

**Employer Demand, AFDC Recipients,  
and Labor Market Policy**

Harry J. Holzer  
Department of Economics  
Michigan State University  
E-mail address: holzer@pilot.msu.edu

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## **Abstract**

This paper discusses the potential labor market prospects of AFDC recipients who will be required to work under the new welfare legislation. Various characteristics of available low-skill jobs are compared with those of long-term AFDC recipients, and more general evidence on the labor market experiences of welfare recipients is reviewed. From these data, the potential availability of employment and wage levels that recipients will face in the labor market is inferred. The data suggest that job availability for long-term recipients will be quite limited, especially in the short run; many will likely be plagued by lengthy durations of nonemployment, as well as high job turnover and low wages and benefits when they do work. The implications of these findings for labor market policy are then discussed.

## **Employer Demand, AFDC Recipients, and Labor Market Policy**

### I. INTRODUCTION

With the welfare reform legislation recently passed by Congress and signed by the president, the nation is embarking on fairly radical changes in its income support programs for poor women and their children. The federal program known as Aid to Families with Dependent Children (AFDC) is ceasing to provide poor families with income support for indefinite durations. Instead, states will run a set of programs (with funding from federal block grants) that stress entry into the labor market rather than income support, and will allow for only transitional rather than long-term assistance (up to a maximum of five years).<sup>1</sup>

Clearly, the entire program embodied in this legislation rests on the assumption that most AFDC recipients will be capable of gaining employment in the private sector, either while they are still on welfare or especially when they reach their time limits. This, in turn, implies that there will be sufficient *demand* for their labor among employers—that jobs will be available for all those who seek them, albeit at relatively low wages and with few benefits.

Yet there has been very little research evidence to date to justify this major assumption, or to indicate the proportion of these women who will have difficulty finding such employment over shorter or longer periods of time. This reflects, at least in part, a lack of data from the demand side of the labor market on the numbers and characteristics of jobs available to the least-educated workers.

In this paper, I address the issue of employer demand and job availability for AFDC recipients and unskilled workers more generally. After outlining the basic labor market issues in the next section, I review some evidence on the characteristics of newly filled jobs, based on data from a new survey of employers that was recently administered in four large metropolitan areas in the United States. I then compare these data on

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<sup>1</sup>When fully phased in, the legislation will also require that 50 percent of current recipients be employed for at least 30 hours per week. But waivers granted to many states in the years preceding the passage of this legislation will delay its full implementation for several more years.

available jobs with data from the literature on the characteristics and labor market experiences of AFDC recipients, especially those who spend long periods of time on the welfare rolls. Finally, I discuss the implications of these findings for the kinds of labor market policies that will be needed to enable most of these women to gain employment when they reach the time limits on welfare reciprocity that will soon be implemented.

## II. LABOR DEMAND AND SUPPLY SHIFTS IN THE MARKET FOR LESS-SKILLED WORKERS

It is now well-known that the earnings and employment levels of less-educated workers in the United States have greatly deteriorated over the last few decades. This trend has been more striking among males than among females, but is present to some extent among both genders (see, e.g., Blank 1995; Bound and Holzer 1996). The combination of declining real wages and declining employment rates suggests that labor demand has shifted away from less-educated toward more-educated workers, and a variety of reasons have been offered for these developments.<sup>2</sup>

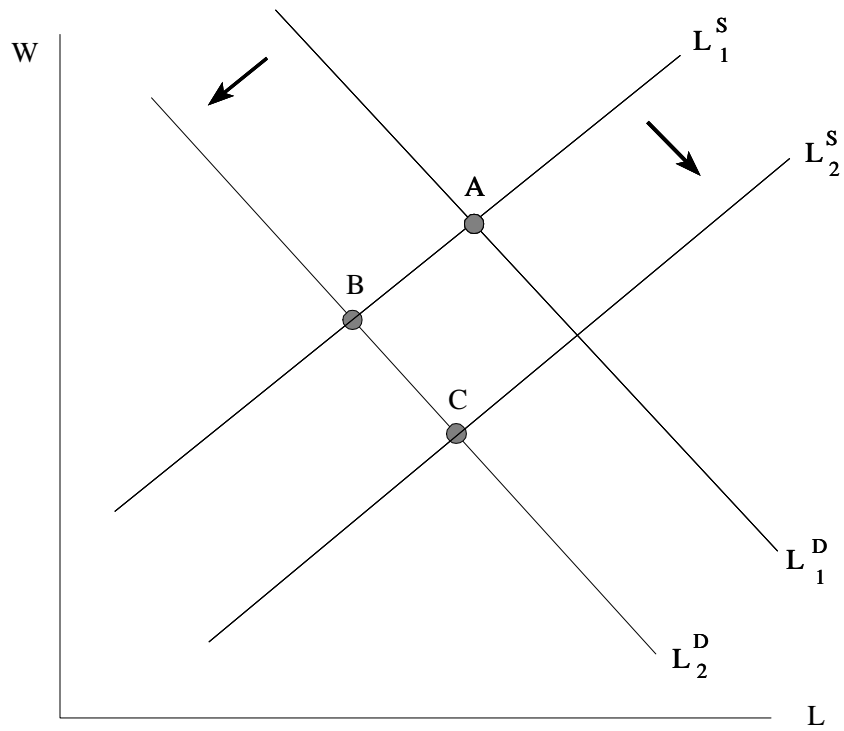
But there are two possible interpretations of the declining employment rates among the less skilled, both of which are illustrated in Figure 1. One possibility, depicted in part A of the figure, is that the labor market is “clearing” (i.e., in equilibrium), and less-skilled workers are simply *choosing* to work less in response to the declining wages they face because of diminishing demand for their labor (see Juhn 1992). The market equilibrium has shifted from point A to point B, with both wages

