

Approaching the Limit: Early Lessons from Welfare Reform

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Welfare reform has been one of the most controversial social policies of recent times. A Democratic president abandoned welfare reform legislation drafted by his administration, The Work and Responsibility Act (announced by President Clinton on June 14, 1994) and supported legislation, The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, crafted by a Republican Congress. PRWORA ended the entitlement to cash assistance for poor families with children and relinquished to the states authority for decisions about most policies affecting welfare recipients. Within a few years of passage, PRWORA had “ended welfare as we knew it” more decisively than most policy analysts expected when the legislation was signed—welfare caseloads dropped so dramatically, that by the end of 1999, the number of recipients fell below 7 million, about the same number as in 1969.

Several early lessons have emerged from dozens of recent studies of PRWORA’s effects. First, economic conditions, federal government policy changes, and state welfare policy changes in the last few years have contributed to increased employment and net earnings. As a result, the dramatic caseload decline has not produced the dire scenario that some analysts predicted—PRWORA has not caused a surge in poverty or homelessness because most former recipients are finding jobs. Even though many welfare leavers are not working full-time, full-year, a significant number are earning at least as much as they had received in cash welfare benefits.

Second, because very favorable economic conditions—rapid economic growth, low inflation, and low unemployment—will not continue forever, we do not yet know how welfare reform will play out during a recession or even during a period of moderate unemployment rates and slow economic growth. Indeed, because PRWORA placed a 5-year, life-time limit on the receipt of cash assistance, recipients who continue to receive welfare (stayers), and who face

greater barriers to employment than those recipients who have already left the roles (leavers), are at risk of “hitting their time limits” during a period of slow economic growth or recession. At the present time, we can not know whether the possible coincidence of millions of recipients exhausting eligibility for cash assistance during a recession might produce the increased child poverty and extreme hardships that critics predicted PRWORA would cause, or whether Congress and the states might respond to a recession by increasing the number of exemptions allowed from or extensions to federal time limits or by providing work-for-welfare community service employment or by creating state-funded programs for those who exhaust federal benefits.

Third, despite the large caseload reduction, the national poverty rate has fallen rather little. Many who have left welfare for work remain poor and continue to depend on Food Stamps, Medicaid and other government assistance; some have left welfare and remain poor, but do not receive the Food Stamp or Medicaid benefits to which they remain entitled. The extent of economic hardship remains high, because, given their human capital and personal characteristics, many former, as well as current, welfare recipients have limited earnings prospects in a labor market that increasingly demands higher skills. Thus, despite promising early results with respect to declining caseloads and increasing work effort, much uncertainty exists about the long-run prospects for escaping poverty of both stayers and leavers.

In this paper, I present some evidence that documents these early lessons. In the next section, I place welfare reform in economic context by reviewing changes in earnings and family incomes over the past several decades. I then analyze early findings regarding welfare reform by using cross-sectional national data on trends in work, welfare receipt and poverty, and panel data from a study that my colleagues at the University of Michigan and I are conducting. I conclude with a discussion of policy implications for the post-PRWORA era.

The Economic Environment

In the late 1990s, many less-skilled and less-educated workers and former welfare recipients continue to have difficulty earning enough to support their families. Despite robust

economic recoveries in both the 1980s and the 1990s, economic growth has not trickled down very vigorously to the bottom forty percent of the population. The economic prospects for the less-skilled have improved since 1993, when the unemployment rate and the poverty rate began falling. The unemployment rate for adult men fell from 6.8 percent in January 1993 to 3.3 percent in March 2000, the lowest male unemployment rate since December 1973; the rate for adult women, fell from 6.3 percent in January 1993 to 3.6 percent in March 2000, the lowest female unemployment rate since December 1969. The official poverty rate has fallen a bit every year since 1993, from 15.1 percent to 12.7 percent of all persons in 1998.

Nonetheless, the long economic recovery has not yet benefitted the disadvantaged enough to restore their economic well-being to where it stood a quarter century ago. If the economy does not fall into recession, and if poverty continues to fall at the rate of its recent decline, then the poverty rate in 2001 would be about 11 percent. However, this rate would be as high as the 1973 rate (11.1 percent) and would be much higher than the rates of Canada, Japan and most northern European countries (Jantti and Danziger, 2000).

