# APPROACHING THE LIMIT:
# EARLY NATIONAL LESSONS FROM WELFARE REFORM

**Sheldon Danziger**
University of Michigan
Poverty Research and Training Center
540 E. Liberty St., Suite 202
Ann Arbor, MI 48104-2210
sheldond@umich.edu

December 2000

To appear in: B. Weber, G. Duncan and L.Whitener, eds. **Rural Dimensions of Welfare Reform.** Kalamazoo, MI: Upjohn Institute for Employment Research, 2001.

Sheldon Danziger is Henry J. Meyer Collegiate Professor of Social Work and Public Policy, and Director, Center on Poverty, Risk and Mental Health, University of Michigan. This research was supported in part by grants from the Charles Stewart Mott, Joyce, and John D. and Catherine T. MacArthur Foundations and by Grant No. R24-MH51363 from the National Institute of Mental Health. Nath Anderson, Nancy Collins, and Elizabeth Oltmans provided valuable research assistance; Nath Anderson, Scott Allard, Colleen Heflin, Rucker Johnson, Kristin Seefeldt, and Bruce Weber, helpful comments on a previous draft.

Welfare reform has been one of the most controversial social policies of recent times. A Democratic president abandoned welfare reform legislation drafted by his administration—the Work and Responsibility Act (announced by President Clinton on June 14, 1994)—and supported legislation, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, crafted by a Republican Congress. The PRWORA ended the entitlement to cash assistance for poor families with children and relinquished to the states authority for decisions about most policies affecting welfare recipients. Within a few years of passage, PRWORA had "ended welfare as we knew it" more decisively than most policy analysts expected when the legislation was signed; welfare caseloads dropped so dramatically that, by the middle of 2000, the number of recipients had fallen below 6 million, about the same number as the late 1960s.

Several early lessons have emerged from dozens of recent studies of PRWORA's effects. In this chapter, I emphasize changes across the nation as a whole; other chapters focus on rural-urban differences. Some of the factors I discuss, for example, caseload declines, are similar in rural and urban areas. Others, however, such as job growth and access, differ.

The first lesson is that economic conditions, federal government policy changes, and state welfare policy changes in the last few years have contributed to increased employment and net earnings. As a result, the dramatic caseload decline has not produced the dire scenario that some analysts predicted—PRWORA has not caused a surge in poverty or homelessness because most former recipients are finding jobs. Even though many welfare "leavers," as they are called, are not working full-time, full-year, a significant number are earning at least as much as they had received in cash welfare benefits.

Second, because very favorable economic conditions—rapid economic growth, low inflation, and low unemployment—will not continue forever, we do not yet know how welfare reform will play out during a recession or even during a period of moderate unemployment rates and slow economic growth. Indeed, because PRWORA placed a five-year, lifetime limit on the receipt of cash assistance, recipients who continue to receive welfare (stayers), and who face greater barriers to employment than those who have already left the roles, are at risk of hitting their time limits during a period of slow economic growth or recession. At the present time, we

do not know whether the possible coincidence of millions of recipients exhausting eligibility for cash assistance during a recession might produce the increased child poverty and extreme hardships that critics predicted PRWORA would cause. Also, we do not know whether Congress and the states might respond to a recession by increasing the number of exemptions allowed from or extensions to federal time limits, providing work-for-welfare community service employment, creating state-funded programs for those who exhaust federal benefits, or implementing some mixture of the above.

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

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

## THE ECONOMIC ENVIRONMENT

In the late 1990s, many less-skilled and less-educated workers and former welfare recipients continued to have difficulty earning enough to support their families. Despite robust economic recoveries in both the 1980s and the 1990s, the bottom 40 percent of the population has benefited relatively little. The economic prospects for the less-skilled improved after 1993, when the unemployment rate and the poverty rate began falling. The unemployment rate for adult men fell from 6.7 percent in January 1993 to 3.2 percent in September 2000, the lowest male unemployment rate since December 1973. The rate for adult women fell from 6.3 percent in

January 1993 to 3.5 percent in September 2000, the lowest female unemployment rate since December 1969. The official poverty rate nationwide has fallen every year since 1993, from 15.1 percent to 11.8 percent in 1999.

Nonetheless, the long economic recovery has not yet benefited the disadvantaged enough to restore their economic well-being to where it stood a quarter century ago. The 1999 poverty rate is still higher than the 1973 rate (11.1 percent) and much higher than the rates of Canada, Japan. and most northern European countries (Jantti and Danziger, 2000).

Typically, poverty falls as real per capita income increases during economic recoveries and rises as income falls during recessions. The increases in poverty and income inequality in the late 1970s and early 1980s, however, were so great that it now requires substantially higher real per capita income to achieve the same poverty rate as it did a quarter century ago. The 1999 poverty rate for central city residents, 16.4 percent, is 5.1 percentage points below the 1993 rate (21.5 percent), but about 4 points above its 1969 historical low (12.7 percent). Likewise, the 1999 rate for residents of nonmetropolitan areas, 14.3 percent, is about 3 percentage points below its 1993 rate (17.2 percent) and about 1 percentage point above its 1978 historical low (13.5 percent).[1]

Even though per capita income was higher in the late 1990s than in the late 1960s, the average inflation-adjusted wage of production workers was lower. After a continued increase that ended in October 1972, workers' hourly earnings fell 13 percent between 1972 and 1993. Since 1993, earnings have been rising. Average hourly earnings in October 2000 were $13.88 per hour, 7 percent above the rate of October 1993, but still below the October 1972 peak. These data include male and female workers of all ages and with all levels of work experience. Welfare recipients, on average, earn much less than the average wage because they are younger, less-experienced, and have fewer years of schooling and less labor market skills than the average worker.

