First-and Second-Order Devolution in the United States:
A Paradigm Shift for Families, Communities,
and Academicians*

Dennis L. Poole**

1. INTRODUCTION

The Personal Responsibility and Work Opportunity Act, signed into law on August 22, 1996, set into motion a chain of events that generates far-reaching consequences not only for American families and communities, but academicians as well. Federal entitlement to cash assistance ended, and large amounts of general tax revenues and discretionary powers shifted to state governments through block grants. States responded to first-order devolution by adopting programs to move welfare recipients into the labor force quickly. Caseloads shrivelled, but state programs did little to keep former recipients employed, or to raise their families out of poverty.

To address these problems, states are now devolving considerable responsibilities

** Professor. School of Social Work, The University of Texas at Austin, 1925 San Jacinto Boulevard Austin, Texas, 78712-1203, dennispoole@mail.utexas.edu
to local communities for employment outcomes and for family progress toward economic self-sufficiency. Second-order devolution rests on the assumption that community-based organizations (CBOs) are in a better position than state agencies to assess family needs, coordinate resources to meet these needs, and customize services to fit local conditions. Innovative public-private partnerships now dot the social landscape of America, with the expectation that CBOs have the capacity to achieve state goals in welfare reform.

However, questionable the assumption, this new phase of welfare reform holds profound implications for academicians in diverse fields of social welfare. A paradigm shift is underway that radically transforms organizational and community systems, policies and procedures, information technologies, and service delivery strategies in public assistance, employment, child care, transportation, housing, substance abuse, domestic violence, and other programs merging at the local level to wrap services around welfare recipients and needy families. New research and training agendas are needed to help managers and practitioners respond creatively to these changes.

2. FIRST-ORDER DEVOLUTION

When the Aid to Dependent Children (ADC) program was established in 1935, Congress authorized the use of general tax revenues for matching grants to states for public assistance to women who were caring for children due to divorce, widowhood, or desertion. The program was later expanded to Aid to Families with Dependent Children (AFDC), giving mothers the right to care for children at home, without having to work.

Similar to the dozen or more federal grant-in-aid programs enacted during the Great Depression, the ADC program was a categorical program. To receive federal reimbursement, states were required to match federal contributions equal to 50 percent or more of expenditures, and provide cash assistance to all eligible mothers with dependent children. The federal government also required states to adopt
certain federally determined eligibility standards as well as deliver prescribed services through mandated organizational structures. Categorical funding was justified with the argument that the resources of state and local governments were not only inflexible but also that citizens would receive equal treatment since some states were poorer than others (Moroney & Kryst, 1998, p. 17). Achievement of national goals therefore transcended the right of states to determine who received benefits and how.

When public assistance caseloads increased in the late 1960s and 1970s, especially among women of color and teenagers with children born out of wedlock, national confidence in the AFDC program declined. Congress responded with grants-to-states for manpower and welfare-to-work programs, chief among them being the Work Incentive (WIN) program, the Comprehensive Education and Employment Training (CETA) program, and the Jobs and Basic Skills Training (JOBS) program. But these programs failed to cut welfare rolls, or calm voter discontent with the AFDC program.

All this changed, however, when Congress enacted the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. The new law, which replaced AFDC with Temporary Assistance to Needy Families (TANF), changed welfare from a single national program to 51 different state programs. Block grant funding gave states great discretion in determining the specifics of their welfare programs, including benefit levels for needy families and strategies to meet federal requirements. Similar to federal block grants in housing, community development, social services, mental health, and child care, the TANF block grant may be viewed as a reaction to problems in categorical funding. As AFDC evolved, it was no longer seen as person-focused, or flexible, but rather program-focused, rule-driven, and not coordinated with other services (Moroney & Kryst, 1998, p. 17).

For states to receive the TANF block grant, they must comply with four major requirements. First, state funding for public assistance must remain at a level equal to the fiscal year 1994 level for AFDC. Second, states must divert 30 percent of all federal TANF funds to child care and other programs for non-TANF recipients.
Third, states must limit receipt of federally funded cash assistance to sixty months. (States can exempt up to 20 percent of their cases from this time limit by reason of hardship, or impose shorter time limits, or provide benefits beyond the five-year period if they pay for the benefits with their own funds.) And fourth, by year 2002, 50 percent of all recipients who have received cash assistance for two years must participate in allowable work activities at least 30 hours a week in order to continue receiving benefits (These activities can be in the form of employment, on-the-job training, receipt of job search and job readiness assistance for up to 6 weeks, vocational training for up to 12 months, and formal education). States that meet minimum work participation rates are allowed to reduce their minimum spending requirements to 75 percent.

