Distinguished Lecture on Economics in Government:

Fighting Poverty: Lessons from Recent U.S. History

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Abstract

Welfare reform efforts in the 1990s aimed at reducing welfare dependence and moving women into work. Public assistance use fell and labor force participation among mothers rose at a stunning rate over the decade. Poverty declined, but at a slower rate. These changes are causally related to the strong macroeconomy, welfare reform efforts, and other policy changes, especially the EITC and minimum wage expansions. This paper concludes that all of these effects reinforced each other, producing very large behavioral changes. It is too early to predict the effects of these changes on long-term family well-being.

In his 1964 State of the Union address, his first after assuming the presidency, President Lyndon Johnson declared a war: "This administration today, here and now, declares unconditional war on poverty in America." The result of Johnson's declaration was a series of major legislative changes, whose success (or failure) is still hotly debated.

By the mid-1990s, the focus of policy concern had shifted from fighting poverty to reducing welfare dependence. However, one might argue that the 1990s, rather than the 1960s, were truly the decade in which the United States fought a war on poverty. The 1990s were a time of substantial legislative change in programs designed to assist low-income families. At the same time, a remarkable change also occurred in the behavior of low-income families, with plummeting use of public assistance and substantial increases in labor market involvement. In this lecture, I start by documenting the magnitude and speed of these behavioral changes during the 1990s and then investigate the role of both the macroeconomy and policy in producing these outcomes. I end by discussing how these changes may or may not translate into improvements in long-term family well-being.

The Successes of the 1990's War on Poverty

The first and most obvious sign that something different happened in anti-poverty policy in the 1990s occurs in the data showing the number of households receiving public assistance. The dark line in Figure 1 shows the number of households receiving cash support, funded

through the Aid to Families with Dependent Children (AFDC) program prior to 1996 and the Temporary Assistance for Needy Families (TANF) block grant after 1996. The dotted line in Figure 1 shows the changes in the number of households receiving food stamps over this period. The vertical line indicates the passage of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, a major welfare reform bill that produced a series of policy changes that are discussed further below. Caseloads rose rapidly in the early 1990s, but began to decline prior to the enactment of the welfare reform act, suggesting that legislation was not solely responsible for these changes.

Between January 1994 and June 1999, AFDC/TANF caseloads were cut in half, falling from 5.0 million to 2.5 million, while food stamp caseloads have followed a very similar trend. There are currently fewer people receiving cash support through public assistance than there have been in any year since 1971. Strikingly, this statement is true even though the population of those most likely to be eligible for welfare -- female-headed families with children -- grew enormously over this period. The share of single mothers on welfare (based on administrative caseload counts divided by population numbers) rose from 38 percent in 1969 to 48 percent in 1980, but had fallen to 30 percent by 1998. These caseload changes are widespread, with every state in the country experiencing substantial caseload decline. This decline has been widely hailed by politicians as an indication that policies designed to reduce dependence on public assistance and move less-skilled adults into the labor market have been extremely effective.

The caseload information by itself provides little information on whether declines in receipt of public assistance have been matched by increased work effort. On the labor market side, however, there have indeed been remarkable increases in labor force participation. Figure 2

shows changes from 1979 to 1999 in the share of mothers with young children (women ages 20 to 65 with children under the age of six) participating in either the labor force or full-time schooling, which I'll call the labor force participation/preparation rate. The dotted line in Figure 2 plots this rate among married mothers; the dashed line plots the same rate among widowed/divorced/separated mothers; and the solid line plots the rate for never-married mothers.

While married mothers with young children have experienced a steady increase in their rate of labor force participation/preparation over this entire period, the rate of increase has slowed somewhat in recent years. In sharp contrast, never-married mothers and widowed/divorced/separated mothers with young children have experienced sharp increases in their rates of participation/preparation in the 1990s, with particularly large increases occurring in the mid-1990s. Between 1989 and 1999, the rate of participation/preparation rose by 20 percent among widowed/divorced/separated mothers with young children, while it rose by 34 percent among never-married mothers. These are enormous changes within a relatively short period of time; in fact, they are comparable to the aggregate increases in female labor force participation in the 1960s and 1970s that generated so much comment.

These changes are even more striking when compared with labor force behavior by equivalent groups of women who have no children. There has been no increase in the rate of labor force participation/preparation among widowed/divorced/separated and never-married women age 20 to 65 who do not have children. This suggests that the forces impacting mothers with young children are not the result of changes affecting the entire female labor market, but rather reflect changes unique to mothers with young children, and particularly single mothers.

The behavioral changes underlying the trends in Figures 1 and 2 constitute a revolution.

The frequently stated goal of welfare reform efforts in the 1990s was to reduce welfare dependency and to move more women into work. This goal has been accomplished, at least in the short run, far more successfully than anyone would have predicted at the beginning of the decade.

Of course, declines in welfare and increases in work do not necessarily signal anything about poverty. It is possible that more people are working harder, but have only barely been able to replace welfare income with earnings. However, Figure 3 shows the steady decline in poverty rates that occurred throughout the decade. The solid line plots the poverty rate among all persons (the share of population living in a family whose income is below the official U.S. poverty line), while the dashed line plots the poverty rate among female-headed families. Poverty rates fell slowly following the economic slowdown in 1990-91, although they fell somewhat more rapidly among single mothers. By 1998, poverty was at its historical low point among single mothers. (Persons in single mother families with children under age 18 constituted 37 percent of all poor persons and these families accounted for almost half of all poor families in 1998.) Alternative measures of poverty, which are based on disposable income and count in-kind transfers and tax payments, indicate poverty among single mothers fell even faster than the official rate in the 1990s, largely because of the expansion of the Earned Income Tax Credit over the 1990s (U.S. Census Bureau, 1999).