The trend in women's earnings is somewhat better than that for all workers because the labor market changes of the last three decades have disproportionately hurt less-skilled males. However, a review of trends in the annual earnings of single mothers suggests that a typical welfare recipient is likely to have a difficult time earning enough to support her family. The top line in Figure 1 shows median real annual earnings (in 1998 constant dollars) from 1967–1998 for single mothers between the ages of 18 and 64 who report earnings.[2] In 1998, their median

annual earnings were $16,352, just about the poverty line for a family of four. The bottom line shows the trend for a single mother at the 20th percentile of the annual earnings distribution and better represents the earnings prospects of welfare recipients, whose educational attainment and skills are significantly lower than those of the median single mother. Over these three decades, annual earnings at the 20th percentile increased 56 percent from $4,590 to $7,154, with more than half of this increase occurring between 1994 and 1998.

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

In sum, the longest peacetime economic expansion in history has not yet managed to restore the poverty rate and average wage rate to the levels achieved three decades ago. We have never been wealthier as a nation, but millions of families still have difficulty making ends meet. For single mothers, moving from welfare to work is a necessary, but not sufficient, first step along the path out of poverty. The strong work incentives and work requirements of the 1996 act have, to date, produced only a small decline in the national poverty rate because welfare mothers have relatively low earnings prospects. Despite our national commitment to encouraging work, we have in place a safety net that does little to provide work opportunities for those who have trouble finding a job or working full-time full-year. This brief review of labor market trends suggests that reducing poverty in the post-welfare-reform era for both single mothers and poor families not receiving welfare requires government to increase income supplements for low earners and provide some employment opportunities for those left behind despite a robust economic recovery.

## EFFECTS OF WELFARE REFORM ON WORK AND ECONOMIC WELL-BEING

I now examine emerging evidence on changes in the work effort, welfare receipt and economic well-being of single mothers in the post-welfare-reform era. I do not attempt to evaluate the unique effects of welfare reform on these outcomes independent of economic conditions and

other policy changes, given that such an evaluation requires a behavioral model of labor supply and welfare participation decisions that is beyond the scope of this chapter.

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

On the other hand, many states have expanded policies that allow recipients to combine work and welfare, notably by increasing earnings disregards so that recipients can have some earnings that do not directly offset their welfare benefits (Acs, Coe, Watson, and Lerman, 1998; Gallagher, Gallagher, Perese, Schreiber, and Watson, 1998). Taken together, changes in welfare policy have led more recipients to look for work, have made it more difficult for nonworking recipients to remain on the rolls, and have increased the financial benefit for recipients to work part-time at low-wage jobs (Corcoran, Danziger, Kalil, and Seefeldt, 2000; S.K. Danziger, Corcoran, Danziger, and Heflin, 2000b).

Other policy changes have increased the returns from work for all low earners. The minimum wage was increased from $4.25 to $5.15 in 1997, just after welfare reform was implemented. In 1993, President Clinton proposed and Congress passed a major expansion of the EITC. In 1998, a working single mother was eligible for a maximum EITC of $2,272 if she had one child, and of $3,756 if she had two or more children. The Children's Health Insurance Program (CHIP) of 1997 subsidizes health care for children of the working poor, thereby making jobs that do not provide health care coverage more attractive to women leaving welfare than otherwise. Finally, as noted above, the labor market in the late 1990s was much tighter than it had been for years, making it easier for welfare mothers to find jobs.

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

**National Trends by Residence**

Table 1 presents March Current Population Survey data for selected years between 1969 and 1998 on trends in the work effort, welfare receipt, median welfare income, and the poverty rate of single mothers ages 18–54 who have at least one child residing with them. Data are shown separately for residents of central cities, residents living in metropolitan areas but not within central cities, and nonmetropolitan area residents. The patterns for each variable are strikingly similar regardless of place of residence. Between 1969 and 1989, work effort, welfare receipt, and the family poverty rate were relatively stable. By 1998, however, work effort had increased substantially, welfare receipt declined dramatically, and poverty declined modestly in most residential groups.

The top panel of Table 1 shows the percentage of single mothers who worked (i.e., reported earnings) at some time during the year. For each residential group, work effort was roughly constant in 1969, 1979, and 1989, until 1998, when work increased by about 12.5 percentage points for central city residents and by about 8 percentage points for the other groups. In 1998, median earnings were about $14,000 for single mothers residing in central cities and nonmetro areas, and about $20,000 for those living in the noncentral city portion of metro areas (earnings data not shown).

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

Median welfare benefits, adjusted for inflation, fell dramatically over the three decades for all groups. In 1998, annual welfare income for recipients was about $3,100 per year for central city residents, $2,800, for those living in the non-central-city portion of metro areas, and $2,400 for residents of nonmetro areas.

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

points for single mothers residing in central cities, 1 point for suburban residents, and 6 points for residents of nonmetro areas.