The dramatic impact of the law on the financing, organization, and delivery of state welfare programs can be seen in the annual spending reports submitted to the federal government. In fiscal year 1999, total national spending for TANF amounted to $22.6 billion (including $11.3 billion expended by states to meet maintenance of effort requirements). States spent $13.4 billion of federal TANF funds on cash assistance and work-based assistance. Nearly $2 billion in combined federal and state funds was expended by states on programs to help recipients move into jobs immediately, prioritizing work over other activities. Investments in child care and social services were $5 billion, including transfers of $4 billion from federal TANF funds to the Child Care and Development Block Grant and $1 billion to the Social Services Block Grant. States also invested $1.8 billion in the administration of their welfare programs, transforming welfare offices into employment centers, and eligibility workers into employment counselors. Cumulative unobligated TANF funds, which states carried forward for use in future years, amounted to $2.8 billion (U.S. Department of Health and Human Services, 2000a).

How did these changes impact needy families? It is difficult to say with precision. Implementation of TANF coincided with a strong economy, an increase in the minimum wage, and federal policies expanding the Earned Income Tax Credit and health care benefits. Nevertheless, several studies (e.g., Danziger, 2000; Duncan, Harris, & Boisjoly, 2000) indicate that welfare reform contributed significantly to
caseload declines throughout the nation. Between August 1996 (AFDC) and June 2000 (TANF), the number of families on federally funded public assistance declined 50 percent, with a range of 21 percent in Rhode Island to 94 percent in Idaho (U. S. Department of Health and Human Services, 2000b).

Other studies report that many of the dire scenarios that some analysts had predicted never materialized. The national poverty rate fell slightly (Adkisson, 2001); the financial and subjective well-being of some families increased with work involvement (Danziger, Corcoran, Danziger, & Heflin, 2000); and rural families fared better than expected under welfare reform (Mills, Alwang, & Hazarika, 2000). Nevertheless, most families that left welfare for work suffered severe hardships. They remained poor, and were still dependent on food stamps, Medicaid, and other forms of assistance for economic survival (Danziger, 2000). Their prospects for escaping poverty were limited by employment in low-wage service industries and by personal barriers to higher-paying jobs (Annie E. Casey Foundation, 2001; Taylor, 2001).

Yet the hardships these families suffered were not substantially different than those endured by other impoverished families (Peterson, 2000). Alleviating financial hardships for both groups of families would require wage subsidies, benefit supplements, and other wealth redistribution measures to compensate for social inequalities. But such measures run against the grain of the dominant tradition in America culture that views poverty as the fault of the individual. Welfare policy in the U. S. pivots on the belief that individuals should accept responsibility for their own welfare rather than the government assuming the responsibility for them (Bordas, 2001).

3. SECOND-ORDER DEVOLUTION

American culture also leans toward the tradition that local administration of welfare programs is preferable to centralized, public administration. Private administration with government oversight is encouraged as well (Bordas, 2001). It
should come as no surprise, therefore, that American-style welfare reform would generate far-reaching consequences for local communities, and private organizations that deliver services there.

When the final TANF regulations were released in 1999, the federal government allowed states to use billions of dollars in savings from caseload reductions to provide services to families that had left or never received cash assistance. The majority of states opted to use these savings, and unobligated TANF funds, to pay for community child care and social services as well as for innovative community employment, retention, and advancement programs. In the process, states started shifting considerable responsibilities to nonprofit, community-based organizations for outcomes and progress made by needy families toward sustained employment and economic self-sufficiency. Nathan and Gais (1999) call this new stage of welfare reform second-order devolution.

As noted earlier, second-order devolution rests on the assumption that community-based organizations (CBOs) are in a better position than state agencies to assess family needs, coordinate resources to meet these needs, and customize services to fit local conditions. While some experts question this assumption (c.f., Farnsley, 2001; Fredericksen & London, 2000; Swanson, 2001), President George W. Bush's executive order establishing the White House Office of Faith-Based and Community Initiatives has raised public expectations around the contributions CBOs can make to welfare reform (Office of the Press Secretary, 2001).

When Bush was Governor of Texas, he authorized funding for two welfare reform innovations that devolved revenue and authority to CBO-administered projects in several communities: the Texas Local Innovations Project and the Texas Employment, Retention, and Advancement Project. These projects offer insight into the types of initiatives Bush will likely support as President of the United States, and the types of challenges CBOs will likely face in this new stage of welfare reform.