Figure 1 shows, for the period from 1967 through 1998, the relationship between the natural log of real per capita income for the nation and the poverty rate for central city residents in the top panel and that for residents of nonmetropolitan areas in the bottom panel. Poverty falls as real per capita income in the nation increases during economic recoveries and rises as income falls during recessions. But, the poverty increase in the late 1970s and early 1980s was so great that the curves in Figure 1 shifted upwards—it now takes substantially higher real per capita income to achieve the same poverty rate as it did a quarter century ago. The 1998 poverty rate for central city residents, 18.5 percent is 3 percentage points below the 1993 rate (21.5 percent), but more than 6 points above its 1969 historical low (12.7 percent). The 1998 rate for residents of nonmetropolitan areas, 14.4 percent is also about 3 percentage points below its 1993 rate (17.2 percent) and about 1 percentage point above its 1978 historical low (13.5 percent).¹

The average inflation-adjusted wage of production workers was about the same in the late 1990s as in the late 1960s (see Figure 2; data from the Bureau of Labor Statistics,

www.bls.gov). Average hourly earnings in October 1999, \$13.48 per hour were 7 percent above the rate of October 1993, but were still 8 percent below the October 1972 level, \$14.71. These data include male and female workers of all ages and with all levels of work experience. Welfare recipients, on average, will earn much less than the average wage because they are younger, less-experienced, and have fewer years of schooling and less labor market skills than the average worker.

The trend in women's earnings does not show the long decline from the late 1970s to the late 1990s that is shown for all workers in Figure 2, as the labor market changes of the last quarter century have disproportionately hurt less-skilled males. However, a review of trends in the annual earnings of single mothers also suggests that a typical welfare recipient is likely to have a difficult time earning enough to support her family on her own earnings.

The top line in Figure 3 shows median real annual earnings (in 1998 constant dollars) from 1967 to 1998 for single mothers, between the ages of 18 and 64, who report earnings.² In 1998, median annual earnings for single mothers was \$16,352, just about the poverty line for a family of four. The bottom line shows the trend for a single mother at the 20th percentile of the annual earnings distribution, and better represents the earnings prospects of welfare recipients, whose educational attainment and skills are significantly lower than those of the median single mother. Over these three decades, annual earnings at the 20th percentile increased from \$4590 to \$7154; between 1994 and 1998, annual earnings increased by 27 percent, from \$5620 to \$7154.

If one focuses only on women who work full-time (data not shown), one finds that a single mother of three children at the 20th percentile would escape poverty, if earnings were her only income source, only if she worked full-time, full-year. As discussed below, however, most women leaving welfare for work are not managing to work full-time full-year. Thus, if they are to escape poverty, they must continue to rely on income supplements, such as Food Stamps or the EITC, and subsidies for day care and health care.

In sum, the longest peacetime economic expansion in history has not yet managed to restore the poverty rate and average wage rate to the levels achieved a quarter century ago. We

have never been wealthier as a nation, but millions of families still have difficulty making ends meet. As shown below, for single mothers, moving from welfare to work is a necessary, but not sufficient, first step along the path out of poverty. The strong work incentives and work requirements of the 1996 Act have, to date, produced only a small decline in the national poverty rate because welfare mothers have relatively low earnings prospects. And, despite our national commitment to encouraging work, we have in place a safety net that does very little to provide work opportunities for those who have trouble finding a job or working full-time full-year. This review of labor market trends suggests that, to reduce poverty in the post-welfare reform era, for single mothers, as well as for poor families not receiving welfare, requires government to increasingly supplement the wages of low earners and to provide employment opportunities for those left behind despite a robust economic recovery.

Early Lessons from Welfare Reform

I now examine emerging evidence on changes in the work effort, welfare receipt and economic well-being of single mothers in the post-welfare reform era. I do not attempt to evaluate the unique effects of welfare reform on these outcomes independent of co-occurring economic conditions and other policy changes. Such an evaluation requires a behavioral model of labor supply and welfare participation decisions that is beyond the scope of this paper.

Several recent major policy and economic changes have shaped work and welfare outcomes for single mothers. First, by replacing the Aid to Families with Dependent Children program with the Temporary Assistance for Needy Families (TANF) program, PRWORA dramatically reduced the likelihood that a single mother can “choose” to remain a nonworking welfare recipient, even if she finds that the economic benefits of working do not exceed its costs. There is no longer an entitlement to cash assistance; welfare is a transitional program with cash assistance conditional on the performance of work-related or community service activities. In most states, a recipient who refuses to take an available, low-wage job is at risk for being sanctioned.

