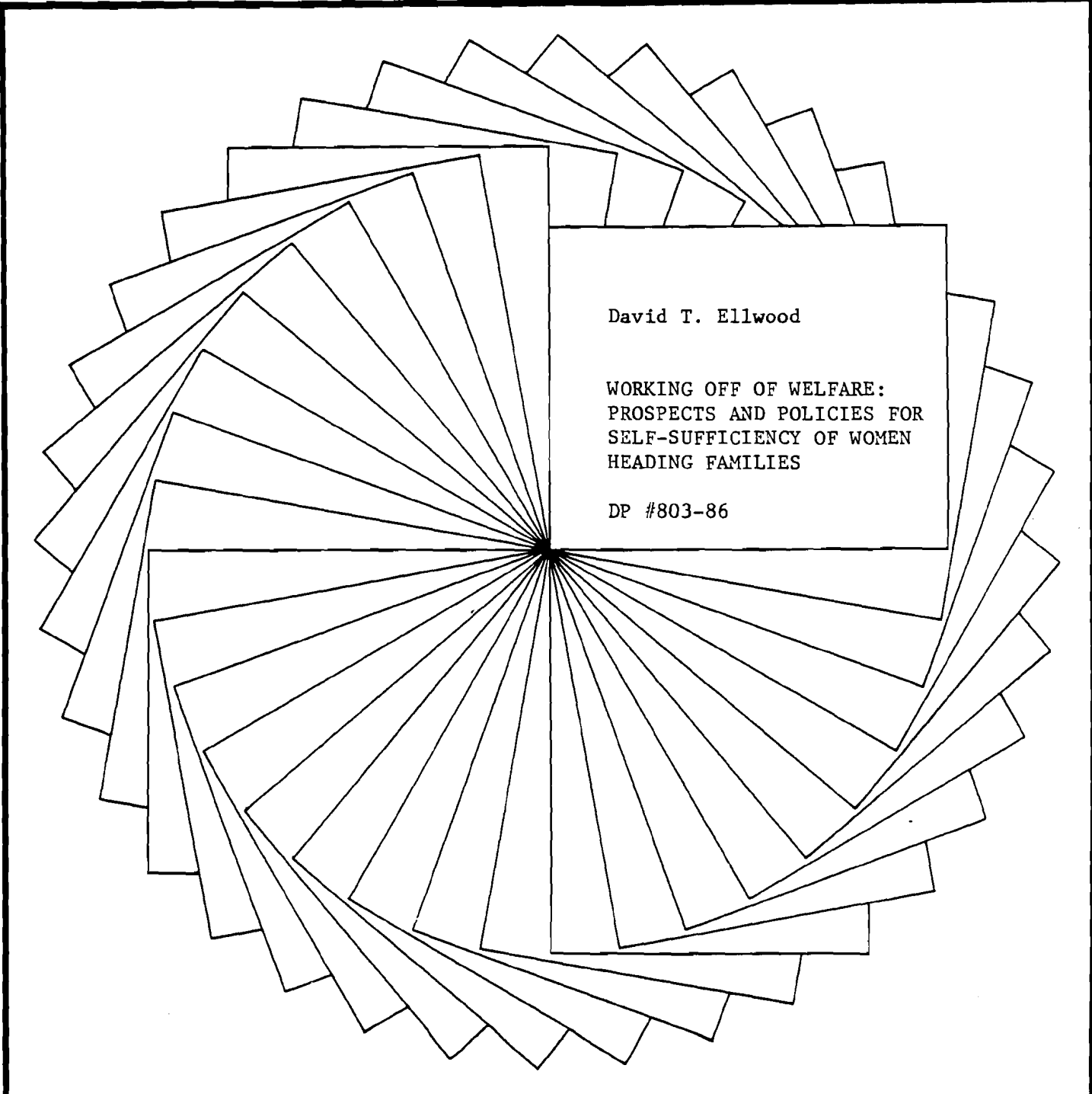


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WORKING OFF OF WELFARE:
PROSPECTS AND POLICIES FOR
SELF-SUFFICIENCY OF WOMEN
HEADING FAMILIES

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Working Off of Welfare:
Prospects and Policies for
Self-Sufficiency of Women Heading Families

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ABSTRACT

This paper examines the prospects that mothers heading households with children can become self-sufficient through their own earnings. It cautions at the outset that although work does offer a route to self-sufficiency, the only way women who head families can become fully self-supporting is by working full time, full year, and work to this extent is very much the exception among all mothers, especially wives.

The paper uses data from the Michigan Panel Study of Income Dynamics to analyze the work effort and earnings of women in the Aid to Families with Dependent Children program. It concludes that even though work is obviously difficult for welfare mothers, it does permit an important minority of them to become self-sufficient--about 30 percent of those who left welfare through work effort had earnings in the first year afterward of more than \$8000 (1981 dollars), and 42 percent had earnings of over \$6000. The women most able to leave the welfare rolls through earnings are those with previous work experience and more education (high school or above). And women who have earnings in excess of \$6000 in the first year after leaving the rolls are usually those who worked to some extent while they received AFDC.

I conclude that job search, training, and work experience programs should be an important part of antipoverty policy for female household heads, but these efforts will not be sufficient to permit the majority of welfare mothers to become self-supporting. Earnings will have to be supplemented by some means, such as child support or children's allowance. Earnings are an important part of the move to self-sufficiency, but they cannot be the whole solution.

Working Off of Welfare:
Prospects and Policies for
Self-Sufficiency of Women Heading Families

Self-sufficiency has long been the ultimate goal of many who work on antipoverty policy. But after two decades of concerted effort, we seem no closer to achieving a situation permitting the lowest economic stratum of Americans to provide for themselves and maintain incomes above the poverty line. The group that commands most recognition is composed of women heading families with children. Over 40 percent of such women are poor. And because there are more children in the larger families, which are more likely to be poor, nearly 60 percent of children in female-headed households are poor, even after counting welfare income.