These poverty counts are only one (relatively inadequate) way to measure changes in broader family well-being. Primus, et al. (1999) note that the number of persons leaving public assistance is substantially higher than the number of people leaving poverty over the mid-1990s, i.e., the fall in poverty is much more gradual than the decline in caseloads. This suggests that

some group among the poor may have been made worse off by these changes, a topic I return to below.

The behavioral changes over this past decade are remarkable in both their speed and magnitude. I turn next to the causal factors behind these changes, asking "What lessons can we draw for anti-poverty policy from 1990s?"

Lesson 1: A Strong Macroeconomy Matters More than Anything Else

In February 2000, the current economic expansion set a record as the longest in U.S. history, lasting more than 106 months (the length of the expansion in the 1960s). Over this time period, investment growth has been strong, the federal government eliminated its annual deficits, productivity growth has been above trend, and inflation has remained low. All of these economic outcomes have benefited workers.

In the labor market, employment growth has been high, with over 20 million new jobs created over the expansion by the end of 1999, while unemployment has been extremely low for several years. By the late 1990s, unemployment had returned to the low levels experienced in the 1960s. As I write this in early 2000, unemployment has been at or below 5 percent since April 1997 and at or below 4.5 percent since April 1998. Hispanic and black unemployment rates are at their lowest recorded levels since those numbers began to be tabulated. Female unemployment rates are lower than they have been since 1969. Even among high school dropouts -- a group whose unemployment rates have long been in the double-digits -- unemployment in December 1999 stood at 6.0 percent.

Low unemployment has always disproportionately benefited less skilled workers. When employment grows, the previously unemployed, the part-time workers, the underemployed, and those out of the labor market are most able to benefit. A tight labor market also forces employers to turn to less traditional sources of labor, providing training and job opportunities to workers who might not have been considered for more skilled positions in a different economy.

These employment trends have been recently reinforced by substantial wage growth among workers of all skill levels. From the late 1970s through the early 1990s, wage inequality widened in the United States, with wages actually declining among less skilled workers at the same time as they rose among the more skilled. During the economic expansion from 1983 to 1990, less-skilled workers worked more hours and their unemployment rate fell, but their wages fell at the same time, offsetting the earnings gains they would otherwise have experienced (Blank, 1993).

While there is little evidence of wage gains for less skilled workers in the early part of the 1990s expansion, wage increases among the less skilled have been quite strong since 1996 (although these gains have not been large enough to make up for the previous two decades of wage decline among this group.) The Council of Economic Advisers (1999a) indicates that historically disadvantaged workers (blacks, young workers, immigrants) have shown particularly strong wage gains in the last few years. This means that both wages and employment have risen in recent years, so that the wage gains should have reinforced the employment gains, thereby providing greater income to low-income working households.

This strong economy has been important to all three of the trends documented above: declining caseloads, expanding labor force participation, and falling poverty rates. Depending on

the study, between one-third and two-thirds of the caseload change in the early to mid-1990s appears due to economic factors. Wallace and Blank (1999) cite a variety of studies using state panel data which indicate that a one-point decline in unemployment produces about a 4 percent decrease in AFDC caseloads. Figlio and Ziliak (1999) estimate even larger effects. Schoeni and Blank (2000) use a similar panel data methodology and find that low unemployment rates and high employment growth rates increase work behavior and reduce poverty rates.

My own past work on the role of the macroeconomy in reducing poverty documents changes in the relationship between unemployment and poverty. Blank and Blinder (1986) offered estimates of how lower unemployment should reduce poverty, but in Blank (1993), I noted that the expansion of the 1980s did not produce the predicted declines in poverty. I argued that the decline in unemployment over the 1980s (which should have lowered poverty) had been offset by the decline in real wages among less skilled workers (which should have raised poverty), producing a much more sluggish response of the overall poverty rate to economic expansion.

Table 1 updates this analysis using annual data from 1960 through 1998 to estimate the determinants of aggregate U.S. poverty rates. In column 1, U.S. poverty rates are regressed against a set of economic variables. I include a dummy variable running over the cycle of the 1980s (from 1980-89) and the cycle of the 1990s (from 1990-99), and interact this dummy variable with the unemployment rate as well. The results confirm that although the unemployment rate was significantly and positively associated with poverty in the 1960s and 1970s, its impact changed dramatically in the 1980s. The estimated effect in the 1980s actually suggests that decreases in unemployment raised poverty; that is, the regression indicates that a

one-point decline in unemployment in the 1980s is associated with a 0.05 (0.27-0.32) rise in poverty rates.

For the 1990s, the relationship between unemployment and poverty is weaker that in the 1960s and 1970s, but stronger than in the 1980s. Particularly by the mid-1990s when wages began to rise, one might expect that the rising wages would have reinforced the decline in unemployment, leading to stronger effects of the economy on poverty. Consistent with this hypothesis, if one defines the 1990s dummy only over the expansion of the 1990s (1992-98), a stronger positive relationship between unemployment and poverty emerges (although still weaker than in the 1960s). [1]

Columns 2 and 3 investigate poverty rates among female-headed families and black families, groups that are highly likely to be receiving public assistance. Among these groups, the unemployment rate actually has a stronger effect in the 1990s than in any earlier decade (the combined coefficients on unemployment rates and unemployment interacted with the 1990s dummy variable are significant and more positive than is the coefficient on the unemployment rate alone.) In short, Table 1 provides further evidence that the strong labor market helped decrease poverty in the 1990s among public assistance recipients.