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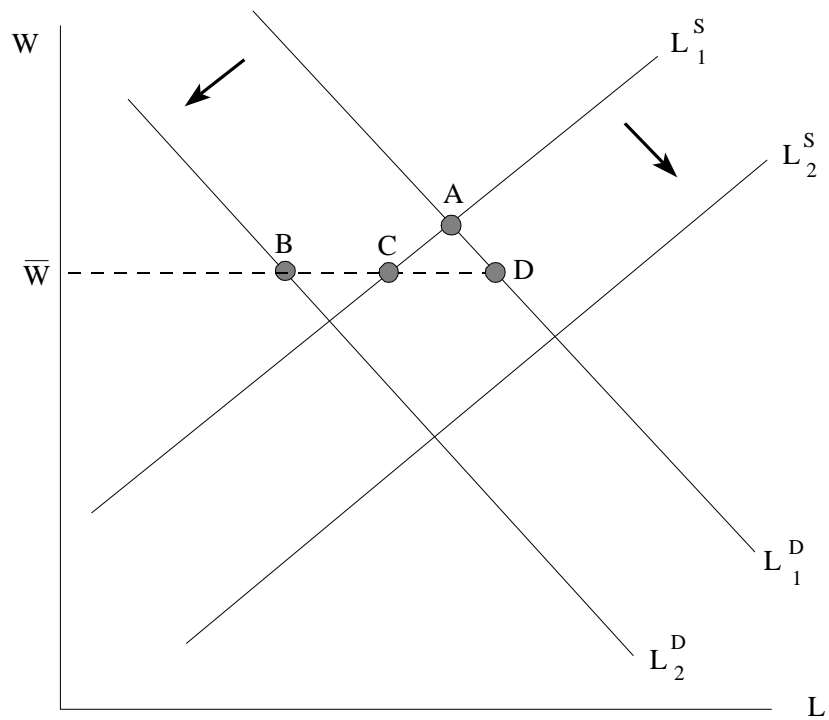
<sup>2</sup>See Levy and Murnane (1992) and Danziger and Gottschalk (1995) for good reviews of these developments. The causes of the shifts in labor demand appear to include changing technology within and organization of workplaces, growing international trade, and immigration. Relative wage changes between more- and less-educated workers have also reflected some changes in their relative supplies (due to the “baby bust,” enrollment trends in the 1970s and 1980s, etc.) as well as institutional factors (such as declining union membership and real minimum wage levels.)

**FIGURE 1**  
**Demand and Supply Shifts in Low-Wage Labor Markets**

A. Market in Equilibrium



B. Market with Rigid Wages



and employment declining. In this scenario, an increase (or outward shift) in the supply of such labor caused by work requirements and time limits on AFDC reciprocity will result in rising employment rates, as everyone who wants a job will find one. But wages will be reduced below their current levels, as market equilibrium moves from point B to C.<sup>3</sup>

The alternative possibility is that the diminishing demand for less-skilled labor might cause these workers to face limited job availability, even at low wages. This is illustrated in part B of Figure 1, with wages declining somewhat less than they did in the market-clearing case but employment declining more in response to shifting labor demand. An excess supply of workers (measured by BC in the diagram) would result from downward rigidities in the market wage, caused perhaps by minimum wage laws or other factors, that prevent wages from falling to their market-clearing levels.<sup>4</sup>

In such a situation, unemployed workers will “queue” for available jobs, with some potentially experiencing fairly lengthy durations of time without work (Clark and Summers 1982). An increase in the labor supply of less-skilled workers under these circumstances would simply add to the excess supply of labor (now measured by BD), causing unemployment to rise without any change in average wages.

Of course, less-skilled workers (including AFDC recipients) are not a homogeneous group; some will no doubt gain as much employment as they seek at wages above the minimum, while others will face constrained employment opportunities at or near the minimum. We would certainly expect the latter scenario

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<sup>3</sup>In this case, unemployment will exist only insofar as people need time to “search” in the labor market for their most attractive job offers.

<sup>4</sup>This implies a labor market that is in “disequilibrium.” For two conflicting views on whether minimum wages are responsible for unemployment, see Card and Krueger (1994) and Neumark and Wascher (1995). The downward rigidities in wages can be caused by a variety of additional factors, such as union wage policies or the decisions of the employers themselves to pay above-market wages (known as “efficiency wages”).

to be more frequently observed in the short run, while the former should be at least somewhat more prevalent in the long run.<sup>5</sup>

The heterogeneity of less-skilled workers (in terms of demographic group, geographic location, occupational skills, industry, etc.) also implies that AFDC recipients who enter the labor force will directly compete with some, but not all, of the less-skilled workers already in the workforce.<sup>6</sup> The greater the number of workers with whom the new entrants compete, the smaller will be the relative increase in supply (in percentage terms) that must be absorbed in the labor market, and the greater will be the number of jobs potentially available to these workers. But if AFDC recipients must compete with large numbers of workers who are already queuing for few available jobs, their job prospects will be less positive; and if some of those competitors are viewed more positively by employers than the AFDC recipients, the prospects of the latter will diminish further.

