Disadvantage Among Families Remaining on Welfare

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February, 2002

Prepared for the Conference "The Hard to Employ and Welfare Reform," February 28-March 1, 2002, sponsored by the Joint Center for Poverty Research. The authors would like to thank Linda Burton and Lindsay Chase-Lansdale for feedback and comments.

ABSTRACT

An analysis of CPS data and Three-City Study data yields new evidence on the characteristics of families remaining on welfare after reform. The CPS data show that welfare reform has led to a slight tendency for more-educated women to disproportionately leave the TANF rolls, as expected from many of the policies implemented as part of welfare reform. However, the magnitude of the effect is small, and it is likely that earnings disregard and sanctions policies have muted the tendency for more disadvantaged women to stay on welfare and more advantaged women to leave. The existence of a sizable number of welfare leavers who are not employed and have high poverty rates suggest that some of the more disadvantaged portions of the caseload have indeed left welfare. The CPS analysis also shows, however, very strong selectivity for younger, more recent, birth cohorts, suggesting that younger more-educated women are very likely to have left the rolls.

The Three-City data show that women remaining on TANF in three cities have average employment rates of 18 percent and poverty rates of 85 percent. These compare to an employment rate among TANF leavers of about 60 percent and a poverty rate of 70 percent, on average. About 40 percent of stayers have less than a high school education, and many suffer from high levels of depression and domestic violence, although these characteristics do not differ greatly from those of TANF leavers. They are more likely to report being in poor health than are leavers. Employed recipients have higher levels of education and better health than nonemployed recipients. They also have significantly higher income because their earnings are not fully offset by lower benefits. Nonemployed recipients nevertheless have higher incomes than nonemployed leavers, who have neither earnings nor TANF benefits.

Research on the welfare reforms of the 1990s continues to evolve in several directions. One of those directions is increased attention directed to families who remain on welfare, primarily the Temporary Assistance for Needy Families (TANF) program. The most common welfare reform study to date has instead focused on welfare "leavers," those who have left the TANF or other welfare program rolls subsequent to welfare reform. The leaver studies, unlike those involving random assignment or econometric evaluation, typically do not attempt to separate the effects of welfare reform legislation per se from the effects of the economy or other programmatic changes, but are nevertheless of interest because they document the distribution of outcomes among a group that certainly includes many who are affected by those reforms. However, as the date of the reauthorization for the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) approaches, interest in identifying all subgroups who might need further assistance has increased. Because the normal expectation is that those who remain on welfare include those most in need of such assistance, attention has turned to that group.

A number of studies on this topic have already been conducted. A brief summary of the findings can be found in Smith (2001). One type of study compares the characteristics of adults and children on TANF to those of adults and children off TANF, usually in some period subsequent to 1996. The findings from these studies typically show, not surprisingly, that TANF

recipients have greater levels of disadvantage than nonrecipients, even nonrecipients who are also single mothers and hence demographically similar to welfare recipients. The greater disadvantage appears in the form of lower levels of education, less work experience, worse physical and mental health problems, greater transportation and child care difficulties, and in other dimensions. A second type of study tracks the characteristics of the TANF caseload over time, sometimes from a pre-1996 period to a post-1996 period and sometimes between two or more post-1996 periods. The findings from these studies, at least as interpreted thus far, are surprising, for they appear to show much less change in characteristics than would be expected. At least using the same, relatively simple, measures of disadvantage used in the first types of studies mentioned above, there is little evidence for significant increases in disadvantage over time among the recipient population. This is surprising because it would be expected that those families who have left TANF subsequent to reform would have been those with the lowest levels of disadvantage, leaving those with greater disadvantage on welfare.

Moffitt and Stevens (2001) and Oellerich (2001) have speculated that this may be the result of opposing effects of different types of TANF policies. While it is true that work requirements, along with many of the other provisions of welfare reform that encourage families to leave welfare, should be expected to lead those women who have the best chances of self-sufficiency to depart, other policies may have the opposite effect. One such policy is the use of increased earnings disregards, which permit women with relatively more labor market experience and skills to stay on the rolls and continue to receive benefits while working. Indeed, in a study of Michigan recipients it has been found that the characteristics of those still on welfare and working are much closer to those of women off welfare and working than to those on welfare and

not working (Danziger, 2001). A second such policy is the use of sanctions, which, by most evidence to date, appear to have fallen more heavily on the more disadvantaged portion of the caseload, leading them to leave the rolls along with some of the less disadvantaged families ((Brauner and Loprest, 1999; Cherlin et al., 2001; Moffitt and Roff, 2000; U.S. GAO, 2000). Other evidence on leavers indicates that, in general, a significant number of those who have left the rolls who have quite low labor market skills and other poor outcomes, is consistent with the latter interpretation (e.g., Moffitt and Roff, 2000).

There still remain some puzzles in the finding of only small changes in caseload characteristics over time. It still is something of a surprise that the economy, by itself, would not have led those with greater labor market skill to have disproportionately left the rolls, leaving the "stayers" who are still on the rolls to be increasingly less skilled.[1] Moreover, the results of the first group of studies mentioned above--those comparing stayers to leavers--which show that families off welfare are, on average, less disadvantaged than those on welfare, is inconsistent with an unchanging level of disadvantage among recipients, at least at first glance. If the caseload decline which has accompanied welfare reform has been the result of some former recipients having become nonrecipients (i.e., leavers), and if the characteristics of recipients have not changed as a result, then the characteristics of the new nonrecipients must not have changed as well. Reconciling the different sets of findings requires either an increasing level of advantage among nonentrants or that the recipient-nonrecipient difference in characteristics uncovered in the first group of studies to have been fixed and unchanging over the period of caseload decline. Finally, despite the arguments of Moffitt-Stevens and Oellerich, supported by some research, that

[1] In this paper, the words "stayers" and "recipients" are used interchangeably.

some more disadvantaged families have left the rolls, both ethnographic evidence as well as reports from local caseworkers suggest that there are still high levels of disadvantage among recipients that appear greater than among leavers and nonrecipients more generally.