While the strong economy appears to have been highly important in affecting outcomes among low-income families in the 1990s, it is difficult to measure these impacts precisely for several reasons. First, most of our economic measures reflect average economic effects (such as aggregate state unemployment rates), and do not measure the specific economic changes facing less-skilled workers. Second, the strong economy has affected not only poverty but also economic policy, and it is especially hard to measure the magnitude of the effect on policy. For

instance, the willingness of some states to enact their own Earned Income Tax Credits may be partially due to the flush situation of many state budgets in this economy. In addition, the strong economy and the availability of jobs has made it much easier for states to implement the program design and administrative changes required to reorganize their public welfare offices into work-oriented programs. Third, economists have a very poor understanding of how economic growth affects some of the more informal ways in which low-income families receive income. We know little about the relationship between economic growth and the underground economy. We know little about how much absent parents or boyfriends or other family members are more willing to share incomes with single mothers in good economic times and bad. There may be correlations between economic growth and family formation patterns which affect long-term economic well-being.

Ultimately, I believe that the first and most important lesson for anti-poverty warriors from the 1990s is that sustained economic growth is a wonderful thing. To the extent that policies can help maintain strong employment growth, low unemployment, and expanding wages among workers, these policies may matter as much or more than the dollars spent on targeted programs for the poor. If there are no job opportunities, or if wages are falling, it is much more expensive -- both in terms of dollars and political capital -- for government programs alone to lift people out of poverty.

Lesson 2: Public Assistance Program Design Can Increase Work Incentives

It is unlikely that strong economic growth alone explains the striking movements in

welfare caseloads and labor market participation in the 1990s. In fact, my own interpretation of the evidence is that strikingly large changes in behavior have occurred because economic forces have reinforced the direction of policy, and both policy and economics have worked together to change behavior much more strongly than either one alone would have been able to accomplish.

Welfare policies have evolved throughout the 1990s. In the early 1990s, the Federal government granted a growing number of waivers, allowing states to experiment with alternative rules for the AFDC and Food Stamp programs. A variety of studies suggest that these waivers overall decreased caseloads (Wallace and Blank, 1999; Council of Economic Advisers, 1999b), increased work and reduced poverty rates (Schoeni and Blank, 2000). In 1996 Congress passed the Personal Responsibility and Work Opportunity Reconciliation Act, which fundamentally changed the public assistance system in the United States. This act abolished AFDC, which offered matching funds to states, and replaced it with the Temporary Assistance to Needy Families (TANF) block grant to states. This change continued a stream of federal funding to state-run public assistance programs, but allowed states almost total discretion in setting the rules for eligibility and benefits. The 1996 welfare reform act also enacted time limits, which allow families to receive assistance from a TANF-funded program for no more than 60 months (cumulative) over a lifetime. In addition, the welfare reform act strengthened the incentives for states to increase their work-welfare efforts. Other changes in the bill abolished eligibility for most types of public assistance among non-citizens, limited Food Stamp eligibility for non-elderly adults without children, and removed a number of disability categories from Supplemental Security Income (the cash assistance program for low-income disabled and elderly persons).

In the aftermath of the 1996 welfare reform, states have implemented an increasingly diverse set of public assistance programs.[2] In comparison to the old AFDC program, states are more actively doing "diversion," which gives applicants one-time assistance without enrolling them in ongoing TANF-funded programs; they are experimenting with benefit programs which allow recipients to keep a higher level of public assistance benefits after going to work, which both increases work incentives and income among working low-income families; they are working to transform public assistance offices into employment assistance offices, where applicants are given constant incentives to seek and find work; they are doing more sanctioning, imposing penalties on those who do not respond to work incentives; and they are spending more money on work-related programs (such as child care or transportation assistance) relative to cash benefits. While different states have opted for very different programs, it is accurate to say that most states are trying much harder to increase work among existing recipients, to support work among ex-recipients, and to encourage applicants to move into work rather than receive public assistance.

It is still early to measure the effects of these changes on low-income behavior. Most TANF-funded programs were not implemented until sometime in 1997, and often were not fully functioning until even later. This means that most currently available data comes from the transition period in which these programs were being implemented. Only a few papers have used post-1996 data to look at average effects of policy over the 1997-98 period (CEA, 1999b; Schoeni and Blank, 2000). These papers, along with a wide variety of observers collecting case-study evidence, agree that the welfare policy changes have had a significant negative effect on the caseload. There is less research relating TANF changes to work behavior or poverty rates.

Probably the best evidence comes from simply observing the timing of the labor force participation increases, as shown earlier in Figure 2, with very large increases in work among mothers with small children between 1995 and 1997. Schoeni and Blank (2000) – using admittedly crude techniques -- indicate that TANF appears to reduce poverty but its effect on work behavior depends upon estimation strategy.

Given the magnitude of these welfare reform policy changes and the widespread publicity they have received, it would be astonishing if they did not have significant affects on behavior. However, these policy effects are also hard to measure. First, it is hard to develop detailed characterizations of complex state programs that are usable in quantitative analysis. Second, it is hard to discern the difference between the legislation and regulations states have passed, and what the states are actually doing in the field as they implement these new approaches. Third, the economic changes and the policy changes intermix in a variety of ways, as noted above, and the joint effects are hard to separate. States have almost surely been able to make faster and more fundamental changes to their programs because the strong economy provided both a more solid financial base and an easier environment in which to implement work-oriented welfare programs. Fourth, the mix of program options continues to evolve in almost all states, as states are experimenting with different approaches. In a period of such change and transition, it is almost impossible to measure the effects of any individual program component (because so much else is changing at the same time), and it is also difficult to reach any consensus about the long-run effects of these changes.

