



# *Focus*

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## **Economic growth and poverty: A return to normalcy?**

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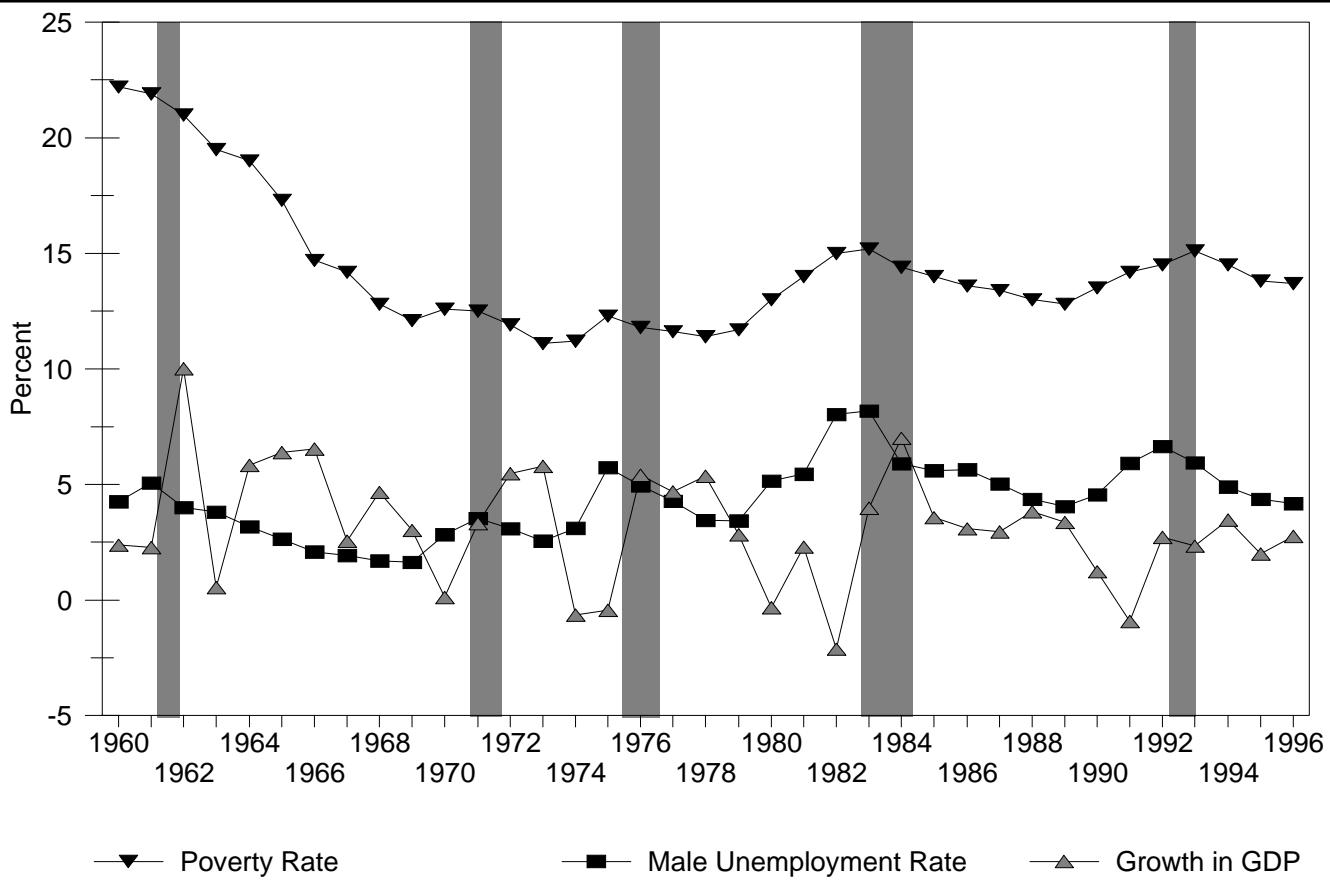
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A central pillar in the case for the 1996 legislation that established Temporary Aid for Needy Families (TANF) was the belief that strong demand in the labor market would absorb those no longer supported by cash transfers. At least some, it was hoped most, of the single mothers would enter the labor force and find jobs that would enable them to escape poverty through earnings. A corollary of this belief is the presumption that economic growth—and the increase in jobs that accompanies it—is effective in reducing the poverty rate in general, and the rate for low-skilled single mothers in particular.

For much of the 1950s and 1960s, this faith in the anti-poverty effectiveness of economic growth seemed well grounded. Rapid growth and full employment were accompanied by a declining poverty rate; it seemed as if we could grow ourselves out of poverty. Indeed, Robert Lampman, writing in 1971, speculated that income poverty would be eliminated by 1980.<sup>1</sup>

This optimistic view did not carry over into the 1970s and 1980s. During this period, economic growth seemed to have lost its poverty reduction punch. While employment expanded, the jobs created seemed unable to lift workers and their families above the poverty line. If this apparently weakened linkage between economic growth and poverty still persists, the optimistic beliefs underlying the TANF legislation would be sorely undermined.

There is, however, some basis for speculating that economic growth may have regained its earlier effective-



**Figure 1. Macroeconomic performance and the poverty rate, 1960–97.** Gray bars represent recessionary periods.

Source: U.S. Department of Commerce, *Survey of Current Business*, October 1994, Table C-51.

ness. If so, the prospects for low-skilled single mothers may not be so bleak as many fear.<sup>2</sup>

### Economic performance and the poverty rate

The decade of the 1960s witnessed the longest economic expansion in U.S. history. Since then, however, the economic terrain has been rockier. The U.S. economy has experienced the oil crises of the 1970s, the long and deep recession of the early 1980s, the long expansion of the late 1980s, the recession of the early 1990s, and the long and sustained growth of the last six years. It now faces major financial and economic uncertainties following upon the Asian economic downturn of 1997–98.

During much of the period since 1960 the nation's official poverty rate has roughly reflected these changes in economic performance, rising when the unemployment rate rose and recessions occurred, falling during prosperous times (Figure 1). During the 1960s, for example, the nation's poverty rate fell as the economy expanded. Real Gross Domestic Product (GDP) grew by almost 50 percent, the male unemployment rate fell from 6.4 percent to 2.8 percent, and the poverty rate dropped from 22.2 percent in 1960 to 12.1 percent in 1969.<sup>3</sup> Some economists argued that a growing and prosperous economy was the

nation's most effective antipoverty policy instrument, perhaps rendering redundant the programs being launched in the War on Poverty. While this view did not go unchallenged at the time, it was widely accepted and popularly expressed as "a rising tide lifts all boats."<sup>4</sup>

Beginning in the early 1970s, however, the apparently robust relationship between economic growth and poverty began to erode. While real GDP grew by about 35 percent during the 1970s, the poverty rate dropped only slightly, from 12.6 percent in 1970 to 11.7 percent in 1979. During the 1980s, the link between economic growth and the poverty rate became even less apparent. Despite the recession of the early 1980s, real GDP grew about 30 percent over the entire decade. The poverty rate rose steeply during the recession; during the recovery that followed, however, it receded very slowly, and in 1989 stood at 12.8 percent.

These antipoverty–economic growth patterns during the 1970s and early 1980s suggested to some economists that the formerly robust relationship between macroeconomic performance and poverty had experienced a serious breakdown. The evidence for a weakened growth-poverty relationship in those years is generally accepted, but opinion does not always agree over the causes (whether the tides got weaker or the boats leakier, as James Tobin

put it; he himself decided that both were true).<sup>5</sup> Nor does it agree whether the breakdown is permanent, reflecting changes in this relationship that will persist into the future.