In this paper, we add more evidence to the literature on levels of disadvantage among women remaining on welfare by reporting the results of two types of analysis. First, we report the results of an analysis of data from the Current Population Survey (CPS) examining trends in the characteristics of TANF recipients and nonrecipients over the last two or three decades. This analysis recapitulates and extends the analysis of Moffitt and Stevens (2001) in a number of different ways. Second, we report an analysis of welfare 'stayers' using data from the Three-City Study, a major study of the effects of welfare reform on low-income single mothers in three large cities in the U.S. This data set has a broader set of information on 'stayers' than does the CPS, and also allows us to compare stayers to leavers.

Our CPS analysis reveals somewhat more evidence of increasing levels of disadvantage among caseload recipients than reported in past work. While the average level of disadvantage by some measures (e.g., education) did not increase from before 1996 to after 1996, this result appears to be partly a result of long term upward trends in the education of welfare recipients; after 1996, this trend has slowed somewhat, suggesting that the net effect of welfare reform per se may have been to retain more less-educated women on the rolls than would have been the case otherwise. In addition, an examination of the effects of welfare reform for different birth cohorts reveals particularly large increases in levels of disadvantage among more recent birth cohorts and therefore among younger welfare recipients. Our analysis of the Three-City Study data reveals that disadvantage among recipients as compared to welfare leavers is particularly marked in

health as measured by functional disability, and also, to some extent, by experiences with domestic violence. We also find that the vast majority of women remaining on welfare are still not employed and that those not employed have lower levels of education and greater health problems than the employed recipients. Finally, in a comparison with welfare leavers, we find that nonemployed welfare recipients have much higher incomes and lower poverty rates than nonemployed leavers, implying that TANF support is needed for these disadvantaged families to maintain their present level of economic well-being.

The next section of the paper reports the results of the CPS analysis and the subsequent section reports the results of the Three-City analysis. A summary and conclusions follows.

I. Evidence from the CPS

The March CPS has both advantages and disadvantages for a study of the characteristics of welfare recipients. On the one hand, it is available on an annual basis from 1968 to the present and has information on characteristics measured reasonably consistently over time. It has fairly large samples of single mothers and welfare recipients each year and is nationally representative. It includes data on nonwelfare recipients as well as welfare recipients, which will be important when the effects of general trends in the characteristics of single mothers are netted out from the effects of welfare reform per se, as shown below.

On the other hand, the CPS has disadvantages as well. A basic measurement problem is that most characteristics are measured as of the March interview date, while information on

welfare recipiency is only obtained for the prior calendar year, leading to a mismatch in timing.[2] This problem is particularly serious for characteristics, such as employment and earnings, that change over time or which change when a family goes off welfare, since some of those on welfare in a particular calendar year will be off by the following March. In addition to this limitation, the characteristics available on the CPS are quite limited and consist only of the most basic demographic and economic measures. Education, age, race, marital status, family size, as well as earnings, employment status, and income are typical variables. No information is available on work experience or welfare history, on health status (physical or mental, of adults or children), or on more extensive measures of disadvantage such as economic instability, domestic violence, or substance abuse, for example. If the goal is to determine whether there is a segment of the caseload which is particularly disadvantaged by these latter measures, the CPS will be unable to pick it up.

The measures that are available on the CPS are, in addition, almost entirely time-varying and potentially affected by welfare reform, which is a major disadvantage for a study of the selectivity of welfare participation. A study of whether the caseload has become more disadvantaged should, ideally, measure disadvantage by fixed, time-invariant measures of disadvantage which are not capable of being affected by welfare reform, at least in the short run. For example, the fact that employment and earnings levels of recipients have dramatically increased subsequent to welfare reform is no doubt primarily a result of the work-oriented policies accompanying reform, and is not an indication that the caseload has become composed

[2] The CPS has recently added a question on welfare recipiency as of the interview date to address this issue.

of fewer and fewer disadvantaged women over time. Many of the measures not on the CPS mentioned above are reasonably long-run measures of disadvantage (health, work experience, welfare history), but there are almost none on the CPS which are of this nature. Therefore, while we will examine most of the major socioeconomic characteristics available on the CPS, our conclusions about selectivity will be primarily based only on two characteristics--the level of education and the hourly wage rate. Education levels are a simple but crude measure of disadvantage and are unlikely to be affected in a major way by welfare reform in the short run. We use the fraction of welfare recipients who have a high school degree or more (or, alternatively, the fraction who do not have a high school degree) as our educational measure. Hourly wage rates are considered by economists to be the best single measure of overall labor market potential, because they capture the combined effects of many underlying determinants of job performance (education, health, etc.). However, relative to education, wage rates are more likely to be affected by welfare reform, for work-oriented policies may push women into higher-paying jobs than they had prior to reform, rather than merely pushing them into jobs with the same wage rates they would have had otherwise. We also examine weekly earnings as a similar measure, although one still more likely to be affected by reform through the influence of hours worked per week.

Figure 1 shows the trend in the education measure among AFDC and TANF recipients from 1968 to 1999.[3] Education has trended upward over the entire period, and appears to be

[3] The sample is composed of all single mothers 18-64 who reported public assistance income in the prior calendar year. We should also note that the CPS appears to be increasingly undercounting the number of AFDC and TANF recipients as compared to counts in administrative data (Bavier, 1999). This problem will not affect the results here if the undercount is not related to the measures of disadvantage we use (education and hourly wage

somewhat higher in periods of recession than in periods of boom (using the unemployment rate as the cyclical indicator). A greater level of education among welfare recipients during recessionary periods would be consistent with the movment of relatively more labor-skilled single mothers onto welfare during such periods, and their movement off welfare during periods of a strong economy. These findings show the difficulty in ascribing changes in recipient characteristics to welfare reform, for the post-1996 changes in education may be, in part, a result of the continuation of the upward trend and of the decline in the unemployment rate, though these would have opposite effects on the educational level of recipients. We will adjust for trend and cycle using regression analysis. We will also adjust for general population trends in education by examining not only the educational levels of welfare recipients but also those educational levels relative to those of nonrecipient single mothers. The trend in the ratio of recipient education to nonrecipient education among single mothers is shown in Figure 2 and does not show as strong an upward trend as did Figure 1. However, the trend is still in the same direction, and the cyclical pattern is the same.