**Detailed Results from a Post-Welfare Reform Panel Study of Michigan Residents**

I now analyze data on work effort and economic well-being following welfare reform from the first two waves of the Women's Employment Study (WES), of the Poverty Research and Training Center at the University of Michigan (see S. K. Danziger, Corcoran, Danziger, Heflin, Kalil, Levine, Rosen, Seefeldt, Siefert, and Tolman, 2000a, for more information on the study). I examine the relationship between human capital and other personal characteristics and work effort and evaluate differences in economic well-being between workers and nonworkers.

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

**Work and welfare outcomes**

The study gathered information on a variety of problems that might affect a woman's likelihood of moving into the workforce and finding and a keeping job. We included traditional human capital measures, such as whether the recipient had completed high school, the extent of her labor force skills, and previous work experience. We also included measures of a range of mental and physical health problems, access to automobiles, perceptions of previous experiences of discrimination and other psycho-social and familial attributes.

The fall 1998 interviews, which occurred roughly 20 months after the initial sample was drawn, allow us to evaluate differences between women who are working and those who are not about two years after PRWORA was introduced. Table 2 lists our measures of 14 barriers to employment. The five barriers at the top of Table 2 are measured only at wave 1 because any

changes in their prevalence are likely to have occurred in response to work effort changes between waves 1 and 2. For example, if a woman at wave 1 had not performed at least four of the nine work tasks on a previous job, we classified her as having low skills. The only way for her to have low skills at wave 1 and not at wave 2 was for her to have acquired those skills while working on a job between the two waves. The next nine barriers are evaluated at both waves; they describe conditions that may be episodic. In this chapter, a woman is counted as having these barriers only if they were present at both waves. At wave 1, we found that most of these barriers were negatively and significantly related to the likelihood that a respondent was working at least 20 hours per week (S. K. Danziger et al., 2000a).

Most barriers to employment are also correlated with whether or not a woman was working at the time of the wave 2 interview and the extent of her work involvement between the two waves. The columns in Table 3 classify 675 of the 693 women who completed both surveys into one of four mutually exclusive categories based on their work and welfare income status in fall 1998 (The 18 women who are excluded had moved from welfare to the Supplemental Security Income program by fall 1998 and hence were not expected to work).[4] We define *wage-reliant* mothers as those who reported positive earnings but no cash assistance in the month prior to the interview; they are 43.6 percent of the sample ($N = 294$).[5] The next group includes *combiners*, women who reported both earnings and cash assistance in the month prior to the interview; they make up 27.1 percent of respondents ($N = 183$). We define *welfare-reliant* mothers as those who reported no income from earnings in the month prior to the interview, but who reported receiving income from TANF; they represent 20.4 percent of respondents ($N = 138$). The remaining 8.9 percent ($N = 60$) of the sample includes women who were neither working nor receiving TANF benefits in fall 1998.

Table 3 shows how women in these work-welfare income categories differ in the prevalence of barriers. The last row shows the mean number of barriers for women in each of the categories. In this table, we combine the separate diagnoses for psychiatric disorders into a single variable and alcohol and substance dependence into a single variable.

The results are quite dramatic—the women who are wage-reliant at wave 2 (column 2) are much less likely to have most of these barriers to employment, and the women who were not working at wave 2 (columns 4 and 5) are much more likely to face barriers. The welfare-reliant mothers have the highest prevalence on 10 of the 11 barriers (although some of these differences

are not significant). These differences are present for human capital, mental health, and health barriers. For example, 22.8 percent of the wage-reliant have less than a high school degree compared with 45.7 percent of the welfare-reliant. In addition, 10.9 percent of the wage-reliant met diagnostic screening criteria for at least one of the three psychiatric disorders we asked about at both waves. In contrast, 24.6 percent of the welfare-reliant met such criteria.

These results suggest caution in simply classifying welfare recipients as "stayers" or "leavers" in the aftermath of PRWORA, as has been done in most recent studies. Table 3 documents substantial differences in the extent of barriers between leavers who are wage-reliant (column 2) and those who are not working (column 5), and substantial difference between stayers who are working (combiners, column 3) and those who are not (welfare-reliant, column 4). In fact, those who are working —wage-reliant and combiners—and those who are not working—the welfare-reliant and those neither working nor receiving cash assistance—are similar to each other in terms of their mean number of barriers. The former two working groups average 1.2 and 1.4 barriers, respectively, whereas nonworkers average 2.3 and 2, respectively.

Figure 2 graphs the relationship between the number of barriers and the extent of work, measured by the percentage of months a respondent worked between the two surveys.[6] The numbers in parentheses below the number of barriers are the percentages of the respondents who have a specific number of barriers (out of the 11 listed in Table 3). The percentage of months worked falls from 81.5 percent for respondents who did not have any of the barriers (27.4 percent of the sample) to only 6.7 percent for the 1.9 percent of the sample with six or more barriers. A respondent with two barriers worked, on average, in about two-thirds of the months, whereas a respondent with four barriers worked in fewer than two-fifths of the months. This pattern of declining work as the extent of barriers increases is remarkably similar to the pattern we observed for those who were working at least 20 hours per week at the first wave of the survey (S. K. Danziger et al., 2000a).

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

time, full-year. In addition, as the next section shows, poverty among the respondents remains high.

**Financial well-being**

Given that a majority of respondents was working in fall 1998, I now evaluate the extent to which "work pays," that is, whether working respondents have higher incomes than nonworking welfare recipients. Respondents were asked to report, for the month before the interview, their work hours, earnings, welfare receipt, and income from a variety of sources. These sources include the earnings of other household members, cash assistance from TANF, Food Stamps, Social Security and other pension and disability income, Supplemental Security Income (SSI), unemployment compensation, child support, cash contributions from other household members and from outside friends and family, and any other income not previously mentioned.[7] We also asked about expenses for work-related child care and transportation. We also have information on cash assistance received from official records of Michigan's Family Independence Agency.