The analytics of these labor market changes are quite clear, though there is little consensus empirically about the extent to which groups with high rates of unemployment today (such as young minorities) fall into one category or another (Holzer 1994). There is even less consensus about the degree of job availability that AFDC recipients will face as they enter the labor market, either in the short or long run.<sup>7</sup>

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<sup>5</sup>Some short-run rigidities in the structure of wages and the number of jobs will disappear over time as firms and workers adjust wage demands and offers to the realities of the market. Others, such as those generated by the minimum wage, may persist over much longer periods.

<sup>6</sup>For labor economists, this involves the question of the extent to which various groups in the labor market are “substitutes” for one another, which has been empirically estimated for a variety of demographic breakdowns. For a review of this literature see Hamermesh (1993).

<sup>7</sup>For instance, Blank (1995) and Burtless (1995) have been fairly optimistic about the ability of the labor market to generate employment for most recipients, but they have expressed concern about the potentially low wages. The high rates of employment growth in the U.S. economy over the past two decades, and our ability to absorb enormous increases in the labor force, are often cited in this regard. Also, the kinds of wage rigidities that inhibit these adjustments are presumed to be less important in the long run than the short run.

### III. EMPIRICAL EVIDENCE ON EMPLOYER DEMAND

One way to gain some insight on this subject is to analyze jobs that are currently available to less-skilled job seekers. What are the numbers and characteristics of these jobs—skill requirements, locations, etc.—and how do they compare with those of AFDC recipients who will soon be seeking work?

Such an analysis is based only on relative *quantities* of labor demand and supply in the short run, and it does not allow for the kinds of changes in *prices* (or wages, in this case) that should characterize market adjustments over the longer term. It also assumes sufficient job availability in the *aggregate*, and thus focuses only on the *composition* of these jobs relative to the people who are seeking them; this assumption thus rules out recessions or other circumstances under which an aggregate shortage of jobs might exist. Despite these limitations, some important insights about relative job availability in the short run can be gained from this approach.

The data on employers and jobs described below are based on a survey that was administered to 3,200 employers in the following four metropolitan areas: Atlanta, Boston, Detroit, and Los Angeles. The questions on skill needs and hiring behavior focused primarily on the most recently filled job at each firm. Since the firm sample is weighted by employee size, this sample of jobs resembles the set of jobs currently being sought by workers and filled by employers within any relatively short period of time in large metropolitan areas.<sup>8</sup>

The analysis of these currently available jobs is presented elsewhere at much greater length (Holzer 1996). The following summarizes the greatest barriers and problems that AFDC recipients, especially those who are minorities, will face in trying to obtain jobs.

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<sup>8</sup>Since the sample is weighted by current size, it underrepresents jobs at firms experiencing net employment growth and overrepresents those at firms experiencing decline. High-turnover firms are not overrepresented in the sample, and should not be, as these firms do a lot of gross hiring relative to the number of jobs which are actually available there. Other selection issues, and the overall representativeness of the sample, are addressed in Holzer (1996).



*1. Skill Requirements.* Most newly available jobs require that one or more of several tasks be performed on a daily basis. These tasks include dealing directly with customers, reading or writing paragraph-length material, performing arithmetic, or using computers; each task is now required in 50–75 percent of all new jobs.<sup>9</sup> Most of these jobs also require that job applicants meet a number of hiring requirements, such as having a high school diploma (or GED), specific experience in the relevant line of work, previous vocational training or certification, or references.<sup>10</sup>

Such requirements can be found in jobs that do not require college degrees, and even in low-wage service occupations.<sup>11</sup> Indeed, the percentage of newly available jobs in central-city areas that require none of the above tasks or none of these credentials is extremely small—only about 5 percent of the total. Blacks and Hispanics are also much less likely to be hired into jobs that require more of these skills, even after controlling for educational requirements of jobs.<sup>12</sup>

*2. Geographic Imbalances.* The vast majority of residents and jobs in metropolitan areas are today located in the suburbs. But, once we adjust for commuting patterns, the ratio of available jobs to workers is

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<sup>9</sup>Of course, the difficulty of the arithmetic or computer requirements will vary enormously among jobs that require these tasks. Some, such as running products across supermarket scanners, may involve very little cognitive ability.

<sup>10</sup>Each of these credentials is required in 65–80 percent of new jobs except for previous training, which is required in roughly 40 percent. I consider these credentials “required” when employers report them as being either “absolutely necessary” or “strongly preferred.” Since I gauged the educational attainment of the person who was actually hired, I could test for how frequently this particular requirement was met. In the vast majority of cases, I found that the worker’s education level met or exceeded what was required.

<sup>11</sup>For instance, daily reading/writing or performance of arithmetic are each required in 50–60 percent of noncollege service jobs; customer contact occurs in about 80 percent, while computers are used in about 20 percent. Requirements are significantly higher in clerical and sales jobs. Brandon (1995) reports that these occupational categories account for about 70 percent of jobs that have been held by AFDC recipients either while on the rolls or just after exiting.

<sup>12</sup>For instance, black males are almost twice as likely to be hired into jobs requiring no tasks or credentials as into those requiring one or more, and for Hispanic males the hiring percentages are almost three times as high in the former jobs as in the latter. Minority females are somewhat more likely to be hired into such jobs than are minority males, but much less likely than white females.

clearly lower in central-city areas, and the skill demands of available jobs there are somewhat higher. This creates some disadvantage for central city residents, especially minorities, who may not have access to some suburban labor markets because of problems with transportation, lack of information, etc.<sup>13</sup>

Barriers to “access” are clearly indicated by the relative tendencies of firms in different locations to receive applications from blacks. Suburban firms receive only half as many applications from blacks as do those located in the central city. Those located farthest from the black residential locations, and farthest from public transit, receive the fewest applications from blacks (Holzer and Ihlanfeldt 1996).