Table 1 shows trends in educational levels and several other characteristics before and after welfare reform. The first three columns show the mean characteristics of recipients over the period 1990-1993, 1996 and after, and the difference. The 1990-1993 period was prior to the welfare waiver period of reform and the 1996+ period was after both waiver reform and PRWORA.[4] As the table shows, all of the significant differences are positive in sign. In all but one case (the percent never married), a positive sign corresponds to an increasing level of

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rate).

[4] Mean characteristics for all individual years are shown in Appendix Table A-1.

advantage among recipients. Our most favored measure, education, is one of the significant differences. These results not only do not show increasing levels of disadvantage, but even show decreasing levels rather than merely the unchanged-levels result reported in some of the recent studies of caseload characteristics.

The next three columns show means of the ratio of recipient characteristics to nonrecipient characteristics, taken over the same periods. The picture is essentially unchanged by this redefinition. Most of the significant positive effects for recipients alone are also positive and significant for the ratio measures, with the occasional exception. This indicates, interestingly, that the changes from the early 1990s to the late 1990s in the characteristics of the single-mother welfare recipient occurred for them alone, not for all single mothers. This increases the likelihood that welfare reform or some other specifically low-income policy or influence was at work.[5]

The last column in the table shows the regression-adjusted differences between pre-1996 and post-1996 welfare-nonwelfare characteristic ratios, where the adjustments are for trend, cycle, and the 1981 OBRA Amendments. Full regression results are shown in Appendix Table A-2.[6] For our most preferred measure of time-invariant disadvantage, the education measure,

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[5] Overall, recipient-nonrecipient differences are in the direction one would expect. Recipients have lower incomes, earnings, employment, wage rates, and have a smaller percent white and a greater percent black. Recipients are slightly more composed of divorced, separated, and widowed single mothers than never married single mothers, and they have more children than nonrecipients. Interestingly, while the percent of recipients who have a high school education or more was once below that of single mother nonrecipients, they are approximately the same now (see Figure 2).

[6] These regression results were reported in Moffitt and Stevens (2001). The other columns in Table 1 were not.

the regression adjustments reverse the sign of the effect of welfare reform, changing it from positive to negative. While statistical significance at conventional levels is also lost, the change of sign is nevertheless notable and suggests that the effects of welfare reform per se were to increase the level of disadvantage of the welfare recipient population. The regression results imply that the positive changes in education reported in the previous columns were entirely the result of a strong upward trend in education levels among welfare recipients that was a continuation of a pre-reform trend.[7] This suggests that some of the findings of unchanging educational characteristics of the recipient caseload reported in past studies may have been the result of trend effects rather than the effects of welfare reform per se.

In addition, a close reading of the prior literature which focuses specifically on the results in those studies for education alone shows more evidence of increasing disadvantage among welfare recipients than the new conventional wisdom, if it may be so termed, would imply. For example, Oellerich (2001) finds a slight increase in administrative data in the fraction of recipients with less than a high school education after 1996, a finding also reported in Moffitt and Stevens (2001, Table 6) in a brief examination of administrative data. Zedlewski and Loprest (2001) also find a decline in education from 1997 to 1999 among TANF recipients, but interpret it as no change because the difference is not statistically significant (similar to the case here). Moreover, the Shannon (2001) review reveals that three out of four state studies measuring changes in educational attainment of TANF recipients over time found declining levels. While the magnitude of the change is not large and the level of statistical significance

[7] The unemployment rate is netted out but did not contribute the upward trend. As shown in Appendix Table A-2, its coefficient is positive, implying that the ratio should have fallen from the business cycle alone.

varies, the consistency of the findings on the direction of the change across studies is notable. Further, while education is only one of the characteristics examined in past studies, it should be emphasized that many of the others ordinarily examined may be affected by welfare reform and hence may not measure changes in underlying disadvantage as well as educational level.

The other rows in Table 1 show the regression-adjusted effects of welfare reform on other characteristics. Wage rates and weekly earnings are positively affected, which implies a selection opposite to that of education. However, wage rates and weekly earnings could easily be increased by welfare reform. This is reinforced by the positive effects on weeks worked, hours worked, and annual earnings shown in the table. The only demographic characteristic significantly affected is the percent of recipients who are never married, which fell after welfare reform.

Finally, Table 2 shows the regression-adjusted estimates of the effects of PRWORA on recipient-nonrecipient characteristic ratios broken out by birth cohort. A common suggestion is that welfare policy-makers aimed welfare reform at younger women who are making decisions about work, welfare, and childbearing early in their adult lives, in an attempt to alter those decisions and choices by changing the "signal" (i.e., expectations) of what can be expected from the welfare system. Table 2 examines whether the selectivity of who has left the welfare rolls and who has not also differs by age at the time of the PRWORA passage. Interestingly, for the three measures shown--our most preferred measures of education, hourly wage rates, and weekly earnings--the effects of PRWORA on disadvantage among recipients is strongly ordered by age in 1996 (or, alternatively, birth cohort). Specifically, while older recipients have become less disadvantaged over time, suggesting that the more disadvantaged older women have been leaving

(or not entering) the rolls, the opposite is the case for younger women. For the latter, the caseload has been becoming increasingly disadvantaged, suggesting that it is indeed the more advantaged younger women who have declined to enter welfare or who have left it. This is consistent with the "signalling" idea of welfare mentioned above, and is consistent with the notion that among the group with the greatest flexibility, who have not yet developed a history of welfare dependence and nonwork, those who have greater potential to leave welfare have indeed been doing so. An explanation for the opposite type of selection among older recipients is less clear, but could be the result of a greater degree of sanctioning among long-term recipients.