In addition, most states have adopted policies that allow recipients to combine work and welfare, notably by increasing earnings disregards so that recipients can have some earnings that do not directly offset their welfare benefits (Acs et al., 1998; Gallagher, L.J. et al., 1998). Taken together, changes in welfare policy have led more recipients to look for work, have made it more difficult for non-working recipients to remain on the rolls, and have made it more beneficial for them to continue working if they work part-time at low-wage jobs (Corcoran, Danziger, Kalil and Seefeldt, 2000).

Other policy changes have also increased the returns from work for all low earners. The minimum wage was increased from \$4.25 to \$5.15 in 1997, just after welfare reform was implemented. In 1993, President Clinton proposed and Congress passed a major expansion of the Earned Income Tax Credit (EITC). In 1998, a working single mother was eligible for a maximum EITC of \$2272 if she had one child, and of \$3756 if she had 2 or more children. In 1997, the Child Health Insurance Program (CHIP) was passed. It subsidizes health care for children of the working poor, thereby making jobs that do not provide health care coverage more attractive than otherwise. Finally, as noted above, the labor market in the late 1990s was much tighter than it has been for years, making it easier for welfare mothers to find jobs.

Against this background of state and federal public policy and economic changes, welfare caseloads fell dramatically after the mid-1990s. Some of this decline is undoubtedly due to welfare reform, some to the nonwelfare policy changes, some to the booming economy, some to the interactions among them (Danziger ed. 1999).

National Trends by Residence—Table 1 presents March Current Population Survey data for selected years between 1969 and 1998 on trends in the work effort, welfare receipt and the poverty rate of single mothers between the ages of 18 and 54 who have at least one child residing with them. Data are shown separately for residents of central cities, residents living in the noncentral city portion of metropolitan areas, and nonmetropolitan area residents. The patterns for each variable are strikingly similar regardless of place of residence. Between 1969 and 1989,

work effort, welfare receipt and the family poverty rate were relatively stable. But, by 1998, work effort had increased substantially, welfare receipt declined dramatically and poverty declined modestly.

The top panel shows the percentage of single mothers who worked (i.e. reported earnings) at some time during the year. For each residential group, work effort was roughly constant in 1969, 1979 and 1989; but work increased by 1998 by about 12.5 percentage points for central city residents and by about 8 percentage points for the other groups. In 1998, median earnings were about \$14,000 for single mothers residing in central cities and nonmetro areas, and about \$20,000 for those living in the noncentral city portion of metro areas (earnings data not shown).

The trend in the percentage of single mothers reporting cash welfare receipt at some time during the year, shown in the second panel, was quite similar to the trend in earnings. Welfare receipt was similar for each residential group in 1969, 1979 and 1989 (the rate of welfare receipt is higher in every year among central city residents); by 1998, it declined by 13.2 percentage points for central city residents and by about 8 points for the other two groups.

Median welfare benefits, adjusted for inflation (shown in the third panel), fell dramatically over the three decades for all groups. In 1998, benefits for recipients were about \$3100 per year for central city residents, \$2800, for those living in the non-central city portion of metro areas and \$2400 for residents of nonmetro areas.

Poverty rates increased some between 1969 and 1989, but by 1998 they were about the same as in 1969 and 1979 for single mothers residing in central cities and somewhat above the 1979 rates for residents of the suburbs and nonmetro areas. Between 1989 and 1998, poverty rates fell, but by a smaller amount than the decline in welfare receipt—by about 4 percentage points for single mothers residing in central cities, 1 point for suburban residents, and 6 points for residents of nonmetro areas.

Detailed Results from a Panel Study of Michigan Residents— I now turn to more detailed evidence on work effort and economic well-being following welfare reform. I analyze data from the first two waves of the Women's Employment Survey (WES), a panel study in progress at the Poverty Research and Training Center at the University of Michigan (see S. K. Danziger et al., 2000 for more information on the study). I examine the relationship between human capital and other personal characteristics and work and evaluate differences in economic well-being between workers and nonworkers.