In this article we examine that question, extending the analysis to take into account the recession of the early 1990s, which saw another steep rise in the poverty rate, and the six years of economic growth that began in 1992. During those years, the overall civilian unemployment rate fell from 7.5 to less than 5 percent, and the annual rate of GDP growth over the period averaged about 3 percent. In this period, unlike the two preceding decades, macroeconomic performance appears to have had an effect on the poverty rate, which fell from nearly 15 percent in 1992 to about 13 percent in 1997. It is this observation that prompts the questions which our estimates address: Was the weakened relationship between growth and poverty in the 1970s and 1980s a permanent one, or was it an aberration? Has the relationship of the 1960s once again reestablished itself?

### The evidence for a break

One of the first systematic studies of the relationship between macroeconomic performance and poverty was undertaken in 1986 by Rebecca Blank and Alan Blinder, using data from 1959 through 1983.<sup>6</sup> Their empirical approach provided the framework used in later estimates. In 1991, David Cutler and Lawrence Katz extended the analysis through 1989, using statistical time-series also examined by Blank when she revisited the issue in 1993. The most recent study is that by Elizabeth Powers, who extended the time-series data through 1992.<sup>7</sup>

The basic approach of these authors was similar—time-series regressions that estimated the relationship between the nation's poverty rate and a variety of factors that describe important aspects of a changing macroeconomic environment. The central focus was upon the inflation rate and the unemployment rate, for reasons that Blank and Blinder explained: "Those who take a hard line against inflation often justify their position by claiming that inflation, 'the cruelest tax,' victimizes the poor more than others. Similarly, those more concerned about unemployment assert that the poor bear a disproportionate share of the burden when high unemployment is used to wring inflation out of the system. It is unlikely that both groups can be right." [p. 180]. Some of the later studies also related the poverty rate to the growth in GDP.

Other factors were considered as well. Some of the authors included a measure designed to capture the effects of changes in government transfers—both their rapid expansion from the mid-1960s to the mid-1970s and their decline after 1981. All included the ratio of the poverty line to mean household income for each year. This was to reflect the fact that in times of real economic growth, an absolute poverty line will fall relative to average income; by definition, then, the number of the poor will shrink.

And these studies sought to incorporate the dynamic effects of macroeconomic shocks on poverty by including the poverty rate that existed in the year just before the rate in any particular year; this is referred to as a "lagged poverty rate."

Blank and Blinder found that both the unemployment and inflation rates were related to the poverty rate over the years 1959–83, but that only the unemployment rate had a statistically significant effect on the level of poverty. They found that if the unemployment rate fell by one percentage point—say, from 7 percent to 6 percent—the poverty rate would change by 0.7 percentage points. If the poverty rate was 14 percent, this would represent a 5 percent decline in poverty. They concluded: "The sub-standard economic performance of the 1973–1983 decade . . . raised the poverty count by 4.5 points. These are very large effects. . . . In contrast, there is little or no evidence that inflation is the cruelest tax" (p. 207). But all in all, they believed, "there is no strong reason to think that the future will look very different from the past. There is also no reason to think that poverty will be any less procyclical in the future than it has been in the past" (p. 208).

Cutler and Katz in 1991 and Blank in 1993, using time-series data extended to 1989, found reason to question this presumption. Both reaffirmed a strong and statistically significant effect of the unemployment rate on the poverty rate, especially during the years before 1983. Cutler and Katz, however, also identified an increase of between one-third and half a percentage point in the poverty rate each year after 1983 for which their macroeconomic variables were unable to account. This unexplained increase led them to conclude that the relationship between economic growth and the poverty rate was quite different after 1983 than it was earlier.

The study by Blank and one by Powers in 1995 reinforced these conclusions. From 1983 to 1989, Blank pointed out, the economy experienced the kind of sustained and continuous growth that had characterized the 1960s, yet the poverty rate remained stubbornly unresponsive. In the 1960s, poverty among all persons had decreased by 2.53 percentage points for every 1-percentage-point increase in the growth rate of GDP. In the 1980s, the same increases in the GDP growth rate brought a decrease in poverty of only 1.69 percentage points. If the historical relationship between poverty and macroeconomic indicators had continued on the path it followed before 1970, the poverty rate in 1989 should have stood at 9.3 percent; instead, it was 12.8 percent.<sup>8</sup> The diminished response of personal income to prosperity held across the population, among groups whose incomes derive primarily from private sector employment, where earnings were historically more responsive to economic growth, as well as among those who rely on public transfers or employment, which have historically been less responsive.

Blank speculated that other unmeasured factors, occurring at the same time, were offsetting the normal relationship between shrinking unemployment and shrinking poverty. What factors might account for the apparently perverse effect of the unemployment rate on poverty in the 1980s?

Blank examined a variety of hypotheses regarding these intervening factors, including problems with the actual measurement of poverty, regional differences in where the poor lived and where economic expansion was occurring, government policy under the Reagan administration, the changing demographic composition of poor households, and reduced labor market activity among poor families. Whatever the effects of these factors, she found little evidence that they could account for the “stickiness” of the poverty rate. Her evidence pinpointed another cause entirely: “The slower income growth among families at the bottom of the income distribution was almost entirely due to a decline in the responsiveness of earnings among family unit heads to the macroeconomy. In turn, this decline in earnings responsiveness was almost entirely due to the lack of responsiveness of real wages to the macroeconomic growth of the 1980s.”<sup>9</sup> The conclusion, as she saw it, was not a promising one for policymakers. The impact of economic growth on poverty had substantially declined in the United States during the 1980s, and such growth could no longer be relied on as an effective weapon against poverty.

These conclusions were supported in later studies by Blank and David Card and by James Tobin. The authors of both studies argued that marked changes in the operation of the labor market over the 1980s—in particular wage rate stagnation combined with growing wage inequality—accounted for the changed effect of macroeconomic factors on poverty.<sup>10</sup> “I confess,” said Tobin, “I come to conclusions of this kind reluctantly. In the past I have been skeptical of periodic structural explanations of higher unemployment rates and higher poverty rates. I have thought that the American people are very mobile and adaptable and that the U.S. economy adjusts quickly to sectoral shocks, provided an overall macroeconomic climate of prosperity has been maintained. . . . In my experience, structural hypotheses have usually been excuses for policymakers to do nothing to stimulate the economy.”

## Has there been a return to normalcy?

At the beginning of 1999, the United States was basking in an unbroken six-year record of economic growth, in which the macroeconomic indicators bear a distinct resemblance to the prosperous years of the 1960s and the 1980s (after 1983). Is there continuing evidence that the relationship between macroeconomic performance and the poverty rate has indeed been weakened or broken, or

has the traditional relationship apparent in the 1960s again been reestablished, making the 1970s and 1980s merely a brief deviation? Below we present a few suggestive estimates, based on time-series data through 1997, that support the view that there has been a “return to normalcy.”

In our analysis, we broke the period after 1960 into a standard set of subperiods that characterize the American economy. We lump 1960–75 into a single period, suggesting that the oil price increases of the early 1970s

**Table 1**  
**Unemployment and the Poverty Rate, 1959–97:**  
**Authors' Estimates**

Constant	-9.336 (1.558)	-17.942 (2.429)
Poverty Line/Mean Income	0.427 (0.081)	0.705 (0.103)
Lagged Poverty Rate	0.431 (0.105)	0.196 (0.109)
Inflation Rate	0.077 (0.037)	-0.019 (0.044)
Unemployment Rate	0.221 (0.066)	<b>0.347</b> <b>(0.117)</b>
1973–81 Dummy	—	0.874 (0.477)
1982–92 Dummy	0.613 (0.453)	1.943 (0.771)
1993–97 Dummy	2.928 (0.727)	0.157 (1.095)
UR * 1973–81 Dummy	—	<b>-0.456</b> <b>(0.133)</b>
UR * 1982–92 Dummy	—	<b>-0.484</b> <b>(0.118)</b>
UR * 1993–97 Dummy	—	<b>-0.041</b> <b>(0.185)</b>
Entire Period Trend	—	0.178 (0.033)
1982–92 Trend	<b>0.182</b> <b>(0.039)</b>	—
1993–1997 Trend	<b>0.064</b> <b>(0.117)</b>	—
Adjusted R <sup>2</sup>	.985	.991

**Note:** The poverty rate is the percentage of persons living below the poverty level. The unemployment rate is that for males aged 25–54, all races. These data from E. Powers, “Inflation, Unemployment, and Poverty Revisited,” *Federal Reserve Bank of Cleveland Economic Review* 31, no. 3 (3rd Quarter 1995): 2–13, and from the *Statistical Abstract of the United States*, each year. The poverty line is the weighted average poverty threshold for a family of four. Mean family income is income of families in 1996 dollars, all races, from the U.S. Bureau of the Census World Wide Web site (<http://www.census.gov>), Historical Income Tables, Families, Table F-6. Inflation rate (the Consumer Price Index for all items—CPI-U) is from the *Economic Report of the President*, 1998.

separate it from the “stagflation” years, 1975–82. We break the years after 1982 into two periods: 1983–92, reflecting the growth years between the major recession of the early 1980s and that of the early 1990s, and the most recent period from 1993–97.