This paper explores the prospects for making female family heads more self-sufficient through their own work. It considers the possibilities of helping welfare mothers move from welfare, or at least reduce their dependence on welfare, through increased earnings. The basic theme is that earnings are an important and viable source of self-support for some female household heads. Increased earnings are an important way in which women escape welfare. Many women leave welfare through earnings or other methods quite quickly, without much outside help. And recent demonstrations suggest that intervention programs are particularly helpful for women who would otherwise not leave the rolls quickly.

But this paper is also filled with critical notes of realism. The notion that welfare can largely be replaced by work on the part of female family heads is without strong foundation. The only way such women can become fully self-supporting is by working full year, full time. And

contrary to popular belief, such complete work continues to be very much the exception among mothers--particularly among wives. It does not seem realistic to expect large-scale self-sufficiency from earnings alone. Work incentives have only modest effects. One can't completely cut people off the program. And the most successful programs to help poor mothers only boost earnings by perhaps \$1000 per year on average, surely not enough to ensure self-support.

I conclude that job search, training, and work experience programs ought to be an important part of our antipoverty policy for single mothers, but they will not be sufficient to boost most current (and future) welfare mothers to complete self-sufficiency. If we are really concerned that these women become self-supporting, earnings will have to be supplemented with child support, children's allowances, or the like. Earnings alone, although an important part of the push for self-sufficiency, cannot be the whole solution.

WORK: THE HOPE FOR SELF-SUFFICIENCY

Poor female household heads really have just three options for escaping poverty: work, marriage, and outside financial help. Very little is known about ways to encourage and facilitate marriage. Outside financial help can be arranged by the government. The most obvious form is welfare, particularly the Aid to Families with Dependent Children program (AFDC). Welfare can provide the financial support to push people up the income ladder, but it does little to encourage self-support--indeed, it is dependence on welfare that those concerned with self-support are usually worried about. An alternative form of financial

support would come from fathers. Only 20 percent of poor single mothers¹ received any child support payments at all in 1981.² Dramatically improved child support might help many escape poverty, or at least avoid the need for welfare. This is a direction that should be explored very carefully. Wisconsin is in fact experimenting with an expanded child support system. Still, we are a long way away from adopting a massive child support scheme that would largely eliminate the need for other sources of financial support. Work appears to be the most immediate alternative.

Just how effective is work in alleviating poverty and AFDC use? Table 1 shows the average earnings (in 1981 dollars), the prewelfare poverty rate, and the fraction of female household heads on AFDC, averaged over the years 1977 to 1981³ on the basis of number of hours that the mother worked. All of this information, and all of the information presented on Tables 2-8, is taken from tabulations of the Panel Study of Income Dynamics (PSID), a longitudinal study of 5,000 American families that allows one to track income and welfare use for particular individuals over time. Cross-sectional results from the PSID typically agree qualitatively with results drawn from other data sources, though magnitudes are not identical. Poverty rates derived from PSID data are usually somewhat lower than those derived from Census Bureau data (from the annual Current Population Surveys).

Full-year, full-time work is normally thought of as 2000 hours (50 weeks times 40 hours per week). As expected, work is a powerful tool in lifting female household heads out of poverty. Those who work full time, or nearly so, are poor less than 10 percent of the time. By contrast, at

Table 1

Annual Earnings, Prewelfare Poverty Rate, and Percentage of
Female Household Heads Receiving AFDC Income (1977-81 averages)

Annual Hours Worked	Average Annual Earnings (1981 Dollars)	Prewelfare Poverty Rate ^a	Percentage with Any AFDC Income
None	\$0	71%	66%
1 - 499	\$958	62	59
500 - 999	\$4522	40	42
1000 - 1499	\$6368	26	30
1500 - 1999	\$11386	10	12
2000 and over	\$12255	6	7
Average	\$8779	35%	35%

^aPercentage poor when welfare income (AFDC) is not included in income.

Source: Tabulations from Panel Study of Income Dynamics (PSID).

least two-thirds of mothers who work fewer than 500 hours are poor. Similarly, AFDC use is quite uncommon among full-time workers, but is a fact of life for those with little work.

It is clear from Table 1 that full-year, full-time workers (or persons who work nearly that amount) are generally independent of welfare and are not generally poor. But when work slips below even 1500 hours--30 hours a week all year long--the poverty rate moves up sharply, as does welfare use. And women who work less than half time are usually poor and receiving welfare. Thus part-time work alone is insufficient to guarantee self-support. This should come as no surprise. In 1981, the minimum wage was \$3.35 per hour, and even 2000 hours of work at this wage did not push a family of three above their poverty line of \$7250. Part-time work would yield far less. In this sample fully employed female household heads earned \$9500 a year on average (or an average wage of almost \$5.00 an hour), and those who were almost fully employed did nearly as well. But wages and earnings fall sharply after that point. Below 1500 hours, average earnings would not have been sufficient to support even a family of two above the poverty line.

Thus the hope for complete self-support among female household heads boils down to a hope for full-year, full-time work. For expositional purposes let us define women who work more than 1500 hours as being "fully employed." Unfortunately, only about 38 percent of female household heads are fully employed. Hence most of the rest are poor.

HOW MUCH WORK SHOULD BE EXPECTED OF SINGLE MOTHERS WHO HEAD HOUSEHOLDS?

There are difficult philosophical and ethical questions tied up with society's expectations of single mothers. When work among mothers was

virtually unknown, no one expected work from any mother--wife or family head. But most mothers do some work now, and society is far more ambivalent about what expectations are realistic for them. Many express the view that single mothers ought to be expected to provide for their families. The fear of many conservatives is that welfare relieves them of the burden of being provider, thus they are not doing enough to make themselves self-sufficient.