Table 4 presents two measures of mean monthly income and the monthly poverty rate in fall 1998 for respondents, classified by their work-welfare income status in the survey month (see Danziger, Heflin, and Corcoran, 2001, for greater detail on financial well-being). Monthly income is the sum of work-based income, welfare-based income, and income from other sources, less work-related child care and transportation expenses. In addition to the reported income sources, we imputed the value of federal taxes paid, the EITC, and the employee's share of Social Security taxes. We imputed the value of federal taxes paid and the value of the EITC received based on respondents' own earnings, unemployment insurance, marital status, and number of children.[8] The employee's share of Social Security taxes is 7.65 percent of reported earnings.[9] Before turning to the results, I discuss differences in receipt of the various income sources.

By definition, all wage-reliant women and all women combining work and welfare had earnings in the interview month, whereas welfare-reliant mothers and those not working and not receiving welfare did not. Wage-reliant mothers earned more per month than did combiners—$987 versus $626 (data shown in Danziger, Heflin, and Corcoran, 2001). Compared with combiners, wage-reliant mothers were more likely to be working at least 35 hours per week (66

percent vs. 37 percent), and they earned a higher average hourly wage ($7.63 vs. $6.52). Almost every working mother in the sample was eligible for the EITC. We estimate that wage-reliant mothers received, on average, $202 per month; combiners received $191. Federal income and Social Security taxes decreased the earnings of wage-reliant mothers by $142 per month and those of combiners by $78 per month.

Substantial numbers of respondents co-resided with another household member who worked. About 35 percent of wage-reliant mothers, 21 percent of combiners, 17 percent of welfare-reliant mothers and 52 percent of those neither working nor receiving welfare lived in a household with an additional earner. These other earners, many of whom are husbands or cohabiting partners, earned on average more than the respondents.

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

Wage-reliant women had higher child care and transportation costs than did welfare-reliant women. The majority of both groups of working mothers (77 percent of wage-reliant mothers and 64 percent of combiners) reported work-related transportation expenses that averaged $74 and $63 per month, respectively. Slightly more than one-quarter of the two groups of working mothers reported out-of-pocket child care expenses that averaged $264 to $316 per month.[11]

Table 4 presents two measures of monthly income. First, income from all sources, except the earnings of household members other than husbands, is summed, the EITC is added, income and payroll taxes are subtracted, as are work-related transportation and child care expenses. This is labeled "net income excluding earnings from others." This measure does not include the earnings of household members other than husbands because we do not know the extent to which these members actually share their earnings with the respondents. In row 2, these earnings are added.

The average net monthly income (row 1) was $1,405 for wage-reliant mothers, $1,277 for combiners, $892 for welfare-reliant mothers, and $798 for those neither working nor receiving

welfare. Adding the earnings of all household members raised these averages to $1,677, $1,449, $1,027, and $1,178, respectively. Because a larger percentage of the women who neither worked nor received welfare live with another earner who is not their husband, the increase in their income between rows 1 and 2 is greater than the increase for the other three groups.

For both measures, working mothers have a substantial income advantage over welfare-reliant mothers. When the earnings of household members other than husbands are excluded, average net income for wage-reliant mothers was 58 percent higher than that of the welfare-reliant. When the earnings of other household members are included, wage-reliant mothers had an average net income that was 63 percent higher than that of the welfare-reliant. Women combining work and welfare had net incomes (row 2) 41 percent higher than those of the welfare-reliant. Thus, in the post-PRWORA era, it does pay to move from welfare to work.

The bottom rows of Table 4 present the monthly poverty rates for the four groups of respondents (we divide the official 1998 federal poverty threshold for a household of that size by 12). A large portion of workers remain poor. When earnings of household members other than husbands are excluded, 47.4 percent of wage-reliant mothers, 55.3 percent of combiners, 91 percent of welfare-reliant mothers, and 78.6 percent of those who neither worked nor received welfare were poor (row 3). When earnings of all household members are included (row 4), the poverty rates for the wage-reliant, combiners, the welfare-reliant, and those neither working nor receiving welfare fall to 38.4 percent, 50.3 percent, 83.3 percent, and 68.3 percent, respectively.

The good news is that poverty is much lower for both income measures for workers than for nonworkers. In addition, about 80 percent of the wage-reliant mothers earn more than the maximum TANF benefit in Michigan (a state that has above-average benefit levels). The bad news is that poverty remains very high for workers. Also, the annual poverty rate for the wage-reliant and combiners is higher than Table 4 indicates because most of them do not work in every month, and hence do not earn this much in every month.[12]

We have not attempted to determine the extent to which these differences in poverty rates are due to welfare policy changes, the very favorable economic climate, or other policy changes. In Michigan, however, the decision of the state to allow recipients an earnings disregard (the first $200 of monthly earnings does not reduce welfare benefits; welfare is reduced by 80 cents for every additional dollar earned) and the absence of a time limit have encouraged women to combine work and welfare. Women whose earnings would have disqualified them from cash

assistance a decade ago can now receive some welfare benefits. Even if the cash benefit amount is small, its receipt increases the likelihood that a respondent will continue to receive Food Stamps and Medicaid. In addition, the tight labor market has made it easier for respondents to get and keep jobs. Nonetheless, most working respondents are not escaping poverty on their paychecks alone, and a substantial fraction of the wage-reliant and combiners continue to receive government assistance (e.g., TANF, Food Stamps, EITC), or to rely on cash contributions from friends and family, or both.