The Texas Appropriations Act for the 2000–2001 biennium, signed into law by then Governor George W. Bush, authorized the use of TANF funds for the Texas Local Innovations Project. Administered by the Texas Department of Human
Services (DHS), the project seeks to increase welfare avoidance and workforce preparation among TANF recipients and potential recipients. The Texas Local Innovations Project assumes, first, that barriers to employment vary throughout communities of Texas; and second, that these barriers can be identified and overcome most effectively by local people: they are most knowledgeable of local needs, and best able to coordinate resources to assist residents to avoid welfare, obtain employment, and advance to higher paying jobs.

In fiscal year 2000, DHS awarded a total of $2.4 million in competitive contract awards to 16 CBOs, ranging from $9,000 to $250,000. With one exception, the projects were administered by private, nonprofit CBOs, including five faith-based organizations. Their innovations varied in design, from single-service to multi-service strategies, typically in one or more of the following areas: job training, case management, transportation, emergency assistance, mentoring, tutoring, education, parenting, substance abuse counseling, housing assistance, and child care. As a group, the innovations required marginal reorientations of existing services rather than major structural realignments of local service delivery systems (Normann, 1971).

I served on the evaluation team that monitored these projects for two years. We focused our research on five organizational domains that could affect the ability of these CBOs to develop, implement, and sustain their innovations: goals, management, funding, community involvement, and performance capacity (c.f., Brody, 1993; Glisson, 1992; Gronbjerg, 1992; Guumer, 1998; Poole, 1997; Schmid, 1992; Steinhauer, 1988). Several strengths as well as limitations were identified in our study (Poole, Ferguson, DiNitto, & Schwab, in press).

On the strengths side, we found a high degree of congruence, or fit, between the organizational goals of the CBOs and the state goals of DHS. State funding strengthened the capacity of the CBOs to achieve their goals through service expansion; and the local innovation projects increased the capacity of DHS to accomplish state goals in welfare avoidance and workforce preparation. Managers of the CBOs were creative, visionary leaders. Most had extensive experience in providing services to needy families prior to the state award, and most had
adequate management control systems in place to administer the contract. With some exceptions, CBOs had adequate equipment, facilities, and staff to implement their service innovations rapidly, and according to plan. State funding for direct service costs was adequate in nearly every project, with many CBOs contributing significant amounts of indirect costs (e.g., administration, facilities, equipment, and accounting services) as local match. Consumers reported that project services met major needs, and were high in quality.

On the downside, several of the smaller CBOs, including three of the five faith-based organizations, did not have adequate budgeting, accounting, and reporting systems to administer the state contract. These agencies also had difficulty handling fiscal contingencies associated with the state contract (e.g., delays in reimbursement, high levels of accounts receivables, and cash flow problems). In addition, many CBOs found the indirect costs they had contributed as local match difficult to bear during project implementation. Moreover, none of the CBOs planned to continue their projects at the end of the contract period, even though DHS viewed state funding as start up money. Their innovations depended on the state for economic survival. Further, the majority of CBOs did not involve community stakeholders in project planning. Their projects did not coordinate closely with local service delivery systems, and they did not have local constituencies to advocate for their innovations after state funding was exhausted. Finally, while the long-term impact of the projects is still under investigation, most of the service innovations appeared too limited in scope to keep people off welfare or to prepare them for gainful employment.

The other major welfare reform innovation in Texas is the Employment, Retention, and Advancement (ERA) Project. Established in fiscal year 2000 by the Bush administration, this five-year project is Texas's contribution to a thirteen state effort by the U. S. Administration for Children and Families to develop strategies to increase employment, retention, and advancement of TANF recipients.

Unlike the Texas Local Innovations Project, ERA requires a systematic realignment of organizational structures, management processes, and service delivery systems (Normann, 1971). The ERA model expands current services to
TANF clients with the addition of employment, retention, and advancement activities, team-based case management, and post-employment stipends. The goals of the project are to reduce dependence on cash assistance, lower TANF recidivism rates, and increase job stability and wages among former welfare recipients. Collaborative organizations include the Texas Department of Human Services (DHS), local workforce development boards, and CBOs with considerable experience in human services administration. TANF funds have been allocated by DHS to field-test the ERA model in four communities: Houston, Fort Worth, Corpus Christi, and Abilene.

During the first year of the project, state DHS officials discovered that three of the four sites were having major difficulties implementing the ERA model. Most TANF participants had dropped out of the project; and the few remaining participants seldom received employment, retention, and advancement services, or post-employment stipends.