Of course the importance and benefits of self-sufficiency must be weighed against the barriers a single mother faces and the worries that children may suffer. Typically lacking both the physical help and the financial support of a husband, there are far more limited resources within the household to draw on when any problem arises that might interfere with work. And the inevitable problem of what is best for the children stirs endless debate. Most working women do not leave their children in a formal day care center. If they did, and if they paid the full costs, the net income of many fully employed women might no longer be sufficient to push them above the poverty line. Governmental payment of such costs could be enormously expensive. Informal arrangements are far more common, but far more difficult to monitor. And many believe a child is better cared for at home with his or her mother so long as they mother is happy with the situation.

Since the impetus for asking single mothers to work comes largely from the increasing amount of work among wives, one point of reference is to compare the work behavior of wives and female household heads. Table 2 offers several such comparisons. Several very important patterns emerge. First, mothers heading households work much more than wives with

Table 2

Distribution of Hours Worked by Wives and Female Household Heads,
by Age of Youngest Child (1977-81 averages)

Annual Hours Worked	Wives with Children under 6	Female Household Heads with Children under 6	Wives with Children Aged 6-18	Female Household Heads with Children Aged 6-18
None	38%	32%	31%	24%
1 - 499	15	11	12	8
500 - 999	11	9	9	9
1000 - 1499	13	11	12	9
1500 - 1999	15	21	23	29
2000 and over	<u>8</u>	<u>16</u>	<u>13</u>	<u>21</u>
Total	100	100	100	100
Average annual hours worked	713	958	930	1200

Source: Tabulations from Panel Study of Income Dynamics.

Note: Totals may not sum exactly owing to rounding error.

children of similar ages. Over 35 percent of single mothers with children under 6 work 1500 hours or more, versus 23 percent for comparable wives. Similarly, 50 percent of female household heads with older children are fully employed; 36 percent of wives are. Average hours worked by female household heads are roughly 10 percent greater.

Second, work in an amount of 1500 hours or more remains the exception rather than the rule for all mothers. We have already noted that less than a quarter of wives with small children, and just over a third of wives with school-age children, are fully employed. If female household heads are going to be self-sufficient, they must be fully employed. Yet the overwhelming majority of wives do not work at this level. Even among wives with school-age children, full-year, full-time work is the exception.

These figures obviously don't resolve the argument about whether female household heads work enough. One could argue that the fact that they actually work somewhat more than wives, in spite of their considerable burdens, is a testament to their strength and desire to provide for themselves. On the other hand, one might argue that mothers heading households ought to work much more than wives because they have responsibility for the maintenance of the household. If the family is poor, they should get out and provide more. They cannot and should not be accorded the same "luxuries" with respect to work as wives.

Another table may shed light on this issue. Perhaps the right comparison group for female household heads is wives whose families would be poor if they did not work--i.e., wives whose husbands' income and any other sources of income are so small that the family's income excluding

any earnings from the wife lies below the poverty line. Let us compare such wives to women who head families with incomes, excluding their earnings and excluding welfare, below the poverty line. Table 3 makes these comparisons.

The table shows that "poor" female household heads actually work more than "poor" wives. Note that I'm comparing the behavior of, on the one hand, wives whose families remain poor after all other sources of income other than the woman's earnings have been counted, to, on the other hand, female household heads who are poor before either welfare or earnings are counted. Arguably the wives ought to be more likely to work than the female household heads in this situation, since the latter can at least turn to welfare for support. And the wives may have an unemployed husband available to help with child care and other chores. In fact, just the opposite is observed.

Tables 2 and 3 give us insights into the fairness question, and they also bear on the realism of any hope to make female household heads largely self-sufficient. As to fairness, these two tables surely do not prove that female household heads work as much as can be expected. Certainly there is logic to the argument that women who have more responsibility for the financial support of children ought to work more. Yet the figures ought to give us pause. Apparently poor wives find it just as difficult or distasteful to go to work, in spite of severe financial burdens and little access to welfare.

Perhaps even more to the point, if just over 25 percent of all wives with young children are fully employed, can we realistically expect most female household heads to be fully employed? Over half of poor women

Table 3

Distribution of Hours Worked by Wives and Female Household Heads
in Families Poor When Woman's Earnings and Welfare Payments
Are Excluded from Income, by Age of Youngest Child
(1977-81 Averages)

Annual Hours Worked	Poor ^a Wives with Children under 6	Poor ^a Female Household Heads with Children under 6	Poor ^a Wives with Children Aged 6-18	Poor ^a Female Household Heads with Children Aged 6-18
None	40%	32%	37%	21%
1 - 499	10	10	8	6
500 - 999	11	7	6	8
1000 - 1499	14	11	11	9
1500 - 1999	12	22	21	31
2000 and over	12	17	17	24
Total	100%	100%	100%	100%
Average annual hours worked	771	975	956	1288

Source: Tabulations of Panel Study of Income Dynamics.

Note: Totals may not sum exactly owing to rounding error.

^aFamily income, excluding wife's or single mother's earnings and excluding AFDC income for the latter, falls below the poverty line--i.e., family income excluding the contribution of the woman and the welfare system is below poverty line.

heading households have preschoolers at home. Women do work much more than they used to, but mothers usually work part time. We are far, far from the point at which most mothers work full time, even mothers of school-age children. The norm is still that mothers spend considerable time with their children. Even if one did not believe that such time was important for a child's development and even if one thought adequate child care could be provided for all single mothers who head households, it seems hopelessly unrealistic to expect a behavior from them that is far beyond the norm for other mothers.

Thus if the hope for self-support is earnings alone, the prospects are rather dim. Female household heads already work more than wives, on average. And the changes in work levels and societal norms that would be necessary are enormous.

These figures make the child support ideas championed by Irwin Garfinkel (at the Institute for Research on Poverty) and others seem all the more appropriate. The only realistic hope for a reasonable level of support, independent of welfare, for a very large portion of single mothers is additional income from other sources. Fathers are an obvious source of help. Female household heads are poorer than wives because they don't have the support of the father. If we are fearful of the consequences of children growing up in poor households with a heavy dependence on welfare, child support combined with earnings may be the real hope for self-support.