*3. Informal Recruitment.* As many as 40 percent of all new jobs, and even larger fractions of blue-collar and service jobs, are filled through referrals from current employees or other acquaintances of employers. Other informal recruitment methods include acceptance of walk-ins without any referrals or the use of help-wanted signs. Firms using these methods are somewhat less likely to hire blacks, especially firms located far from where blacks live.<sup>14</sup>

*4. Employer Preferences and Discrimination.* Some firms are less likely to hire black applicants than others, even after allowing for differences in their skill requirements and in the relative skills of their applicants.<sup>15</sup> Firms located in the suburbs, especially those with predominantly white customers, and smaller firms are those that appear most likely to discriminate against blacks.<sup>16</sup>

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<sup>13</sup>These notions are consistent with the “spatial mismatch hypothesis,” which has received more empirical support in recent years than it had previously (Holzer 1991; Kain 1992).

<sup>14</sup>See also Holzer (1987).

<sup>15</sup>Clear recent evidence of racial discrimination against Hispanics and especially blacks can be found in those studies where employers are “audited” by matched pairs of applicants with identical education and experience credentials. See Fix and Struyk (1994).

<sup>16</sup>The discrimination associated with having white customers is strongest in jobs involving direct contact with customers and in higher-status jobs (such as clerical or sales rather than service jobs). Small firms clearly feel less vulnerable to lawsuits associated with EEO laws or with other kinds of public pressure.

Employers seeking to fill jobs with few skill requirements often prefer immigrants to native-born blacks, and they develop ethnic networks through which they can recruit the former and bypass the latter (Waldinger 1996).<sup>17</sup> Many also express concerns about the work attitudes and social/verbal skills of blacks (Kirschenman and Neckerman 1991; Moss and Tilly 1995).<sup>18</sup>

*5. Low Wages and Benefits.* Not surprisingly, jobs that require the fewest skills pay the lowest wages and offer the fewest benefits. Roughly a third of all new jobs, and the vast majority of jobs that require very few skills or credentials, pay \$6.00 per hour or less and offer limited—if any—benefits like health insurance or employer contributions to pensions.

#### IV. THE CHARACTERISTICS AND LABOR FORCE EXPERIENCES OF AFDC RECIPIENTS

How do the numbers and characteristics of newly available jobs compare with those of most AFDC recipients, especially the long-term recipients who will be most affected by time limits? Will they primarily have a low *wage* problem, or will many have difficulty finding *employment* as well?

Relative to the size of the entire U.S. labor force (over 130 million), the total number of adult AFDC recipients is quite small (roughly 4–5 million), and the number who will be pushed off the rolls due to time limits over the next several years is even smaller (roughly 2 million; see Pavetti 1995). Not all who exit the rolls will enter the labor force, due to disabilities and other personal limitations.

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<sup>17</sup>In some cases, the initial entry of immigrants into a market “niche” may occur because of an unwillingness of native-born workers to accept jobs with low wages and poor working conditions. But, over time, that niche may provide opportunities for skill acquisition and upward mobility from which the nonimmigrants will then be excluded.

<sup>18</sup>Interestingly, over 80 percent of the employers surveyed claim they would be willing to hire welfare recipients in general, though they are much more uncomfortable with other labor market behaviors that are highly correlated with reciprocity (such as unstable work histories). Presumably, the employers who are willing to hire recipients would do so only if they met the other skill requirements and credentials that the employers seek.

Of those recipients who spend five years or more on AFDC, roughly 63 percent currently lack a high school diploma or GED; thus, they will be competing primarily with high school dropouts and the least-skilled high school graduates who are currently in the workforce. In total, there are roughly 18 million high school dropouts in the workforce today, and another 10 million or so from the bottom quintile of graduates in terms of skills.<sup>19</sup> From this point of view, the AFDC recipients who enter the workforce will constitute an increase of roughly 6–7 percent in the labor supply of the least-skilled workers in the United States. For this entire group to be fully absorbed into jobs, wages would need to decline 7–10 percent.<sup>20</sup>

But it is doubtful that the AFDC recipients will really compete effectively with a large percentage of the unskilled who are currently in the workforce. For one thing, many of the latter are older and more experienced incumbents who will not leave their jobs or face competitors in hiring anytime soon; their jobs are not in the pool of those potentially available to new entrants. Over a third of the dropouts are also immigrants, who are concentrated geographically in a handful of states and also within certain economic sectors; and, as noted above, many employers prefer these immigrants to native-born unskilled workers when filling new jobs requiring few skills.<sup>21</sup>

The long-term AFDC recipients also have additional skill deficiencies that will limit their ability to compete for available jobs, even with others who are less educated. For instance, 50 percent report no work

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<sup>19</sup>The numbers of high school dropouts and graduates in the workforce among native-born Americans and immigrants as of 1988 appear in Borjas, Freeman, and Katz (1991). Changes in these numbers since then are projected on the basis of trends in high school graduation rates in the overall workforce and the numbers of immigrant arrivals since that time (U.S. House of Representatives 1994).

<sup>20</sup>In a labor market in equilibrium, the wage decline caused by an outward shift in labor supply would be  $1/(D+S)$  times the percentage increase in supply, where  $D$  and  $S$  represent the relevant labor demand and supply elasticities (e.g., Freeman 1977). Reasonable estimates for these parameters among the least-skilled are .3 and .4 respectively (Katz 1996), though the latter might be higher in a sample of young women with small children.