### Has the “drift” in the 1980s persisted into the 1990s?

In some of the earlier studies, the persistence of poverty in the 1980s was explored by introducing a trend variable for the period from 1982 on into the time-series regression estimates. If the coefficient on this variable was positive, it would indicate that the poverty rate during this period drifted up, after accounting for macroeconomic factors such as the unemployment rate. These studies found evidence for an upward drift of about 0.2 percentage points a year in the poverty rate during this period.<sup>11</sup> Our estimates using the unemployment rate as an indicator of macroeconomic performance (see Table 1, column 1) also suggest that from 1982 to 1992 the poverty rate drifted up by about 0.18 percentage points a year above what the model would predict—a finding nearly identical to that of Cutler and Katz (see estimates in bold). But our estimate of the drift for the years after 1992 is substantially smaller, about 0.06 percentage points a year. This suggests that the strong, unpredicted upward trend in the poverty rate so evident during the 1980s has been muted or eliminated since 1992.

### Has the antipoverty effect of the macroeconomic performance changed over time?

It is possible to test the effect of macroeconomic performance on the poverty rate over different periods by estimating both the overall relationship of the unemployment rate and the poverty rate, and a set of separate relationships between these two variables during our three specific periods of interest (see Table 1, column 2). When these separate period effects are taken into account, the rising unemployment rate over the entire period went hand-in-glove with a growing poverty rate. Each one-point increase in the unemployment rate resulted in an increase in the poverty rate of nearly 0.35 points (see the .347 coefficient on the unemployment rate, in bold). Again, if the poverty rate was, say, 14 percent, an increase in the unemployment rate from 6 percent to 9 percent would imply an increase in the poverty rate to over 15 percent—about a 10-percent increase. When looking at the specific periods of the 1970s and the 1980s, we found that the unemployment rate was actually *inversely* related to the poverty rate. However, for the years *after* 1993, we found that the effect of the unemployment rate on poverty was very similar to that over the entire period from 1959 to 1997!<sup>12</sup> The difference between the effect during the 1970s and 1980s and that during the most recent period is striking.

We also estimated a model that included both the unemployment rate and the lagged GDP growth rate as macroeconomic determinants of the poverty rate (see Table 2).

During the two periods between 1973 and 1992, the unemployment rate again appears to have little effect on the poverty rate. The overall positive coefficient on the unemployment rate (+.236) is totally offset by the negative coefficients on the separate-period unemployment rates (-.296 and -.229), indicating that a relationship between unemployment and poverty was nearly nonexistent during this period. However, for 1993–97, we find that the negative offset seen for 1973–92 period has disappeared. During this most recent period, the poverty rate decreased by 0.24 percentage points for each one-

**Table 2**  
**Lagged GDP Growth and the Poverty Rate, 1959–97:**  
**Authors’ Estimates**

Constant	-16.821 (2.807)
Poverty Line/Mean Income	0.651 (0.119)
Lagged Poverty Rate	0.300 (0.119)
Inflation Rate	-0.009 (0.051)
Unemployment Rate	<b>0.236</b> (0.130)
UR * 1973–1981 Dummy	<b>-0.296</b> ( <b>0.085</b> )
UR * 1982–1992 Dummy	<b>-0.229</b> ( <b>0.093</b> )
UR * 1993–1997 Dummy	<b>0.002</b> ( <b>0.150</b> )
Lagged GDP Growth	<b>-0.064</b> ( <b>0.035</b> )
Lagged GDP Growth * 1973–1981 Dummy	<b>0.080</b> ( <b>0.044</b> )
Lagged GDP Growth * 1982–1992 Dummy	<b>0.101</b> ( <b>0.048</b> )
Lagged GDP Growth * 1993–1997 Dummy	<b>-0.237</b> ( <b>0.213</b> )
Entire Period Trend	0.192 (0.033)
N	37
Adjusted R <sup>2</sup>	.987

**Note:** The poverty rate is the percentage of persons living below the poverty level. The unemployment rate is that for males aged 25–54, all races. These data from E. Powers, “Inflation, Unemployment, and Poverty Revisited,” *Federal Reserve Bank of Cleveland Economic Review* 31, no. 3 (3rd Quarter 1995): 2–13, and from the *Statistical Abstract of the United States*, each year. The poverty line is the weighted average poverty threshold for a family of four. Mean family income is income of families in 1996 dollars, all races, from the U.S. Bureau of the Census World Wide Web site (<http://www.census.gov>), Historical Income Tables, Families, Table F-6. Inflation rate (the Consumer Price Index for all items—CPI-U) is from the *Economic Report of the President*, 1998.

percentage-point decrease in the unemployment rate. Results for the GDP growth variable are similar; the coefficients for the two periods from 1973 to 1992 (.08 and .10) more than offset the opposite-signed overall coefficient (-.06), but for the most recent period an increase of one percentage point in the rate of GDP growth is associated with a decrease in the poverty rate of 0.3 percentage points.<sup>13</sup>

### Does earnings inequality matter?

It seems clear that during the 1970s and 1980s macroeconomic performance failed to have a substantial impact on the poverty rate. Our estimates for the 1990s, however, provide evidence of a reversal to earlier patterns.

One explanation that has been suggested for the breakdown of the expected relationship during 1973–92 relates to changes in labor market performance. In particular, increased earnings inequality is a suspect. We formally incorporated earnings inequality into our analyses of the relationship between macroeconomic performance and poverty, and here present some preliminary results.<sup>14</sup>

Across the entire period from 1963 to 1996, our estimates show a positive and significant relationship between earnings inequality and the poverty rate. Increases in earnings inequality were substantial over the 1970s and 1980s, and some of the aberrant patterns observed for these decades may well be related to those changes. After we incorporate measures of macroeconomic performance (including the unemployment rate and the change in GDP growth, the two central macroeconomic indicators), and separately estimate subperiod effects, this estimate incorporating the changes in earnings inequality shows a break in the pattern during the period from 1973 to 1992, followed by a reversion to the historic pattern in the most recent period. Between 1973 and 1993, the poverty rate fell by about 0.25–0.3 percentage points for each one-percentage-point decrease in the unemployment rate; after 1993, the decline is twice as large, 0.5 percentage points. Similarly, for every one-percentage-point rise in GDP, poverty declined by 0.05 percentage points during 1973–81, and by 0.02 percentage points during 1982–92. After 1993, however, the decline in poverty was 0.37 percentage points for each one-percentage-point rise in GDP.<sup>15</sup> These patterns again are consistent with the view that the weakened relationship between the poverty rate and the macroeconomy may be an aberration of the 1970s and 1980s.

### Explaining what might have happened

Although sagging wage rates for low-skilled workers may have played some role in the reduced effect of economic growth on poverty, as Blank has emphasized, other factors may also be relevant. For example, Tobin

noted increases in the number of unemployed and discouraged workers among youths, especially minority youths, suggesting that there have been changes in job opportunities for these low-skilled groups. Others have found that changes in family headship patterns have had a sizable effect on the poverty rate.<sup>16</sup> In the studies we have examined, both Blank and Powers commented on the role played by reductions in income transfer payments after the early 1980s. These factors must also be considered in accounting for the laggard response of the poverty rate to economic performance during the 1970s and 1980s.