All respondents were first observed as welfare recipients. The women were systematically selected with equal probability from an ordered list of single mothers with children who received cash assistance in an urban Michigan county in February 1997. To be eligible, they had to be U.S. citizens between the ages of 18 and 54, and be either Caucasian or African-American. At the time the sample was drawn, their average number of years of welfare receipt since turning age 18 was 7.3, ranging from 1 to 30 years. Interviews were conducted in Fall 1997 and in Fall 1998. The response rate was 86 percent for the first wave (N=753), and 92 percent for the second wave of the panel (N=693 who participated in both waves). Both interviews lasted approximately one hour.³

Work/Welfare Outcomes— The study cast a wide interdisciplinary net and evaluated a variety of potential problems that might affect the likelihood that welfare mothers would move into the work force and get and keep jobs. We included traditional human capital measures, such as whether or not the recipient had completed high school, the extent of her labor force skills and previous work experience. We also included a range of mental and physical health problems, access to automobiles, perceptions of previous experiences of discrimination and other psychosocial and familial attributes.

The Fall 1998 interviews, which occurred roughly 20 months after the initial sample was drawn, allow us to evaluate differences between women who are working and those who are not about two years post-PRWORA. Table 2 lists our measures of fourteen barriers to employment

that we have analyzed in previous work. At wave one, we found that most of these barriers were negatively and significantly related to the likelihood that a respondent was working at least 20 hours per week (S. K. Danziger et al., 2000).

Most barriers to employment are also correlated with whether or not a woman was working at the time of the wave two interview and the extent of her work involvement between the two waves. The columns in Table 3 classify 675 of the 693 women who completed both surveys into one of four mutually-exclusive categories based on their work/welfare income status in Fall 1998 (The 18 women who are excluded moved from welfare to Supplemental Security Income by Fall 1998 and hence were not expected to work).⁴ We define *wage-reliant* mothers as those who reported positive earnings, but no cash assistance in the month prior to the interview; they are 43.6 percent of the sample (N=294).⁵ The next group includes *combiners*, women who reported both earnings and cash assistance in the month prior to the interview; they are 27.1 percent of respondents (N=183). We define *welfare-reliant* mothers as those who reported no income from earnings in the month prior to the interview, but positive income from Temporary Assistance to Needy Families (TANF); they represent 20.4 percent of respondents (n=138). The remaining 8.9 percent (N=60) of the sample includes women who were neither working nor receiving TANF benefits in Fall 1998.

Table 3 shows how women in these work/welfare income categories differ in the prevalence of the barriers shown in each of the rows. The five barriers at the top of the table are measured only at wave one because any changes in their prevalence are likely to be endogenous with respect to work effort between waves one and two. For example, if a woman at wave one had not performed at least 4 out of the 9 work tasks on a previous job, we classified her as having low skills. The only way for her to have had low skills at wave one and not to have had low skills at wave two was for her to have acquired those skills while working on a job between the two waves. The six barriers toward the bottom are evaluated at both waves, as they represent barriers that may be episodic. A woman is counted as having these barriers only if they were

present at both waves. The last row of the table shows the mean number of barriers for women in each of the work/welfare categories.

The results are quite dramatic—the women who are wage reliant at wave two (second column) are much less likely to have most of these barriers to employment and the women who were not working at wave2 (columns 4 and 5) are much more likely to have them. The welfare reliant mothers have the highest prevalence on 10 of the 11 barriers (although some of these differences are not significant). The bottom row shows that the average number of barriers for the wage-reliant women was 1.2, whereas it was 1.4 for combiners, 2.3 for welfare-reliant mother and 2.0 for those who were not working and not receiving welfare.

These differences are present for human capital variables. For example, 22.8 percent of the wage-reliant have less than a high school degree, compared to 45.7 percent of the welfare-reliant. They are also present for mental health and health barriers. For example, 10.9 percent of the wage-reliant met diagnostic screening criteria for at least one of the three mental health diagnoses we asked about at each wave, compared to 24.6 percent of the welfare-reliant. Those combining work and welfare tend to have prevalence rates midway between the wage-reliant and the welfare-reliant.