<sup>21</sup>For reviews of the evidence on the extent to which immigrants and native-born workers are “substitutes” in the U.S. workforce, see Friedberg and Hunt (1995). The evidence suggests very limited substitutability for the overall labor force, though clearly more among high school dropouts and in those regions in which the immigrants are most concentrated.

experience in the year prior to beginning their AFDC spells, and most can report no work experience in the past five years (Pavetti 1995). Furthermore, for at least a year, most recipients score very poorly on tests designed to measure basic reading/writing or math skills (Burtless 1995). On the basis of these skill requirements alone, the vast majority of the available jobs for unskilled workers (described in the previous section of the paper) would likely be out of reach for most long-term recipients of AFDC.

In geographic terms, AFDC recipients are certainly not evenly distributed across the entire U.S. labor market: most are concentrated in rural areas or the inner cities. Indeed, AFDC recipients account for 15–20 percent of the heads of households in many of our largest central cities (Wacquant and Wilson 1989), and there are no doubt even more near the low-income areas of these cities where most will seek work. In their own neighborhoods, employment networks and information about distant jobs will be quite limited. Also, a third of long-term recipients are native-born blacks (and over half are black or Hispanic).

Thus, geographic imbalances, employer recruitment patterns, and discrimination all imply even lower job availability for AFDC recipients who will seek employment. Furthermore, in most places and time periods, employers seem to have little difficulty filling the jobs with the fewest skill requirements; if anything, workers already in the labor force appear to be queuing for the available low-skill jobs.<sup>22</sup>

Thus, AFDC recipients will likely constitute a fairly large increase in the effective supply of low-skill labor in and around the poorer neighborhoods of central cities, and they will have to compete with current labor market participants who are already queuing for the small percentage of jobs there that are open to very

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<sup>22</sup>For instance, Newman and Lennon (1995) report 14 applicants for each job at fast-food restaurants located in Harlem; unless each job seeker submits an average of 14 job applications while searching, this suggests an existing excess of low-wage workers for jobs in the inner-cities. Average vacancy durations for most jobs in the United States are quite short (roughly two weeks, as reported in Abraham 1983), and are substantially shorter in low-skill occupations, suggesting that these are usually easily filled. Vacancy durations on jobs in the central cities are sometimes comparable to or longer than those in the suburbs, despite the longer queues of unemployed workers in the former, when there are significant skill requirements that employers there have difficulty meeting (Holzer 1996); in this situation, employer hiring difficulties do not imply that less-skilled workers can easily find jobs. But some evidence of labor shortages can be found in low-skill jobs, particularly in suburban areas, when local unemployment rates are low and labor markets are very tight (Freeman 1991).

unskilled workers. At least in the short term (and perhaps over longer periods as well), their rates of nonemployment will likely be quite high.

How do these predictions compare with evidence on the actual labor market experiences of AFDC recipients, either while they are on the rolls or before and after? On this score, the evidence is not totally bleak. Despite official data suggesting that few recipients work while receiving AFDC, Edin (1995) reports larger fractions (sometimes as many as 45 percent) of recipients working while on the rolls, most of whom have not reported their earnings.<sup>23</sup> Some states (most notably Michigan and Wisconsin) have recently reported increased employment among their recipients (and/or reduced caseloads) by 30 percent or more, although many recipients previously working “off the books” might now simply be reporting their earnings because of higher disregards with respect to labor market earnings.<sup>24</sup> Also, half or more of all AFDC recipients who leave the rolls gain some employment (Bane and Ellwood 1994; Pavetti 1995).

This glass, however, is at least partly empty. Many of those who work on the rolls or soon after being on welfare, are on AFDC for relatively short periods of time (1–2 years in length); these individuals will be largely unaffected by time limits or work requirements. Instead, those most affected will be long-term recipients, who make up a fairly large fraction of recipients at any particular point in time. In many contexts and programs, the percentages of these recipients who *never* gain employment is as large as 30 percent (and thus a large fraction of those who will be affected by time limits).<sup>25</sup>

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<sup>23</sup>The sample on which Edin based her study may not be representative of all AFDC recipients, since it is based on 214 current AFDC recipients in four cities who were willing to participate in the study.

<sup>24</sup>For somewhat differing viewpoints on Wisconsin’s welfare reforms and their effects on AFDC caseloads and employment rates, see Boehnen and Corbett (1996) and Mead (1996).

<sup>25</sup>For instance, Burtless (1995) reports that 27 percent of all recipients during a three-year period (and presumably a larger fraction of those at a point in time) did not work at all during the subsequent eight years in which they were tracked. Even in the GAIN program at Riverside (widely considered to be the most successful of all state-level “workfare” programs during the 1980s), one-third were deferred from participating at all, and almost another third of participants did not find work during a three-year period (Maynard 1995).

Even among recipients with shorter spells who have gained employment, turnover rates appear to be quite high, mostly due to involuntary separations rather than quits (Olson, Berg, and Conrad 1990; Riccio, Friedlander, and Freedman 1994).<sup>26</sup> Difficulties in keeping or regaining employment have driven most of the women who have left AFDC for work back onto the welfare rolls—at least temporarily—within a few years of their initial exits.<sup>27</sup> Recipients who never work, as well as those who do, often spend significant amounts of time searching for work but remain unemployed.<sup>28</sup>

These data are fully consistent with reported work experience among low-income, single heads of households who are *not* on AFDC. Danziger (1989) reports that, on average, these women work only half of the weeks in any year. The data are also consistent with the econometric and experimental research evidence on the labor supply effects of AFDC. Most of this research has suggested that, *even in the absence of AFDC*, recipients would work an average of only ten to twenty weeks per year (Danziger, Haveman, and Plotnick 1981; Moffitt 1992), implying a relatively modest effect of the program on the labor supply of recipients. The constancy of employment rates among single female heads of household over time, despite the variation in AFDC rules regarding earnings, reinforces this viewpoint (Moffitt 1992).