DHS hired a colleague and I as consultants to assess implementation problems at the three sites, develop a strategic plan to address these problems, and provide technical assistance to increase the capacity of the CBOs to achieve state performance targets.

We found four major gaps in the capacity of these organizations to implement the ERA model. First, no structures had been developed to facilitate interorganizational planning, communication, and problem-solving. Planning and communication flowed up and down through vertical organizations rather than sideways through network structures. This contributed to frequent misunderstandings, tension, and conflict between the collaborators. Second, ERA services were not linked with other community services. Employers, transit operators, child care providers, job developers, and other community stakeholders, who had resources to help ERA staff achieve employment, retention, and advancement goals for TANF clients, were not involved in project planning. Third, case management systems at the three sites were poorly designed and unsophisticated. Caseloads were spiraling out of control, and case managers were focusing on crisis intervention rather than employment case management. Fourth, CBO managers and program supervisors
did not have requisite knowledge and skills to manage complex, interagency service innovations such as ERA. Performance goals and benchmarks had not been set; information systems had not been developed; and staff workers had not been clearly informed about their roles and organizational boundaries.

To build CBO capacity in the four areas, we focused our technical assistance efforts on helping managers develop two network structures: an Interagency Project Management Team to provide strategic leadership in planning, problem-solving, and community resource development; and a Project Implementation Team to coordinate interagency planning and decision making at the direct service level. In addition, we assisted managers in streamlining client flow through project systems, in writing protocols to clarify staff roles and operating procedures, and in developing staff knowledge and competencies in employment case management. Our technical assistance efforts also focused on the development of monitoring and reporting systems to track project performance and to provide regular feedback to staff on their individual performance.

Interestingly, lessons learned in the Texas ERA Project and the Texas Local Innovations Project are similar to those reported in the handful of other studies that have been conducted on local welfare reform projects. Iversen (2000), for example, observes that barriers to welfare-to-work and economic self-sufficiency are usually described in terms of human capital (e.g., inadequate education or skills to achieve personal goals) or social capital (e.g., lack of social networks to gain access to resources). However, findings from her study of four local projects in Philadelphia suggested that flaws in policy design and program implementation are more applicable. Faulty policy logic, organizational and personnel incompetence, and inadequate coordination between collaborating organizations delayed program start-ups and strained program operations. These flaws impeded staff efforts, and harmed TANF participants.

Similarly, Annie E. Casey Foundation's (2000) eight-year, $30 million Jobs Initiative project, conducted in six American cities, found that local welfare-to-work innovations often fail because community-based organizations do not know how to design comprehensive intervention strategies, or how to carry them out. Workforce
development strategies are often designed with little thought given to the complex needs of hard-to-employ populations, the needs of employers, or the economic development priorities of local communities. As a result, program participants often end up in low-wage jobs, receive little after-placement support, and drop out of employment due to lack of transportation or child care, housing difficulties, workplace conflict, and other problems. The foundation concluded that CBOs need sustained support and technical assistance to build capacity to accomplish workforce development goals in welfare reform.

4. IMPLICATIONS FOR ACADEMICIANS

When CBOs do not have adequate capacity to carry out responsibilities in welfare reform, a disconnect can occur in the service system, with the state assuming the private sector has more capacity than it does to address public needs at the local level. Milward (1994) refers to this condition as the hollow state. Swanson (2001) voices similar concerns. He reminds policymakers that community-based approaches are not new, nor panaceas for achieving state goals. Other scholars (c.f., Dickens & Ellwood, 2001) doubt that CBOs could ever develop enough capacity to keep people employed and self-sufficient, given that the root causes of poverty stem from economic inequality, social stratification, unsustainable economics, and employment instability.

Despite these legitimate concerns, the American public seems content with the new welfare system. It aligns with core beliefs about work and personal responsibility, provides support to families who play by the rules, and allows for local administration of welfare programs with state oversight. The central question for academicians to consider, therefore, is not whether the new welfare system is better than the old, but how to make the new system better than it is.

Six areas need attention from the academic community. First, more research and training are needed for managers to understand and cope with recent structural realignments in social welfare. They only vaguely understand the dynamics of the
current situation and what their responses should be. The paradigm shift occurring in the financing, organization, and delivery of welfare services requires new structures for getting things done. Traditional and post-bureaucratic organizations, which plan, organize, and communicate up and down through vertical hierarchies, are inadequate for the task of wrapping services around families. Network structures are needed to facilitate horizontal patterns of exchange, interdependent flows of resources, and reciprocal lines of communication (Ibarra, 1992). These structures must operate side by side with hierarchical structures at local and state levels. Managers also need tactical skills to redesign programs to fit this changing environment and to devise strategies to accomplish new tasks. They need tactical skills as well to develop and manage intersectoral partnerships between government agencies, nonprofit CBOs, and the business sector (Waddell & Brown, 1997).

