Work and Wages

December 2000: Revised

Rebecca M. Blank
University of Michigan
Gerald R. Ford School of Public Policy
440 Lorch Hall
University of Michigan
Ann Arbor, MI 48109-1220
(blank@umich.edu)

and

Lucie Schmidt
University of Michigan
Department of Economics
Lorch Hall
University of Michigan
Ann Arbor, MI 48109-1220
(lgs@umich.edu)

Prepared for the conference "The New World of Welfare: Shaping a Post-TANF Agenda for Policy." We would like to thank Kristen Andree for excellent research assistance.

Abstract

This paper presents evidence on changes in labor market involvement among those most likely to have been affected by welfare reform. There have been very large declines in public assistance use since the mid 1990s, and these have been matched by extremely large increases in labor force participation among less-skilled mothers. The result is a dramatic increase in the share of income from earnings among single mothers.

Three primary causal factors are typically believed to be driving these changes. First, the booming macroeconomy has both lowered unemployment rates and led to increasing wages among less-skilled workers since the mid-1990s. Second, as states have created their own TANF-funded public assistance programs they have undertaken a series of changes that increase the incentives for recipients to work, including stronger welfare-to-work programs, earnings disregards, sanctions, times limits, and diversion activities. Finally, changes in other income support policies have strongly increased the returns to work, most notably major increases in the Earned Income Tax Credit and the minimum wage.

Different types of evaluations have studied these behavioral changes and their underlying causes, and we summarize this research. Leavers studies have focused on following former public assistance recipients over time. State panel data analysis of caseloads and labor force participation has tried to separate out the effects of policy versus economy. More formal randomized evaluations of welfare-to-work efforts have tracked the impact of these programs. Research that focuses on the labor market has tracked employer willingness to hire former welfare recipients and the nature of the jobs available to them.

The strong and sustained economic boom is likely to mute demands for major change during the debates around reauthorization of the 1996 welfare reform. Yet, we believe that there are important changes that should be considered to address future problems that are likely to arise at a slower point in the business cycle. States should be encouraged to experiment with public sector jobs programs as a backup to private sector employment; the TANF block grant dollars should have a substantial cyclical component; states need greater flexibility in allowing exemptions from time limits; and there are possible changes in Unemployment Insurance that would make it more usable by less-skilled women.

In 1996, amid heated political debate, Congress passed landmark welfare reform legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), leading to major changes in state public assistance programs. These changes drastically altered the existing safety net, by enacting work requirements and restricting the availability of welfare. Supporters of the legislation praised the effort to move more women into work and toward economic self-sufficiency. Critics claimed that there were not enough jobs available for former welfare recipients, that wages were too low to allow former recipients to achieve self-sufficiency, and that passage of PRWORA under these conditions was equivalent to "waging war on the poor."

Nearly five years later, we have seen unprecedented increases in the labor force participation rates of less-skilled women with children. We have seen parallel and equally dramatic decreases in welfare caseloads. And preliminary evidence suggests that the families of many single mothers are experiencing increases in incomes and decreases in poverty. Many claim that these facts offer evidence that PRWORA has succeeded far better than even its supporters expected.

Can PRWORA claim full responsibility for the labor market advances made by less-skilled women? Probably not. At the same time as these changes were being implemented, the U.S. economy was undergoing a period of sustained and very strong economic growth. Throughout the latter part of the 1990s, unemployment remained low and the demand for workers was high. This smoothed the way for states to pursue the work-oriented welfare reform encouraged by PRWORA.

Any evaluation of the behavioral changes in work and welfare usage following the 1996 legislation must take the interaction of policy and the economy into account.

The more that behavioral outcomes in recent years are ascribed to a strong economy rather than to the effects of policy, the warier one might be in drawing strong conclusions about the effectiveness of welfare reform based on the evidence of the past few years. The state of the economy at the time when PRWORA is up for reauthorization is likely to significantly affect the discussion.

In this paper, we present the evidence on changes in labor market involvement among less-skilled workers, particularly those most likely to have been affected by welfare reform. Throughout the paper we focus on less-skilled women as the group most directly affected by welfare reform, but for comparison we frequently show changes among less-skilled men and among more-skilled women. We place more recent changes in the context of economic changes over the past several decades. The comparison years we use most frequently are 1969, 1979, 1989, and 1999. These are all years at or near the end of sustained economic expansions.

I. Changes in work and earnings

Over the past decade, there have been stunning changes in the labor market involvement of less-skilled women. Figure 1 shows how labor force participation has changed among women over the past decade, by marital status and the presence of children. Around 1995, labor force participation among single mothers began to rise steeply. This group has seen a 9.6 percentage point increase in their labor force participation between 1989 and 2000. Participation rates among married women showed a much milder increase, while those of single women without children remained

relatively constant. This suggests that the changes among single mothers cannot be attributed entirely to general labor market conditions affecting all women.

[Figure 1 about here]

These patterns by marital status are directly related to increases in labor force participation among less-skilled women, since women with low levels of education are much more likely to become single mothers. Table 1 shows labor force participation rates from 1969 to 1999 among women and men by education level. Labor force participation among less-skilled men declined in the 1970s and 1980s and held constant in the 1990s, while labor force participation among more skilled men was largely constant over this period. Quite a different pattern is visible among women: labor force participation among women without a high school degree was largely unchanged between 1969 and 1989, but rose 6 percentage points in the 1990s. Among more skilled women, labor force participation was largely unchanged in the 1990s, after substantial increases in earlier decades.

[Table 1 about here]

Figure 2 indicates the strength of these trends among women who have historically relied on the public assistance system. It plots the share of women in the labor force (in March of each year), among those women who indicate that they received public assistance income in the previous year. Labor force participation rates for this group are close to 30 percent in 1989, but almost double to 57 percent by 2000.

[Figure 2 about here]

These changes appear even more dramatic when taking into account the fact that the share of the population with low educational attainment is shrinking over this time

period. One might expect that rapid increases in labor force participation among the least skilled would lead to overall lower levels of education among working women, but increases in education have outstripped the increases in work among less-skilled women. Forty-six percent of women in the bottom 20 percent of the wage distribution were high school dropouts in 1979. This fraction declined to 34 percent in 1989 and to 30 percent by 1999. These increases in overall education levels are promising, and suggest that women's growing investment in what economists refer to as "human capital" will help raise their wages over time.

These increases in work among single mothers are reflected in a sharp increase in their annual earnings in the 1990s. Table 2 shows earnings and family income levels in 1999 and their changes over the previous two decades among female high school dropouts. We also present earnings as a share of total family income. Among high school dropouts, married women's earnings increased in the 1980s, while earnings of single women with children fell. In the 1990s, single mothers – the group with substantial increases in labor force participation – show by far the strongest earnings growth. It is, however, worth noting that annual earnings levels remain very low (at or below $7000) for all of these women.

[Table 2 about here]

As the earnings of these women grew, women's earnings as a share of family income also increased. This increase in share was greatest among single mothers, with earnings rising from 56 percent of family income in 1979 to 84 percent in 1999. The family incomes of married less-skilled women are far higher than those of single women, but the only category showing substantial growth in family income between 1989 and

1999 is single women with children – exactly the group that became increasingly reliant upon earnings.

These data indicate an amazingly rapid shift in work behavior among less-skilled women, particularly those with children, over a relatively short period of time. The timing of these changes over the decade shows that they accelerated in the mid-1990s – exactly when major policy changes were enacted in welfare, but also when the economic boom moved into high gear. The next section discusses these underlying causal factors by looking at changes in the economy, in welfare policy, and in other policies, that are likely to have affected work incentives among these women.

II. The Changing Environment

A. A Changing Macroeconomy

The economy of the 1990s showed strong declines in unemployment, substantial increases in earnings (after the mid-1990s), and some shifts in the nature of work held by women. This section reviews each of these changes in turn.

Unemployment rates fell sluggishly at the beginning of the 1990s, following the economic slowdown of 1990-91. But by the mid-1990s, unemployment was steadily ticking downward, remaining at or below 5 percent from April 1997 onward. Figure 3 plots the unemployment rate among all persons, all women, and among high school dropouts (available only in more recent years). Female unemployment rates in the late 1990s were at levels comparable to those of the late 1960s. This period of low and sustained unemployment clearly provided new work opportunities for less-skilled women, as employers' ongoing need for labor made them more willing to hire and train

new groups of workers. Even among high school dropouts, unemployment rates fell rapidly, to near 6 percent.[1]

[Figure 3 about here]

As unemployment fell, wage rates began to rise. Figure 4 plots trends in average weekly earnings among the least skilled groups of full-time workers, ages 25 to 65, by gender between 1979 and 1999. Adjusted for inflation, wages among male high school dropouts deteriorated from the late 1970s until the mid-1990s, falling 22.2 percent in real terms between 1979 and 1994. But they rose by 5.0 percent from 1994 to 1999. Less-skilled women never experienced declines quite so severe, with a 7.9 percent drop in wages between 1979 and 1994. However, they experienced a 3.5 percent increase from 1994 through 1999. In contrast, wages among more skilled workers rose strongly through this period, and continued to rise in the late 1990s. The rising wages among less-skilled workers after the mid-1990s meant a substantial slowdown in the growth of wage inequality. However, the wage growth of the past few years has not made up for the large wage declines in the 1980s and early 1990s. Real wages in 1999 were below their 1979 levels for those with the lowest levels of education.