Our estimates suggest that the historically strong relationship between macroeconomic performance and the poverty rate had eroded during the 1970s and 1980s, even after controlling for changing earnings inequality. They also suggest, however, that this relationship may well have reestablished itself. Again, strong economic growth and high employment may be the nation's most effective antipoverty policy instrument.

While such a conclusion may be reassuring, it rests on a relatively small number of observations in the post-1992 period, and this period may itself be an aberration. Moreover, future developments may again offset the ability of the tide of economic growth to raise all boats. Technological change focused on educated workers could contribute to growth that generates but little in the way of increased earnings for low-skilled workers. Continued increases in labor force participation of youths, immigrants, and others with relatively low experience could also restrain wage growth in entry-level jobs. Persistent growth in female-headed families, and especially the movement of many of them from welfare to work associated with the 1996 welfare reform legislation, could also counteract the anti-poverty effect of economic growth. Finally when the value of cash welfare benefits (which enter directly into the numerator of the poverty measure) decline or disappear as this legislation envisions, their contribution to poverty reduction will also evaporate. These factors mean that economic growth may have to work against strong countercurrents in reducing poverty. In the face of such trends, the normal relationships that are again in evidence may not persist. ■

<sup>1</sup>R. Lampman, *Ends and Means of Reducing Income Poverty* (Chicago: Markham, 1971), p. 53.

<sup>2</sup>This summary article is based upon a more extended analysis by Haveman and Schwabish, "Economic Growth and Poverty: A Return to Normalcy?" The unabridged article is available as IRP Discussion Paper 1187-99.

<sup>3</sup>The poverty rate is the percentage of persons living below the poverty level. The poverty line is the weighted average poverty threshold for a family of four. The unemployment rate is that for males aged 25–54, all races. Data from E. Powers, "Inflation, Unemployment, and Poverty Revisited," *Federal Reserve Bank of Cleveland Economic Review* 31, no. 3 (3rd Quarter 1995): 2–13, and from the

*Statistical Abstract of the United States*, each year. Real gross domestic product (GDP) in billions of chained 1992 dollars, and inflation rate (the Consumer Price Index for all items—CPI-U) are from the *Economic Report of the President*, 1998.

<sup>4</sup>See, for example, the debate between Lowell Gallaway and Henry Aaron. In a 1965 article, Gallaway had taken issue with the Council of Economic Advisers, who were projecting that economic progress alone would reduce family poverty in 1980 to only 10 percent (assuming 1947–56 levels of economic activity). (See *Economic Report of the President*, 1964, chapter 2, for the first statistical analysis of the problem of poverty in America, and the potential of economic growth for poverty reduction.) Gallaway himself, using the same assumptions but different methods projected a rate of 6.4 percent. “The Foundations of the ‘War on Poverty’,” *American Economic Review* 55, no. 1/2 (March 1965): 122–31. Aaron’s critical comment and Gallaway’s reply are in *American Economic Review* 57, no. 5 (December 1967): 1229–43.

<sup>5</sup>J. Tobin, “Poverty in Relation to Macroeconomic Trends, Cycles, and Policies,” in *Confronting Poverty: Prescriptions for Change*, ed. S. Danziger, G. Sandefur, and D. Weinberg (Cambridge, MA: Harvard University Press, 1994), p. 151.

<sup>6</sup>The first estimates of a statistically robust relationship between economic growth and poverty found in the scholarly literature are in W. H. Locke Anderson, “Trickling Down: The Extent of Poverty among American Families,” *Quarterly Journal of Economics* 78, no. 4 (1964): 511–24.

<sup>7</sup>R. Blank and A. Blinder, “Macroeconomics, Income Distribution, and Poverty,” in *Fighting Poverty: What Works and What Doesn’t*, ed. S. Danziger and D. Weinberg (Cambridge, MA: Harvard University Press, 1986); D. Cutler and L. Katz, “Macroeconomic Performance and the Disadvantaged,” *Brookings Papers on Economic Activity* 2 (1991): 1–74; R. Blank, “Why Were Poverty Rates So High in the 1980s?” in *Poverty and Prosperity in the USA in the Late Twentieth Century*, ed. D. Papadimitriou and E. Wolff (New York and London: Macmillan, 1993); Powers, “Inflation, Unemployment, and Poverty Revisited.”

<sup>8</sup>Blank, “Why Were Poverty Rates So High?” pp. 24–26.

<sup>9</sup>Blank, “Why Were Poverty Rates So High?” p. 51.

<sup>10</sup>R. Blank and D. Card, “Poverty, Income Distribution, and Growth: Are They Still Connected?” *Brookings Papers on Economic Activity* 2 (1993): 285–339; Tobin, “Poverty in Relation to Macroeconomic Trends,” quotation, p. 161.

<sup>11</sup>See, for example, Cutler and Katz, “Macroeconomic Performance,” and Powers, “Growth and Poverty Revisited.”

<sup>12</sup>To interpret this regression to find the relationship between unemployment and poverty for the separate periods, the separate-period unemployment rate coefficients need to be related to the overall coefficient on the unemployment rate. The overall coefficient is .347; hence the relationship between the unemployment rate and the poverty rate during the 1970s is  $-.109 = (.347 + [-.459])$  and during the 1980s is  $-.137$ , both of which are *negative*. However, the relationship during the 1990s is  $.306$ , *positive* and almost equal to that for the overall coefficient. (The relevant coefficients are in boldface type in the table.)

<sup>13</sup>That is,  $0.3 = -.06 + (-.24)$ . Note also that we use the GDP growth variable for the year prior to the year of the poverty rate to reflect the fact that it is last year’s growth that is likely to affect this year’s poverty rate.

<sup>14</sup>We use the variance of the logarithm (Vln) of the earnings of all workers as our indicator of labor market inequality, using series up to 1987 by Bluestone and our own direct estimates from the public use files of the Current Population Survey for 1988 to 1996 (data for 1997 not yet published at the time of the analysis). Bluestone’s data are cited in F. Levy and R. Murnane, “U.S. Earnings Levels and Earnings

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Inequality: A Review of Recent Trends and Proposed Explanations,” *Journal of Economic Literature* 30 (1992): 1333–81.

<sup>15</sup>The estimated model on which these results rest is presented in the unabridged paper by Haveman and Schwabish, “Economic Growth and Poverty.”

<sup>16</sup>P. Gottschalk and S. Danziger, “Family Structure, Family Size, and Family Income: Accounting for Changes in the Economic Well-Being of Children,” in *Uneven Tides: Rising Inequality in America*, ed. S. Danziger and P. Gottschalk (New York: Russell Sage, 1993).

# In pursuit of Robert J. Lampman's “modest goal”: Antipoverty policy after welfare reform

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About 40 years ago, Robert J. Lampman, in an influential report to the Joint Economic Committee, *The Low Income Population and Economic Growth*, expressed the optimistic view that

A more aggressive Government policy could hasten the elimination of poverty and bring about its virtual elimination in one generation. A program directed against poverty should be of several parts. The basic part should be one of insuring high levels of employment and increasing average product per worker. This should be supplemented by special private and public programs for those groups who do not readily share in the benefits of economic progress. Among these groups are the aged, consumer units headed by women, nonwhites and those in certain rural areas. About a fifth of the Nation's children are being reared in low-income status and it is critical in the strategy against poverty that these children have educational opportunities that are not inferior to the national average. The costs of such a program would be offset by positive gains in terms of both economic and human values. (pp. 4–5)<sup>1</sup>

Over a decade later, in *Ends and Means of Reducing Income Poverty*, he remained optimistic:

As I see it, the elimination of income poverty is usefully thought of as a one-time operation in pursuit of a goal unique to this generation. That goal should be achieved before 1980, at which time the next generation will have set new economic and social goals, perhaps including a new distributional goal for themselves. (p. 53)

....