II. Evidence from the Three-City Study

Further evidence on the level of disadvantage among those remaining on TANF in the post-reform era is available from the Three-City Study (Moffitt et al., 2002a, 2002b). The Three-City Study is a longitudinal survey of approximately 2,500 low-income families with children who are living in low- and moderate-income neighborhoods in Boston, Chicago, and San Antonio. The first wave of the survey data took place between March and December 1999 and is used for this analysis. The survey included both welfare and nonwelfare families--although all with incomes less than 200 percent of the poverty line--but for the purposes of this paper we focus our attention on those women who were on the rolls sometime in the two years immediately prior to the interview (approximately 1997 to 1999) and who were still on the rolls at the interview date (n=894). We also compare these welfare "stayers" to a group of welfare "leavers", whom we define to be women who were on the TANF rolls sometime in the two years immediately prior to interview but were not on the rolls as of the interview date, and we conduct

some comparisons with women never on welfare. The survey collected a wide range of information on employment, income, family structure, and characteristics of the caregiver (usually the mother) of the children in the family. Given that this range of information is considerably broader than the data sources that have been used for most other welfare leaver studies, we are able to document more fully how welfare stayers have been doing.[8]

We focus on three issues: (1) how the sociodemographic characteristics of women remaining on welfare compare to those of women who have left welfare and to those of low-income women who have never been on welfare; (2) how the characteristics and household incomes of those who are on TANF and working compare to those who are on TANF and not working; (3) how the incomes of working and nonworking women remaining on TANF compare to the incomes of working and nonworking women who have left TANF.

Table 3 provides our evidence on the first of these issues. TANF recipients have relatively low levels of education, for about 40 percent have less than a high school education. This matches almost exactly with the 1996+ national average in Table 1 from the CPS. Recipient education is lower than that of TANF leavers and also that of low-income women who have never been on TANF (interestingly, however, leavers have higher education levels than those never on welfare). TANF recipients are younger than TANF leavers and those never on; indeed, stayers and leavers are more similar to each other than to the latter group. Recipients (and leavers) have more young children and are much less likely to be married than low-income women never on TANF as well. Recipients have fairly low levels of health, for over a quarter

[8] See Winston et al. (1999) for more detail on the survey design. The Three-City sample is, as a whole, not very different from that of single mothers as a whole in the CPS. It is slightly younger, more Hispanic, and has larger family sizes. See Baron et al. (forthcoming).

(27 percent) report themselves to be in poor or fair health and about a quarter (26 percent) report themselves to have a health condition which limits or prevents work.[9] These are worse health levels than those of leavers for the latter health measure, and are worse than those of women never on TANF on both measures. Finally, TANF recipients have slightly higher levels of domestic violence than leavers but are not too different on the other non-economic indicators.[10] However, as is the case for a number of the other variables in the table, the levels of depression, domestic violence, food insecurity, financial strain, and network support for stayers and leavers are quite close to each other relative to those of women never on TANF, who have lower levels of depression, less domestic violence experience, and more financial and food security. Having recently been on welfare, whether currently on or not, is a distinct sign of disadvantage on its own.

We conclude, therefore, that the Three-City evidence is consistent with that of prior studies indicating that welfare stayers are a disadvantaged population relative to women who

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[9] Functional disability is defined from two questions which asked the respondent whether she had a health condition that limits work and one which asked if she had a health condition which prevents work.

[10] The depression scale is derived from a 6-item depression subscale of the Brief Symptom Inventory; the domestic violence scale is constructed from a 8-item set of questions on types of violence, ranging from threats ("did someone threaten to hit you") to actual violence ("use a weapon on you"); food security is based on a food insecurity scale constructed from a set of 7 questions about lack of food, skipping meals, and related events, and indicates that the family scored below the median on that scale; financial security is based on a financial strain index is constructed from a set of 5 questions concerning ability to pay bills, purchase needed consumption items, and concerning borrowing money and running out of money, and indicates that the family is below the median of that scale; and the network support variable is based on a scale constructed from a set of 4 questions concerning whether the respondent has other people she can rely on for help of various kinds, and indicates the family is above the median for that scale. The depression and domestic violence questions were administered with ACASI.

have never been on welfare, and that they are slightly more disadvantaged than women who have left welfare, especially in health as measured by functional disability. We also find, however, that, with a few exceptions, stayers and leavers are quite similar to each other compared to low-income women who have never been on welfare. Ever having been on welfare is itself a strong indicator of disadvantage per se.

The first column of Table 4 shows the income levels, poverty rates, and income composition of women remaining on welfare. Average monthly income is a little less than $1000, or $12,000 per year, a low amount given the family sizes of these families (5 persons on average, as indicated in Table 3). Consequently, the poverty rate is a high 88 percent. We make an estimate of EITC payments and, when this is included, the poverty rate is lowered to 85 percent. This fairly small EITC impact arises simply because only 18 percent of the TANF recipients are working, and those who are working are not always earning at high levels. About 41 percent of the sample is in what is sometimes termed "deep" poverty, or less than one-half the poverty line. Earnings of welfare recipients are, on average, quite low ($89 per month) but are supplemented by earnings of other household members. The other main sources of income are TANF payments and Food Stamps. When added to SSI and SSDI payments, transfer income constitutes the largest type of income for these families. They receive very little in child support and obtain very little cash assistance from friends and relatives.

In an attempt to locate a very disadvantaged subgroup of the welfare population, we tabulated incomes by a number of sociodemographic characteristics--education, age, race, health status, and marital status, for example. For the most part, the differences in income and poverty rates between these groups are not large (see Moffitt et al., 2002b, for the results). However,

there are some differences in earnings and therefore labor market performance in expected directions; for example, more educated women and those in better health have higher levels of work and earnings while on the rolls. These greater earnings differences tend to be accompanied by lower levels of TANF benefits, which results in a rather modest difference in total household income. Moreover, the earnings differences by these characteristics are much smaller than the earnings differences between similarly-defined groups of welfare leavers. Welfare stayers appear to be a somewhat more homogeneous group than welfare leavers.

Given that the key distinguishing characteristic appears to be employment, we therefore concentrate on it as a means by which to differentiate the TANF caseload into more- and less-disadvantaged groups. The income differences between employed recipients and nonemployed recipients are shown in Table 4, and differences in their sociodemographic characteristics are shown in Table 5.[11] Employed recipients have incomes that are almost $500 per month higher than those of nonemployed recipients, with consequent much lower poverty rates. This difference arises almost entirely from different earnings of the recipient women in the two groups, although it appears that employed recipients also typically live with other household members who bring in more earned income than in nonemployed recipient households. The employed recipients have lower TANF payments but not by much, and other transfer payments are also not much lower, if not higher, than those of the nonemployed. This may be a result of earnings disregards or other mechanisms by which higher earnings do not reduce welfare benefits

[11] As noted previously, 18 percent of the recipients are in the working subsample and 82 percent are in the nonworking sample.

by a great deal.[12] The net result is that working while on welfare brings significant rewards in terms of overall income.