While the overall effects of welfare reform writ large across the country are hard to pin down, a few places have experimented with a particularly innovative type of financial incentive

program designed to increase work behavior while not reducing income. Several of these financial incentive programs have been studied with experimental methods, in which participants were randomly assigned to different program models. The evidence from these new program experiments is quite striking to those who remember the negative income tax experiments of the 1970s, which found that government assistance produced work reductions and so a large transfer of government resources was required to raise incomes. In a review of the evidence from the negative income tax experiments, Burtless (1986) estimated that it took $3 in government aid to raise family incomes by $1. In contrast, financial incentive programs result in increased employment and reduced poverty.

The new programs have focused on combining financial incentives to move into employment with work mandates. For instance, the Minnesota Family Investment Program (MFIP) substantially decreased the benefit reduction rate for public assistance recipients, thus allowing them to keep more public assistance income as they went to work, but mandated participation in work/welfare programs. An experiment in Canada called the Self-Sufficiency Project (SSP) provided substantial financial support to long-term public assistance recipients who went to work 30 hours or more.[3]

Table 2 summarizes some of the key results from these two experiments. The evidence suggests that employment, earnings, and family income increased substantially for program participants, while poverty fell. This is true for both new applicants as well as long-term recipients of public assistance in SSP; the strongest effects in MFIP were among long-term welfare recipients only. These programs were not money savers for the government, since they provided more assistance to low-income workers than did more traditional welfare programs.

This is one reason many states have not followed Minnesota's lead in implementing such a program. However, for states that are particularly interested in both reducing poverty as well as increasing work behavior, these programs provide clear evidence that these two goals can be achieved together.[4] It is also worth noting that the Canadian economy was not nearly as strong as the U.S. economy over the 1990s, so that the SSP results demonstrate that such programs can work even in a higher unemployment environment.

Results from the MFIP program make it possible to decompose the effects of the financial incentives from the employment mandates. In this program, the employment mandates produced the work and earnings gains, and the financial incentives produced the anti-poverty results. This finding emphasizes the importance of both of these program components -- the carrot of financial incentives plus the stick of employment mandates work together to produce overall positive outcomes.

These experiments indicate that there is something new about policy to be learned in the 1990s. Financial incentive programs, linked to effective work requirements, can offer government assistance to reduce poverty without also reducing work behavior.

Lesson 3: Other Policies, Especially Wage Subsidies, Can Reinforce Welfare-to-Work Efforts

An enormous amount of research attention has been devoted to the effects of the 1996 legislation and the new TANF-funded state programs, but these are not the only policy changes of the 1990s. A variety of other policies have also acted to reinforce work incentives.

The minimum wage went up four times in the 1990s, from $3.35 at the beginning of

1990 to $5.15 in 1997, an increase of 17 percent in inflation-adjusted terms, as shown at the top of Table 3. The very low unemployment rates among women and minority workers in recent years suggests that any disemployment effects from these recent minimum wage changes were swamped by the overall strength of the economy. More systematic evidence, which tries to adjust for aggregate macroeconomic factors, also suggests that the disemployment effects of these recent minimum wage increases were, at most, relatively small (Bernstein and Schmitt, 1998). The minimum wage increases disproportionately helped low-income families. Among persons earning between $4.25 and $5.15 an hour just prior to the 1996 and 1997 increases, 71 percent were adults, 58 percent were women, almost half worked full-time, and most lived in low-income families (Council of Economic Advisers, 1999a).

The minimum wage increases of the 1990s functioned in tandem with increases in the Earned Income Tax Credit (EITC), which provides wage subsidies to lower-wage workers. The EITC was expanded several times in the 1990s, increasing the subsidy received by families and allowing families with more than one child to receive higher benefits. The result was a huge increase in the value of the EITC to those workers eligible to receive it. The second part of Table 2 indicates that the real maximum subsidy from the EITC rose by 90 percent for families with one child and by 214 percent for families with two or more children between 1989 and 1998.

The third part of Table 2 indicates how these minimum wage and EITC changes reinforced each other to increase the returns to work. A single mother with one child who worked full-time at the minimum wage earned $9856 in 1989 (measured in constant 1998 dollars). With no changes in behavior, the same women earned $12,571 in 1998, an increase of 26 percent. A single mother with two children experienced a 40 percent increase in her income.

Clearly the value of employment rose significantly for those affected by these policy changes.

Several studies have indicated the importance of the EITC on work behavior. For example, about half of the increase in labor force participation among single mothers between 1984 and 1996 was due to the EITC expansions, according to Meyer and Rosenbaum (1999). Eissa and Liebman (1996) also find that the net effect of the EITC was to expand the work behavior of single mothers.[5]

Two final policy changes are also worth noting. First, there has been a substantial expansion in public child care subsidies. From 1990 through 1998, federal support for child care went from under $7 billion to over $11 billion annually (in 1998 dollars). Many states have also put more dollars into child care as part of their welfare-to-work efforts. The elasticity of labor force participation among mothers with children under 13 to child care costs is between -0.05 and -0.35, with consistently larger estimates for less-skilled mothers (Anderson and Levine, 2000, forthcoming), which suggests that the recent expansions in child care subsidies are another factor increasing labor supply among single mothers.

Second, health insurance coverage of low-income families by the Medicaid program has expanded steadily. Traditionally, women and children on public assistance have been automatically eligible for Medicaid, while most low-skilled jobs do not provide health coverage. As a result, moving from public assistance to work could mean the loss of health insurance, which would be a disincentive to work. While this problem is far from solved, it has gotten better. Throughout the 1990s, a growing number of children in low-income families (depending on the state, families between 135 and 185 percent of the poverty line) were automatically eligible for Medicaid. In addition, many welfare participants can now retain their Medicaid

eligibility for at least a year after they go to work and leave public assistance. Lack of insurance remains a significant problem among the low-income population; however, a larger proportion of the problem is now due to eligible persons who do not take advantage of their eligibility, particularly children, which is a very different problem from lack of coverage.