Ending income poverty does not require and will not achieve a transformation of society. It is a modest goal. (p.167)<sup>2</sup>

When I joined the staff of the Institute for Research on Poverty (IRP) as a postdoctoral fellow in 1974, I began a series of conversations with Bob Lampman and other IRP researchers in which we discussed contemporary welfare reform and other antipoverty proposals designed to achieve this “modest goal.” Unfortunately, 40 years after his report to the Joint Economic Committee, more than a fifth of the nation’s children are still being raised in poverty, and we are not pursuing an “aggressive policy” to “hasten [its] elimination.”

Given the slow economic growth and rising inequality that the nation has experienced in the quarter century since publication of *Ends and Means* and the current direction of antipoverty policies, it is difficult to be optimistic that we can achieve Lampman’s goal of eliminating poverty in this generation. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) has reduced the welfare rolls but, as I suggest below, it is likely to do little to reduce poverty and may even increase its extent. Nonetheless, a rereading of Lampman’s classic studies leads me to suggest how PRWORA might be amended to pursue his “modest goal” of reducing poverty.

## The changing economic environment

In *America Unequal*, Peter Gottschalk and I show that the period from the early 1970s to the mid-1990s was an era of “uneven tides,” characterized by slow economic growth and increasing inequality in earnings and family incomes.<sup>3</sup> The economic experience of this period differs dramatically from that of the quarter century following World War II, when a “rising tide lifted all boats” and earnings gains and income gains were rapid and widely shared by the poor, the middle class, and the rich, and by less-skilled as well as by skilled workers. It was this economic experience of rising living standards and falling poverty that shaped Lampman’s optimism and that of the other planners of the War on Poverty. But antipoverty efforts today must operate in a very different context.

The PRWORA implicitly assumes that any welfare recipient who wants to work can find a job and earn enough to support her family without cash assistance other than the Earned Income Tax Credit. Yet structural changes in the labor market since the early 1970s have made it harder for less-educated workers to secure employment that can lead to economic independence. The decline in union membership, reductions in manufacturing jobs, increased global competition, and the consequent expansion of the import and export sectors all lowered the wages of less-skilled workers. The automation which accompanied the introduction and widespread use of computers and other technological innovations increased demand for skilled personnel who could run more so-

## Robert J. Lampman Memorial Lectures

To honor Robert Lampman, founding director and guiding spirit of the Institute for Research on Poverty until his death in 1997, a fund has been established to support an annual lecture by a distinguished scholar on the topics to which Lampman devoted his intellectual career: poverty and the distribution of income and wealth. This memorial has been established by the Lampman family, with the help of the University of Wisconsin Foundation. The lecture series is organized by IRP, in cooperation with the University's Department of Economics. The series offers a special opportunity to maintain and nurture interest in poverty research among the academic community and members of the public.

The first Lampman Memorial Lecture was given in 1998 by Sheldon Danziger, Henry J. Meyer Collegiate Professor of Social Work and Public Policy, University of Michigan, Ann Arbor. An abridged version of that lecture appears in this issue of *Focus*, beginning on p. 8.

The 1999 Lampman Memorial Lecture, "A Financial Policy in Lampman's Tradition: The Community Reinvestment Act," is by Dr. Edward M. Gramlich, who has been since 1997 a member of the Board of Governors of the Federal Reserve System.

Further contributions to the fund are welcome, to ensure continuation of the lectures. Donations may be made to the Robert J. Lampman Memorial Fund, University of Wisconsin Foundation, 1848 University Ave., P.O. Box 8860, Madison, WI 53708-8860.

phisticated equipment. Simultaneously, demand decreased for less-skilled workers, who were either displaced by the automated systems or had to compete with overseas workers producing the rising volume of imports.

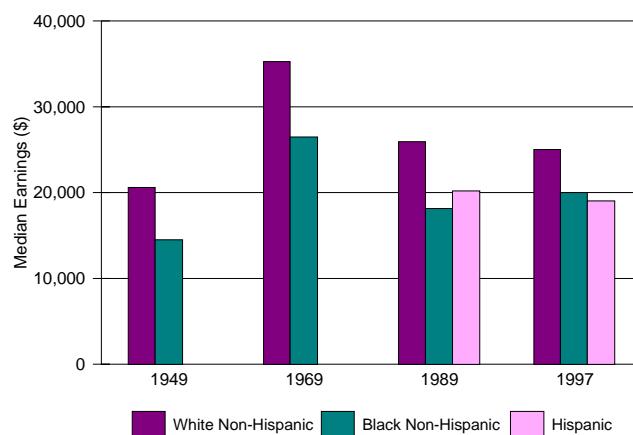
Thus, despite the current economic recovery, many less-skilled workers, especially welfare recipients, continue to face dim labor market prospects.

These changes in the nature of the labor market have important implications for less-skilled workers. The young men whose earnings I plot in Figures 1 and 2—high school graduates with some earnings, between the ages of 25 and 34—are similar in age to the typical

welfare recipient but more advantaged in the labor market. They have more education (about half of current recipients lack a high school degree), more labor force experience, less child care responsibility and fewer other family demands on their time. Because of the human capital characteristics of the young men in question, because men who are not earning are excluded, and because welfare recipients may well experience gender discrimination, these data represent upper bounds for recipients' likely labor market prospects.

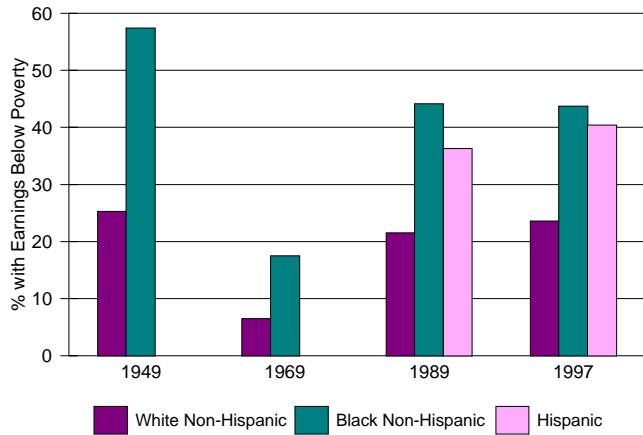
Median earnings for young high school graduates increased rapidly during the boom after World War II. For whites they rose by 71 percent between 1949 and 1969, to \$35,227; for blacks they rose by 82 percent, to \$26,475.<sup>4</sup> Since then, however, real earnings for this group of young males have declined. In 1997, median earnings for white non-Hispanics, \$25,000, were 29 percent below their 1969 median and, indeed, were 5.6 percent below the 1969 median for blacks. For black non-Hispanic high school graduates, median earnings in 1997 were about 24.5 percent below the 1969 median. Despite the robust economic recovery of the mid-1990s, white and Hispanic young men earned less in 1997 than in 1989.

Figure 2 shows the percentage of the men who earned less than the poverty line for a family of four (\$16,400 in 1997 dollars).<sup>5</sup> Because inequality has risen, these data show even more adverse trends in the ability of young high school graduates to support a family on a single paycheck. In 1997, about a quarter of young, white, non-Hispanic high school graduates who were in the labor force and about two-fifths of comparable black non-Hispanic and Hispanic men earned less than \$16,400. The percentage of low-earning males was, in 1997, about 2.5 and 3.5 times higher than it was in 1969, when almost



**Figure 1. Median earnings of male high school graduates with earnings, ages 25–34 (in 1997 dollars).**

**Source:** Author's computations from Census microdata and March Current Population Surveys.



**Figure 2. Male high school graduates with earnings less than the poverty line, ages 25–34.**

**Source:** Author's computations from Census microdata and March Current Population Surveys.

all such young men could support a family on their own wages, and was almost as high as it had been in 1949.<sup>6</sup>

Thus, as public demands for welfare recipients to work and become self-sufficient increased over the past quarter-century, culminating in the time-limiting of welfare benefits imposed by PRWORA, the ability of male high school graduates to do so was declining. If men have fared so badly in the labor market, what can we expect for single mothers? The typical welfare recipient is likely to fare worse than even the typical single mother who does not receive welfare, because she has less education, is younger, has more children, and is more likely to be never married. Many welfare recipients face multiple other barriers to employment, and few are likely to earn as much as the men described above.<sup>7</sup>

It is simply not the case that most welfare recipients can obtain stable employment that would allow them to escape poverty, if only they would try harder. Fear of destitution is a powerful incentive to survive, but it will not guarantee that an unskilled worker who actively seeks work will be able to support her family. Changes in welfare mothers' economic incentives to search for work are likely to make only small differences in their family incomes unless they are accompanied by expanded labor market opportunities. The words appear in the title of the 1996 welfare reform act, but unfortunately it does very little to provide "work opportunity" for those who want to work but cannot find a job.