The differences in sociodemographic characteristics between employed and nonemployed recipients are apparent in Table 5. Working recipients have higher levels of education, are younger, have fewer young children, are more likely married, and have better levels of health. In addition, they have lower levels of depression and higher values of network support, financial security, and food security. However, employed stayers also have higher levels of domestic violence, perhaps an indication that male partners do not like their partners to work.

Further light can be shed on these differences by a comparison of their incomes with those of working and nonworking leavers. On average, incomes of recipients in the Three-City Study are only slightly below those of TANF leavers (Moffitt et al., 2001).[13] However, a rather different picture emerges when stayers and leavers are broken down by employment status. As shown in Table 6, incomes of working leavers are slightly above those of working stayers, but not by much. This is because the substantially higher earnings of working welfare leavers ($951 per month as against $454) are almost entirely offset by lower transfer benefits, particularly the lack of TANF income but also Food Stamp income. Nonworking stayers, on the other hand, have much higher incomes than nonworking leavers. The larger difference arises simply

[12] There is a very low implicit benefit-reduction rate implied by these figures, of about .10. This is possible because of earnings disregards, income-related deductions, and other features of the benefit formula that lower the rate. Studies which relate actual benefits to actual income always yield benefit-reduction rates that are lower than nominal or statutory rates (Fraker et al., 1985; McKinnish et al., 1999).

[13] A number of other studies have found this same result, namely, that average incomes of leavers are approximately the same as those of stayers, given the offsetting effects of higher earnings and lower benefits that result from going off welfare.

because nonworking leavers have neither earnings nor TANF benefits--and also lower Food Stamp benefits--and hence no major source of income support.

This difference is graphically illustrated in Figure 3, which shows the wider dispersion of income among leavers as against stayers. Incomes among recipients are compressed by the availability of TANF benefits and the less-than-one marginal tax rates of earnings (i.e., earnings disregards), while neither of those is present for leavers. Nonemployed stayers are clearly better off economically by remaining on the welfare rolls, at least if they were to remain nonemployed after having gone off. The TANF program provides support to those families which they would not have off the welfare rolls. Further, if these hard-to-employ TANF recipients were to work, our results imply that they have the most to gain financially by working while on the welfare rolls. The further increment to income obtained by leaving welfare and working is much smaller than the additional income obtained by working while on welfare.

The EITC is somewhat higher for the working leavers than for the working stayers, because the former have higher earnings. However, this does not make a large difference in poverty rates. The poverty rate is lowered by 10 percentage points when the EITC is incorporated for working leavers but by almost as much, 7 percentage points, when it is included for working stayers. Consequently, the EITC does not make a large difference in economic well-being of workers between those on and off TANF.[14]

[14] Our calculations of EITC impacts are based on our estimates of potential EITC amounts, but are also based on whether the individuals filed a tax return and whether they obtained the EITC as part of the return (respondents were asked these questions on our survey). Less than 100 percent of those we calculate to be eligible actually received the EITC.

III. Summary and Conclusions

Our analysis of CPS data and Three-City Study data has yielded new evidence on the characteristics of families remaining on welfare after reform. The CPS data show that welfare reform has led to a slight tendency for more-educated women to disproportionately leave the TANF rolls, as expected from many of the policies implemented as part of welfare reform. However, the magnitude of the effect is small, and it is likely that earnings disregard and sanctions policies have muted the tendency for more disadvantaged women to stay on welfare and more advantaged women to leave. The existence of a sizable number of welfare leavers who are not employed and have high poverty rates suggest that some of the more disadvantaged portions of the caseload have indeed left welfare. The CPS analysis also shows, however, very strong selectivity for younger, more recent, birth cohorts, suggesting that younger more-educated women are very likely to have left the rolls.

The analysis of the Three-City Study data show that welfare recipients remain more disadvantaged than recent welfare leavers in educational levels and, especially, in health status (they also have somewhat greater experiences of domestic violence). Moreover, a comparison of nonemployed recipients to employed recipients reveals the former to have lower levels of education and worse health problems as well. A comparison of nonemployed recipients, the most easily identifiable disadvantaged group on the welfare rolls, to nonemployed leavers reveals that remaining on welfare for this group is much preferable economically to leaving welfare, if in leaving they were to remain not employed. Further, if this disadvantaged group were to work, the incremental income gains from working while remaining on welfare are greater than those additionally obtained by moving off welfare and working. Thus a policy of assisting the most

disadvantaged TANF recipients to work while remaining on welfare is suggested by this analysis to be worthy of consideration.

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Table 1

Changes Over Time in Mean Characteristics of
Single Mother TANF Recipients

	TANF Recips Alone			TANF Recips Relative to TANF Nonrecips			Reg-Adj. 96+ Diff. in Recip/ Nonrecip Ratio
	90-93	96+	Diff	90-93	96+	Diff	
Twelve Years of Education or more	0.547	0.597	0.050* (0.013)	0.937	1.009	.072* (.018)	-.053 (.044)
Hourly Wage Rate	6.71	6.94	0.23 (0.35)	0.711	0.701	-.010 (.028)	.032 (.023)
Weekly Wage Rate	190.6	214.9	24.3* (10.8)	0.649	0.664	.015 (.030)	.072* (.036)
Never married	0.530	0.585	0.055* (0.012)	0.850	0.909	.059* (.018)	-.066* (.022)
Number in family	3.325	3.375	0.050 (0.035)	0.893	0.925	.032* (.013)	.008 (.024)
Less than 25 years old	0.329	0.317	-0.012 (0.012)	0.600	0.596	-.004 (.018)	-.022 (.023)
White	0.596	0.613	0.017* (0.009)	0.778	0.798	.020* (.010)	-.003 (.014)
Annual weeks worked	8.83	13.72	4.89* (0.98)	0.309	0.467	.158* (.031)	.122* (.031)
Hours worked per week	5.588	9.444	3.856* (0.953)	0.298	0.479	.181* (.046)	.123* (.047)
Annual earnings	1601	2681	1080* (245)	0.175	0.266	.091* (.019)	.085* (.027)

Notes: Standard errors in parentheses; *: significant at the 10 percent level

Columns 4-6 show the ratio of the welfare recipient mean to the welfare nonrecipient mean of each characteristic. Column 7 shows the coefficient on a 96+ dummy in a regression of that ratio including as well a year trend, the unemployment rate, and a 1981 OBRA dummy. The age, education, race, family structure, and hours worked variables are estimated on the years 1968-1999 and the other variables are estimated on the 1975-1998 period. Wages and earnings are in real 1997 dollars.