But acknowledging the difficulty of the task of vast increases in self-support does not lessen the importance of looking for ways to stimulate and aid it. To learn more about these issues let us first look at

what we can discover about the earnings patterns of women on welfare, looking in particular at those who do in fact earn their way off.

THE ROLE OF EARNINGS IN ESCAPING WELFARE

Bane and Ellwood (1983) sought to classify the methods people use to escape welfare. They used the 12-year sample of the PSID and tracked people who spent time on welfare. When individuals moved onto or off of welfare, the authors sought to characterize the primary reason for the exit, since the Panel survey asks no direct question about how or why former recipients left.

The Bane-Ellwood classification scheme is hierarchical. It begins by looking for events that caused a female head with a child to cease being one and thus lose eligibility for AFDC. If she married, remarried, or reconciled so that she was no longer classified as a single mother in our data, the ending was attributed to "becoming a wife" (for lack of a better term). If a single mother ceased to have any children living with her, either because all the children moved out or because they had all reached their 19th birthday and were no longer classified as children, the exit was labeled "no longer had an eligible child." If the woman remained a household head after leaving welfare, the procedure looked for a reasonably large change (over \$500 in 1978 dollars) in nonwelfare income that might explain the departure. If such a change was found, the component of income (head's earnings, the earnings of others, or other transfers) which had the largest change was designated the primary reason for departure. Thus, if there was a substantial earnings change, and if the person remained a household head with child, then her exits was

classified as an earnings exit. If no major income change was found, Bane and Ellwood looked for a family-size change or for a move to another state. Finally, if none of these changes had occurred, the reason for leaving welfare was classified as unidentified.

The Bane-Ellwood classification scheme was applied to the 15-year PSID sample, and the results are shown on Table 4.⁴ Roughly one-third of all persons leave welfare when they become a wife; 11 percent leave when they no longer have eligible children; 21 percent leave via earnings; and the rest are scattered across other types of exits.

Clearly it is possible, even common, for AFDC recipients to escape welfare via earnings. Yet the vast majority of people who leave the welfare rolls are classified as leaving for other reasons. The fact that such escapes account for less than one quarter of all exits would seem to reinforce the notion that one probably should have modest expectations for self-support through earnings.

Still, the Bane-Ellwood classification scheme does not necessarily provide a sense of the full importance of earnings in helping people escape. Since the scheme is hierarchical and allows only one classification per exit, it is possible that significant earnings changes are more common than the 21 percent figure would suggest. A woman who marries and has substantial earnings in the year she leaves AFDC will be classified as having left via becoming a wife.

An alternative way to examine the possible role of earnings is to ask what fraction of all former welfare recipients had earnings in excess of some amount--say \$6000--in the first year they were off of welfare. Table 5 examines the possibility that women who became wives or who were

Table 4

Distribution of AFDC Exit Types
Using Bane-Ellwood Classification System

Bane-Ellwood Classification	Distribution
Head's earnings increased	21.3%
Female household head became a wife	34.6
No longer had eligible child	11.2
Transfer income increased	14.2
Earnings of others increased	4.9
Family became smaller	2.4
Family moved	1.8
Unidentified	9.4
 Total	 100.0

Source: Tabulations from Panel Study of Income Dynamics.

Table 5

Distribution of Persons Who Exited AFDC,
Classified by Earnings in First Year after Leaving Welfare and
by Bane-Ellwood Exit Reason Classification

Earnings in First Year after AFDC Exit ^a	Bane-Ellwood Exit Classification				Total
	Household Head's Earnings Increased	Female Household Head Became a Wife	No Longer Had Eligible Child	Other	
None	0.0%	16.4%	5.9%	9.5%	31.9%
\$1-2,000	0.8	5.0	1.9	2.6	10.2
\$2,001-4,000	1.2	2.7	1.4	0.9	9.6
\$4,001-6,000	2.2	3.1	0.8	3.4	9.5
\$6,001-8,000	7.5	0.7	0.1	4.7	13.0
\$8,001-10,000	2.2	2.0	1.0	2.7	8.0
Over \$10,000	6.8	5.7	1.6	7.0	21.1
Total ^a	20.8	35.6	12.7	30.9	100.0

Source: Tabulations from Panel Study of Income Dynamics.

^aThese totals differ slightly from the numbers on Table 4 because persons with missing earnings have been excluded. Figures may not sum exactly due to rounding error.

classified as leaving welfare for other reasons had substantial earnings in their first year off of welfare. The table gives a somewhat more encouraging picture. We see in the last column that 42 percent of former welfare recipients earn over \$6000 in their first year off of the program. Some 30 percent earn over \$8000--enough to push a family of three above the poverty line. Many of these "high" earners were classified as having left for reasons other than earnings.⁵

Thus many former welfare mothers are able to leave the rolls with substantial earnings. The view that women who go onto the welfare rolls are inevitably embroiled in dependence until their children get to be too old or until they marry is not supported by the facts. There really is no right answer to the question of just how important earnings are in helping people escape welfare, but the answer must lie between the 21 percent figure found using the Bane-Ellwood classification and the 42 percent of former recipients who have sizable earnings. It is difficult to know just how crucial earnings are for those who both boost their earnings and become wives. It is possible that work presented the opportunity to meet men in addition to providing earnings and was therefore crucial even for those who left through marriage. Conversely, marriage may have given the woman more flexibility in schedule and thus more freedom to work, so the finding that many work while newly married may give a misleading impression about the ability of female household heads to work.

WHAT CHARACTERISTICS SEEM TO BE ASSOCIATED WITH MOVING OFF OF WELFARE VIA HIGH EARNINGS?