Figure 4 graphs the relationship between the number of barriers and the extent of work, measured by the percentage of months a respondent worked between the two surveys.⁶ The numbers in parentheses are the percentages of the respondents who have a specific number of barriers (out of the 11 listed in Table 3). The results are striking—the percentage of months worked falls from 81.5 percent for the 27.4 percent of respondents who did not have any of the barriers to only 6.7 percent for the 1.9 percent of the sample with 6 or more barriers. A respondent with two barriers worked, on average, in about two-thirds of the months. This pattern of declining work as the extent of barriers increases is remarkably similar to the pattern we observed for those who were working at least 20 hours per week at the first wave of the survey (S. K. Danziger et al., 2000).

Despite a booming economy and pressures from state agencies to find jobs, it is difficult for many current and former welfare recipients to stay employed. About two-fifths of respondents worked in every month between the Fall 1997 and Fall 1998 surveys, whereas 13 percent did not work in a single month. The percentage working in any month between the two waves varied little, ranging from 60 to 70 percent. One reason that poverty has not declined as fast as has the caseload is that few former recipients are working full-time, full-year. In addition, as the next section shows, poverty in our sample remains high.

Financial Well-Being— Having shown that a substantial proportion of our sample was working in Fall 1998, I now evaluate the extent to which “work pays.” Respondents were asked to report, for the month before the interview, work hours, earnings, welfare receipt, and income from a variety of sources. These sources include earnings of other household members, cash assistance from TANF, Food Stamps, Social Security and other pension and disability income, Supplemental Security Income (SSI), unemployment compensation, child support, cash contributions from other household members and from outside friends and family, and about any other income not previously mentioned.⁷ We also asked about work-related child care and transportation. We also have information on cash assistance received from official records of Michigan’s Family Independence Agency.

Table 4 presents three measures of mean monthly income and the monthly poverty rate in Fall 1998 for women in our sample, classified by their work/welfare income status (see Danziger, Heflin and Corcoran, 2000, for more detail on other aspects of financial well-being). Monthly income is the sum of work-based income, welfare-based income, and income from other sources. The gross income measure includes and the net income measures exclude work-based transportation and child care expenses. In addition to the reported income sources, we imputed the value of the Earned Income Tax Credit (EITC) and the employee’s share of Social Security taxes. We imputed the value of the EITC based on respondents’ own earnings, unemployment insurance and number of children.⁸ The employee’s share of Social Security

taxes is 7.65 percent of reported earnings.⁹ Before turning to the results, I discuss some of the differences in receipt of the various income sources.

By definition, all wage-reliant women and all women who combine work and welfare had earnings in the interview month, whereas welfare-reliant mothers and those not working and not receiving welfare did not. Wage-reliant mothers earned more per month than did women who worked but still received welfare--\$981 versus \$626 (data shown in Danziger, Heflin and Corcoran, 2000). This earnings differential reflects both the higher work hours and wage rates of wage-reliant women. Compared to combiners, wage-reliant mothers were much more likely to be working at least 35 hours per week (66 vs. 37 percent), and they earned a higher average hourly wage (\$7.63 vs. \$6.52). Almost every working mother in the sample was eligible for the EITC. We estimate that wage-reliant mothers received, on average, \$203 per month; combiners received \$191. Social Security taxes decreased the earnings of wage-reliant mothers by \$75 per month and those of combiners by \$48 per month.

Substantial numbers of respondents co-resided with another household member who worked. About 36 percent of wage-reliant mothers, 21 percent of those combining work and welfare, 17 percent of welfare-reliant mothers and 52 percent of those neither working nor receiving welfare lived in a household with an additional earner. These other earners, many of whom are husbands or cohabiting partners, earned on average more than the respondents.

All welfare-reliant mothers and those combining work and welfare, by definition, received cash TANF benefits that averaged \$441 and \$275 per month, respectively.¹⁰ Welfare-reliant mothers and combiners were much more likely to receive Food Stamps than wage-reliant mothers and those not working and not receiving cash assistance—about 90 percent of those in the former two groups, compared to about half of the latter two groups. The average value of Food Stamps ranged from \$182-\$240 across the three groups.

Wage-reliant women had higher child care and transportation costs than did welfare-reliant women. The majority of both groups of working mothers (77 percent of wage-reliant mothers and 64 percent of women combining work and welfare) reported work-related

transportation expenses that averaged \$74 and \$63 per month, respectively. Slightly more than one-quarter of the two groups of working mothers reported out-of-pocket child care expenses that averaged \$264 to \$316 per month.¹¹ Welfare-reliant mothers who are searching for work may incur work-related costs as well—11 percent of welfare-reliant mothers reported work-related transportation costs, and 7 percent work-related child care costs.