But Don't Declare Success Too Quickly

Back in 1990, nobody would have forecast as large a decline in caseloads or as large an increase in work behavior among single-mother families as has actually happened over the decade. In my opinion, this is the result of a conflux of events that all came together at the same time: a strongly expanding economy, substantial revisions in public assistance that emphasized work and reduced benefit eligibility, and major policy changes that increased the returns to work and the subsidies to support work, particularly among single mothers.

However, before concluding that major gains in the war on poverty have been permanently won, a number of caveats to these results must be noted.

First, it is not clear how sustainable these changes are in the long run or how reliant they are on the remarkably strong economy. Historical experience suggests that the past decade of low inflation and low unemployment is not typical. While it is always tempting to be optimistic about the prospects for better future economic conditions, there is little reason to believe that the economy has solved the fundamental problem of business cycles. America's increasingly global economy is also more open to economic shocks from abroad. Nor is the Phillips curve tradeoff between unemployment and inflation dead, although it may have shifted to the left for a variety

of both long-term and short-term reasons. State TANF programs are largely designed to work in an environment where jobs are readily available. When job availability becomes more limited, states will either have to accept greater poverty among those to whom they refuse benefits, or revise their programs to provide longer-term assistance (such as public sector employment) to those unable to find jobs.

Second, the long-term effects of less public support and more hours of employment on the economic well-being of low-income families is still uncertain. Even though poverty has fallen overall, there are still subgroups who may have experienced losses. One report indicates that the bottom income quintile of single mother families experienced a net income gain from 1993-97, but an income loss between 1995-97 (Primus et al., 1999). The bottom quintile of single mother families is an extremely poor group, all of whom were below the official poverty line in all of these years, so this evidence suggests some of the poorest families may have lost ground. Such findings may not be surprising in a world where more and more persons are being "diverted" and refused access to public assistance or are being sanctioned for non-adequate participation in work programs. In fact it is exactly those who are most disadvantaged and face the greatest barriers to employment who might not be able to take advantage of the employment expansion even in the face of expanded welfare-to-work efforts. This includes persons with learning disabilities, a past history of drug abuse or domestic violence, or with complex family needs.

Studies of people leaving welfare tend to suggest that the majority of persons who have left the rolls -- ranging from 55 to 85 percent in various studies -- are employed at a future date. The scant evidence available in a few states suggests that between one-half and two-thirds report

higher incomes post-welfare; Brauner and Loprest (1999) summarize these findings. But one might expect that -- even in a strong economy -- these policy changes would make life harder for some subset of women. In a weaker economy, the group who are made worse off by these changes would be even larger. It will be important over time to understand who is finding themselves worse off and why.

It is also unclear exactly how to translate changes in official poverty rates and in income into well-being. To the extent that employment involves child care and other work expenses, aggregate income and earnings changes may seriously overstate the changes in disposable income.

Third, while this discussion has focused entirely on family income and women's behavior, there is another key issue facing these families: the well-being of their children. Little past research has addressed the effects of welfare-to-work programs on the children. Some believe that mothers will gain an increased self-confidence through work that will spill over in making them more positive role models for their children. Others worry that the reduced hours available for parenting because of increased work effort will put children at greater risk. One particular concern is that while previous welfare-to-work programs were focused on women with older children, many states now enforce work requirements on the mothers of infants and very small children, which in turn focuses attention on the quality of child care available to low-income working mothers. A variety of studies are now in the field to examine the impact of strong work mandates on children. The results of these surveys will be important in evaluating the advantages and disadvantages of strong work-incentive programs aimed at single mothers.

Recent history demonstrates the extent to which both the macroeconomy and public

policy can influence the behavior of low-income families, and reinforces the lesson that both work incentives and job availability do matter. However, economists and policymakers probably shouldn't take too much credit for designing and accomplishing these dramatic changes. As in most cases when a confluence of forces come together to create major economic and behavioral changes, chance is an important ingredient. As I read the economic evidence, America's good fortune in the 1990s was at least partly due to the luck of certain economic events and forces occurring in the right order and at the right time. Certainly the length and strength of this economic boom was not foreseen when welfare reform was passed in the mid-1990s. Nor were the large EITC expansions enacted in 1993 with the explicit idea of legislating time-limited public assistance a few years later.

In the absence of the robust economy, the legislated changes in 1996 would likely have had much weaker effects. But in the absence of the 1996 reforms, the magnitude of caseload decline and labor force increases is likely to have been much smaller. Having accomplished dramatic short-run changes in behavior during the 1990s, the on-going challenge in today's war on poverty will be to build on these results. This means helping less-skilled workers maintain the labor market connections they have developed in recent years, even if the economy slows down. It also means working to assure that those employed at low wages are able to earn enough to build a stable economic life for their family and perhaps even experience improvements in their economic well-being over time if they persist in their employment and work efforts.