[Figure 4 about here]

Figure 4 also makes clear how badly wage opportunities have deteriorated for men relative to women. In contrast to the declining wages of less-skilled men, women with high school degrees experienced steady improvements in their earning opportunities over the 1990s. Although women's wages remain well below men's wages, because of falling wage opportunities for less-skilled men, the wage gap has narrowed.

[1] Authors' tabulations of Current Population Survey data suggest that unemployment rates for female high school dropouts track those of all high school dropouts closely over this time period.

Continued declines in unemployment since the mid-1990s, combined with wage increases, should have a strong effect on the incomes of less-skilled persons. Not only are people working more, but they are also earning more for every hour that they work. This is in contrast to the expansion of the 1980s, when unemployment fell, but wages did not rise among the least skilled. The result was a very sluggish response to the expansion in terms of income growth and poverty declines in the 1980s. Income growth and poverty declines have been greater during the 1990s expansion.[2]

While wages have increased among even less-skilled women in recent years, it does appear that the set of wage opportunities for these workers has become more limited. Table 3 shows the distribution of women's wages in 1979, 1989, and 1999 by educational category. The column heads ($7, $7-$10, $10-$13.50, $13.50-$20, and over $20) closely correspond to the quintile breaks in the overall wage distribution among all workers in 1999. In that year, 20 percent of all workers would be found in each of these groupings. The third row of Table 3 indicates that more women (24 percent) worked at wages of less than $7/hour, and fewer (14 percent) worked at $20/hour or higher in 1999. The higher proportion of women in the lower wage categories is evidence of a continuing wage gap between men and women.

[Table 3 about here]

Table 3 also indicates the increasing importance of education as a determinant of earnings. Between 1979 and 1999, women's overall probability of being in the lowest category of earnings declined from 34 percent to 24 percent. But among the least skilled women, this probability actually rose, from 61 to 64 percent. These shifts partly reflect

[2] Both Blank (2000a) and Haveman and Schwabish (1999) provide evidence that the 1990s expansion has resulted in more rapid declines in poverty.

the shrinking share of less-skilled workers, so that the group remaining behind may be selectively more disadvantaged. At the same time, highly educated women have become much more likely to be in the higher wage categories.

The nature and characteristics of jobs have also changed over recent decades. There has been a notable shift away from manufacturing and toward service sector jobs. While the impact of these changes on less-skilled men is often discussed, this shift has impacted less-skilled women as well. Table 4 shows industry and occupational location of men and women in 1979, 1989 and 1999. In 1979, one-third of women without a high school degree worked as machine operators or assemblers. By 1999 that share had fallen to 16 percent. Corresponding declines occur in the share of women in durable and nondurable goods industries. The proportion of women in sales and service occupations and industries grew strongly over this time period.

[Table 4 about here]

While the influx of more women with young children into the labor market might be expected to increase the utilization of part-time work, the strong economy should also have pushed firms to expand hours among their workers. The net effect over the 1990s has been virtually no change in part-time work among women. Part-time work among women without a high school degree has declined slightly, from 29.5 percent in 1989 to 25.7 percent in 1999.[3] Despite relative invariability in the share of women working part-time, there has been a notable decline in "involuntary" part-time – those persons who want full-time work but work part-time because they cannot find a full-time job (US BLS, 2000).

[3] Authors' tabulations of Current Population Survey Outgoing Rotation Group (ORG) data.

Overall, the economy since the mid-1990s has outperformed all forecasts and expectations. Employment at the end of 2000 had grown by 13.6 percent since the peak of the previous expansion (figures from November 2000. Will update as soon as December figures are available). This has created new work opportunities and improved wages for all workers, but has been particularly important in increasing employment among the least skilled. This has made the country a much easier place in which to implement the policy changes discussed next.

B. Major Changes in Welfare Reform

The welfare reform legislation of 1996 abolished the Aid to Families with Dependent Children (AFDC) program and created the Temporary Assistance to Needy Families (TANF) block grant. PRWORA gave states much greater discretion in designing their public assistance programs, and many states responded by implementing significant changes in these programs.

A key goal of the states was to create stronger incentives for work. This meant improving and expanding welfare-to-work programs in almost all states. But a variety of other programmatic changes designed to increase work incentives have also been implemented among current or potential public assistance recipients. Some of these increase the positive incentive to work, through things like earnings disregards that allow women to keep a higher share of their benefits as their earnings increase, thus raising their overall income levels. Other changes are more punitive and are designed to increase the costs of not working, such as time limits or sanctions on those who do not comply with the welfare-to-work requirements. We briefly review some of the major changes

across states in their public assistance programs that should have increased work among current and potential welfare recipients.[4]

Welfare-to-Work Programs. States have been expanding welfare-to-work programs at least since 1988, when the Family Support Act required an increase of welfare-to-work activities within AFDC. Federal mandates in PRWORA required states to further increase the share of their TANF population in work programs to 35 percent by 1999, and to 50 percent by 2002, a substantial rise over 1996 participation in most states. In fiscal year 1999, all states met these federal work requirements, and the average rate of participation in work activities among TANF recipients was 38.3 percent (US HHS, 2000).[5] For a more detailed discussion of these welfare-to-work programs, see Greenberg, Savner, and Strawn (this volume).

Benefit levels. Analysts have long viewed the base level of public assistance support, or the amount of money one receives with no other income sources, as one measure of work disincentives. Standard models of individual decision-making in economics suggest that higher benefits reduce the incentive to work, and the empirical evidence supports this point. However, benefit levels have actually changed less than almost any other component of welfare programs since 1996. Fully 30 states have the same nominal benefit level in their TANF program in 2000 that they had for AFDC in 1996. Fifteen states have increased benefits between these four years, and only six have decreased benefits. On net, the median TANF benefit (adjusted for inflation) has fallen

[4] See Nathan and Gais (1999) for a description of how states responded to the 1996 legislation.
[5] If a state's average monthly assistance caseload decreased in the previous year in comparison to the state's average caseload in fiscal year 1995, the federal minimum participation rate standard is reduced by the number of percentage points the caseload declined. This means that some states met the federal requirements in 1998 with actual work participation rates as low as 11.2 percent (MD)(US HHS, 2000).

only slightly, from $399 in 1996 to $381 in 2000. This suggests that changes in benefit levels have not substantively altered work incentives.

Earnings disregards. The earnings disregard is the inverse of the rate at which benefits are reduced as earnings increase. Under AFDC, the earnings disregard was 33 percent, meaning that benefits were reduced 67 cents for every additional dollar in earnings. This was largely limited to the first year of AFDC receipt. After this year, the disregard went to zero, meaning benefits were reduced by a dollar for each dollar of additional earnings, creating few incentives to work at low-wage or part-time jobs.[6] Dissatisfaction with the incentives implicit in this system caused many states to increase earnings disregards after TANF was enacted. Many states now have TANF programs with much more generous earnings disregards than AFDC.

Sanctions. If welfare-to-work programs attempt to use positive incentives to motivate people to find jobs, sanctions are the "stick" which enforces participation. States have adopted a wide variety of sanctioning policies, primarily reducing benefits for some period of time if a person does not comply with the work requirements (or other provisions) in TANF. Currently, nine states have a full lifetime sanction, meaning that someone who reaches the final sanctioning point will be forever ineligible for future TANF benefits. Another 27 states impose a full benefit reduction but only for a temporary period of time. The remaining 15 states have only partial and temporary benefit reductions as their ultimate sanction.

Time Limits. The PRWORA legislation imposed a 60-month federal time limit on TANF recipients, meaning that persons could not receive federally-funded TANF

[6] AFDC also had a $30/month lump-sum earnings disregard, and exempted child care and work costs, up to a cap.

services for more than 60 months during their lifetime. Seventeen states have imposed even stricter time limits, but nine states actually use state funds to provide some assistance past the 60-month federal deadline. For more detail on both sanctions and time limits, see Bloom and Pavetti (this volume).

Diversion activities. In addition to policies designed to increase work among current welfare recipients or to move current recipients off welfare and into employment more quickly, states are also trying to prevent persons from entering public assistance in the first place by operating "diversion" programs.[7] Many of these programs offer a one-time, lump-sum level of cash assistance, in exchange for a period of ineligibility for TANF programs. Twenty states have such cash diversion programs, of which 13 demand three months of ineligibility following receipt of the lump sum. In 15 states, it is also legal to impose job search requirements upon public assistance applicants. Applicants seen as work-ready may have to participate in a period of job search or contact a certain number of employers before they can register for TANF.