In Table 4, I evaluate three measures of monthly income. First, income from all sources, except the earnings of other household members, is summed, the EITC is added and the payroll tax is subtracted—gross monthly income (row 1). Then, work-related transportation and child care expenses are subtracted—net monthly income (row 2). These measures exclude the earnings of other household members because we do not know the extent to which they actually share their earnings with the respondents. In row 3, we add these earnings. The average net monthly income (row 2) was \$1251 for wage-reliant mothers, \$1271 for combiners, \$924 for welfare-reliant mothers and only \$446 for those not working and not receiving welfare. Adding in the earnings of other household members raised these averages to \$1726, \$1518, \$1097, and \$1138, respectively. Because a much larger percentage of the women who are not working and not receiving welfare live with another earner, the increase in their row 3 income relative to that in rows 1 and 2 is much greater than the increase for the other three groups.

For all three measures, working mothers have a substantial income advantage over welfare mothers. When we excluded earnings of other household members, average net income for wage-reliant mothers was about 35 percent higher than that of welfare-reliant mothers. When we included earnings of other household members, wage-reliant mothers had an average net income that was 58 percent higher than that of welfare-reliant mothers, and women combining work and welfare had a net income that was 38 percent higher than that of the welfare-reliant. The women who have the lowest income are those who remained on welfare and do not work—thus, it does pay to move from welfare to work.

The bottom rows of Table 4 presents differences in the monthly poverty rate among the four groups of respondents (we divide the official 1998 federal poverty threshold for a household

of that size by 12). A large portion of workers remain poor. When work-related expenses are not subtracted, 46.0 percent of wage-reliant mothers, 53.0 percent of combiners and about 90 percent of welfare-reliant mothers and those who were neither working nor received welfare were poor (row 4). When work expenses are subtracted (row 5), poverty increases; when the earnings of other household members were included (row 6), the poverty rates for the wage-reliant, combiners, the welfare-reliant, and those neither working nor receiving welfare fall to 42.2 percent, 52.5 percent, 86.2 percent and 78.3 percent, respectively.

The good news is that poverty is much lower for all three income concepts for workers than for nonworkers. In addition, when we compare the actual earnings of each wage-reliant mother to the maximum TANF benefit she would receive if she were a nonworking welfare recipient, we find that 80 percent earn more than the benefit (and Michigan has above-average benefits). The bad news is that poverty remains very high for workers and that the annual poverty rate would be higher than Table 4 indicates because most respondents do not work, and hence do not earn this much, in every month.

We have not attempted to decompose the extent to which these differences in poverty rates are due to welfare policy changes, the very favorable economic climate or other policy changes. But, in Michigan, changes in the earnings disregard and the absence of a time limit have encouraged women to combine work and welfare. Women whose earnings would have disqualified them from cash assistance a decade ago can now receive some welfare benefits. And, even if the benefit amount is small, it increases the likelihood that they will continue to receive Food Stamps and Medicaid. It is also the case that the tight labor market has made it easier for respondents to get and keep jobs. Nonetheless, most working respondents are not escaping poverty on their paychecks alone. And, a substantial fraction of the wage-reliant and combiners in our sample continue to receive government assistance (e.g., TANF, Food Stamps, EITC) and/or to rely upon cash contributions from friends and family.

These early lessons from welfare reform suggest that, in a booming economy, most welfare recipients can find some work and many can escape poverty. The economic incentives

now in place are in accord with the goals of policy planners—on average, wage-reliant mothers and those combining work and welfare are economically better off than welfare-reliant mothers. These results also suggest that more attention should be paid to factors which may prevent the welfare-reliant from going to work. The new economic incentives and the increased pressure to leave the welfare rolls make it unlikely that many welfare-reliant mothers are rejecting work and choosing to stay on welfare. Rather, as shown in Table 3 and Figure 4, many of them have problems, such as poor physical and/or mental health or lack of job skills, which prevent them from getting and keeping jobs even when unemployment rates are low.

In the aftermath of welfare reform, many welfare-reliant mothers are at high risk of losing their welfare benefits due to impending sanctions and/or time limits. And, in many states, mothers combining work and welfare are also at risk of losing benefits due to impending time limits. Now that it is economically beneficial to move from welfare to work, there remains a need for policies to make work pay enough so that a greater percentage of working mothers can escape poverty and for enhanced policies to help welfare-reliant mothers move into regular jobs or into subsidized employment.