This modest effect of AFDC on labor supply runs counter to what we would expect if recipients were, in fact, free to choose their levels of employment. The statistical evidence clearly implies that the labor supply of adult women is relatively “elastic,” or responsive to net wages (Keeley 1981); and the “marginal

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<sup>26</sup>According to Olson et al.’s study, roughly 60 percent of the job separations are involuntary. Problems with transportation, child care, housing, and domestic violence frequently lead to absenteeism that results in job loss; job performance problems and interpersonal conflicts on the job frequently lead to turnover as well.

<sup>27</sup>According to Pavetti (1995), over half of those who exit AFDC with a job return to AFDC within 2 years and almost two-thirds return within five years. For exits without a job, the recidivism rates are even higher.

<sup>28</sup>Spalter-Roth et. al. (1995) finds that, in a sample of all single mothers who had been on AFDC within a two-year period, recipients who had not worked reported fourteen weeks of job search whereas those who had worked reported sixteen weeks. The small difference between the two samples might reflect underreporting of work among the former. It is also unclear from these data how intensive the job search effort was (i.e., number of hours per week), or whether any offers were received and rejected.

tax rates” (or “benefit reduction rates”) of AFDC recipients have historically been quite high, often 100 percent or more (Hoynes 1996b). This combination of very high tax rates on earnings and responsive labor supply would imply that AFDC dramatically reduces work effort, if most of these women were free to choose their levels of work effort.

Instead, the modest estimated effects suggest that there must be other barriers preventing these women from working much in the first place. These barriers might reflect the recipients’ own disabilities or family situations (such as unmet child care needs), as well as a lack of labor demand for their services. At least some of the personal barriers may be surmountable over time (Maynard 1995), though many would require the expenditure of extra resources that are not likely to be available in most states.

Among those who do gain and keep employment, wages will generally be low. Burtless (1995) reports that median wages of AFDC recipients who leave the rolls are roughly \$6 per hour, and show little of the growth over time enjoyed by non-recipients. But Spalter-Roth et al. report much lower wages (\$4.29 an hour in 1990 dollars) for those who work while on the rolls. Meyer and Cancian (1996) also report high poverty rates (of 40 percent or more) among these women several years after exit.<sup>29</sup> If anything, these figures are likely to overstate the earnings and incomes of AFDC recipients who will exit because they reach time limits, since the data above are for women who left the rolls or worked *voluntarily* (and whose earnings prospects are presumably more positive than those who did not choose to do so).

Thus, the expected future outcome is one with both high nonemployment and low wages for AFDC recipients as they enter the labor market, though some will clearly be more successful than others. As many as 30 percent of all current recipients will have difficulty obtaining *any* work (and states may exempt only up to 20 percent of their recipients from the time limits without penalty); the rest will likely also experience significant unemployment, as they will have some difficulty finding and/or keeping work. Indeed,

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<sup>29</sup>Of course, the Earned Income Tax Credit is potentially available to bolster the earnings of these individuals.



nonemployment rates will likely be 50 percent or more for current recipients at any point in time.<sup>30</sup> Wages will be low and benefits meager in the vast majority of cases when people are working.

This overall pattern will vary somewhat over time and across geographic areas. During recessions, the employment problems of recipients will be far more severe; most who lose their jobs will not have worked long enough to qualify for Unemployment Insurance. The employment rates and wages of recipients will also vary dramatically with the tightness of local labor markets (Freeman 1991; Bartik 1991; Hoynes 1996a). Thus, states like Wisconsin, currently enjoying unemployment rates under 4 percent, will enjoy much more success in moving recipients into employment than will states with high unemployment rates.

States with low unemployment generally have stronger fiscal situations as well, and can afford to spend more public money on assisting women who are moving into the labor force; Wisconsin again stands out in this regard.<sup>31</sup> But, since most states do not experience unemployment above or below the national average indefinitely, even those most likely to succeed in the short term may face more serious problems a decade from now.<sup>32</sup> Cities or states with particularly large welfare populations, such as New York and California, will also be disproportionately burdened in the new environment.

A few other points are relevant. As noted above, the AFDC recipients who enter the labor market will compete for existing low-skill jobs with many who are already in the workforce and already facing very limited demand for their services. For example, adult women and young minority males appear to be “substitutes” (or competitors) in the labor force (Borjas 1986), with the latter being hurt over time by the

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<sup>30</sup>Even in the GAIN Riverside program, fewer than half of all participants were employed three years into the program (Maynard 1995).

<sup>31</sup>See Corbett (1996) for a description of the “Wisconsin Works” program that is scheduled to replace AFDC.

<sup>32</sup>For evidence on the evolution of state unemployment rates over time, see Blanchard and Katz (1992). States with very low unemployment often return to their longer-term trends, due to the migrants whom they attract from out-of-state, wage adjustments, and dissipation of the “shocks” to their economies. The ultimate fate of the “Massachusetts Miracle” of the 1980s is instructive in this regard.

rising participation rates of the former. There is also some evidence of employer preference for black females over black males (Holzer 1996; Kirschenman 1991). Thus, to the extent that some AFDC recipients successfully enter the workforce, their gains will come at least partially at the expense of other disadvantaged labor market groups whose employment and earnings over the past two decades have already deteriorated quite dramatically (Bound and Freeman 1992; Bound and Holzer 1996).