## Employer demands and the labor market prospects of welfare recipients

If declining employer demand for less-skilled workers means that many welfare mothers will fare badly in the

regular labor market, and if welfare recipients have more labor market problems than other less-skilled workers, then we must pay more attention to expanding work opportunities. To document my case, I review older evidence that suggests that the employment prospects of welfare recipients can be improved if they are guaranteed access to a job and recent evidence on the growing skills mismatch between what employers want and the labor market skills that recipients offer.

Supported Work, a public employment demonstration program in the mid-1970s for persons with labor market disadvantages, sought to improve work skills and attitudes to increase employment and earnings.<sup>8</sup> Participants were required to leave Supported Work after a specified period (usually 12 months) whether or not they had found another job. Job placement efforts were provided, and in some instances a worker moved from a Supported Work job to a regular job in the same firm or agency. Participants had characteristics similar to those of long-term welfare recipients.

Data gathered during the ninth month of the demonstration exemplify a situation in which any recipient can work at a public job of last resort; data gathered during the 27th month exemplify the situation of a woman who was, but is no longer, eligible for a transitional job. These later numbers suggest what we might expect from the transitional access to employment offered by some current welfare-to-work programs.

At nine months, 3 percent of women participating in the experiment but 64 percent of the control group who were not participating reported no earnings or hours of work. Thus, the provision of public jobs greatly increased work. At 27 months, 52 percent of women who had participated and 60 percent of the control group who had not participated reported no earnings or hours of work. It is true that the effects of the program were beneficial—at 27 months the former participants worked and earned more than the control group. Nonetheless, the dramatic reduction in the postprogram work effort of the women when they had to compete for regular jobs suggests that welfare recipients had great difficulty maintaining employment when they did not have access to a job of last resort.

Recent evidence that employers are demanding labor market skills that many welfare recipients do not have further reinforces the view that some sort of work-for-welfare job of last resort will be required if disadvantaged recipients are to find work. Harry Holzer surveyed 3,200 employers in four metropolitan areas about entry-level jobs available to workers without a college degree.<sup>9</sup> He asked what skills were required, how employers screened workers, and what were the demographic characteristics of recent hires. He measured skill require-

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ments by the frequency with which a set of tasks was performed—dealing with customers either in person or on the phone, reading and writing paragraphs, doing arithmetic and using computers.

Most entry-level jobs required several skills and credentials. Each task about which Holzer asked (with the exception of writing paragraphs) was performed daily in half or more of the entry-level jobs. Employers used several credentials to screen applicants. About three-fourths required a high school diploma, general experience, and references; two-thirds required specific experience; two-fifths, training; and over half required applicants to pass a test. Employers who required vocational experience or reading and writing skills were significantly less likely to hire women, particularly black women.

The skill deficiencies and other barriers to employment for welfare recipients are well documented. Young recipients between the ages of 17 and 21 read, on average, at the sixth grade level, and 70 percent of recipients in the National Longitudinal Survey of Youth scored in the bottom quartile of the Armed Forces Qualification Test. Health problems are also quite common. Among participants in California's Greater Avenues to Independence (GAIN) program who had received welfare for more than two years, almost 30 percent had been deferred at some point for a medically verified illness, and 27 percent had been deferred for a severe family crisis. Health problems accounted for 9–13 percent of all job losses by participants in several welfare-to-work programs.<sup>10</sup>

Mental health and substance abuse problems are also likely to restrict a woman's ability to participate effectively in training programs, to leave welfare for work or to perform adequately on the job. For example, major depression, which is quite high among recipients, interferes with daily functioning and productive activity. Mental health problems and substance abuse, by adversely affecting social functioning, may partially explain high rates of job loss among women leaving welfare for work. There is a dramatic decline in the probability of work as the number of these barriers increases.<sup>11</sup>

Harry Holzer and I conducted simulations that attempt to bring employer demands and worker skills together by “matching” workers to jobs on the basis of skill, spatial, and racial characteristics of each.<sup>12</sup> We found that only 10 percent of welfare recipients without a high school degree or G.E.D. (about one-half of all recipients) had worked in jobs where they had to read and write paragraphs and do arithmetic on a regular basis. Employers required these skills for about one-third of all newly filled jobs. Even in the simulations, which assumed no shortage of jobs relative to the number of applicants,

from 20 to 30 percent of all welfare recipients were not matched with a job.

States may exempt 20 percent of the Temporary Assistance for Needy Families (TANF) caseload from the five-year limit on federally funded cash assistance. If a substantial portion of the TANF caseload experiences health, mental health, or substance abuse problems (which were not measured in our simulations), and if these problems limit women's ability to maintain stable employment, many recipients who are not very employable will have their benefits terminated, unless current law is amended.

## A “modest goal”: Reforming welfare reform

Any welfare system will produce errors of commission and omission. The pre-1996 welfare system was biased toward “false positives” by providing cash assistance to some recipients who could have made it on their own in the labor market. Some of these “false positives” might have been unwilling to look for a job, others might have been offered jobs and turned them down, because the wages were low or because they did not provide health insurance. It is not unreasonable for taxpayers to expect that welfare recipients who are offered jobs accept them, especially if mothers leaving welfare for a low-wage job have access to subsidized child care and health care.

The PRWORA has virtually eliminated “false positives” by cutting off people who will not search for work or cooperate with the welfare agency. But the labor market experiences in recent years of millions of low-skilled workers who do not receive welfare suggest that PRWORA is going to generate many “false negatives.” Recipients who reach the new time limits may be denied cash assistance even though they are willing to work, simply because they cannot find any employer to hire them. This problem will increase during recessions and will rise even in good economic times if employer demands for a skilled work force continue to escalate. If many recipients have the kinds of labor market problems discussed above and if these problems go undetected and untreated, the number of “false negatives” will rise even further.

Because I support a work-oriented safety net, I am not suggesting we return to the system that ended in 1996. But the PRWORA “time limit and out” differs markedly from a “time limit followed by a work-for-welfare opportunity of last resort.” Welfare recipients should have the personal responsibility to look for work, but if they diligently search for work without finding a job, their cash assistance should not be terminated. At a minimum, they should be offered an opportunity to perform community service in return for continued cash assistance. A more

costly option, but one that would have a greater antipoverty impact, would be to provide low-wage public service jobs of last resort. Welfare recipients who were willing to work could then combine these wages with the Earned Income Tax Credit and support their families even when there was little private demand for their skills.<sup>13</sup>

The best way to reduce welfare dependency without harming recipients who are willing to “work hard and play by the rules” is to focus on the lessons of the research reviewed here. Now that we have increased work expectations and demands for personal responsibility on the part of welfare recipients, we need to increase demands on government for mutual responsibility. If we are to reduce poverty as well as the welfare rolls, we must demonstrate greater willingness to spend public funds to develop a work-oriented safety net. This is an example of the kind of “more aggressive government policy” that Robert Lampman advocated in his 1959 report to the Joint Economic Committee.