Policy Implications

In 1959, Robert J. Lampman testified to the Joint Economic Committee of Congress (*The Low Income Population and Economic Growth*) that:

A more aggressive government policy could hasten the elimination of poverty and bring about its virtual elimination in one generation. A program directed against poverty should be of several parts. The basic part should be one of insuring high levels of employment and increasing average product per worker. This should be supplemented by special private and public programs for those groups who do not readily share in the benefits of economic progress. . . . Almost a fifth of the nation's children are being reared in low-income status, and it is critical in the strategy against poverty that these children have educational opportunities that are not inferior to the national average. The costs of such a program would be offset by positive gains in terms of both economic and human values (pp.4-5).

Unfortunately, 40 years later, the very same aggressive policies are needed if our generation is to "hasten the elimination of poverty." Despite unprecedented prosperity, more than a fifth of the nation's children are now being raised in poverty. And, despite self-accolades about our compassion, we are, as a nation, not even discussing, much less pursuing, an "aggressive policy" to "hasten the elimination of poverty."

Declining employer demand for less-skilled workers means that their wage rates remain low. Thus, poverty stays high despite very tight labor markets. Additional policy responses are required if we are to ensure that a single mother working full-time at the minimum wage will have an income above the poverty line, after accounting for taxes paid, tax credits and work related expenses. Policies to achieve this goal can be easily implemented, if we are willing to spend government funds on them.

Any social welfare system produces errors of commission and omission. The pre-1996 welfare system did provide cash assistance to some who could have made it on their own in the labor market. Some welfare recipients were unwilling to look for a job, others turned down job offers because the wages were low or because they did not provide health insurance. It is not unreasonable for taxpayers to expect that anyone offered a minimum-wage job will accept it. Indeed, the 1996 welfare reform has already eliminated benefits for anyone who does not search for work or co-operate with the welfare agency.

Finding a job has become more difficult for less-skilled workers in the past quarter century. The early results from welfare reform reviewed here suggest that many recipients are likely to "hit time limits" even if economic conditions remain as favorable as they have been. They will be terminated from cash assistance even though they are willing to work, either because they can not find any employer to hire them, or because their personal attributes make it unlikely that they can work steadily. This problem will increase during recessions and will persist even in good economic times because employers continue to escalate their demands for a skilled workforce.

Because I support a work-oriented safety net, I am not suggesting we return to the pre-1996 status quo. Welfare recipients and the unemployed should have the personal responsibility to look for work, but if they diligently search for work without finding a job, assistance should not be terminated. At a minimum, those who are willing to work but unable to find jobs should be offered an opportunity to perform community service in return for continued assistance. A more costly option, but one that would have a greater anti-poverty impact, would be to provide low-wage public service “jobs of last resort.”

Our panel study also suggests that many welfare recipients face multiple barriers to employment—e.g., health and mental health problems, low education and job skills. Some will need greater access to treatment and social services before they can even take advantage of community service employment. And, many could benefit from relatively modest changes in current work first programs, such as increased emphasis on and support for job retention services.

For people who are able to find jobs, the key elements of a policy “make work pay and end poverty as we know it” are expanded wage supplements, refundable childcare tax credits, extensions of transitional Medicaid and a higher minimum wage. The Earned Income Tax Credit (EITC), substantially expanded in 1993, has done much to offset the decline in real wages for workers at the bottom of the earnings distribution who work year round and who have children. Further increases in the EITC, for example for married couples, absent fathers, and families with three or more children, would make the federal income tax more progressive and increase the EITC’s already-large anti-poverty impact. Several states have adopted their own EITCs for families with children, something other states should consider, especially those that continue to impose income and high sales taxes on the working poor.

Many of the working poor spend a substantial portion of their earnings on child care. The Dependent Care Credit (DCC) in the federal income tax needs to be made refundable, as this would raise the disposable income low-income working families who spend substantial sums on childcare but do not benefit from the way the credit is currently structured.

In addition, in our study, almost one-third of welfare leavers had no health insurance for themselves in Fall 1998, as they had exhausted their transitional Medicaid benefits and either were not covered by their employer or could not afford required monthly payments. Extension of transitional Medicaid for a longer time or an expansion of CHIP to parents who are former welfare recipients would help address this problem. Finally, the minimum wage should be increased. This is a change that Congress has seemed ready to adopt since 1999, although it has floundered to date.