Second, since the paradigm shift requires innovative organizational behavior, academics should devote more attention to factors that make innovations work at the community level. Organizational transformation, Wise (1999) explains, is constrained when managers are inclined to operate under the shadow of old policies and practices or are unwilling to accept responsibility for change implementation (p. 150). Compared with social scientists engaged in business research, social welfare scientists have devoted little research to individual and organizational factors associated with innovative practices in the nonprofit sector. More theoretical work is needed as well to explain why some types of innovations are more readily adapted by the nonprofit sector than others, and what dynamics govern their adoption of innovations over time (Damanpour, 2001). As human service organizations flatten with network structures, the relationship between teamwork and innovative practices should also be examined more closely, especially the role of boundary-spanning processes and the use of technology to improve the effectiveness and efficiency of cross-functional teams (Conway & Forrester, 1999).

Third, since funding for local welfare reform innovations comes largely from state sources, state policymakers and planners need help in understanding how community-based organizations respond to different funding strategies. Resource dependency theory suggests that resource relationships become institutionalized
over time. State funding strategies can reinforce or disrupt nonprofit operations, or force local managers to restructure services in response to policy changes such as devolution (Gronbjerg, 1992; Martin, 2000). Questions also need to be answered about the impact of large-scale resource transfers on local decision-making patterns, community and organizational priorities, and consequences for needy families (Bielefeld & Scotch, 1998; Gummer, 1998).

Fourth, deeply embedded in current discussions about second-order devolution are themes of civil society and social capital. These popular themes pressure state agencies to give private, nonprofit organizations greater roles to play in social and economic development. Many virtues are routinely ascribed to these organizations, including the ability to mobilize citizens, increase public trust, promote shared values and norms, and generate social capital (Hyden, 1997). Regrettably, empirical research has taken a back seat to rhetoric, especially in discussions on social capital generation. Portes and Landolt (1996) challenge the popular view that social capital generation, e.g., development of social networks and patterns of trust to enable people to gain access to resources is wholly beneficial with no significant downside. Resources that some individuals claim come at the expense of others: strong ties that help members in a community bring demands of conformity; and assets obtained by the poor through social networks seldom allow them to rise above their poverty. The bottom line in second-order devolution is not merely civic trust and social relationships, but people gaining access to resources that help them achieve their goals. Schneider's (2001) study on civil society and social capital offers insights into the types of questions the academic community might investigate under the umbrella of welfare reform.

Finally, there are implications for training and technical assistance. Careful reflection should be given to what the changing practice environment means for practitioners and students. Practitioners throughout the nation are trying to grapple with the one-two punch of first—and second—order devolution. Advanced training and technical assistance should be offered to help them build capacity in their organizations to carry out larger roles in welfare reform, not only in employment and public assistance, but in the many other programs merging at the
local level to serve TANF recipients and needy families. Theoretical and applied research data should be disseminated through channels of communication easily accessible to practitioners, similar to the knowledge diffusion methods used in scaling up practices around the world (Uvin, Jain, & Brown, 2000) and in support organizations for emerging institutions in civil society (Brown & Kalegaonkar, 1999). Students in diverse disciplines need competencies in strategic program planning, service delivery coordination, performance contracting, and developing structures to span organizational domains and professional boundaries (Bischoff & Reisch, 2000). They need to develop practical reason. The ability to recognize, acknowledge, and respond to complex and unique local situations can never be learned from a general formula (Buchanan, 1994). There is little room for cookie cutter thinking in this new stage of welfare reform.

5. SUMMARY

The Personal Responsibility and Work Opportunity Act of 1996 created a paradigm shift in the financing, organization, and delivery of welfare programs in America. The act shifted revenue and authority to states, giving them great discretion to determine the specifics of their welfare programs. First-order devolution, combined with time limits and work requirements, set in motion a chain of events that moved large numbers of TANF recipients off state welfare rolls and into the nation's labor force. This benefited some families, but created severe hardships for others. Second-order devolution has begun to shift revenue and authority to community-based organizations to help former recipients stay employed, advance to higher-paying jobs, and move their families toward economic self-sufficiency. Early findings from communities in Texas and other states raise doubts about the ability of CBOs to perform these key leadership roles. Sustained technical assistance and support from the academic community is needed to increase the capacity of these organizations to develop, implement, and sustain local innovations in welfare reform.
References


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