The combined effect of all of these program changes is to vastly reduce the availability of public assistance over time to less-skilled women, and to greatly increase their incentives to work. Table 5 attempts to characterize states along a variety of dimensions, labeling more and less generous states with regard to benefit levels, earnings disregards, time limits and sanctions. States with the greatest work incentives are those with low benefits, high earnings disregards, strict sanctions and short time limits. The final column of Table 5 indicates states which have particularly strong work incentive programs in their TANF policy, states with weak work incentives, and states with mixed policies. We characterize 14 states as having strong work incentives, ten as having weak

work incentives, while the remainder have mixed incentives across these program components.

[Table 5 about here]

This type of summary measure of work incentives can only be partial. For instance, we have no measures of the stringency or effectiveness of states' welfare-to-work programs. Nonetheless, as a test of how state programs are correlated with work behavior, we can compare changes in work behavior post-PRWORA among less-skilled women across states with different types of work incentives. We find that while labor force participation rates among single mothers have increased 7.2 percent between 1996 and 1999 in states with "weak" incentives, they have increased 11.7 percent over the same time period in states with "strong" incentives. This provides at least preliminary evidence that the labor supply of less-skilled women responds to work incentives within state TANF programs.

Other programs also interact with the TANF program and affect work incentives. The growing availability of Medicaid to low-income children has reduced the incentives to remain on public assistance in order to maintain health insurance (until the mid-1980s, Medicaid eligibility was largely determined by AFDC eligibility.) However, in spite of this "de-linking" of Medicaid and TANF eligibility, enrollment in the Medicaid program fell substantially after the passage of PRWORA. Also declining rapidly is participation in the Food Stamp program, which should be available to all low-income households regardless of work or welfare status. Greenstein and Guyer (this volume) discuss the interaction between welfare reform and the Medicaid and Food Stamp programs. Finally, efforts to move disabled women from the AFDC or TANF programs into Supplemental

[7] For more details on diversion programs see Maloy, et. al. (1999).

Security Income (SSI), a cash support program for the disabled and elderly, should have reduced the share of AFDC recipients who cannot hold a job due to severe physical or mental disability. Karoly, Klerman, and Rogowski (this volume) provide more details.

Overall, the magnitude of change within state public assistance programs has been enormous. Most states are explicitly trying to shape public assistance programs that place work, rather than benefit receipt, at their center. While there are large differences across states in the components and design of their TANF programs, all states are increasing their efforts to move public assistance applicants and recipients into work.

C. Changes in Other Public Policies that Support Work

The 1996 PRWORA legislation was far from the only significant policy change affecting less-skilled workers over the 1990s. A variety of other programs also changed in ways that increased the attractiveness of work. This section summarizes some of these changes.

Earned Income Tax Credit. The biggest policy change for less-skilled persons who worked steadily throughout the 1990s was not the 1996 welfare reform legislation, but the substantial expansions in the Earned Income Tax Credit (EITC) that occurred in the first half of the 1990s. These expansions turned the EITC from a relatively small program into a $30 billion program in 2000, larger in size than TANF, Food Stamps, or SSI. In 2000, over 18 million workers were expected to receive some EITC credit on their tax bill.[8]

The EITC is a refundable tax credit available to low-wage workers living in low-income families. Because of this design, it is a very well targeted program, as low-wage

workers who live in higher income households are not eligible for an EITC. While many workers essentially "receive" the EITC through lower withholding and lower tax bills, the refundability of the EITC means that the poorest workers, who owe no taxes, actually get money back. In 1999, among eligible workers earning less than $9720, for every dollar they earned they could receive another 40 cents from the EITC tax credit, essentially increasing their income by 40 percent.[9] At higher earnings, workers receive a flat credit amount, which then slowly tapers off as earnings continue to increase. For those who are out of the labor force, the EITC unambiguously increases work incentives. For those already working, the effect of the EITC on work behavior is ambiguous, although the credit will continue to increase their total earnings.

The EITC has been shown to increase work among single mothers (Eissa and Liebman, 1996; Meyer and Rosenbaum, 1999; Ellwood, 2000), the group most likely to be out of the labor market or working few hours at low wages. In contrast, its effect on the labor supply of married women, who are more likely to be in the flat or phase-out ranges, appears to be slightly negative (Eissa and Hoynes, 1999).

Minimum Wage. A series of increases have occurred in the federal minimum wage, which went from $3.35 at the beginning of the 1990s to $5.15 in 1999. The minimum wage and the EITC interact in useful ways. The minimum wage provides a base to the EITC, so that the credit need not be as large for very low earners. This means that the "claw-back" period for the EITC (the period when the credit is being reduced to zero) is shorter, creating fewer work disincentives. Conversely, the EITC supplements

[8] U.S. House of Representatives (2000).
[9] These are the numbers for an adult with two children in the family. With one child, workers who earn up to $6920 could receive another 34 cents for each dollar earned. A much smaller credit also exists for childless workers over age 25.

the minimum wage. Without the EITC, there would be greater pressure to increase the minimum wage, which has growing disemployment effects as it rises, since it induces employers to substitute away from less-skilled labor toward other technologies.[10]

At the current level of the minimum wage, the disemployment effects appear to be relatively mild. Bernstein and Schmitt (1998) indicate that the overall employment effects of the mid-1990s increases in the minimum wage were very small. Neumark (1999) finds evidence of effects on the employment of unskilled young workers, but few effects on any other group.

Table 6 presents the growth of the minimum wage and EITC in real terms over the past decade, as well as their interactions with each other. Part 3 of this table shows how take-home incomes have increased among single mothers who work full-time at the minimum wage. With no change at all in work behavior, a mother with one child earned 26 percent more in 1999 than in 1989. A mother with two children earned 41 percent more. By the end of the decade, the minimum wage together with the EITC assured that full-time work, even at the minimum wage, put a worker above the official U.S. poverty line. Even without any changes in the economy or in welfare policy, the increases in the minimum wage and EITC shown in Table 6 would have increased the incentives to work for many women.

[Table 6 about here]

Child Care Subsidies. A growing share of TANF dollars are being spent on subsidies for child care for working mothers or mothers in job search programs. States can use TANF dollars for this purpose, but the same legislation that created TANF also

[10] Virtually all analysts agree that the disemployment effects of the minimum wage grow as the minimum wage rises. There is more disagreement about the actual magnitude of those effects.

eliminated a number of child care subsidy programs and increased dollars to the Child Care and Development Block Grant. Most states attempt to subsidize child care for women in mandatory work programs and provide at least temporary child care subsidies to women who leave public assistance for work. To the extent that child care expenditures are an important part of the incentives (or disincentives) to work, particularly among single mothers, these increases in child care subsidies should have increased work opportunities. Besharov and Samari (this volume) discuss this further.

Child Support Programs. For the past two decades, the federal government and the states have worked together to increase the payment of child support from non-custodial parents to their children, particularly among public assistance recipients. If received in a reliable and steady manner, child support may reduce work incentives, but improve the economic circumstances of the family. But actual values of child support received tend to be small, particularly for public assistance recipients, and are often not received every month. The legislative changes of the past two decades have increased the frequency and the level of child support collections, but not by a large amount. Garfinkel (this volume) discusses this issue in more detail.

III. Evaluating the Effects of these Changes

The evidence presented above suggests dramatic changes in the environment facing less-skilled workers, and particularly less-skilled women with children. On the one hand, employment and earnings opportunities have expanded, particularly when one takes account of both the robust macroeconomy and increases in the federal minimum wage and the EITC. On the other hand, public assistance income opportunities have

declined dramatically, and the programs comprising the safety net have been redesigned to push recipients into the labor market and off public assistance as fast as possible.

All of these changes should have increased work and reduced public assistance caseloads. It is difficult to disentangle the effects of each of these factors, because of the overlap and interaction among them. The strong labor market has made it possible for states to focus on implementation and design issues in public assistance, without having to worry about job availability. The changes in welfare opportunities may have directly affected the relationship of less-skilled women to the labor market. Ideally we would like to understand the impact that each of these recent changes has had on women's work behavior and on their financial well-being. We summarize here four literatures that address this question.

Leavers' Studies. Perhaps one of the most obvious ways to study the impact of policy reforms is to follow people affected by them over time. Hence, a number of researchers have collected longitudinal information on persons on welfare at one point in time, and compared it to information collected at a later time period. This research is particularly concerned with investigating how persons who left welfare following the 1996 reforms have fared.