Let us take the broadest definition of women who escaped welfare with the aid of earnings: women who have earnings in excess of \$6000 in their first year off welfare. What personal characteristics help predict those who will leave welfare and have high earnings in the first year? That is, using this broad definition for those who earn their way off of welfare, what can we say about the odds that someone will leave welfare with high earnings and when they will do it?

For each person in a sample of welfare recipients drawn from the PSID, in each year they were on AFDC, there are three possible outcomes. They can remain on AFDC the next year, they can leave AFDC and have earnings in excess of \$6000, or they can leave AFDC but have earnings below \$6000. Using a multinomial logistic model, one can estimate the odds that a woman will experience each outcome as a function of various independent characteristics and as a function of time in the spell to date.⁶ Using a sample of roughly 700 persons, I estimate a three-outcome logit model.⁷

Like a standard regression, the logistic model calculates the effect of each independent variable after controlling for all other variables. Because the coefficient estimates themselves are difficult to interpret, I have converted them into a more readable form; the coefficient estimates are given in Appendix Table A.1. Table 6 provides estimates, derived from the multinomial model, of the probability that a woman (1) will leave welfare within two years of starting a spell and have "high" earnings, (2) will leave welfare within two years but have little or no earnings, or (3) will remain on welfare after two years.

Table 6

Marginal Impact of Independent Variables
on the Fraction of Those Who Leave within Two Years
with Earnings Over \$6000, the Fraction Who Leave
with Earnings under \$6000, and the
Fraction Who Do Not Leave within Two Years

Variable	Exit within Two Years with Earnings over \$6000	Exit within Two Years with Earnings under \$6000	Do Not Exit within Two Years
All	16.7%	25.7%	57.6%
<u>Race</u>			
White	16.6	28.9	54.5
Black	16.5	21.5	62.0
Other	18.5	36.5	45.0
<u>Education</u>			
Under 8 years	5.5	27.4	67.1
9-11 years	16.5	23.5	60.0
Over 11	21.4	26.6	52.0
<u>Marital Status</u>			
Divorced	24.5	27.7	47.8
Never married	17.2	15.6	67.2
Widow	12.0	48.5	39.5
Separate	19.7	26.2	54.1
<u>Age of Youngest Child</u>			
Under 3	15.4	30.6	54.0
3-6 years	17.7	25.5	56.8
7-10 years	17.0	18.0	65.0
Over 10	19.8	19.5	60.7
<u>Number of Children</u>			
0-1	17.9	34.4	47.7
2-3	16.3	23.2	60.5
Over 3	13.6	14.4	72.0
<u>Age</u>			
Under 22	12.9	23.4	63.7
22-30	16.7	25.5	57.8
31-40	21.3	25.3	53.4
Over 40	18.4	30.1	51.5

(Table continues)

Table 6, continued

Variable	Exit within Two Years with Earnings over \$6000	Exit within Two Years with Earnings under \$6000	Do Not Exit within Two Years
<u>Work Experience</u>			
No recent ^a work experience	9.1	25.6	65.3
Recent work experience	22.3	25.3	52.4
<u>Maximum AFDC Payment</u>			
Under \$250	22.5	26.6	50.9
\$250-350	16.5	25.7	57.8
Over \$350	11.8	24.3	63.9
<u>Region</u>			
West	19.5	16.3	64.2
North	19.7	29.1	51.2
North Central	14.4	23.3	62.3
South	14.9	31.3	53.8

Note: This table was derived from the coefficients in Table A.1, assuming all variables other than the one reported were held at their mean.

^aDid not work during two years before start of welfare.

The table is derived by assuming that a person has the sample average characteristics on all variables except one. For example, the table shows that a woman who has more than 11 years of education and is average on all other dimensions is predicted to leave within two years with high earnings 21 percent of the time, leave in two years with low earnings 27 percent of the time, and remain on welfare after two years 52 percent of the time. Thus the table shows the independent effect of each variable.

The two most powerful predictors of moving off of welfare quickly and having high earnings are having worked in the year prior to welfare receipt and having a relatively high level of education. These are people who have had experience in the labor market or who are most likely to have marketable skills. They ought to be able to move into work quickly.

The table also shows that the level of welfare benefits in a state has an important influence on the chances of a high earnings exit. This effect should not be interpreted as necessarily indicating that women in low-benefit states work more. Even if AFDC benefit levels had no impact on behavior, we would expect earnings exits to be more common in Mississippi or Texas, where benefit levels are extremely low, than in states where benefits are three or four times higher. In low-benefit states a woman with a part-time job will have too high an income to qualify for AFDC; in high-benefit states this is less likely to be true. Thus, even if the same fraction of women obtained part-time work in low- and in high-benefit states, a much larger fraction would be pushed off of welfare in the low-benefit states.

One also finds that having several children exerts a powerful negative effect on overall durations and in particular on the odds of leaving

with high earnings, when all else is held equal. But there is little evidence that age of youngest child has any impact on the odds of making an early and high-earnings departure from welfare after such other factors as number of children are controlled for. The result is identical to that reported in Bane and Ellwood (1983), which used a much more restrictive (and partly erroneous) definition of earnings exits. It does suggest that age of youngest child, by itself, may not be as serious a deterrent to leaving welfare through work as many assume.⁸ On the other hand, having additional children lowers the chances of self-support quite strongly.

Race has no effect on high-earnings exits, but it diminishes other types of exits. Being young and never married are inhibitors to moving off with earnings. These two characteristics are deterrents to other types of exits as well.

Table 6 points to another important result. Intergroup variations in the odds of exiting via other means are often far greater than variation in earnings exit rates. For example, never-married mothers have somewhat lower chances of earning their way off welfare quickly, but vastly lower prospects of leaving with low earnings. In large part this finding reflects the fact that they are far less likely to marry than other women. Similarly, number of children has a much larger effect on exits with low earnings than on exits with high earnings. These findings reinforce once again the notion that while work behavior is an important means to self-sufficiency, differences in earnings are not the dominant factor in welfare durations or departures.