Table 1

The Effect of Macroeconomic Variables on Poverty Rates Among Various Groups

1960-1998
Dependent variable equals officially reported U.S. poverty rates

	All Persons	Female-Headed Families	Black Families
Poverty Rate (lagged one period)	0.50** (0.10)	0.07 (0.15)	0.26* (0.15)
Unemployment Rate	0.27** (0.07)	0.24 (0.19)	-0.06 (0.27)
Unempl. Rate * 1980s dummy variable	-0.32** (0.12)	-0.25 (0.31)	0.17 (0.44)
Unempl. Rate * 1990s dummy variable	-0.19 (0.16)	0.74* (0.43)	1.43** (0.61)
Consumer Price Index	-0.01 (0.04)	-0.24** (0.10)	-0.09 (0.09)
Poverty line/ Mean income	0.35** (0.06)	0.75** (0.12)	0.71** (0.23)
Constant	-7.70** (1.12)	8.89** (3.38)	-1.07 (6.60)
1980s dummy variable (1980-89 = 1)	3.39** (0.89)	2.96 (2.18)	0.22 (3.10)
1990s dummy variable (1990-98 = 1)	3.62** (1.09)	-2.34 (2.67)	-7.08* (3.96)
Number of observations	39	39	32

** Significant at 1 percent level; * Significant at 5 percent level.

Table 2

Impacts of Combined Financial Incentive/Employment Mandate Programs
On Single-Parent Welfare Recipients

	SSP		MFIP	
	Applicants[a]	Long-term Recipients[b]	Applicants[c]	Long-term Recipients[c]
Employment				
Treatment Group	53.7	40.8	56.3	51.7
Control Group	41.8	29.0	52.1	36.1
Impact	11.9**	11.8**	4.2*	15.6**
Annual Earnings				
Treatment Group	$7,671	$3,435	$6,405	$4,207
Control Group	$5,638	$2,198	$6,631	$3,191
Impact	$2,033**	$1,237**	-$226	$1,016**
Annual Family Income				
Treatment Group	$18,438	$14,710	$15,167	$16,607
Control Group	$15,764	$12,730	$14,223	$14,676
Impact	$2,674**	$1,980**	$944*	$1,931**
Poverty Rates				
Treatment Group	57.2	77.5	67.5	71.4
Control Group	68.5	89.8	72.1	85.2
Impact	-11.3**	-12.2**	-4.6*	-13.8**

**Significant at 1 percent level; *Significant at 5 percent level.
All data are reported in 1998 US dollars, based on the Consumer Price Index. Canadian dollars are converted to US dollars at the rate of 0.75 $US/$Can.

[a]From Michalopolous, et. al. (1999). Data are averages measured in quarters 8-9 after random assignment and are from a 30-month client survey (employment and earnings), as well as Income Assistance and SSP program records (income). Family income in both SSP columns equals earnings from all family members plus cash assistance less federal and provincial taxes. Poverty rate is calculated from the low-income cut-off defined by Statistics Canada.

[b]From Lin, et. al. (1998). Data are averages measured over quarters 5-6 after random assignment and are from an 18-month client survey (employment and earnings), as well as Income Assistance and SSP program records (income).

[c]From Miller, et. al. (1997). Data are averages measured over quarters 5-7 after random assignment (employment and earnings) and are from Unemployment Insurance records (employment and earnings) as well as welfare program records (income). Family income in both MFIP columns equals earnings of head plus cash assistance, including cash value of Food Stamps. Poverty rate is calculated from the official U.S. poverty rate.

Table 3

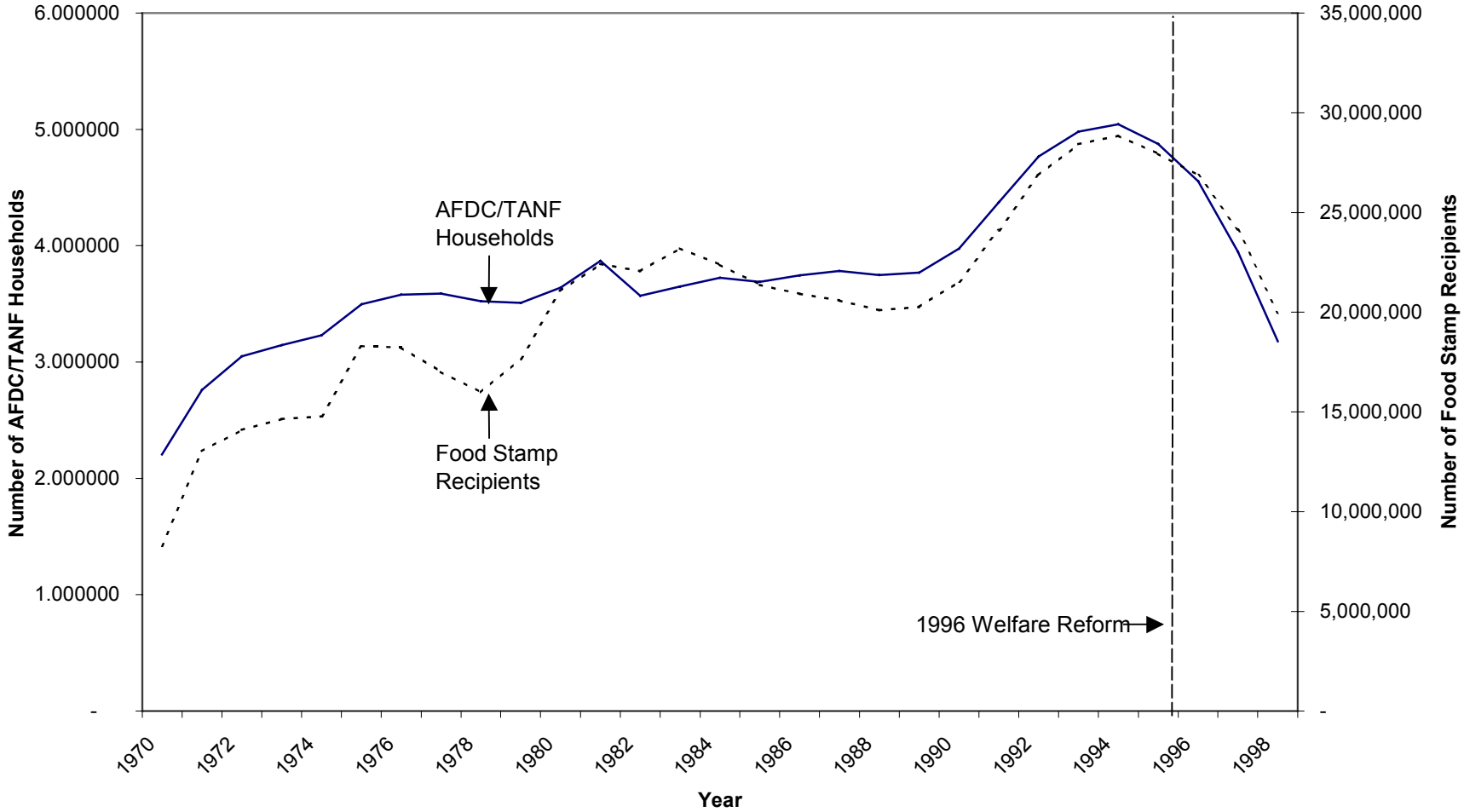
Effects of Changing Policy on Earnings of Single Mothers