There are a number of methodological limitations to this type of research. First, by focusing only on those persons actually receiving welfare, these studies say nothing about the effects of welfare reforms on those who are deterred from ever applying for assistance. Second, these studies typically have no real control group. Because all individuals in the sample are affected by the policy changes, there is no way for these studies to differentiate between causal factors. While the data from these studies show us

how many women are working after leaving welfare, it is impossible to determine how much of this increased employment would have occurred anyway, how much is due to the booming economy, and how much is due to the restructuring of welfare programs. Despite these caveats, the leavers' studies provide evidence on how women who were previously on welfare are faring under the new regime.

In general, these studies find that the majority of welfare leavers, including a majority of those who are sanctioned off welfare, are working at some future point.[11] Those who remain off welfare are more likely to be employed than those who return to welfare. Many continue to use some government programs (most often Medicaid or Food Stamps) even after they leave public assistance. There is only limited evidence in these studies about income, but a substantial minority of leavers appear to report lower or similar incomes than they had while on welfare.[12]

A more recent study in Wisconsin (Cancian, et. al., 2000) differs from the other studies in that it does try to create a control group, by comparing women who left welfare in Wisconsin in 1995 with those who left two years later (after TANF was implemented). The post-TANF leavers were more likely to be working than those who left in 1995, but had lower earnings. These later leavers were also more disadvantaged in terms of their personal and family characteristics, consistent with the hypothesis that the new welfare regime pushes people with fewer employment skills into the labor market. In Wisconsin, a majority of both the earlier and the later leavers appear to have lower income after leaving welfare than while on welfare.

[11] Excellent summaries of leavers' studies can be found in Brauner and Loprest (1999), Parrott (1998), and U.S. House of Representatives (2000).

[12] These studies usually do not ask about income from the Earned Income Tax Credit, which will understate the income that working leavers receive (see Haskins, this volume).

Other recent studies also show that more disadvantaged women are less likely to leave welfare, and have poorer earnings and work performance once they do leave.[13] Zedlewski and Loprest (this volume) discuss the issues associated with employment among these women with multiple barriers such as limited education, physical or mental health problems, or drug and alcohol addictions.

State panel data analysis of caseloads and labor force participation. A more aggregate evaluation of behavioral changes is provided by studies that use state panel data across a series of years to investigate changes in welfare caseloads. These studies control for long-term fixed differences between states, and attempt to measure the impact of both economic and policy changes on caseload changes within a state over time. These studies have the advantage of using the entire national population rather than focusing on results from just one state. They often use data from the late 1970s through the mid-1990s, allowing one to compare recent and past changes to see if the determinants of caseloads are different in more recent years. They also allow one to separately control for the effects of economic environment versus policy change.

The drawback of these studies is that they tend to be focused on only one primary outcome, caseloads. In addition, most of these studies end in 1996, and focus on the welfare waivers granted to states in the early 1990s as their primary policy change. Because the 1996 legislation was put into place at about the same time in most states, it is difficult to identify what share of the post-1996 change is due to policy versus things like the economy that were changing at exactly the same time. Similarly, with this methodology it is hard to evaluate the effects of other policies that are implemented nationwide at about the same time, such as the EITC changes. Those changes, common

[13] Danziger, et al (2000) and Loprest (1999).

to all states in the same year, cannot be separately identified. Finally, it is worth noting that even these studies cannot fully separate economic and policy effects. If the strong economy is helping policy to function more effectively, that is difficult to measure separately.

These studies generally indicate that about 15 percent of the caseload decline between 1990 and 1996 can be explained by welfare policies and 30-40 percent can be explained by improved labor market conditions.[14] Looking directly at the post-PRWORA period, a Council of Economic Advisers study (1999) found that one-third of the decline between 1996 and 1998 was due to welfare reform and about 8-10 percent was due to improvements in the labor market. This is consistent with the fact that TANF focused more on moving people off welfare than did the pre-1996 reforms. A second study (Schoeni and Blank, 2000) investigates the effects of both TANF and the welfare waivers on a broader set of measures, including labor force participation, earnings, and income. The authors also find evidence that the TANF program had a particularly strong impact on caseloads, but find that the labor market had a stronger effect on labor force participation in the late 1990s. The bottom line of this research appears to be that both policy and the economy have affected behavior, but that the size and nature of the impact vary over time.

Formal randomized evaluations. Since the early 1980s, a series of formal randomized evaluations have tried to measure the impact of welfare-to-work programs and other welfare reforms. Such evaluations offer a strong advantage. If done effectively, they provide a control group that does not receive the new program or reform, but is otherwise identical to the group that does receive the program, prior to the

program's implementation. If the control group and the treatment group have truly been randomly selected from a similar group of persons, then one can track the outcomes in both groups and attribute any differences to the explicit effect of the program. In fact, the evidence from these evaluations, which showed the effectiveness of welfare-to-work programs in increasing employment and reducing AFDC usage, was an important impetus to the 1996 legislation as well as earlier legislation.[15]

With the evolution of more complex welfare reform efforts, involving not just work programs but also a host of other changes in program parameters such as earnings disregards, sanctions, and time limits, randomized evaluations become more complicated. In part, this is because multiple changes in the welfare environment often mean that the "control group" experiences some of these changes as well, even if not formally eligible for a new program. In addition, it is difficult to untangle the effects of multiple changes within a randomized experiment. Given these caveats, a number of creative evaluations have tackled exactly this problem.

Most formal evaluations occurred in programs implemented under waivers and before TANF. The waivers requested by states to run somewhat revised AFDC programs in the early 1990s were granted only if the state agreed to an evaluation – in many cases a formal randomized evaluation. However, a growing body of evidence is becoming available from the studies that investigate the impact of TANF programs after 1996.

In general, the earlier literature suggested that welfare-to-work programs could increase employment and reduce AFDC participation. While these effects were significant, they were often not huge. The largest recorded effects are found in the

[14] For a list of all relevant papers and a summary of this literature, see Blank (2000b).
[15] See Gueron and Pauly (1991) for a summary of much of this earlier research.

Greater Avenues to Independence (GAIN) welfare-to-work program in Riverside County, in California, and are generally considered the maximal bound for the effect of these programs. This program finds a 9-point gain in the probability of employment and a $1000 annual increase in earnings among GAIN participants relative to the control group three years afterward.[16]

Later evaluations of more complex welfare reform programs have also found quite substantial effects. Evaluations of 11 state TANF programs confirm the fact that these programs increased employment and reduced welfare use.[17] Few of these effects were large, but their consistency across a host of different programs suggests that states have found effective ways to use TANF-funded programs to achieve increases in work. Despite these employment gains, net income among participants in these programs was largely unchanged, with increases in wages being offset by declines in benefits. These results reflect both the good and bad news from welfare reform: employment is up and public assistance usage is down, but few programs appear to have generated substantial gains in income or declines in poverty.

One of the most promising program evaluations comes from the Minnesota Family Investment Program (MFIP), which involved a strong work participation component as well as a big reduction in the earning disregard. Berlin and Michalopolous (this volume) discuss MFIP and other similar programs that appear to have had positive effects on both employment and income.

Evidence on Jobs and the Labor Market. The research cited so far has focused on individual behavior, and not on the nature of the labor market and jobs. The long-term

[16] Riccio, et. al. (1994).
[17] Freedman, et. al. (2000).

success of welfare recipients will be dependent upon the labor market in which these women find themselves. Both the willingness of employers to hire welfare recipients, and the wage progression that a less-skilled woman can expect over time, will be critical in determining the long-term success of these women in the labor market. Recent work by Holzer and Stoll (2000) analyzes the first of these issues - the willingness of employers to hire welfare recipients. They use data from a survey of employers in four major cities in 1998 and 1999, and find that employers have filled almost 3 percent of job openings over the past year with welfare recipients. This level of overall demand is quite high, and is theoretically large enough to absorb the aggregate increase in labor supply by persons leaving welfare. However, there is some evidence of racial disparities, as the rate of hiring among minority recipients is lower than their representation in the female-headed low-income populations of these four cities. This appears at least partially related to spatial mismatch problems, with blacks more likely to reside in central cities while more of the job growth is occurring in the suburbs.

The evidence in Table 3 suggests that, once hired, less-skilled women are largely relegated to low-wage jobs and may have difficulty moving into higher paying employment. In many cases the goal must be to get women into $8 to $10/hour jobs, earning a wage well above the federal minimum, but essential if women must pay for child care and meet other budget demands. The strategy of moving women off public assistance and into low-wage jobs is less attractive and less effective in the long-run if these woman are not able to reach an earnings level that stabilizes their income and allows them to support their families without ongoing subsidies.

More recent work on wage growth over time among less-skilled women suggests that experience in the labor market *does* lead to real wage growth. Gladden and Taber (2000) indicate that the wages of less-skilled women grow as fast with experience as do those of more educated women, albeit from a much lower base. However, they also find that less-skilled female workers tend to acquire less experience over time, slowing their overall wage growth. This evidence suggests a potential long-term benefit of the current sustained economic expansion. If women are able to find employment, and hold these jobs for longer periods of time, the increase in their work experience should result in long-term wage gains.

