880

Note: Standard errors in parentheses. Results in bold are significant at the .01 level.

Table Three describes the results of this analysis. They indicate that neither a race to the bottom nor competitive emulation characterizes recent welfare policymaking at the state level. The neighboring state effects, while significant, are in the opposite direction from that predicted by the race to the bottom hypotheses. This hypothesis predicts that the existence of sticks in a neighboring state puts pressure on state policymakers to follow suit. Neither of these predictions is borne out by the analysis. The difference proxy described earlier implies a negative relationship. States whose scores exceed those of their neighbors, facing little or no competitive pressure, would not be expected to enact more policies. States that have fallen behind their neighbors (i.e., a negative score) would be expected to put these policies in place. In contrast, the existence of carrots in a neighboring state is expected to have either a negative impact or no impact at all.

The results in Table Three are noteworthy for two reasons, both of which contradict the race to the bottom hypothesis. First, they imply that the difference between a state and its neighbors is positively related to program enactment. In other words, state policymakers are more likely to enact sticks when they have already pulled ahead of their neighbors. When states do not measure up to their neighbors, they are less likely to establish these programs. This result contradicts the race to the bottom hypothesis, which posits that states will quickly follow suit so as not to serve as a welfare magnet.[17] While the data are insufficient to examine why a race to the bottom does not exist, there are a few possibilities. Differentials across neighboring states might not be large enough to provoke welfare migration or a race to the bottom. Alternatively, these policies might not be visible enough these effects. Perhaps benefit levels are the only welfare provisions with a high enough profile to have this impact.[18]

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[17] There is also little evidence that the enactment of welfare policy innovations prior to PRWORA was characterized by a race to the bottom (Lieberman and Shaw 2001).
[18] It is also possible that this negative relationship results from the stalled diffusion of these policies after 1998. Incorporating only the earlier years, however, does not alter the results of this analysis.

The results in Table Three are also significant because they imply that both carrots and sticks are subject to the same neighboring state effect. The direction of this relationship indicates that competitive emulation is not taking place. A positive relationship implies that state policymakers are less likely to enact carrot or stick policies when they already exist in neighboring states. This relationship even holds when carrots and sticks are combined into a single index. State policymakers might keep track of their neighbors but they do not feel a need to compete with or emulate them. The strength of this relationship casts doubt on the race to the bottom hypothesis. Whereas a race to the bottom implies different dynamics for carrots and sticks, these results indicate that a similar dynamic exists for both policy types.

It would be a mistake to make too much of this positive relationship but its potential size is instructive. When all other factors are set to their means, a state that has one fewer policy in place than its neighbors in the preceding year will receive a carrot index score of 6.45, while a state with one more policy than its neighbors will receive a score of 7.24. Under similar circumstances, a state's stick index score will rise from 5.61 to 6.93. The magnitude of these differences is comparable to regional effects. Setting all other factors to their means, a non-southern state receives a stick index score of 5.85 while a southern state receives a score of 7.14. For a western state, this value increases from 5.93 to 7.22. While these changes are not huge, they are significant.

Why would state officials be less likely to enact innovations once their neighbors have already done so? This relationship has a few potential explanations. One potential source is lesson drawing about the efficacy of these policies. Perhaps these provisions did not have their predicted effects, making state officials less willing to put them in place. Scholars sometimes forget that policymakers can draw either positive or negative lessons (Mooney 2001). Political learning might be another source of this relationship. Maybe policymakers do not evaluate the policies' substantive effects but instead look at how voters respond to their enactment. "Welfare reform" was politically popular, but this popularity did not necessarily extend to individual policies (Shaw 2000). Opposition to specific policies might have made state officials less willing to enact them. This analysis cannot distinguish between these two hypotheses. More intensive examinations of developments in individual states would be necessary to give a full and convincing account.

In sum, these results indicate that the race to the bottom does not characterize welfare policymaking after PRWORA. The preceding analysis demonstrates that state lawmakers do not follow the cues provided by adjacent jurisdictions. This holds true regardless of the type of policy being debated. Whether providing positive incentives for welfare recipients to get jobs or punishing individuals unwilling to make this transition, states that have pulled ahead of their neighbors are likely to pull even further ahead. This relationship is robust. Regardless of the years under consideration or the proxies used to model potential intervening relationships, the preceding analysis finds no evidence to support the race to the bottom hypothesis.

Conclusion

In the 1980s and 1990s, state policymakers assumed a larger role in many policy arenas. PRWORA, the landmark welfare reform legislation passed by Congress in 1996, epitomized this shift. The statute shifted significant authority to state officials, permitting them to install innovative welfare provisions. Its proponents predicted that the legislation would inspire an outburst of innovative activity at the state level; their predictions proved correct. This paper analyzed the enactment of twelve inventive policies between 1997 and 2000.

It divided these policy innovations into two categories, carrots and sticks, using this distinction to evaluate the race to the bottom hypothesis. This hypothesis suggests that competitive pressures will lead state policymakers to emphasize punitive policies and to be less generous than they might otherwise be. The results of this analysis contradict the predictions of both the race to the bottom model and the competitive emulation hypothesis. In contrast to the predictions of both models, states that are already ahead of their neighbors are likely to pull even further ahead. States that have fallen behind are unlikely to catch up.

These findings suggest potentially productive avenues for further research. Previous scholarship has relied too heavily on benefit levels. While benefit generosity is certainly important, particularly for individuals relying on income support, welfare policy is about much more than the amount of cash these individuals receive. Moving recipients from welfare to work, which was not always the primary goal of these programs, is now a prominent objective. States utilize diverse policy instruments to achieve this goal, and scholars must recognize this shift in assessing whether a race to the bottom characterizes state welfare policymaking.

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