Several implications concerning welfare reform follow from these findings. First, in a booming economy, most welfare recipients can find some work and many can escape poverty. In addition, the economic incentives now in place are in accord with the goals of policy planners—on average, wage-reliant mothers and those combining work and welfare are economically better off than welfare-reliant mothers. Second, these results suggest that more attention should be paid to factors that prevent some of the welfare-reliant from finding steady employment. The new economic incentives and the increased pressure to leave the welfare rolls make it unlikely that many welfare-reliant mothers are rejecting work and choosing to stay on welfare. Rather, as shown in Table 3 and Figure 2, many of them have multiple problems, such as poor physical or mental health or lack of job skills, which prevent them from getting and keeping jobs even when unemployment rates are low.

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

## POLICY IMPLICATIONS

In 1959, Robert J. Lampman testified to the Joint Economic Committee of Congress that:

> A more aggressive government policy could hasten the elimination of poverty and bring about its virtual elimination in one generation. A

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

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

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

Any social welfare system produces errors of commission and omission. The pre-1996 welfare system did provide cash assistance to some recipients who could have made it on their own in the labor market. Some welfare recipients were unwilling to look for a job, others turned down job offers because the wages were low or because they did not provide health insurance. Others chose to stay at home to care for their children. The 1996 law reflects the expectations of policymakers and taxpayers that anyone offered a minimum-wage job should accept it. Indeed, the law allows states to curtail benefits for anyone who does not search for work or cooperate with the welfare agency.

However, the law does not reflect the fact that finding a job has become more difficult for less-skilled workers over the past three decades. The early results from welfare reform reviewed here suggest that many recipients are likely to reach time limits without finding stable jobs even if economic conditions remain as favorable as were at the end of the 1990s. They will be terminated from cash assistance even if they are willing to work, either because they cannot find any employer to hire them, or because their personal attributes make it unlikely that they can work steadily. This problem will increase during recessions and will persist even in good economic times because employers continue to escalate their demands for a skilled workforce.

Because I support a work-oriented safety net, I am not suggesting a return to the pre-1996 welfare status quo. Welfare recipients and the unemployed should have the personal responsibility to look for work. However, if they diligently search for work without finding a job, assistance should not be terminated. At a minimum, those who are willing to work but unable to find jobs should be offered an opportunity to perform community service in return for continued welfare benefits. A more costly option, but one that would have a greater antipoverty impact, would be to provide low-wage public service "jobs of last resort" (see Danziger and Gottschalk, 1995, chapter 8).

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

For people who are able to find jobs, the key elements of a policy to "make work pay and end poverty as we know it" are expanded wage supplements, refundable child care tax credits, extensions of transitional Medicaid, and a higher minimum wage. The Earned Income Tax Credit, which was substantially expanded in 1993, has done much to offset the decline in real wages for workers at the bottom of the earnings distribution who work year-round and who have children (Ellwood, 1999). Further increases in the EITC, for example for married couples, absent fathers, and families with three or more children, would make the federal income tax more progressive and increase the EITC's already large antipoverty impact. Several states have

adopted their own EITCs for families with children, something other states should consider, especially those that continue to impose income and high sales taxes on the working poor.

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

In addition, in the Michigan study, almost one-third of welfare leavers had no health insurance for themselves in fall 1998; they had exhausted their transitional Medicaid benefits and were either not covered by their employer or could not afford the monthly payments. Extending transitional Medicaid further or expanding CHIP to include parents who are former welfare recipients would help address this problem. Finally, the minimum wage should be increased. Congress has seemed ready to adopt such an increase since 1999, although it had not acted by early 2001.

The 1996 welfare reform increased work expectations and demands for personal responsibility on the part of welfare recipients. Now it is time to increase demands on government for mutual responsibility. What is required if we are to reduce poverty as well as welfare dependency is an increased willingness to spend public funds to develop a work-oriented safety net.

## References


Acs, Gregory, Norma Coe, Keith Watson, and Robert Lerman. 1998. *Does Work Pay? An Analysis of the Work Incentives under TANF*. Washington, DC: The Urban Institute.

Corcoran, Mary, Sandra K. Danziger, Ariel Kalil, and Kristin Seefeldt. 2000. "How Welfare Reform is Affecting Women's Work." *Annual Review of Sociology*, 26: 241–269.

Danziger, Sandra K., Mary Corcoran, Sheldon Danziger, Colleen Heflin, Ariel Kalil, Judith Levine, Daniel Rosen, Kristin Seefeldt, Kristine Siefert, and Richard Tolman. 2000a. "Barriers to the Employment of Welfare Recipients." In *Prosperity for All? The Economic Boom and African Americans,* R. Cherry and W. Rodgers, eds. New York: Russell Sage Foundation, pp. 239-277.

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

Danziger, Sheldon, ed. 1999. *Economic Conditions and Welfare Reform*. Kalamazoo, Michigan: Upjohn Institute for Employment Research.

Danziger, Sheldon, and Peter Gottschalk, 1995. *America Unequal*. Cambridge, Massachusetts. Harvard University Press.