Table 2

Regression-Adjusted Differences in 1996+ Recipient-Nonrecipient Characteristic Ratios, by Cohort

	Fraction with High School Education or More	Hourly Wage Rate	Weekly Wage Rate
Birth Cohort:			
1951-1955	.113	.129*	.271*
	(.088)	(.041)	(.082)
1956-1960	.080	.033	.063
	(.089)	(.041)	(.082)
1961-1965	.077	.003	.032
	(.088)	(.041)	(.082)
1966-1971	-.048	-.008	.132
	(.088)	(.041)	(.082)
1971-1975	-.131	-.034	-.234*
	(.094)	(.044)	(.087)

Notes: Standard errors in parentheses; *: significant at the 10% percent level.

Regressions have the ratio described in the notes to Table 1 as the dependent variable, and include the five cohort-group-times-post-96 variables as well as cohort group dummies, a time trend, the unemployment rate, and a 1981+ OBRA dummy. Wages are in real 1997 dollars.

Table 3

Sociodemographic Characteristics of TANF Stayers, Leavers, and Those Never On TANF

	On TANF	Left TANF	Never On TANF
Education:			
No degree	39%	32%	35%
HS/GED	24%	21%	28%
Above HS/GED	37%	46%	37%
Age:			
25 or Younger	30%	35%	22%
26-35	44%	40%	35%
36 or More	26%	25%	42%
Children Under 3 in HH	53%	51%	40%
Married	18%	18%	56%
Cohabiting	5%	8%	7%
Number in HH	5.0	4.7	4.8
Health:			
Poor or Fair	27%	25%	20%
Functional Disability	26%	11%	8%
Other Characteristics:			
Depression Score Above Clinical Cutoff	11%	14%	4%
Ever Experienced Domestic Violence	70%	65%	51%
Network Support Above Median for Sample	50%	52%	54%
Financial Security Above Median for Sample	50%	50%	66%
Food Security Above Median for Sample	85%	80%	91%

Table 4

Monthly Income and Poverty Characteristics of Women on TANF,
Total and by Employment Status

	All Women on TANF	Employed Women on TANF	Nonemployed Women on TANF
Total HH Income	$968	$1382	$879
Poverty Rate			
w/o EITC	88%	72%	92%
w EITC	85%	65%	89%
Below 50% Pov Line	41%	18%	46%
Earnings:			
Individual	$89	$454	$0
Others in Household	$160	$317	$140
TANF:			
Individual	$200	$162	$204
Others in Household	$55	$55	$58
Food Stamps:			
Individual	$202	$206	$199
Others in Household	$42	$32	$47
SSI:			
Individual	$64	$76	$62
Others in Household	$58	$32	$63
SSDI:			
Individual	$13	$2	$16
Others in Household	$16	$6	$17
Child Support (total HH)	$27	$19	$30
Help from Friends & Relatives (total HH)	$10	$9	$10
Social Security (total HH)	$29	$12	$28
Other	$3	$0	$5

Table 5

Sociodemographic Characteristics of Employed and Nonemployed Women on TANF

	Employed	Not Employed
Educ:		
No degree	31%	40%
HS/GED	21%	26%
Above HS/GED	48%	34%
Age:		
25 or Younger	40%	28%
26-35	35%	46%
36 or More	26%	26%
Children Under 3 in HH	45%	55%
Married	31%	15%
Cohabiting	4%	5%
Number in HH	4.8	5.1
Health:		
Poor or Fair	18%	29%
Functional Disability	16%	27%
Other Characteristics:		
Depression Score Above Clinical Cutoff	7%	12%
Ever Experienced Domestic Violence	77%	68%
Network Support Above Median for Sample	61%	47%
Financial Security Above Median for Sample	83%	51%
Food Security Above Median for Sample	89%	47%

Table 6

Monthly Income of TANF Recipients and Leavers, by Employment Status

	Recipient		Leaver	
	Employed	Not Employed	Employed	Not Employed
Total HH Income	$1382	$879	$1396	$719
Poverty Rate:				
w/o EITC	72%	92%	60%	94%
w EITC	65%	89%	50%	93%
Below 50% Pov Line	18%	46%	16%	66%
Earnings:				
Individual	$454	$0	$951	$0
Others in Household	$317	$140	$221	$316
TANF:				
Individual	$162	$204	$1	$2
Others in Household	$55	$58	$1	$9
Food Stamps:				
Individual	$206	$199	$81	$83
Others in Household	$32	$47	$6	$27
SSI:				
Individual	$76	$62	$1	$9
Others in Household	$32	$63	$43	$65
SSDI:				
Individual	$2	$16	$2	$29
Others in Household	$6	$17	$11	$13
Child Support (total HH)	$19	$30	$36	$97
Help from Friends & Relatives (total HH)	$9	$10	$11	$25
Social Security (total HH)	$12	$28	$19	$6
Other	$0	$5	$12	$38