(All numbers in 1998 dollars)

	1989	1998	Percent change
1. Minimum Wage	$4.41	$5.15	16.8
2. Maximum EITC subsidy			
Single Mother (1 child)	$1,197	$2,271	89.7
Single Mother (2 children)	$1,197	$3,756	213.8
3. Earnings			
(Single mother working full-time at minimum wage)			
Single Mother (1 child)	$9,856	$12,571	25.6
Single Mother (2 chidlren)	$9,856	$14,056	40.4
4. Ratio of Earnings to U.S. Poverty Line			
Single Mother (1 child)	0.89	1.16	
Single Mother (2 children)	0.76	1.03	

Figure 1

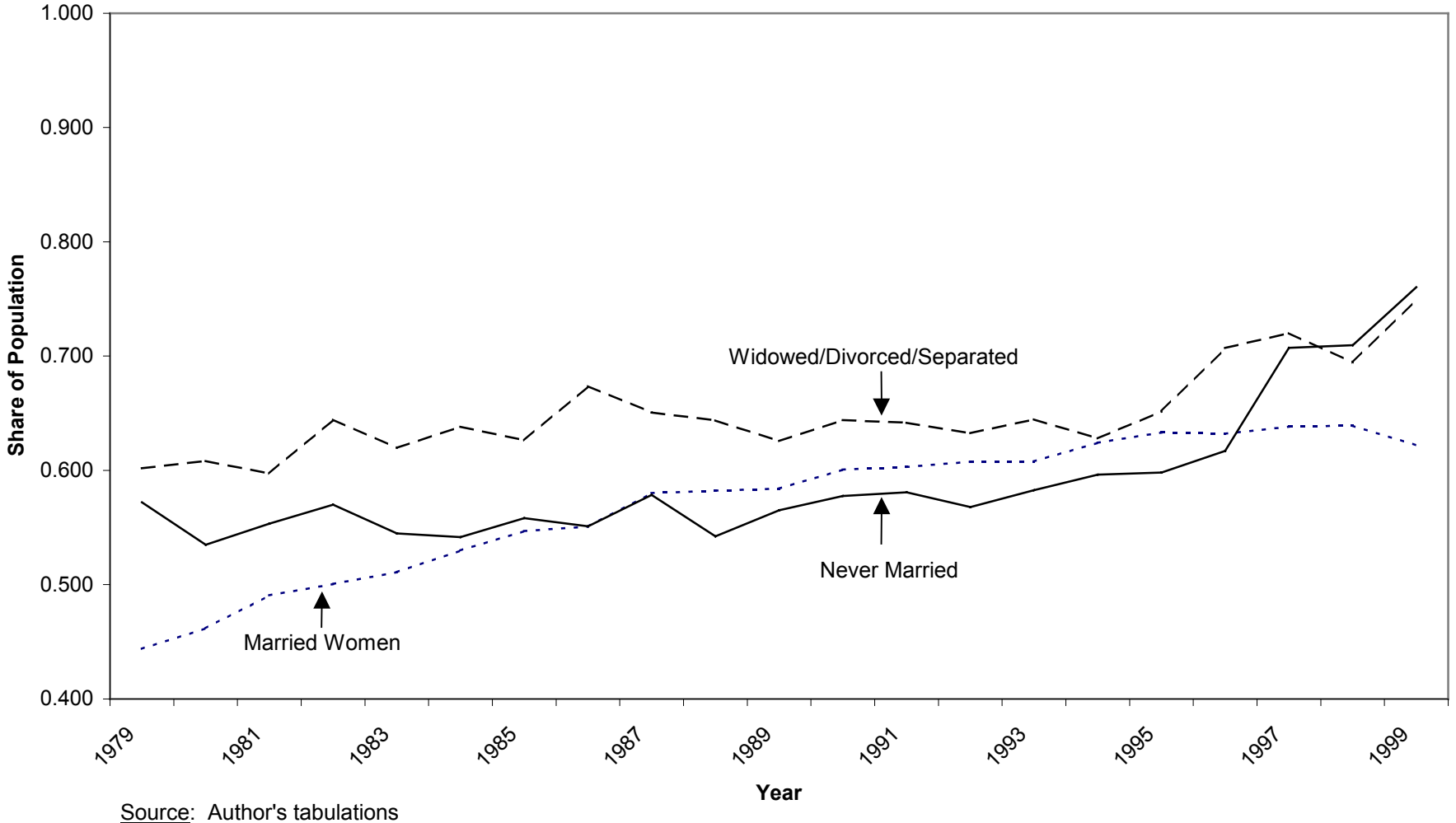
Total AFDC/TANF & Food Stamp Caseloads



Source: Website for Agency for Children and Families, Department of Health and Human Services (http://www.acf.dhhs.gov/news/stats/3697.htm)
Website for Department of Agriculture (http://www.fns.usda.gov/fns)