Although these results describe those who earn their way off of welfare, they say nothing about how it is done. We turn next to that issue.

WHAT IS THE PROCESS OF EARNINGS GAINS AMONG WELFARE RECIPIENTS?

No one has seriously investigated the process by which people earn their way off of welfare. Ideally we would like to understand how (and why) people are able to become self-supporting. Ultimately one would like to see whether women follow particular occupational and employment patterns which ultimately lead to successful self-support. There are few data available to provide a serious or comprehensive understanding of the earnings process. But the PSID does offer an opportunity to examine an important question: do women who ultimately leave AFDC with high earnings do so by a sudden leap to a job, or is the process gradual, punctuated by increasing work hours and improving wage rates?

If, for example, women who ultimately escape dependence through earnings frequently work while on welfare before making a definitive move off the rolls, one might favor using a variety of mechanisms to encourage part-time or part-year work for those on AFDC. And if welfare mothers gradually become accustomed to working and then make the leap off of welfare, any policy which discouraged part-time work could be shortsighted. A major component of many training programs, Supported Work in particular but also work experience programs, is a gradual increase in work discipline and expectations. The idea is that clients build self-confidence and eventually can make it on their own. They also become prepared for better and better jobs.

Table 7 examines those who reported receiving welfare in three or more continuous years. For that group, it gives earnings and work information in the next-to-last year of welfare, in the last year of welfare, and in the first year after it. The figures are reported separately for

Table 7

Earnings, Hours, Wages, and Employment of Persons
 Who Exited AFDC with Earnings above \$6000
 and Persons Who Left AFDC with Earnings below \$6000
 during Two Years Prior to Exit and One Year Following Exit
 (only persons with spells of 3 or more years)

	Next-to-Last Year of Spell	Last Year of Spell	First Year after Spell
Women exiting with earnings over \$6000			
Average annual earnings	\$4,039	\$6,181	\$10,008
Average annual work hours	831	1,269	1,844
Average wage	\$5.03	\$5.65	\$6.40
Percentage who worked at all	66%	86%	100%
Percentage who worked over 500 hours	59%	81%	97%
Women exiting with earnings under \$6000			
Average annual earnings	\$844	\$1,245	\$1,093
Average annual work hours	233	424	428
Average wage	\$5.05	\$4.06	\$4.32
Percentage who worked at all	35%	42%	42%
Percentage who worked over 500 hours	19%	26%	29%

people who have earnings over \$6000 in their first year off of welfare and for those who leave via other routes.⁹ In interpreting these tables, it is important to consider the fact that the PSID offers only annual information on welfare and work. Women who work for part of the year and who receive welfare for the remainder will show up with both work and welfare. Thus, finding that people work during a year in which they also receive welfare should not be interpreted as evidence that they are working in the same months that welfare is received.

The table shows quite clearly that women who will eventually leave with high earnings work a great deal even two years prior to the time when they leave AFDC completely. In their next-to-last-year of welfare receipt, some two-thirds of those who will later be off of AFDC with higher earnings are already working at least some of the time, and 59 percent work more than 500 hours. By contrast, of those who will leave via other routes, only one-third work at all in the next-to-last year and only one-fifth work more than 500 hours. Women who are able to earn their way off appear to mix work and welfare (at least on an annual basis) far more than those who do not earn their way off.

Furthermore, those who eventually leave welfare with high earnings do show gradual increases in annual earnings and wage rates over the transition period. By contrast, those who leave in other ways show very limited work effort while on welfare and experience only modest increases in work hours. One cannot, of course, attribute a causal influence to work while on welfare. It may well be that women with better earning capacities and greater desire to work are those who both work while on welfare and who eventually achieve high earnings. Nonetheless, these

results are certainly consistent with a potentially critical role of part-time or part-year work in helping women establish themselves.¹⁰

THREE BASIC POLICY DIRECTIONS

Together the results point to several conclusions regarding work and welfare. While work is obviously difficult for welfare mothers, it does offer a route to self-sufficiency for an important minority. At present the women who seem most able to use work to escape welfare are those with previous work experience and more education. And women who do escape welfare and attain high earnings (over \$6000 in the first year) have usually worked in some amount during the years in which they also received AFDC.

Ellwood (1986) reports that when an entire lifetime history of welfare is considered and when all other variables are not held constant, young, never-married women who enter AFDC when they have a child have very long projected welfare episodes. Simulation work not described here also confirms that such women have a low chance of escaping welfare with either high earnings or through other routes.

Together these results suggest that work on the part of welfare recipients ought to be strongly encouraged, and that the groups who most need to gain the capacity to work are women with poor educational and work histories and young women entering the rolls with young children. There are three possible policy approaches to encouraging work. The traditional approach has been to use more liberal disregards and deductions to lower the effective tax rate on earned income and thereby make work more

attractive. A radically different tack would be to sharply lower benefits in some way, either across the board or perhaps after recipients have been on AFDC for a few years. The third approach is to use employment and training programs to help, encourage, and even coerce people into working.

Adjusting Tax Rates

Since at least the mid-sixties the primary policy tool discussed by academics for increasing work among welfare recipients has been to reduce effective tax rates on income. In order to target welfare benefits to low-income persons, benefits must be reduced as income rises. Thus the effective tax rate on earnings is often quite high. The traditional method of encouraging work without cutting benefits is to reduce the effective tax rate, thereby increasing the rewards to work.

Yet the available evidence suggests that lowering tax rates through more liberal deductions and disregards is unlikely to have a major impact on the work of recipients. Lower tax rates do increase the reward to working, but they also increase the amount of welfare payments that people who are working part time will receive. These higher benefits also have an income effect which tend to induce work. Moreover, since a larger number of people are eligible for welfare when tax rates are low (because benefits are reduced less quickly with rising income), more people are brought into the welfare system with its modest benefits and high tax rates. For those made newly eligible for benefits, the effect on work is unambiguously negative.