Appendix Table A-1

Mean Characteristics of Welfare Recipients, 1968-1999

Year	Pct HS Grads	Hourly Wage	Weekly Earnings	Pct Not Married	HH Size	Pct Lt 25	Pct White	Weeks Wked	Weekly Hours	Annual Earnings
1968	23	--	--	19	4.8	16	52	--	4.6	1713
1969	25	--	--	19	4.5	18	51	--	6.7	1784
1970	26	--	--	21	4.6	19	50	--	5.8	1787
1971	31	--	--	23	4.5	23	54	--	5.3	1693
1972	35	--	--	21	4.3	26	52	--	6.6	2029
1973	34	--	--	24	4.1	28	54	--	6.7	2217
1974	36	--	--	25	4.0	26	54	--	7.9	2169
1975	38	6.02	230	27	3.8	28	56	10.3	6.7	2127
1976	37	6.47	224	26	3.9	33	60	10.3	6.9	2333
1977	38	6.55	229	31	3.7	35	57	9.9	7.1	2234
1978	43	6.33	214	34	3.7	32	56	11.6	7.6	2499
1979	43	6.75	227	35	3.8	33	55	11.7	8.2	2727
1980	44	6.55	208	37	3.9	35	56	10.2	8.3	2162
1981	46	6.21	202	36	3.7	36	59	9.6	7.1	1972
1982	49	6.07	192	40	3.4	37	57	7.1	6.1	1347
1983	46	5.79	173	43	3.3	36	56	6.5	4.2	1127
1984	47	5.98	188	44	3.2	35	56	6.7	4.7	1290
1985	48	5.83	182	43	3.3	34	58	7.1	4.6	1314
1986	51	5.73	186	47	3.3	34	59	7.9	5.3	1467
1987	53	5.72	183	46	3.2	32	60	8.3	5.5	1496
1988	52	5.63	173	50	3.3	33	58	9.1	5.8	1603
1989	54	5.76	201	50	3.3	33	58	8.6	5.8	1688
1990	54	5.26	181	50	3.3	33	59	8.7	6.0	1436
1991	53	6.22	199	53	3.4	34	59	8.5	5.4	1655
1992	54	5.95	187	55	3.3	32	60	9.1	5.2	1622
1993	57	5.73	196	54	3.3	33	61	9.1	5.7	1689
1994	59	5.64	205	57	3.3	33	58	10.0	6.5	1992
1995	59	5.89	188	54	3.4	33	59	11.1	6.3	2035
1996	59	5.87	193	57	3.4	35	62	12.1	7.1	2297
1997	58	5.80	233	58	3.3	32	60	13.2	9.3	2514
1998	61	6.15	218	60	3.4	31	63	15.9	9.8	3230
1999	61	--	--	59	3.4	29	60	--	11.6	--

Notes: Source is 1968-1999 March CPS. Earnings and weeks worked per year are as of the year prior to the survey. Weekly earnings calculated as earnings divided by weeks worked, and hourly wage calculated as earnings divided by product of weeks worked per year and average hours worked per week last year. Weeks worked not asked in continuous form until survey year 1975. Wages and earnings are in real 1997 dollars using the personal consumption expenditure deflator.

Appendix Table A-2

Regression Results for Ratios of Mean
Recipient-to-Nonrecipient Characteristics

Dependent Variable	Trend	Unemployment Rate	OBRA81 Dummy	PRWORA Dummy
Twelve Years of Education or more	.019* (.003)	.023* (.008)	-.065 (.044)	-.053 (.044)
Hourly Wage Rate	-.006* (.002)	.008 (.007)	-.075* (.026)	.032 (.023)
Weekly Earnings	-.008* (.003)	.006 (.010)	-.157* (.040)	.072* (.036)
Never married	.022* (.001)	-.006 (.004)	.064* (.022)	-.066* (.022)
Number in Family	.001 (.001)	-.023* (.004)	.023 (.025)	.008 (.024)
Less than 25 years old	.009* (.001)	.020* (.004)	-.002 (.023)	-.022 (.023)
White	.006* (.001)	.005* (.003)	.006 (.014)	-.003 (.014)
Annual weeks worked	.003 (.003)	-.008 (.009)	-.164* (.035)	.122* (.031)
Hours worked per week	.008 (.003)	.015* (.008)	-.211* (.047)	.123* (.047)
Annual earnings	-.002 (.002)	-.006 (.008)	-.159* (.030)	.085* (.027)

Notes: Standard errors in parentheses; *: significant at the 10% level.

The dependent variable is calculated as the ratio of the mean for single mother welfare recipients to the mean for single mothers not on welfare in the year in question.

Intercept not shown.

Figure 1. Percent Welfare Recipients with Twelve or More Years of Education, 1968-1999