Figure 2

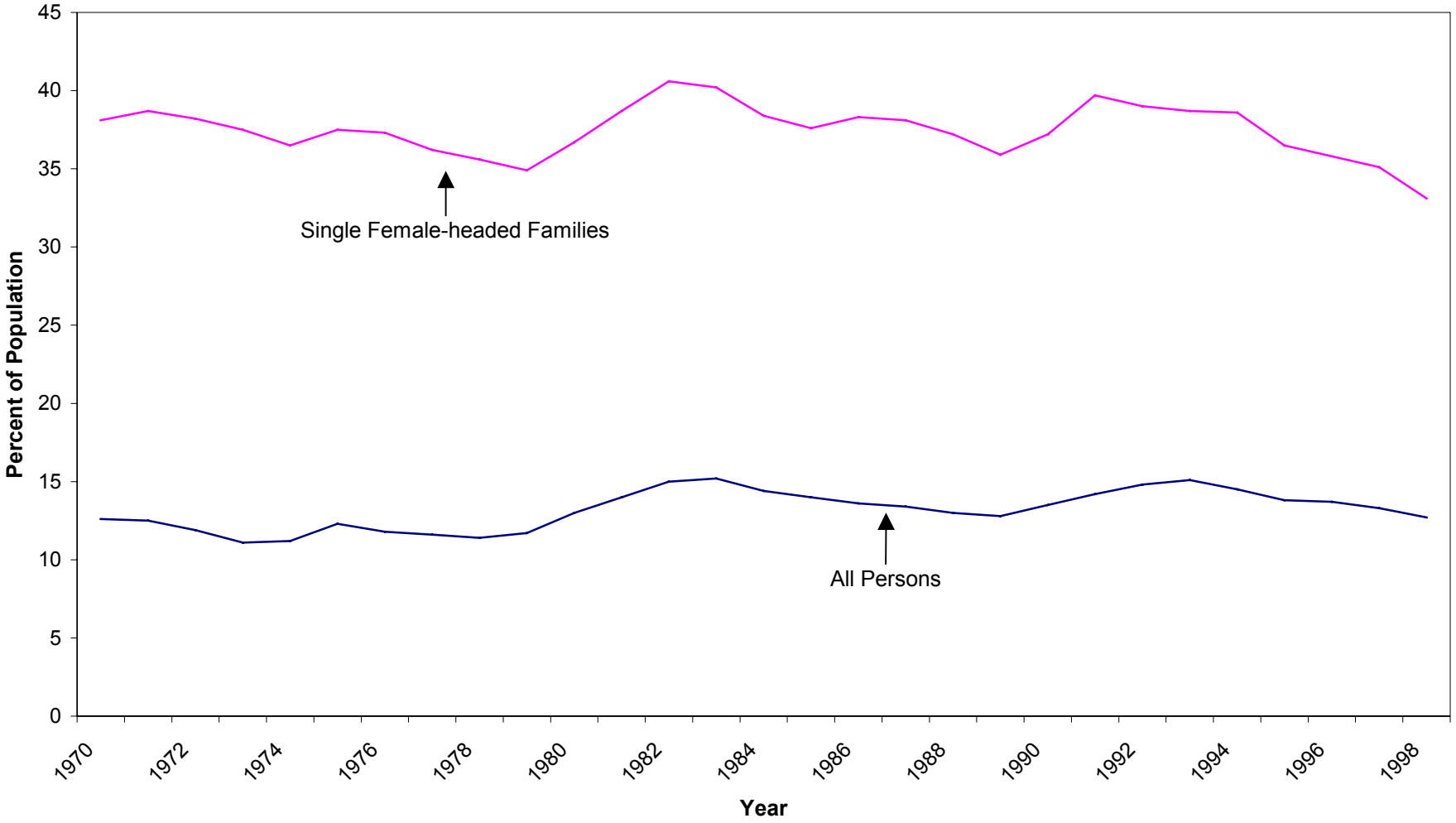
Share of Population Participating in Either Labor Force or Full-time Schooling
Women with Children Under Age 6



Source: Author's tabulations
March CPS data, 1979 - 99

Figure 3

Official U.S. Poverty Rates



Source: U.S. Census Bureau (http://www.census.gov/hhes/income/histinc/index.html)

Acknowledgements

This paper is an edited version of the lecture delivered to a joint session of the Society of Government Economists and the American Economic Association at the annual meetings of the Allied Social Science Associations in Boston, Massachusetts, on January 8, 2000. Thanks to Lucie Schmidt and Peter Cullen for excellent research support.

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1. Haveman and Schwabish (1999) show similar regressions.

2. Nathan and Gais (1999) describe these changes. See also the working papers that are part of the Assessing the New Federal Project at the Urban Institute, available at <http://newfederalism.urban.org>.

3. For a more extended discussion of MFIP, see Miller et al. (1997). For Canada's SSP, see Lin et al. (1998).

4. Blank et al. (2000 forthcoming) discuss these issues at greater length.

5. Eissa and Hoynes (1999) find that the effect of the EITC is small and negative on the work behavior of married women.