It is also possible that the large increase in labor supply of former and current welfare recipients has had effects on the overall low-skill labor market, possibly displacing other less-skilled workers, or driving down wages. Bartik (2000) looks at these questions from a variety of perspectives, and suggests that both displacement and lower wages are likely to have resulted from the increase in work among former welfare recipients. The magnitude of these effects, however, is likely to be small, and is difficult to estimate precisely.

The evidence that is beginning to emerge in the post-PRWORA era suggests that there have been dramatic increases in the labor market participation of less-skilled women, and corresponding dramatic decreases in welfare caseloads. Improvements in the financial well-being of these women are less dramatic, since decreasing benefits have offset rising earnings, but as the Haskins paper (this volume) shows, many women have gained in overall income. Research also suggests that both the strong economy and the policy changes play an important role in generating these behavioral changes among less-

skilled women. However, there is an important caveat to all of the research summarized above that cannot be overemphasized. None of these studies are truly able to deal with the simultaneous nature of policy design and economic environment. It may be that states are designing and implementing their current configuration of programs in part because the current environment makes jobs so available. At the same time, individual responses to welfare changes are affected by perceptions of how good the alternatives (particularly the labor market alternatives) to welfare appear. It is not at all clear that we would see the same policy effects in a period of economic stagnation or recession. Hence, the question, "How much of the observed changes in behavior are due to policy and how much to the strong economy environment?" may be impossible to answer until we observe how today's policies operate in a very different economic environment.

IV. What Does This Mean for Reauthorization?

There are two opposite interpretations of the past few years of labor market and welfare history that one frequently hears in the public debate. One interpretation claims that recent policies have been effective beyond anyone's wildest dreams. Policy changes have reduced welfare usage, increased work effort, and moved millions of women onto the road toward economic self-sufficiency. Having started down this road, things will only get better, as women move into better jobs and permanently leave all forms of government assistance.

The other interpretation claims that all of these successes are entirely dependent upon the current economic boom and the ready availability of jobs. Given how atypical the economy of the last few years has been (matched only by a short period in the late

1960s), this interpretation suggests that recent policy changes will turn into headaches when the economy finally slows down. Women who have left (or been pushed off) welfare will find themselves unemployed, or earning far too little to support their families. If time limits, sanctions, or other provisions prevent them from returning to public assistance, poverty and need will rise to new levels.

We suspect the truth lies somewhere between these two interpretations. There have almost surely been some real and permanent effects of these policy changes that would have occurred even in a weaker economy. More women would have stayed off welfare, increased their labor supply, and seen higher earnings. But we also worry a great deal about the possibilities inherent in the second interpretation. At this point it is fundamentally impossible to decide how much of the current increase in work is due to the unique economic environment. The existing estimates in the literature are most likely too low, since they do not take into account the effects of this strong economy on policy design and implementation, or on individual expectations that influence behavioral responses.

The evidence on overall income growth among women leaving welfare suggests that while increases in earnings have caused some women to experience real income growth, these increases have been partially offset by benefit reductions. In addition, studies indicate that some women who have left welfare appear to have lost income (see Haskins' summary in this volume). If overall income gains are relatively small in this economy with these unprecedented increases in work behavior, it is quite possible that in a period of lower growth (or – even worse – no growth), these policies would have led to severe income declines.

All of this suggests that the debates around reauthorization will be heavily affected by the state of the economy in 2002. If the economy continues to boom, we expect that the first interpretation will dominate the political debate, and that the impetus to make major changes in PRWORA will be largely absent. On the other hand, if the economy has slowed down significantly by 2002, with noticeably higher unemployment, then we suspect that there may be demands for substantial changes in PRWORA during reauthorization.

Under the first scenario, in the absence of concern about jobs and job availability, the work-related changes that reauthorization might focus on could include the following: allowing greater flexibility for states to place persons in training programs in addition to work-first job search programs; encouraging firms and/or regional alliances to provide private sector training and job mobility opportunities that help less-skilled workers increase their wages over time; making sure states are spending their child care funds most effectively, and increasing access to child care for women who need it.

If reauthorization is limited to these factors and ignores the larger cyclical issue it would be a missed opportunity. Preparing for the next economic slowdown now would be a very wise thing to do, even if that slowdown has not yet occurred in 2002. There are at least four issues that should be considered in preparation for the next downturn in the economy. First, states should have incentives to launch demonstration programs that place women unable to find private sector jobs into public sector employment. These programs should be set up and their management systems developed *before* they need to operate at a larger scale in a slower economy.

Second, the funds provided by the TANF block grant should have a cyclical component. For instance, at least some share of the block grant might be linked to changes in state unemployment rates. In a recession, the abundance of funds that states are currently spending on their welfare-to-work programs may dry up, leading to cuts at exactly the time when the demand for public assistance is rising. The federal government is best able to provide countercyclical financing, given that most states operate under balanced budget requirements.

Third, as more women move closer to time limits, there should be greater flexibility in the exemptions available to states. In a higher unemployment economy, states may need to provide ongoing support to a larger share of the caseload. The current 20 percent exemption is entirely arbitrary, and may make little sense in a world where the caseload is more disadvantaged, or in a world where fewer jobs are readily available.

Fourth, if we want to limit public assistance, we need to provide access to standard labor market safety net programs to low wage and part-time workers. Among other things, this may require major reforms in the Unemployment Insurance (UI) program. Women who are working part-time should be able to receive unemployment benefits if their jobs end (currently employers pay into the system for these women, but in most states they cannot collect benefits.) Similarly, the qualifying period for UI benefits might be shortened, so that workers in more short-term and unstable work may have more access to UI.

In general, we do not believe that the current economic environment is sustainable over a long period of time. What goes up must come down. When employer demand weakens and unemployment rises, the current configuration of state TANF plans

and federal regulations may create some very unpleasant situations in which single mothers are unable to locate private sector employment and are also left without a claim on public sources of support. We worry about the short-term poverty effects on these mothers and their families, and we worry even more about the long-term impacts on the children.

Given the economic uncertainty and vulnerability that exists among this population, we object to unilateral legislation on the part of either state or federal governments that cuts certain groups off from assistance for their entire lifetime (whether through sanctions or time limits). What may have been called "tough love" in a strong economic environment with available jobs, could create extreme hardship in a more normal economic environment with fewer work opportunities for less-skilled women. State welfare agencies will need to adapt their policies to the realities of the labor market. In a very uncertain economic world, this may mean that there are times when welfare-to-work programs must be buttressed by public sector employment, by temporary increases in public assistance expenditures, and by less rigid time limits.

References

Bartik, Timothy J. 2000. "Displacement and Wage Effects of Welfare Reform," in *Finding Jobs: Work and Welfare Reform*, edited by David Card and Rebecca M. Blank. New York: Russell Sage Foundation.

Bernstein, Jared and John Schmitt. 1998. *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*. Washington, D.C.: Economic Policy Institute.

Blank, Rebecca M. 2000a. "Fighting Poverty: Lessons from Recent U.S. History." *Journal of Economic Perspectives* 14(2): 3-19.

Blank, Rebecca M. 2000b. "Declining Caseloads/Increased Work: What Can We Conclude About the Effects of Welfare Reform?" Unpublished manuscript prepared for the conference "Welfare Reform Four Years Later: Progress and Prospects" at the Federal Reserve Bank of New York.

Brauner, Sarah and Pamela Loprest. 1999. "Where Are They Now? What States' Studies of People Who Left Welfare Tell Us." Series A, No A-32, Assessing the New Federalism Project. Washington, D.C.: The Urban Institute.

Cancian, Maria, Robert Haveman, Daniel R. Meyer, and Barbara Wolfe. 2000. "Before and After TANF: The Economic Well-Being of Women Leaving Welfare." Madison, WI: University of Wisconsin Institute for Research on Poverty Special Report #77.

Council of Economic Advisers. 1999. "Economic Expansion, Welfare Reform, and the Decline in Welfare Caseloads: An Update. Technical Report." Washington, D.C.: Executive Office of the President. September.

Danziger, Sandra, Mary Corcoran, Sheldon Danziger, and Colleen Heflin. 2000. "Work, Income, and Material Hardship after Welfare Reform." *Journal of Consumer Affairs* 34(1): 6-30.

Eissa, Nada and Hilary W. Hoynes. 1999. "The Earned Income Tax Credit and the Labor Supply of Married Couples." Berkeley, CA: UC-Berkeley Department of Economics Working Paper E99-267.

Eissa, Nada and Jeffrey B. Liebman. 1996. "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics* 111(2): 605-37.