Lampman was not a proponent of broad-scale public service employment, primarily because he preferred a negative income tax. “Job subsidy for the poor,” he said, “is a troubling route, but one that is worth at least a cautious trial. It is more troubling than a carefully designed negative income tax.”<sup>14</sup> Given the current economic context and our retreat from providing cash assistance to those who are expected to work, I think he would now endorse this proposal for “work-for-welfare” jobs of last resort. ■

<sup>1</sup>R. Lampman, *The Low Income Population and Economic Growth*, Study Paper No. 12, U.S. Congress, Joint Economic Committee (Washington, DC: Government Printing Office, 1959).

<sup>2</sup>R. Lampman, *Ends and Means of Reducing Income Poverty*, Institute for Research on Poverty Monograph Series (Chicago: Markham Publishing Company, 1971).

<sup>3</sup>S. Danziger and P. Gottschalk, *America Unequal* (Cambridge, MA: Harvard University Press, 1995).

<sup>4</sup>The trends shown were computed from the Public Use Microdata samples of the 1950 and 1970 Censuses of Population and the March 1990 and 1998 Current Population Surveys (CPS). Earnings are in constant 1997 dollars using the CPI-U-X1. Separate data for Hispanics are available on a consistent basis only since the early 1970s in the CPS.

<sup>5</sup>Official poverty rates for men are lower than those shown in Figure 2 for several reasons. First, many of these men have working wives; second, many live in families with fewer than four persons.

<sup>6</sup>Although policy makers have neglected these adverse labor market trends in reforming welfare, they did respond to the deterioration in earnings by expanding the Earned Income Tax Credit, whose maximum benefit level has increased by 1997 to \$3,556 for a low earner with two children and to \$2,152 for a low earner with one child.

<sup>7</sup>On the general characteristics of welfare recipients, see J. Lehman and S. Danziger, 1996, “How Will Welfare Recipients Fare in the Labor Market?”, *Challenge Magazine*, (March/April, 1996): 1–6. S.

K. Danziger and her colleagues have documented the variety of labor market problems that are more severe among welfare mothers than among the population of adult women at large. Their work is described in this *Focus* (pp. 31–35).

<sup>8</sup>See S. Danziger and G. Jakubson, “The Distributional Impacts of Targeted Public Employment Programs,” in *Public Finance and Public Employment*, ed. R. Haveman for the International Institute of Public Finance (Detroit: Wayne State University Press, 1982), pp. 211–25.

<sup>9</sup>Harry Holzer, *What Employers Want: Job Prospects for Less-Educated Workers* (New York: Russell Sage Foundation, 1996).

<sup>10</sup>National Institute for Literacy Policy Update, August 1996; G. Burtless, “The Employment Prospects of Welfare Recipients,” in *The Work Alternative: Welfare Reform and the Realities of the Job Market*, ed. D. Nightingale and R. Haveman (Washington, DC: Urban Institute Press, 1995); J. Riccio and S. Freedman, with K. Harknett, “Can They All Work? A Study of the Employment Potential of Welfare Recipients in A Welfare-to-Work Program,” Working Paper, Manpower Demonstration Research Corporation, 1995; A. Hershey and L. Pavetti, “Turning Job Finders into Job Keepers: The Challenge of Sustaining Employment,” in *The Future of Children*, Center for the Future of Children, The David and Lucille Packard Foundation, Spring 1997.

<sup>11</sup>See the article in this *Focus* by Danziger and colleagues.

<sup>12</sup>H. Holzer and S. Danziger, “Are Jobs Available for Disadvantaged Workers in Urban Areas?” Institute for Research on Poverty Discussion Paper 1157-98, University of Wisconsin-Madison, 1998.

<sup>13</sup>Danziger and Gottschalk, *America Unequal*, chapter 8.

<sup>14</sup>Lampman, *Ends and Means of Reducing Income Poverty*, p. 157.

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# Women in the labor market, Part 2: Welfare mothers

State public assistance programs implemented under the provisions of Temporary Assistance to Needy Families (TANF) require much greater labor force participation by the adult caretakers of economically disadvantaged children. Within several years, 50 percent of all single-parent families receiving TANF and 90 percent of all two-parent families must demonstrate substantial attachment to the labor market or the state will lose some of its federal funds. Some states have made work and the preparation for work a condition of receiving aid. Some states attempt to divert applicants for cash assistance directly into the labor market before they enter the welfare rolls. This emphasis on work will steadily increase over the next few years.<sup>1</sup> The new welfare regimes increasingly demand of their participants a level of labor market participation that is greater than that of women outside the public assistance system.<sup>2</sup>

As cash assistance for poor families with children has become more work-focused, two issues have emerged. The first concerns how much more welfare mothers can work. More precisely, what is the potential for expanding the labor supply of economically disadvantaged mothers? The second concerns the potential returns to work for this population, which is generally thought to have lower than average levels of human capital. What is required of them and of public policy if they are to achieve self-sufficiency and escape poverty?

Objectively considered, there is much we do not know about women's potential labor market responses to the new welfare programs. One reason for this is that the history of welfare programs offers little guidance on the work effort of women who, in the past, would have turned to Aid to Families with Dependent Children (AFDC) for help. AFDC rules discouraged substantial work effort, and in earlier state efforts at welfare-to-work programs, exemptions to work requirements were numerous and the enforcement of work obligations was lax. Moreover, most pre-TANF labor market programs focused more on improving human capital through assessment, education, or training, for example, than on quickly moving the participant into a job.

Administrative data suggest that about 10 percent of the AFDC caseload worked in any given month. This statistic is misleading, however. The majority of women who received cash welfare had work histories, some of them quite substantial. Between 50 and 70 percent of women receiving welfare left within a year or two after they first entered; between half and two-thirds of them did so primarily through increased work effort. Welfare recipients not only cycled between work and welfare, they also combined the two: one study found that 43 percent of the single mothers who ever received welfare had substantial paid employment during the study period. Other studies

of pre-1996 welfare-to-work programs show similar levels of labor force attachment within the welfare population.<sup>3</sup>

The second issue of note involves the expected returns to increased labor supply. Most observers agree that women transitioning off welfare initially will enter the low end of the labor market. There is less agreement on the extent to which their earnings will grow over time. One school of thought emphasizes the "foot in the door" argument. The first step to self-sufficiency is to get a job, any job. Then, as former recipients gain work experience and skills, their work ethic and work habits will improve and their wages will grow, eventually enabling them to work their way out of poverty. Others argue that the secondary labor market has deteriorated in recent decades, loosening if not severing the connection between work and economic well-being. It is argued that in today's labor market it is increasingly difficult for any low-skilled worker, let alone former welfare recipients with very low skills, to earn enough to support a family above the poverty line.<sup>4</sup>

These two perspectives offer different implications for the design of state and federal welfare programs. If the wages of former recipients grow as they gain work experience, then time limits and short-term, transitional support services may be enough to propel them to self-sufficiency. But if disadvantaged women find themselves stuck in low-wage jobs, then long-term policies of wage supplementation and/or substantial education and training may be necessary to move them out of poverty.

Five articles that follow summarize research that seeks to inform these current policy discussions. The first, by LaDonna Pavetti, and the second, by Mary Corcoran and Susanna Loeb, discuss women's labor market experiences before waivers and federal legislation began to change welfare in the mid-1990s. The authors use the National Longitudinal Survey of Youth (NLSY) to follow the interactions of young women's work and welfare use from the age 18 to about 27. This is a critical period in most women's lives; it is the time when they first enter the labor market, and when they make decisions about schooling and about whether and when they will marry and have children. This is also when patterns of welfare dependency are established.

Maria Cancian and her colleagues at IRP move the discussion into the mid-1990s, considering women who have left welfare either in anticipation of or in response to changing welfare policies. Their article makes clear both the need for better information on families leaving welfare and the difficulty, at present, of obtaining good comparative data.

Harry Holzer uses a different perspective, surveying the potential employers of welfare mothers. He asks what

jobs will be available and, equally important, accessible to them, and seeks to gauge the possible effects of an economic downturn.