Danziger, Sheldon, Colleen Heflin, and Mary Corcoran. 2001. "Does It Pay to Move from Welfare to Work?" University of Michigan working paper. www.ssw.umich.edu/poverty/pubs.html

Ellwood, David. 1999. "The Impact of the Earned Income Tax Credit and Other Social Policy Changes on Work and Marriage in the United States." Harvard University Working Paper.

Gallagher, L. Jerome, Megan Gallagher, Kevin Perese, Susan Schreiber, and Keith Watson. 1998. *One Year after Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997.* Washington, DC: Urban Institute Press.

Jantti, Markus, and Shedon Danziger. 2000. "Income Poverty in Advanced Economies." In *Handbook on Income Distribution*, volume 1, A. B. Atkinson and F. Bourguignon, eds. Amsterdam: Elsevier Science, pp. 309–377.

Lampman, Robert J. 1959. "The Low-Income Population and Economic Growth." U.S. Congress, Joint Economic Committee, study paper no. 12. Washington, DC: U.S. Government Printing Office.

**Endnotes**

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

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

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

[4] Wave 2 has data on 79 percent of the original sample, i.e., the product of the wave 1 and the wave 2 response rates–.86 x .92.

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

[6] The number of months between a respondent's wave 1 and wave 2 interviews ranged from 8–16 months (each survey period lasted about four months). The mean number of months between interviews was 11.6.

[7] Supplemental Security Income (SSI) reported by respondents and included in Table 4 was received by their children or another household member; respondents who received SSI on their own are excluded from the analyses.

[8] We estimated the monthly EITC and monthly federal income taxes by using monthly income sources as proxies for annual income (i.e. We multiply monthly income from own earnings and unemployment insurance by 12 months). The credit was calculated using only respondent's earned income and our estimates of adjusted gross income (which includes unemployment insurance). Eligibility was determined by the number of children and amount and source of income. We assumed that no untaxed earned income, interest and dividends, student loan interest or scholarship income was received, and no IRA deductions were paid by respondents. We assumed income reported in the category of "disability, pension or social security income" reflected Social Security benefits or pension income of other household members and is therefore nontaxable to the respondent. We assumed that respondents file returns with themselves and their children as a single tax unit and excluded other household members' income if the respondents were not married. If they were married, we included husband's earnings.

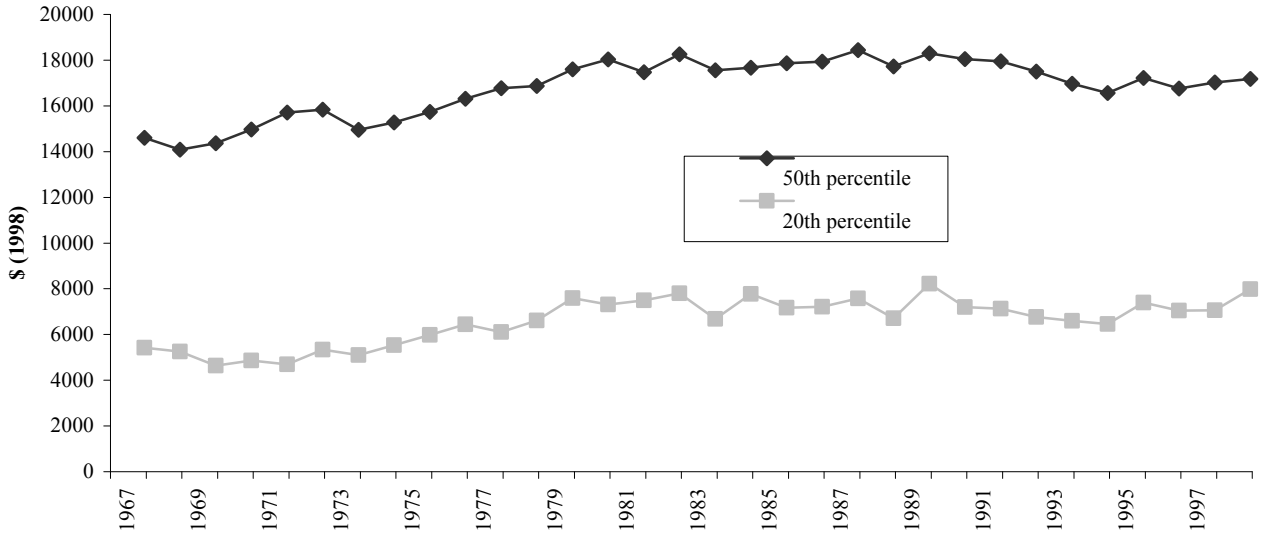
[9] We also adjusted for state income taxes and for the credit, which Michigan provides working renters through the state income tax. Danziger, Corcoran, and Heflin (2001) describe each income source, tax, tax credit, and expense category.

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

[11] The percentages of working mothers who reported child care expenses were low because many received subsidized child care and/or relied upon friends and family members or had no young children. In Michigan, child care subsidies are available for all welfare recipients and for working families whose incomes fall below 85 percent of the state's median income. Child care costs were higher for wage-reliant mothers than for combiners, in part, because the former worked, on average, 6 more hours per week on all jobs.