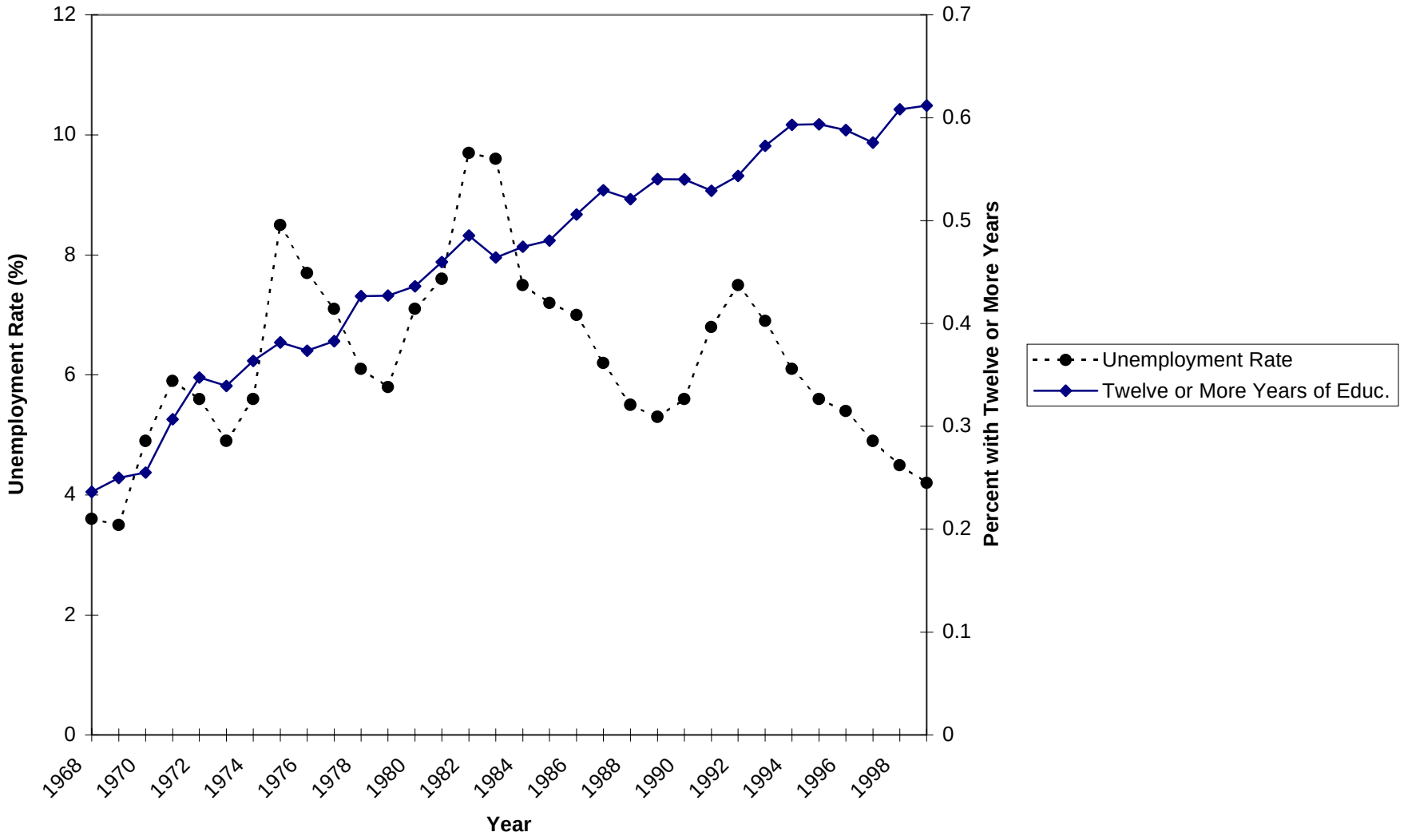

Figure 2. Ratio of Percent Welfare Recipients with Twelve or More Years of Education to Nonwelfare Recipient Percent, 1968-1999

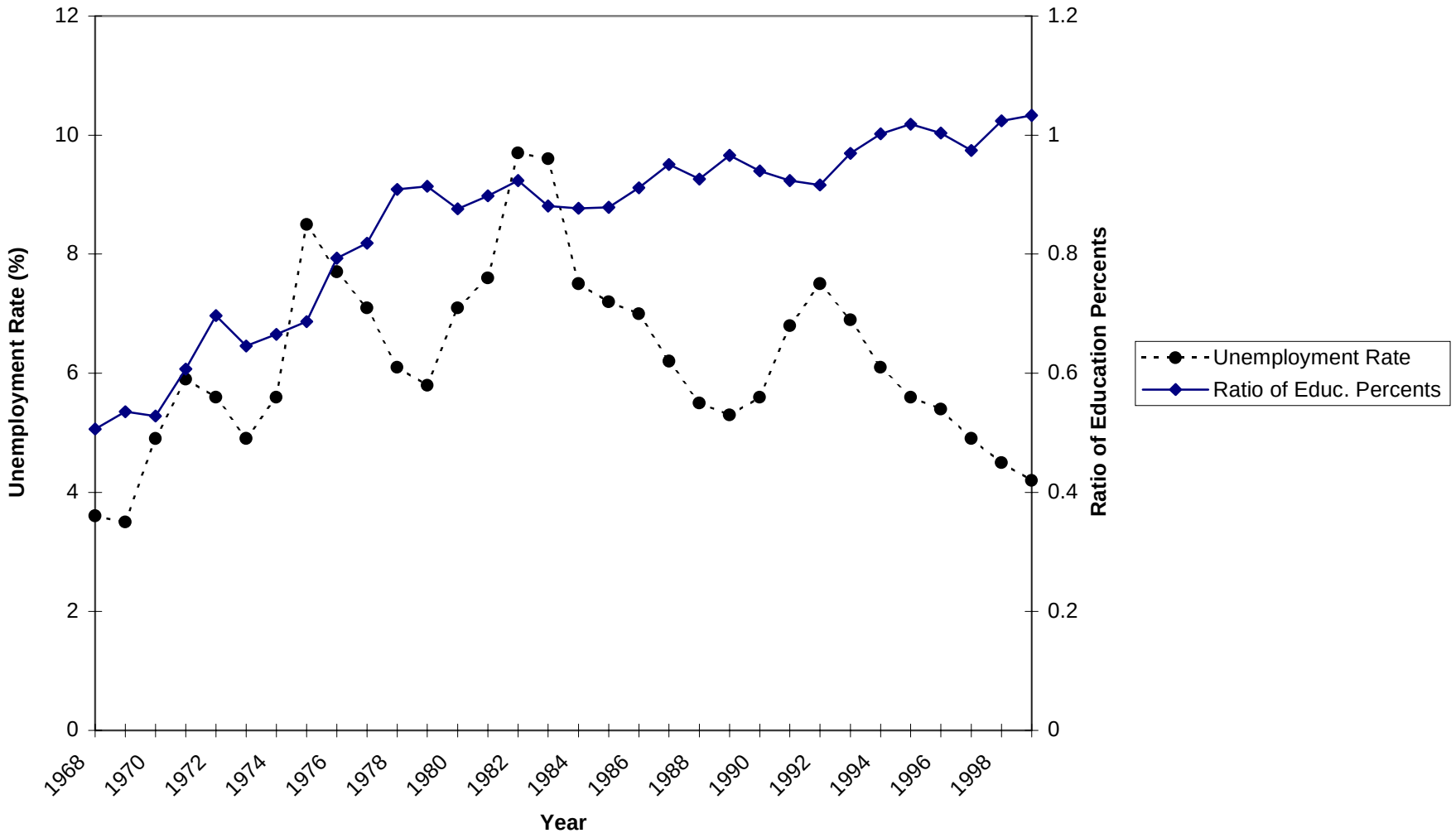

Figure 3: Monthly Household Income, by Employment and Welfare Status