Ellwood, David T. 2000. "The Impact of the Earned Income Tax Credit and Social Policy Reforms on Work, Marriage, and Living Arrangements." Cambridge, MA: Harvard University Kennedy School of Government. June.

Freedman, Stephen, Daniel Friedlander, Gayle Hamilton, JoAnn Rock, Marisa Mitchell, Jodi Nudelman, Amanda Schweder, and Laura Storto. 2000. *National Evaluation of*

Welfare-to-Work Strategies. New York: Manpower Demonstration Research Corporation. June.

Gladden, Tricia and Christopher Taber. 2000. "Wage Progression Among Less Skilled Workers," in *Finding Jobs: Work and Welfare Reform*, edited by David Card and Rebecca M. Blank. New York: Russell Sage Foundation.

Gueron, Judith M. and Edward Pauly. 1991. *From Welfare to Work.* New York: Russell Sage Foundation.

Haveman, Robert and Jonathan Schwabish. 1999. "Macroeconomic Performance and the Poverty Rate: A Return to Normalcy?" Madison, WI: University of Wisconsin Institute for Research on Poverty Discussion Paper 1187-99.

Holzer, Harry J. and Michael A. Stoll. 2000. "Employers and Welfare Recipients: The Effects of Welfare Reform in the Workplace." Unpublished monograph, prepared for the Public Policy Institute of California.

Loprest, Pamela. 1999. "Families Who Left Welfare: Who Are They and How Are They Doing?" Publication 99-02, Assessing the New Federalism Project. Washington, D.C.: The Urban Institute.

Maloy, Kathleen, LaDonna Pavetti, Julie Darnell and Peter Shin. 1999. "Diversion as an Work-Oriented Welfare Reform Strategy and Its Effect on Access to Medicaid." Report to US DHHS. March.

Meyer, Bruce D. and Dan T. Rosenbaum. 1999. "Welfare, The Earned Income Tax Credit, and the Labor Supply of Single Mothers." National Bureau of Economic Research Working Paper 7363. Cambridge, MA: NBER.

Nathan, Richard P. and Thomas L. Gais. 1999. *Implementing the Personal Responsibility Act of 1996: A First Look.* Albany, NY: Nelson A. Rockefeller Institute of Government, State University of New York.

Neumark, David. 1999. "The Employment Effects of Recent Minimum Wage Increases: Evidence from a Pre-Specified Research Design." National Bureau of Economic Research Working Paper 7171. Cambridge, MA: NBER.

Parrott, Sharon. 1998. *Welfare Recipients Who Find Jobs: What Do We Know About Their Employment and Earnings?* Washington, D.C.: Center on Budget and Policy Priorities. November.

Riccio, James, Daniel Friedlander, and Stephen Freedman. 1994. *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*. New York: Manpower Demonstration Research Corporation. September.

Schoeni, Robert F., and Rebecca M. Blank. 2000. "What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure." National Bureau of Economic Research Working Paper 7627. Cambridge, MA: NBER.

US Bureau of Labor Statistics (US BLS). 2000. *Employer Costs for Employee Compensation*, News Release 00-186. Washington, D.C.: June.

US Department of Health and Human Services (US HHS). 2000. *Temporary Assistance for Needy Families (TANF) Program: Third Annual Report to Congress*. Washington, D.C.: August.

US House of Representatives. 2000. *The Green Book*. Washington, D.C.

Table 1

Labor Force Participation Rates
by Gender, Year, and Education Level
(All persons ages 20-65)

	1969	1979	1989	1999
I. Women				
Total	48.6	59.2	67.7	72.2
H.S. Dropout	41.6	43.7	44.5	50.3
H.S. Diploma	51.4	61.2	68.0	70.1
Some College	51.1	65.9	74.3	75.9
College Diploma	62.0	73.3	81.1	81.9
II. Men				
Total	89.4	87.2	86.3	85.3
H.S. Dropout	88.6	79.4	75.4	74.3
H.S. Diploma	93.2	90.7	88.2	85.5
Some College	85.6	87.2	86.9	84.7
College Diploma	91.2	92.8	92.3	91.5

Source: Authors' tabulations of March Current Population Survey data; based on labor force status in the week of survey.

Table 2

Earnings and Income Changes Among
Female High School Dropouts, by Marital Status
(Ages 20-65, 1999 dollars)

	All	Single w/Kids	Married w/Kids	Single, No Kids	Married, No Kids
I. Women					
Own Earnings (1999)	$6,502	$6,641	$6,088	$7,006	$6,336
Change in Own Earnings					
1979-1989	+3.2%	-18.5%	+15.4%	-0.6%	+6.3%
1989-1999	+22.0%	+42.6%	+13.7%	+14.0%	+24.5%
Own Earnings / Family Income					
1979	25.4	56.1	14.6	71.4	17.8
1989	34.9	68.9	21.1	76.3	21.9
1999	43.3	83.8	23.4	78.4	26.1
Family Income (1999)	$15,000	$7,924	$26,000	$8,932	$24,282
Change in Family Income					
1979-1989	-24.7%	-33.6%	-20.0%	-6.9%	-13.6%
1989-1999	-1.8%	+17.3%	+2.5%	+10.8%	+4.4%

Source: Authors' tabulations of March Current Population Survey data. Own earnings figures are means, while family income figures are medians. (Large outliers in the family income figures skew the means.)

Table 3

Distribution of Women's Wages by Education Category
(All female workers, 1999 dollars)

	Less than $7/hour	$7/hour - $10/hour	$10/hour - $13.50/hour	$13.50/hour - $20/hour	More than $20/hour
All Women					
1979	33.8	29.5	20.2	12.5	4.0
1989	29.4	25.7	20.1	16.8	7.9
1999	24.1	21.5	21.7	18.6	14.1
H.S. Dropout					
1979	61.0	24.8	9.6	3.8	0.8
1989	62.5	23.5	9.7	3.5	0.9
1999	64.4	21.2	10.0	3.3	1.1
H.S. Diploma					
1979	31.3	35.1	21.0	10.5	2.2
1989	32.0	31.6	21.5	12.1	2.9
1999	27.9	28.6	24.5	14.0	5.0
Some College					
1979	26.8	31.4	23.5	14.7	3.6
1989	25.2	27.2	22.7	18.3	6.6
1999	21.6	23.9	24.9	19.7	10.0
College Diploma					
1979	10.9	18.7	29.1	27.4	13.9
1989	7.9	15.0	21.7	32.4	23.1
1999	6.3	10.4	19.2	29.1	35.0

Source: Authors' tabulations of Current Population Survey Outgoing Rotation Group data. Wage categories (≤$7, >$7 & <$10, ≥$10 & ≤$13.50, >$13.50 & <$20, ≥$20) are based on the quintile breaks in the overall wage distribution among all workers in 1999 ($7.06, $9.95, $13.57, and $19.80).

Table 4

Industry and Occupational Location of Less-Skilled Young Women and Men Over Time

(High school dropouts, ages 20-35)

	Women			Men		
	1979	1989	1999	1979	1989	1999
Industry						
Construction	0.8	1.6	2.0	16.3	20.5	22.3
Durable goods	16.6	9.6	7.8	23.2	15.7	11.6
Nondurable goods	19.7	16.6	11.1	11.2	10.1	9.9
Retail trade	22.6	28.0	31.0	12.0	15.8	19.2
Finance, insurance, and real estate	2.4	2.7	2.3	1.2	1.4	1.3
Business services	2.4	5.3	5.6	1.8	2.9	4.8
Medical (including hospitals)	8.2	8.1	9.1	1.3	1.3	0.5
Legal, educational, social & other professional services	5.9	6.8	7.2	2.1	2.7	1.4
Occupation						
Executive, administrative & managerial	2.7	3.0	3.3	3.3	2.8	2.5
Professional	1.7	1.7	1.6	1.0	0.7	0.7
Sales	7.9	12.7	15.3	1.7	.4	3.7
Administrative support	11.9	11.5	10.8	2.6	2.3	2.5
Service	28.7	31.0	34.5	8.0	10.8	14.4
Precision production, craft & repair	3.1	5.2	4.5	26.4	28.3	27.3
Machine operators, assemblers & inspectors	33.4	21.9	15.6	23.1	15.0	13.1

Source: Authors' tabulations of Current Population Survey Outgoing Rotation Group data.