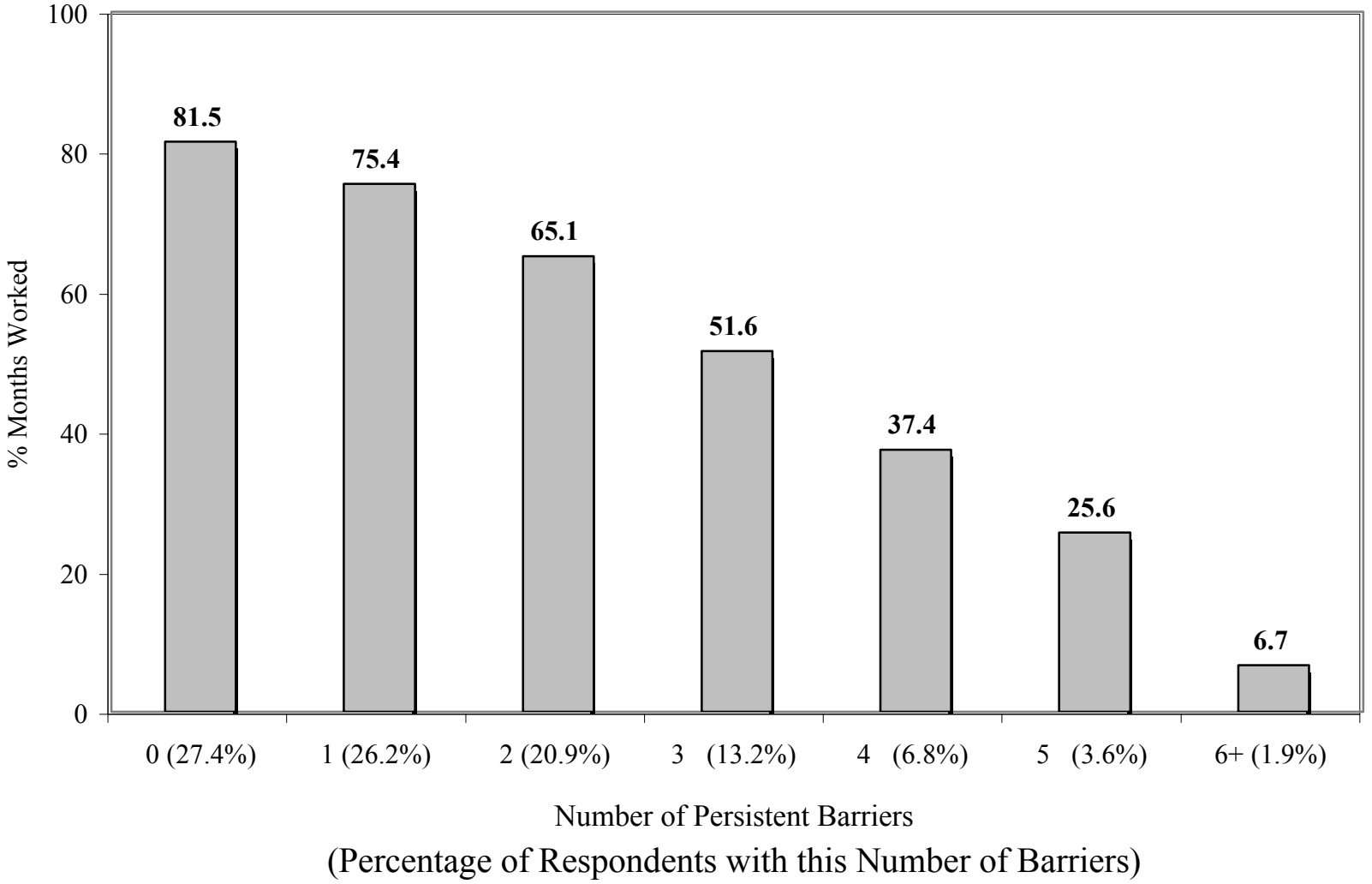
[12] The wage-reliant and combiners worked in almost 75 percent of the months between February 1997, when the sample was drawn, and the wave 2 survey. Annual poverty rates would be somewhat lower for those not working at wave 2 because they worked in about 25 percent of the months over this period.

**Figure 1. Annual Earnings of Single Mothers, Ages 18-64, 1967-1998 (in constant 1998 dollars)**




Source. Computations from annual March Current Population Surveys, provided by Deborah Reed, Public Policy Institute of California. Nonearners are excluded from these data.

Figure 2
Persistent Employment Barriers, by Percentage of
Months Worked between Wave 1 and Wave 2




* Count of wave 1 measures of high school education, work experience, skills, work norms, discrimination; and combined measures of transportation, mental health, substance dependence, health, child health and domestic violence. Source: Computations by author from Women's Employment Study data.

Table 1. Trends in Work, Welfare Receipt and Poverty, Single Mothers with Children, by Residence

| | Central City | Remainder of Metro | Nonmetro |
|---|---|---|---|
| Percent reporting earnings during the year | | | |
| 1969 | 64.7 | 74.6 | 73.4 |
| 1979 | 65.5 | 78.2 | 73.4 |
| 1989 | 64.3 | 78.2 | 76.0 |
| 1998 | 76.8 | 86.6 | 84.3 |
| Percent reporting welfare during the year | | | |
| 1969 | 41.2 | 21.1 | 27.3 |
| 1979 | 42.9 | 27.7 | 28.6 |
| 1989 | 41.2 | 21.8 | 28.0 |
| 1998 | 27.9 | 14.0 | 16.5 |
| Median welfare income of recipients ($1998) | | | |
| 1969 | 8,837 | 8,539 | 4,600 |
| 1979 | 6,978 | 6,168 | 4,414 |
| 1989 | 5,048 | 4,454 | 3,423 |
| 1998 | 3,108 | 2,844 | 2,400 |
| Official family poverty rate | | | |
| 1969 | 47.8 | 32.4 | 48.8 |
| 1979 | 48.9 | 28.8 | 40.0 |
| 1989 | 52.2 | 31.6 | 49.3 |
| 1998 | 48.0 | 30.8 | 43.3 |

Note: Single mothers include women between the ages of 18 and 54 who are never married, divorced, separated or widowed and reside with at least one child under the age of 18. Each family is counted once; data are weighted. Due to confidentiality reasons, especially in small states, some observations are listed as "residence not identified." Those observations are excluded.