Finally, it must be emphasized again that much of this analysis is based on the short run. Over longer periods of time, the labor market may more successfully absorb these new market entrants. But market rigidities will prevent wages from fully adjusting to enable all of these workers to find work. Certainly, the persistence of high unemployment rates and lengthy durations of nonemployment among inner-city minorities over the past few decades must temper our optimism that low-wage labor markets will fully adjust to the extra inflow of workers, even over the longer term.

## V. IMPLICATIONS FOR LABOR MARKET POLICY

If, over time, welfare becomes more of a transitional employment and training assistance program and less of a long-term income maintenance program, what labor market policies should states implement to help recipients gain employment and earn higher wages over time?

The data in sections III and IV imply that AFDC recipients will face several barriers on the demand side of the labor market. Perhaps the most serious barriers are the skill requirements of jobs, problems related to geographic factors (often involving transportation, information, or job contacts), and labor market discrimination, which will result in an overall shortage of jobs among these women, and low wages/benefits in jobs that do exist. The following policy options are designed to address each of these labor market problems, at varying levels of budgetary cost.

### A. Education and Job Training

Clearly, the lack of skills among AFDC recipients will constitute the greatest problem they face in the job market. An enormous literature already exists on education and job training for AFDC recipients and less-skilled workers more generally. I summarize some of the major findings of that literature below, along with the implications that flow from my own work.

*Most education and training programs for AFDC recipients will generate only modest improvements in their employability and earnings.* This finding has been repeatedly demonstrated in research on those who achieve GEDs (Cameron and Heckman 1993; Murnane 1993), those who have participated in past training programs for AFDC recipients (Gueron and Pauly 1991; Friedlander and Burtless 1995); and other programs for poor adult women, such as Supported Work (Hollister, Kemper, and Maynard 1984) or the Job Training Partnership Act (Lalonde 1995).<sup>33</sup>

*Training linked to specific jobs seems more successful than general classroom training.* The greatest “success stories,” such as the Riverside GAIN program or CET in San Jose, are often attributed to the provision of training linked to specific jobs and aggressive job-placement strategies (Melendez and Harrison 1996). Although this argues to some extent in favor of the kinds of “Work First” strategies that have been enacted in many states, it does not imply that education and training should be entirely sacrificed to the goal of immediate employment (Savner 1996).

Indeed, an iterative process by which recipients receive limited amounts of training and counseling for a series of specific jobs over an extended period, and which allows for failures and turnover out of some early jobs, may be a fairly promising model.<sup>34</sup> Linking training to specific job opportunities might help to overcome the general problem of how to “signal” to employers which general skills these potential employees

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<sup>33</sup>But the training programs for disadvantaged adult women have generated larger returns (in terms of postprogram earnings gains) than those for adult men and especially than those for youth. Only the intensive (and relatively expensive) Job Corps Program has generated any significant postprogram effects for younger workers.

<sup>34</sup>“Project Match” in Chicago exemplifies this model (Olson, Berg, and Conrad 1990).

actually have.<sup>35</sup> It might also raise the motivation of the trainees, by linking the educational material to desired employment outcomes.

*Early prevention of various skill-related problems may be more successful than later treatments.*

Given the very limited returns to participants of most post-school training programs for the disadvantaged, and given that the rates of return to regular schooling and early work experience are quite high, even among minorities and the poor (Katz 1994; Meyer and Wise 1982; Ruhm 1995), programs that help to reduce high school dropout rates or that enhance the cognitive skills and early work experience of low-income students may be more cost-effective than those that target AFDC recipients for education or general training *after* they have already failed in schools and the labor market.

Of course, it is not obvious how to accomplish these goals, especially in an era of tight budgets. New models, such as the Quantum Opportunities program and others in the School-to-Work area, are promising and need to be evaluated more formally.<sup>36</sup> As noted above, links with employers and other incentives might provide disadvantaged students with the motivation to perform better academically; plus, early work experience should provide them with better credentials as they enter the labor market.

If the Workforce Development Act (currently under consideration in Congress) becomes law, there will be as much scope for experimentation and change in employment and training programs for the disadvantaged at the state level as in the area of income support.<sup>37</sup>

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<sup>35</sup>Lack of information among employers about the unobserved skills of employees is the basis of “statistical discrimination” models (Oettinger 1996), and may be part of the reason employers are reluctant to hire minorities in jobs with high skill requirements.

<sup>36</sup>For descriptive material on School-to-Work programs and various administrative issues see Bailey (1995) and Corson and Silverberg (1994). Quantum Opportunities, which provides sustained services for youth both during and after the high school years, is described in Katz (1994). Other recent reform efforts in low-income schools, some involving various degrees of decentralization and school choice, are described in Sizer (1996).

<sup>37</sup>The potential benefits of consolidating training programs and linking them with school systems are emphasized by Grubb (1996). The potential for gains from integrating welfare and training programs is stressed in Savner (1996).