Table 5

State Rankings for Components of the TANF Program, by Overall Work Incentives

State	Benefit Generosity	Earnings Disregards	Sanctions	Time Limits	Overall Work Incentives
Alabama	Low	Low	Strict	Moderate	Mixed
Alaska	High	Medium	Lenient	Moderate	Weak
Arizona	Medium	Low	Moderate	Lenient	Weak
Arkansas	Low	Medium	Lenient	Strict	Mixed
California	High	High	Lenient	Lenient	Mixed
Colorado	Medium	Low	Moderate	Moderate	Weak
Connecticut	High	High	Moderate	Strict	Mixed
Delaware	Medium	Low	Strict	Strict	Mixed
DC	Medium	Medium	Lenient	Moderate	Weak
Florida	Medium	High	Strict	Strict	Strong
Georgia	Medium	Low	Strict	Strict	Mixed
Hawaii	High	High	Strict	Moderate	Mixed
Idaho	Medium	Low	Strict	Strict	Mixed
Illinois	Medium	High	Moderate	Moderate	Strong
Indiana	Medium	Low	Lenient	Lenient	Weak
Iowa	Medium	High	Strict	Moderate	Strong
Kansas	Medium	Medium	Strict	Moderate	Strong
Kentucky	Low	Low	Moderate	Moderate	Mixed
Louisiana	Low	High	Strict	Strict	Strong
Maine	Medium	High	Lenient	Lenient	Mixed
Maryland	Medium	Low	Strict	Lenient	Mixed
Massachusetts	High	High	Strict	Strict	Mixed
Michigan	Medium	Medium	Strict	Lenient	Mixed
Minnesota	High	Medium	Lenient	Moderate	Weak
Mississippi	Low	High	Strict	Moderate	Strong
Missouri	Medium	Medium	Lenient	Moderate	Weak
Montana	Medium	Medium	Lenient	Moderate	Weak
Nebraska	Medium	Low	Strict	Strict	Mixed
Nevada	Medium	Medium	Moderate	Strict	Strong
New Hampshire	High	High	Lenient	Moderate	Mixed
New Jersey	Medium	Medium	Strict	Moderate	Strong
New Mexico	Medium	High	Moderate	Moderate	Strong
New York	High	High	Lenient	Lenient	Mixed
North Carolina	Low	Medium	Moderate	Strict	Strong
North Dakota	Medium	Low	Strict	Moderate	Mixed
Ohio	Medium	High	Strict	Strict	Strong
Oklahoma	Medium	Medium	Strict	Moderate	Strong
Oregon	Medium	Medium	Moderate	Strict	Strong
Pennsylvania	Medium	Medium	Moderate	Moderate	Mixed
Rhode Island	High	High	Lenient	Lenient	Mixed
South Carolina	Low	Low	Strict	Strict	Mixed

South Dakota	Medium	Low	Strict	Moderate	Mixed
Tennessee	Low	Low	Strict	Strict	Mixed
Texas	Low	Low	Moderate	Moderate	Mixed
Utah	Medium	High	Strict	Strict	Strong
Vermont	High	Medium	Moderate	Lenient	Weak
Virginia	Medium	Low	Strict	Strict	Mixed
Washington	High	High	Lenient	Moderate	Mixed
West Virginia	Medium	Low	Moderate	Moderate	Weak
Wisconsin	High	Low	Strict	Moderate	Mixed
Wyoming	Medium	Low	Strict	Moderate	Mixed

Coding:

Benefit Generosity:
Source: State Policy Documentation Project - www.spdp.org.

High = Maximum benefits greater than $100 above the median state benefit
Medium = Maximum benefits within $100 of median state benefit
Low = Maximum benefits more than $100 below the median state benefit

Earnings Disregards:
Weighted average of the amount of earnings that would be disregarded (taking breakeven points into account) in the first and twelfth months of benefit receipt for a single mother working full time at $6.00 per hour. Source: State Policy Documentation Project - www.spdp.org.

High = Amount of earnings disregarded greater than $100 above median state disregard
Medium = Amount of earnings disregarded within $100 of median state disregard
Low = Amount of earnings disregarded more than $100 below the median state disregard

Sanctions:
Source: Pavetti and Bloom (this volume)

Strict = Immediate full family or gradual full family plus Food Stamps/Medicaid
Moderate = Gradual full family or partial plus Food Stamps/Medicaid
Lenient = Partial

Time Limits:
Source: Pavetti and Bloom (this volume)

Strict = Termination less than 60 months
Moderate = State time limit of termination after 60 months
Lenient = Benefit reduction or no time limit

Overall Work Incentives:

A state with unambiguously strong work incentives would have low benefit generosity, high earnings disregards, strict sanctions, and strict time limits.
A state with the weakest work incentives would have high benefit generosity, low earnings disregards, lenient sanctions, and lenient time limits.
Our coding of overall work incentives is as follows:
Strong = At least one category has the strongest work incentives, and no other category has the weakest work incentives.
Weak = At least one category has the weakest work incentives, and no other category has the strongest work incentives.
Mixed = All others (states that mix strongest and weakest incentives, or states that are entirely in the middle).

Table 6

Effects of Changing Policy on Earnings of Single Mothers
(All numbers in 1999 dollars)

	1989	1999	Percent Change
1. Minimum Wage	$4.48	$5.15	15.0
2. Maximum EITC Subsidy			
Single Mother (1 child)	$1,216	$2,312	90.1
Single Mother (2 children)	$1,216	$3,816	213.8
3. Earnings (Single mother working full-time at minimum wage)			
Single Mother (1 child)	$10,013	$12,612	26.0
Single Mother (2 children)	$10,013	$14,116	41.0
4. Ratio of Earnings to U.S. Poverty Line			
Single Mother (1 child)	0.89	1.10	
Single Mother (2 children)	0.76	1.05	

Source: Authors' calculations.

Figure 1

Labor Force Participation Rates for Women by Marital Status Children

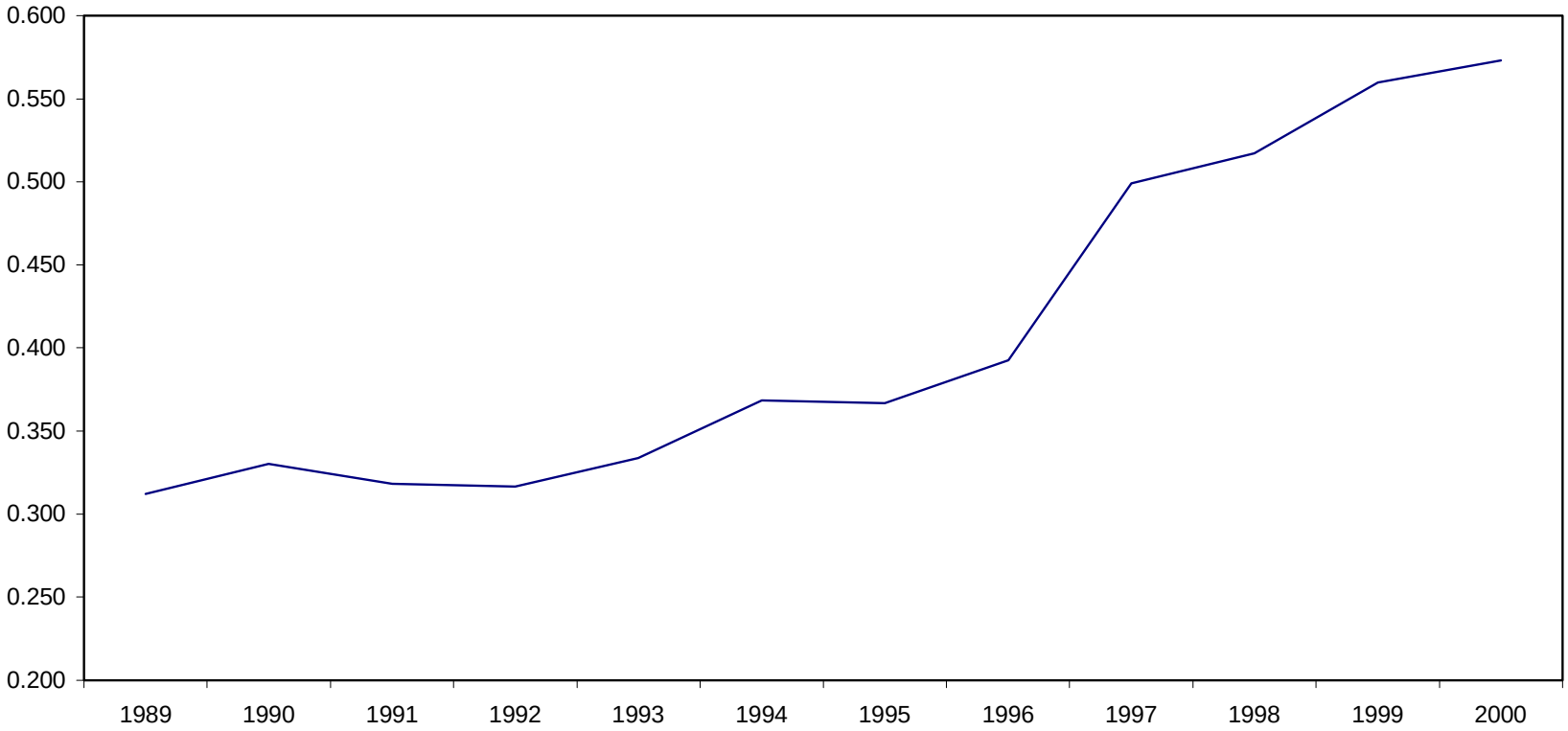
(Ages 20-65)