And women who work rarely collect AFDC at the same time. There is some preliminary evidence that women who have both earnings and welfare

income in a given year rarely receive both at the same time; work and welfare is sequential rather than simultaneous. Incentives for women on welfare may not have an appreciable effect on work if the two are infrequently combined, in any case. And if the goal is to encourage work on the part of those with little previous work experience and poor educations, and among those with young children, it seems unlikely that lowered effective tax rates alone will help women overcome their problems with child care and the labor market. Thus it is not clear that lower tax rates will encourage work very much, and all available estimates suggest that the overall effect is modest at best. Moreover, lower tax rates are costly, since they increase the eligible population, increase benefits for those who are working, and seem to have very modest effects on behavior.

The Reagan administration seems to have taken this argument to its logical extreme. Since 1981, recipients face marginal tax rates on earned income of at least 100 percent after four months. This policy has been attacked on equity and efficiency grounds. Current evidence shows relatively little impact on the subsequent work behavior of those who were eliminated from the program. Little research has been done on people whose benefits were reduced but who remained on AFDC--they are the ones who really face a 100 percent tax rate. And the long-run impact is unclear. It seems hard to justify this harsh treatment and it seems likely that 100 percent tax rates will discourage work. But the results of this Reagan experiment clearly point to the political, budgetary, and pragmatic weaknesses of focusing primarily on tax rates as a means of encouraging work.

Lowering Benefits

The second policy direction would be to sharply reduce the benefits available to some welfare mothers. For example, benefits might be cut back for women with children over age six after they had been on welfare for a certain period of time--say two or three years. The logic behind such a proposal is that welfare should not be a permanent home for women if we expect them to work. Analogously, Unemployment Compensation is of limited duration. Yet concerns for the well-being of children, the question of day care cost and availability, the often weak job market, and the lack of alternatives for a one-parent family if that parent becomes unemployed tend to militate against such a strategy--at least in isolation. AFDC benefits have already been cut by over one-third (adjusting for inflation) over the past decade or so. Further cuts seem cruel and probably will have the least incentive effects and the worst financial impacts on the hardest-to-employ groups that probably deserve the most attention.

Training for Work

The third approach is to use employment and training programs to help, encourage, even coerce people into working. Employment and training programs have in theory always been a part of the AFDC program. The Work Incentive program (WIN) supposedly requires participation of healthy mothers with children over age five. Various services are supposed to be offered, but in fact few have been served. Moreover, the program typically seeks high job-placement rates, and the highest placement rates can be achieved by serving women who would be likely to have

moved into jobs on their own. As a result, those with the poorest prospects are poorly served. Those with young children aren't served at all: a young unmarried woman who begins welfare receipt when her child is born will be on welfare for at least five years until any programs are directed toward her--even longer, if she has another child.

One of the most encouraging developments in recent years comes from experimental data which seem to show that employment and training programs are most effective at helping exactly those people who are likely to be long-term recipients. Table 8, taken from Grossman and Mirsky (1985), shows estimated effects of past experiments on various subgroups. The most striking result is that people with little work experience gain the most from the programs. And those with limited education also seem to be helped more. These promising results of work experience programs were also found in several recent Job Search "workfare" demonstrations, including ones in San Diego and Maryland.¹¹ Women with little previous work experience seem to be helped far more than others.

More detailed discussions of the exact configurations of employment and training strategies lie beyond the scope of this paper. But it does appear that the most practical and productive ways to encourage work is through the use of these sorts of programs. Particular attention and energy should be focused on the hard to employ. Though placement rates are lower, the net impact seems to be greater.

Table 8

Estimated Impacts on Annual Earnings of Various Subgroups of Participants in WIN, CETA, Supported Work, and the Louisville WIN Lab

	Job-Search Assistance Programs				Employment and Training Programs				Supported Work (Inferred results) ^b
	WIN Job Placement	Louisville IES	Louisville Group Job-Search	On-the-Job Training	Classroom Training	Work Experience	Public Service Employment	CETA ^a	
Education (Years)									
0-11	\$432	n.a.	n.a.	\$792	\$53	\$9	\$399	\$1,312	\$787
12+	-79	n.a.	n.a.	597	510	1,537	1,626	715	336
Little or No Work Experience	\$495	n.a.	\$350	\$1,201	\$855	\$632	\$2,793	\$1,258	\$1,264
Some Work Experience	1	n.a.	96	363	-64	956	1,035	72	529

Source: Grossman and Mirsky (1985).

Note: The WIN and CETA results are for the second year of follow-up; for the other programs, the subgroup impacts are reported as available.

^aThese estimates are based on all female welfare recipients enrolled in CETA, including those who received only job-search assistance services.

^bEarnings effects on subgroups were not examined in the Supported Work evaluation; only hours effects by subgroups were considered. The Supported Work results reported here are the monthly hours impacts multiplied by \$3.50 (approximately the average wage received in the sample) and multiplied by 12. Average wages were not significantly increased by the Supported Work program; thus, the inferred results should be fairly accurate.

REALISTIC EXPECTATIONS

The push toward encouraging work and the apparent successes in recent years of certain programs designed to help single parents work more give the impression that many single mothers could be made self-supporting if we were willing to make the investment. There is no basis for such optimism. The very low full-year, full-time employment rates among mothers with young children offer little hope that these women can be made completely self-supporting. The child care responsibilities alone make more than part-time work extremely difficult, even if day care were offered. And the "impressive" gains in annual earnings shown on Table 8 rarely amount to more than \$2000 per year. Such income helps, but it is hardly enough to guarantee self-sufficiency.

For the foreseeable future, female household heads will continue to rely heavily on other sources of income. But those sources need not be in the form of welfare. If an expanded child support system were adopted in which a minimum level was guaranteed by the government, it might replace welfare to a large degree and provide an income floor which, in combination with part-time work, would permit independence.