## B. Job Placement

Given that employment opportunities for less-skilled workers are more plentiful in suburban areas, helping inner-city AFDC recipients gain access to these suburban jobs might greatly expand their employment options. Combining job placement and transportation assistance (possibly with counseling and very limited job training) may therefore be a low-cost and reasonably effective method of dealing with spatial imbalances and informational problems. Indeed, many localities are developing these approaches.<sup>38</sup>

But some caveats are warranted. For one thing, successful job placement depends on the existence of private sector jobs for these workers. Thus, job placements are much more likely to be effective in tight local labor markets, where employer demand for less-skilled workers will be stronger, and they will be most effective for the most “employable” workers, whose basic skill problems are not severe and who have some work experience. Indeed, since job-placement agencies must maintain the confidence of the employers with whom they work in order to be successful, there will be an inevitable tendency to “cream” their best candidates for many of these positions. Thus, placement activities may provide cost-effective solutions for some workers and in some labor markets, but not in all.

## C. Antidiscrimination Policy

One limitation of policies that emphasize job placement in geographically dispersed areas, especially in the distant suburbs, is that these are precisely the locations where racial discrimination against African-Americans is likely to be most severe. This will be somewhat less true of the larger establishments with which job developers are most likely to deal, and it will be less true in the context of tight suburban markets than in those with some slack.

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<sup>38</sup>See Hughes and Sternberg (1992) for a description of a variety of early local programs, in which costs per participant were generally quite low. America Works, and a variety of similarly named programs at the state and local level, operate on many of the same principles.

Nevertheless, strict enforcement of antidiscrimination policy might be an important complement to policies designed to improve the access of minorities to suburban labor markets, and would create additional job opportunities with very little budgetary cost. But how to improve enforcement of these laws in small establishments, and in areas with few current black residents or job applicants, is somewhat problematic.<sup>39</sup>

D. Job Creation

If one accepts the notion that private sector employment opportunities will be extremely limited for many long-term AFDC recipients, how might states create jobs in a relatively cost-effective manner?

Perhaps the *least* cost-effective strategy is one which happens to be politically popular: the use of “enterprise zones” or other tax inducements to attract jobs to central-city areas. The cost of each new job created that actually goes to a zone resident has been estimated to be \$30,000 or more (Papke 1993), which is at least double the budgetary cost of public service employment jobs that pay the minimum wage.

Attaching subsidies only to the *wages* of zone residents would be far more cost-effective; and doing so regardless of the actual location of employment would further enhance the effectiveness of this option (Lehman 1994). Targeting wage subsidies on disadvantaged *individuals* seems to stigmatize the potential worker and thus counteract the willingness of employers to use the subsidy (Burtless 1985). But attaching the subsidy to all residents of low-income areas might avoid this problem to some extent. Another approach that so far has been modestly successful in raising employment rates is to combine the subsidy with training and job-placement activities for groups of disadvantaged workers (Katz 1996). An alternative is to avoid any targeting, and pay subsidies for all *net* new low-wage jobs created (above base levels) that are relatively more

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<sup>39</sup>The Equal Employment Opportunity Act does not even apply to establishments with fewer than fifteen employees, and close monitoring of relatively small establishments that are covered would be quite costly. Furthermore, creating a statistical case of discrimination against an employer usually involves comparisons with the fractions of blacks in nearby populations and in their applicant pools, which are both quite low for firms located far from areas in which blacks reside. Close monitoring of employer behavior might also diminish the goodwill with employers that job developers rely on for successful placements.

generous, thus avoiding the stigma problem and the potential displacement of nonsubsidized workers (Haveman 1988).<sup>40</sup>

Although public service employment at (or somewhat below) the minimum wage is a relatively more costly policy, there probably is no alternative that guarantees employment generation for the least advantaged. Community work experience jobs for people who remain AFDC recipients is less expensive and embodies many of the same principles (Gottschalk, forthcoming 1996).

#### E. Wage Supports and Benefit Provision

Perhaps the best way to reduce poverty and hardship for those AFDC recipients who find and keep jobs, is to improve the rewards associated with their jobs. Among the options here are state-level supplements to the Earned Income Tax Credit (which currently exist in a handful of states)<sup>41</sup> and expanded subsidies for child care, health care, and other services to working mothers. The recently enacted increase in the federal minimum wage will also be useful in this regard.

### V. CONCLUSION

The data on the numbers and characteristics of employers and available jobs, especially in comparison with those of AFDC recipients, suggests that the latter will face some fairly severe obstacles when they are forced to enter the labor market. Although there have been and will surely be more success stories, it seems safe to predict that rates of nonemployment among current long-term recipients will be quite high, and wages and benefits for those who obtain work will generally be very low. Several policy options for

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<sup>40</sup>Such an approach would be modeled on the New Jobs Tax Credit that was relatively effective at generating new employment in the late 1970s (Bishop 1981). By capping the wages per worker that can be subsidized (e.g., at 50 percent up to some specified wage level), the effective subsidy rate becomes larger for low-wage jobs.

<sup>41</sup>As of October 1996, these states were Iowa, Maryland, Minnesota, New York, Rhode Island, Vermont, and Wisconsin.

dealing with these issues are described above, though most would increase demands on states' already strained financial resources.

It is important to stress that much remains uncertain about the future for this group. Inferring future labor market activity of AFDC recipients from what we have observed in the past is problematic, since the one group may not be representative of the other. In a different policy environment with different rules, recipient behavior may differ markedly from what has been observed earlier. Also unclear are the effects of new interventions for improving the labor market options of this group.

Much can be learned from the fifty state-level experiments that are beginning to develop. Careful monitoring of recipient experiences, documentation of policy interventions, and (wherever possible) evaluation of their effects will be critical for understanding what works and what doesn't.



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