We have increased work expectations and demands for personal responsibility on the part of welfare recipients. Now it is time for us to increase demands on government for mutual responsibility. What is required if we are to reduce poverty as well as welfare dependency is an increased willingness to spend public funds to develop a work-oriented safety net.

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Endnotes

¹ In a time series regression analysis (not shown), the nonmetro poverty rate is estimated to be more responsive to increases in national per capita income than is the central city poverty rate. The central city rate is more responsive to changes in the national unemployment rate.

²These data are based on computations from the March Current Population Surveys by Deborah Reed, Public Policy Institute of California. The sample includes unmarried female heads of household with at least one co-resident child under 18, who were in the civilian labor force and had at least \$1 of earnings. Students, those whose primary job is unpaid, and the self-employed are excluded.

³ A third interview was fielded during Winter 1999/2000, with a response rate of 91 percent; a fourth interview is planned for Fall 2001.

⁴ Wave 2 has data on 79 percent of the original sample, i.e. the product of the wave one and the wave two response rates— $.86 \times .92$.

⁵ Our use of income sources during a single month may overstate well-being differences across the three groups if earnings are less stable than welfare income. We examined alternative classifications in which mothers were considered wage-reliant and welfare-reliant only if they were in these categories for three consecutive months. The results do not differ much from those presented here.

⁶ SSI income reported by respondents and included in Table 4 was received by their children or another household member; respondents who received SSI on their own are excluded from the analyses.

We estimated the monthly EITC by using monthly income sources as proxies for annual income (i.e. We multiply monthly income from own earnings and unemployment insurance by 12 months). The credit was calculated using only respondent's earned income and our estimates of adjusted gross income (which includes unemployment insurance). Eligibility was determined by the number of children and amount and source of income. We assumed that no untaxed earned income, interest and dividends, student loan interest or scholarship income was received, and no IRA deductions were paid by respondents. We assumed income reported in the category of "disability, pension or social security income" reflected Supplemental Social Security benefits or pension income of other household members and is therefore non-taxable. We assumed that respondents file returns with themselves and their children as a single tax unit. We thus excluded other household members' income and assumed that all children were dependents of the respondents. We do not adjust for federal and state income taxes; this would reduce the value of work further. On the other hand, we also do adjust for the tax credit which Michigan provides working renters through the state income tax.

We used administrative data for TANF income rather than self reports, because the latter tend to be too low for women whose rent or utilities are vendored (i.e. paid directly to the landlord or utility company). For example, in fall 1998, almost 15 percent of welfare recipients had their rent vendored. On the other hand, for some respondents, the administrative record value of the TANF benefit is too high. Because the state pays benefits "prospectively," a woman just who starts a job or increase her hours of work, will later have her TANF payment adjusted downward

and the state would recover the overpayment. A third interview was fielded during Winter 1999/2000, with a response rate of 91 percent; a fourth interview is planned for Fall 2001. The percentages of working mothers who reported child care expenses were low because many received subsidized child care and/or relied upon friends and family members or had no young children. In Michigan, child care subsidies are available for all welfare recipients and for working families whose incomes fall below 85 percent of the state's median income. Child care costs were higher for wage-reliant mothers than for women combining work and welfare, in part, because the former worked, on average, 6 more hours per week on all jobs. In a time series regression analysis (not shown), the nonmetro poverty rate is estimated to be more responsive to increases in national per capita income than is the central city poverty rate. The central city rate is more responsive to changes in the national unemployment rate. Wave 2 has data on 79 percent of the original sample, i.e. the product of the wave one and the wave two response rates—.86 x .92. Our use of income sources during a single month may overstate well-being differences across the three groups if earnings are less stable than welfare income. We examined alternative classifications in which mothers were considered wage-reliant and welfare-reliant only if they were in these categories for three consecutive months. The results do not differ much from those presented here. These data are based on computations from the March Current Population Surveys by Deborah Reed, Public Policy Institute of California. The sample includes unmarried female heads of household with at least one co-resident child under 18, who were in the civilian labor force and had at least \$1 of earnings. Students, those whose primary job is unpaid, and the self-employed are excluded.

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