Source: Computations by author from March Current Population Survey Computer Tapes.

**TABLE 2. Measures of Employment Barriers**

**Education, Work Experience, Job Skills and Workplace Norms (at wave 1).**

1. Less than a high school education
2. Low work experience (worked in fewer than 20 percent of years since age 18)
3. Fewer than 4 job skills on a previous job (out of a possible 9)
4. Knows 5 or fewer work norms (out of a possible 9)

**Perceived Discrimination (at wave 1)**

5. Reports 4 or more instances of prior discrimination on the basis of race, gender, or welfare status (out of a possible 16)

**Transportation Problem (at both waves)**

6. Does not have access to a car and/or does not have a driver's license

**Psychiatric Disorders and Substance Dependence Within Past Year (at both waves)**

7. Major depressive disorder
8. PTSD – Post-traumatic Stress disorder
9. Generalized anxiety disorder or social phobia
10. Alcohol dependence
11. Drug dependence

**Physical Health Problems (at both waves)**

12. Mother's health problem (self-reported fair/poor health and age-specific physical limitation)
13. Child health problem (has a health, learning or emotional problem)

**Domestic Violence (at both waves)**

14. Severe abuse from a partner within past year

Table 3. Prevalence of Employment Barriers, by Work and Welfare Status

| | All Respondents (N = 675) | Wage-Reliant (N = 294) | Combiners (N =183) | Welfare-Reliant ( N = 138) | No work/ no welfare ( N = 60) |
|---|---|---|---|---|---|
| Measured at Wave 1 | | | | | |
| Less than high school education | 31.2 | 22.8 | 32.2 | 45.7 | 35.6 |
| Low work experience | 14.8 | 9.9 | 11.0 | 27.5 | 20.3 |
| Fewer than 4 Skills | 20.6 | 18 | 13.7 | 33.3 | 25.0 |
| Fewer than 5 work norms | 9.2 | 7.5 | 11.0 | 11.7 | 6.7 |
| 4+ experiences of discrimination | 13.8 | 11.9 | 11.5 | 18.8 | 18.3 |
| Persistent Measures (present at both waves) | | | | | |
| Transportation barrier | 30.2 | 21.1 | 27.3 | 52.2 | 33.3 |
| Psychiatric diagnosis* | 16.1 | 10.9 | 15.8 | 24.6 | 23.3 |
| Alcohol or drug dependence | 1.3 | 1.4 | 1.6 | 0.7 | 1.7 |
| Health barrier | 10.6 | 8.5 | 5.0 | 19.6 | 16.7 |
| Child health barrier | 10.3 | 7.5 | 8.2 | 17.6 | 13.8 |
| Domestic violence | 6.1 | 3.7 | 7.7 | 8.7 | 6.7 |
| Mean number of barriers (11 total) | 1.5 | 1.2 | 1.4 | 2.3 | 2.0 |

Wage-reliant are mothers relying only on earnings to support their families; they made up 43.6% of sample.
Combiners were those receiving both earnings and welfare; they made up 27.1% of the sample.
Welfare-reliant mothers relied only on welfare (they were not working) and made up 20.4% of the sample.
No work/no welfare were those receiving neither welfare nor earnigns from work; they made up 8.9% of the sample.

* Coded "1" if respondent had depression, generalized anxiety or post-traumatic stress disorder at wave 1 and depression, social phobia or post-traumatic stress disorder at wave 2

Source: Computations by author from Women's Employment Study

**Table 4. Monthly Income and Monthly Poverty Rate, by Work and Welfare Status**

| Receipt in Month Prior to Fall 1998 Interview | All Respondents (N = 675) | Wage-Reliant (N = 294) | Combiners (N =183) | Welfare-Reliant ( N = 138) | No work/ no welfare ( N = 60) |
|---|---|---|---|---|---|
| Net income, excluding earnings from household members other than husbands | $1,213 | $1,405 | $1,277 | $892 | $798 |
| Net income, including earnings from all household members | $1,418 | $1,677 | $1,449 | $1,027 | $1,178 |
| Poverty rate using row 1 income concept | 61.2% | 47.4% | 55.3% | 91.1% | 78.6% |
| Poverty rate using row 2 income concept | 53.5% | 38.4% | 50.3% | 83.3% | 68.3% |

Note: Wage-reliant are mothers relying only on earnings to support their families; they made up 43.6% of sample.
Combiners were those receiving both earnings and welfare; they made up 27.1% of the sample.
Welfare-reliant mothers relied only on welfare (they were not working) and made up 20.4% of the sample.
No work/no welfare were those receiving neither welfare nor earnings from work; they made up 8.9% of the sample.
Source: Computations by author from Women's Employment Study data. To determine the monthly poverty rate, the official poverty line was divided by 12 and compared to monthly income.