Source: Authors' tabulations of March Current Population Survey Data

Figure 2

Labor Force Participation Rate in March Among Single Mothers Who Received Public Assistance During the Previous Year (Ages 20-65)

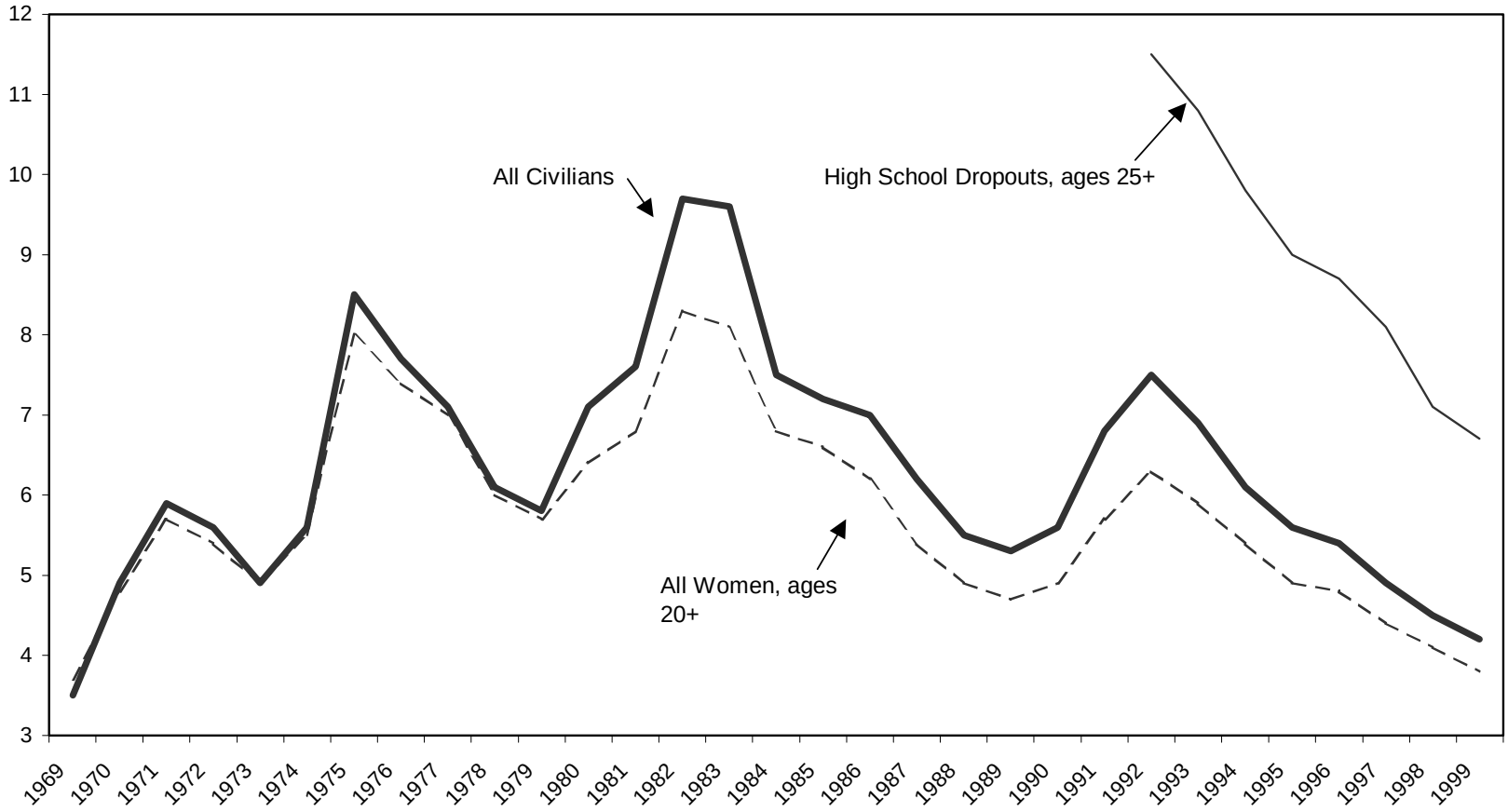


Source: Authors' tabulations of March Current Population Survey Data. Includes all women who report receiving public assistance in previous year.

Figure 3

Unemployment Rates Among Selected Persons

(Ages 20-65)

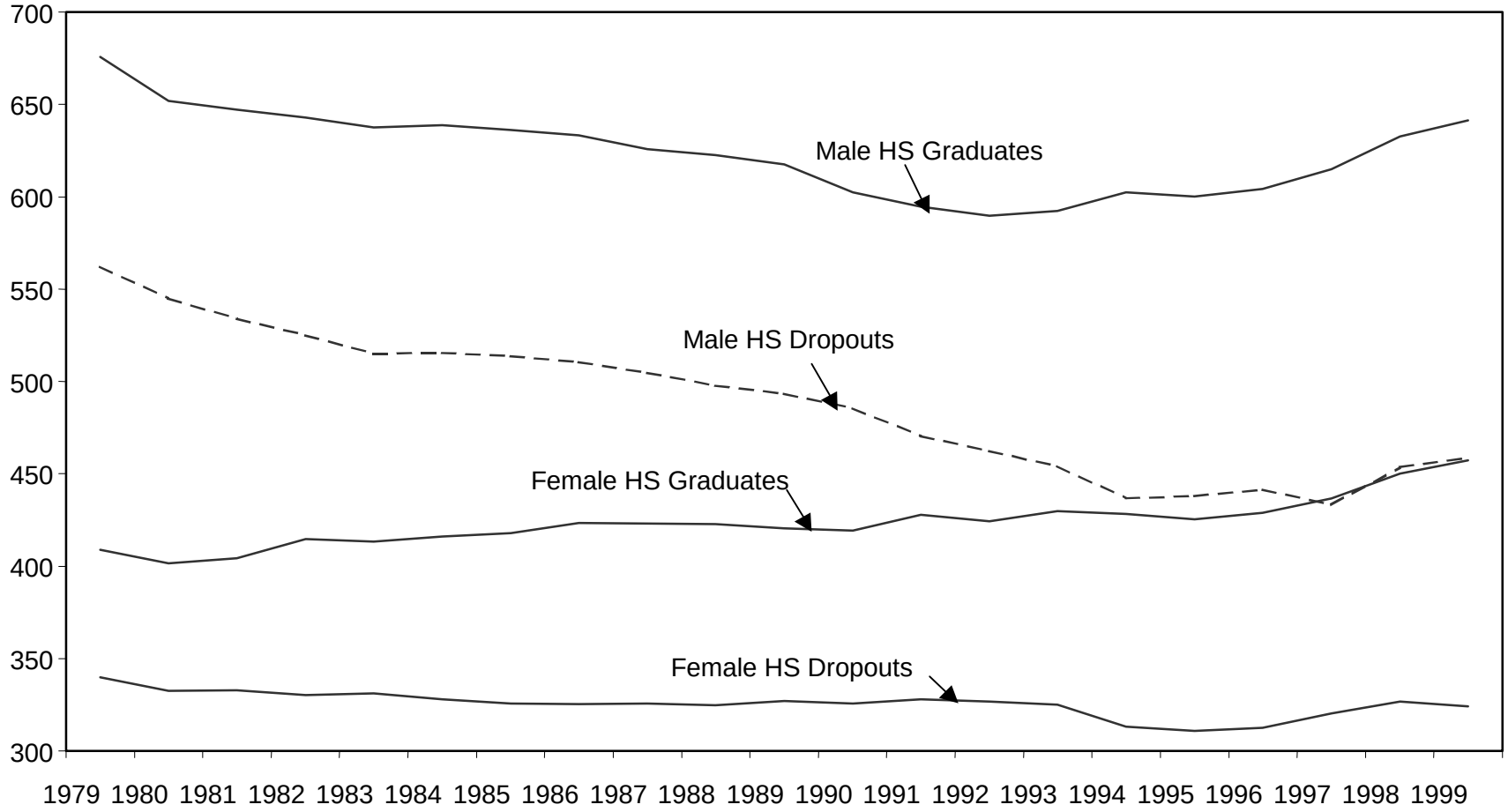


Source: Department of Labor, Bureau of Labor Statistics. *Historical Data from "A" Tables of Employment Situation News Release*, http://www.bls.gov/cpsatabs.htm

Figure 4

Average Weekly Earnings Among Less-skilled Full-time Workers

(Ages 25-65, 1999 Dollars)



Source: Authors' tabulations of Current Population Survey Outgoing Rotation Group data