Still, promoting work, and emphasizing and even requiring it, sends healthy signals about the mission of our welfare system to the general public and the welfare clients. If most people want to work, as many claim, high expectations coupled with genuine opportunity can make a difference.

Table A.1

Multinomial Logit Regression Coefficients
Used in the Preparation of Table 6
(t-statistics in parentheses)

	Earnings over \$6000	Earnings under \$6000
CONSTANT	-1.483 (1.99)	-1.202 (1.97)
BLACK	-0.094 (0.43)	-0.387 (2.16)
OTHER	0.244 (0.47)	0.371 (0.95)
EDUC<9	-1.536 (4.72)	-0.159 (0.78)
EDUC9-11	-0.367 (2.25)	-0.231 (1.51)
MARRIED	-9.128 (0.38)	0.467 (0.36)
SINGLE	-0.597 (2.52)	-0.818 (0.22)
WIDOW	-0.592 (1.65)	0.687 (0.25)
SEPARATED	-0.304 (1.49)	-0.141 (0.73)
NORTH	0.164 (0.58)	0.738 (2.88)
NORCENT	-0.282 (1.07)	0.375 (1.48)
SOUTH	-0.15 (0.45)	0.774 (2.54)
MAXPAY	-0.00405 (3.16)	-0.0013 (1.19)
AGE22-30	0.331 (1.21)	0.157 (0.69)
AGE31-40	0.629 (1.88)	0.209 (0.73)
AGEOVER40	0.512 (1.46)	0.41 (1.40)
NUMCHLD2-3	-0.263 (1.52)	-0.567 (3.89)
NUMCHLD4	-0.565 (2.24)	-1.168 (5.63)
WORKEXP	1.054 (5.80)	0.145 (1.05)
AGEYNG3-6	0.104 (0.55)	-0.219 (1.34)

(Table continues)

Table A.1 continued

	Earnings over \$6000	Earnings under \$6000
AGEYNG7-10	-0.028 (0.11)	-0.659 (3.15)
AGEYNGOV10	0.17 (0.62)	-0.535 (2.45)
LEN2	-0.214 (1.07)	-0.081 (0.45)
LEN3	-0.410 (1.73)	-0.399 (1.80)
LEN4	-0.505 (1.82)	-0.331 (1.32)
LEN5	-0.681 (2.00)	-0.545 (1.83)
LEN6	-0.103 (0.32)	-0.363 (1.16)
LEN7	-1.359 (2.50)	-0.654 (1.72)
LEN8	-0.991 (1.79)	0.080 (0.22)
LEN9	-2.155 (2.08)	0.037 (0.08)
LEN10	-1.541 (2.45)	-0.315 (0.79)
YR70	0.013 (0.02)	0.037 (0.09)
YR71	0.706 (1.42)	0.190 (0.49)
YR72	0.562 (1.13)	-0.203 (0.49)
YR73	0.401 (0.80)	0.364 (0.98)
YR74	0.313 (0.62)	0.404 (1.11)
YR75	0.625 (1.30)	0.628 (1.75)
YR76	0.777 (1.64)	0.295 (0.80)
YR77	0.977 (2.05)	0.416 (1.13)
YR78	0.638 (1.34)	-0.041 (0.10)
YR79	0.906 (1.94)	0.553 (1.54)
YR80	0.308 (0.64)	0.325 (0.87)

NOTES

¹In this paper, the term "single mothers" refers to never-married, widowed, divorced, or separated women who head households with children.

²U.S. Bureau of the Census (1983).

³The averaging was done to reduce variability due to economic conditions and to increase sample sizes.

⁴In most cases the results are very similar to those reported in Bane and Ellwood (1983). However, there are significantly fewer earnings exits reported here. Most of the difference reflects a coding error in the previous work that had the effect of causing some people who left when transfers to them from other sources grew (such as Social Security Survivors' benefits or child support payments) to show up as leaving due to earnings. Other results and the basic conclusions of that report are not affected by this error.

⁵Other classification schemes also suggest the earnings may be more important than the figure of 22 percent suggested under the Bane-Ellwood classification. For example, over 40 percent of all persons who left welfare and for whom entry could be observed had an earnings gain of more than \$2000 between the year they began and the year they left.

⁶The methodological discussion given here is quite short, since the methodology is essentially identical to that discussed in Bane and Ellwood (1983).

⁷For further detail on logistic models, see McFadden (1973, 1976).

⁸It is important to note that these results do not imply that when all else is not held equal, women with young children are just as likely

to leave with high earnings. Age of youngest child is correlated with marital status, work experience, and mother's age--all of which have large influences on high-earnings exits. Ellwood (1986) reports that when all else is not held equal, age of youngest child is a powerful predictor of welfare durations, even though it has no independent marginal effect. In simulation work not described here, I have also found that women with children under 3 are considerably less likely to leave with high earnings when other variables are allowed to vary.

⁹Obviously one cannot judge whether movement off of welfare is gradual or sudden for people with only one-year spells of welfare. Thus figures are reported only for people with spells lasting three years or more. If those with two-year spells were included, the figures would change little, but their next-to-last year of welfare would also be the first year, which makes the interpretation of the figures more difficult.

¹⁰AFDC program statistics show far less work than is reported here. These results are not necessarily inconsistent. As noted below, there is some evidence that many women who have both earnings and welfare during a year typically do not receive welfare in the period they are working (Goldman, 1985); welfare and earnings episodes are sequential, not simultaneous. Moreover, we are not looking at a representative sample of recipients at a point in time. We are looking at a group who leave. Those who leave in a given year typically have stronger work and other qualifications than the average recipient. This reflects the distinction between recipients at a point in time and those at the beginning of a spell, described by Bane and Ellwood (1983).

¹¹See Goldman et al. (1986); Friedlander et al. (1985).

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