The fifth article, by Sandra Danziger and colleagues, is targeted upon women receiving welfare in an urban Midwestern county. By exploring the nature and frequency of the barriers that confront women now expected to make a transition from welfare to self-sufficiency, it begins a process of teasing out who may succeed and who fail to move into regular, remunerative employment.

Finally, Stacey Oliker suggests some conceptual frameworks and directions for research into the potential effects of mandatory-work programs on family and community.

These articles provide us with important clues to the opportunities and constraints attached to work-based welfare reforms for low-income mothers with children. Despite the differences among them, they drive home a common point. Welfare recipients can and do find jobs (many always have), especially if unemployment rates are low, and they can in many cases increase the amount they work and the earnings they receive. But a sizable proportion of this very diverse group of single mothers seems likely, at best, to achieve only irregular employment and earnings, insufficient to provide stable, above-poverty incomes for their families. And in order to explore the cost of their efforts to families and communities, researchers must make use of a wide range of strategies.

We realize that such evidence may constitute imperfect predictors of behavioral responses under the new welfare-to-work programs, for four reasons:

- Labor market behaviors in an environment when welfare recipients were entitled to income support that was not time limited may not predict behaviors in the current environment.
- Much of the existing research is based upon the behavior of those leaving public assistance or with some history of AFDC use. But we know already that there have been strong "entry" effects in some states that have induced families to avoid public assistance. More attention should be paid to these families.
- Significant variation now exists both across states and within states. In some states and counties, neither the rules nor the institutional environment within which they are implemented may have changed much. In others, those in need may walk into a Job Center or Workforce Development Center where the entire institutional purpose is organized around work. Evidence generated under the old program may not apply now.
- Finally, the new welfare regimes are being put into place in an extraordinarily favorable economic envi-

ronment. The demand for labor is so strong in many places that employers have become enthusiastic partners in the new experiments. What will happen when the economic climate is less hospitable?

In an era of discontinuous change, the issue of external validity—how confidently we can apply conclusions to new situations—cannot be ignored. But having some information, however qualified, is always better than having no information. If programs and program implementation are to respond swiftly and adequately to changing needs and circumstances, we cannot afford to wait for perfect data on the factors that affect the successful entry of welfare recipients into the labor market. For the well-being of their families now hinges almost entirely on whether they succeed, or fail. ■

<sup>1</sup>Employment provisions under Temporary Assistance for Needy Families (TANF) require that most single mothers with children under 6 years of age work an average of at least 20 hours a week. Mothers with older children must work 30 hours per week after 1999. TANF is limited to a maximum of 5 years over a lifetime. The federal law permits approximately 20 percent of the welfare caseload to be exempted from these requirements for a variety of reasons, and within each state the nature of work obligations and time limits vary. For a description of state TANF plans see L. Gallagher, M. Gallagher, K. Perese, and others, *One Year after Federal Welfare Reform: A Description of State Temporary Assistance for Needy Families (TANF) Decisions as of October 1997*, Assessing the New Federalism Occasional Paper, Urban Institute, Washington, DC, 1998.

<sup>2</sup>Most women with children, poor and nonpoor, do not work even 30 hours a week year round. Only 32 percent of women with children under three, for instance, work at least 30 hours a week. Employment levels drop still further for those with low levels of education; only one in eight mothers with children under three and without a high school diploma work 30 hours per week, year round. See M. Cancian, "The Rhetoric and Reality of Work-Based Welfare Reform," paper presented at the 1997 national meetings of the Social Work Group for the Advancement of Doctoral Education in Madison, Wisconsin.

<sup>3</sup>Rates of return to welfare were also extremely high; perhaps 40 percent of all women who left welfare for work returned within 12 months and two-thirds within five years. See, for example, K. Harris, "Work and Welfare among Single Mothers in Poverty," *American Journal of Sociology* 9, no. 2 (1993): 317-52; L. Pavetti, *The Dynamics of Welfare and Work: Exploring the Process by Which Young Women Work Their Way off Welfare* (Cambridge, MA: Malcolm Weiner Center for Social Policy, Harvard University, 1993); "Welfare That Works: The Working Lives of AFDC Recipients," summary of a report to the Ford Foundation by the Institute for Women's Policy Research, in *Focus* 17, no. 2 (Fall/Winter 1995): 10-12, and other articles in the same issue; J. Riccio, D. Friedlander, and S. Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program*, Manpower Demonstration Research Corporation, New York, 1994.

<sup>4</sup>See, for example, L. Mead, *The New Politics of Poverty: The Non-working Poor in America* (New York: Basic Books, 1992); S. Danziger and P. Gottschalk, *America Unequal* (New York: Russell Sage, 1995); R. Blank, *It Takes a Nation: A New Agenda for Fighting Poverty* (New York, NY and Princeton, NJ: Russell Sage Foundation and Princeton University Press, 1997).

# How much more can welfare mothers work?

LaDonna Pavetti

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Although work is common among welfare recipients, few studies have shown that more than half the welfare caseload is working, even over an extended period of time. This suggests both that more women who have been receiving welfare could work and that those who are working could work more. Such, indeed, is the premise for the new work-based welfare regimes, with their reduced safety nets. But how much more work can we realistically expect from women who have been welfare recipients?<sup>1</sup>

One way to try to answer this question might be to construct a behavioral economic model that attempts to capture the work incentives and disincentives under the new welfare regime. Another might be to construct estimates based on previous welfare-to-work experiments. But the new welfare programs are so radically different from previous initiatives that both these approaches would oblige us to make many assumptions about how recipients might respond to the new set of incentives and penalties.

A third approach is to use the work experiences of women who have never used welfare as a starting point for estimating how much more work we might expect from welfare recipients. In 1996 roughly two-thirds of all women with children—and 55 percent of mothers with children under 3—were employed full or part time, far outweighing the work effort estimated for welfare recipients.<sup>2</sup> We need to ask, however, how the work experience of welfare recipients compares to that of other women with similar characteristics and in similar circumstances who have not received welfare.

To undertake such an approach, I built upon work that Gregory Acs and I had done on young women's movement from bad jobs to good jobs.<sup>3</sup> I developed a relatively simple dynamic model to estimate women's movement in and out of jobs over a ten-year span, from the time they turned 18 until they were 27, using data from the National Longitudinal Survey of Youth (NLSY).<sup>4</sup> Women in the group who reported receiving welfare for at least one month in that time were classified as "ever having received welfare" and the rest as "never having received welfare." These criteria yielded a sample of 2,044 women, 511 of whom had ever received welfare and 1,533 of whom had not. Over the ten years, recipi-

ents worked at a total of 2,860 jobs; nonrecipients held 10,805 jobs.

To make analysis simpler, I mostly examined work and welfare on a quarterly basis. A woman who worked or who received welfare for one month during any given quarter was classified as employed or receiving welfare, respectively, for the full quarter. For each of the 40 quarters in my time span, I also distinguished whether a woman was working in a "good" job—one in which she worked at least 35 hours a week and earned at least \$8 per hour (in 1993 dollars)—or a "bad" job that did not meet those criteria. For a quarter to be considered a good job quarter, a woman had to work at a good job for at least 70 hours during the quarter.

To capture the process of moving in and out of employment, I used what is known as a "competing risk model," where the competing risks are one of three employment states: employment in a good job, employment in a bad job, and joblessness. These models provide a framework for asking how a woman's characteristics—her demographic profile, education and skill levels, marital status and parental responsibilities, or previous employment and local labor market conditions—affect the likelihood that she will become employed in a good or a bad job in the next quarter. I first estimated the models based only on the experiences of women who never received welfare between ages 18 and 27, and then used these estimates and the observed characteristics of the welfare recipients in the NLSY sample to simulate welfare recipients' job transitions from quarter to quarter.

The general picture is fairly clear, and unsurprising.<sup>5</sup> While women are in school, their employment status is rather unstable, but once they are within one or two quarters of completing their education, they are substantially more likely to move from joblessness to a bad job or from a bad job to a good job. Once a woman has completed her education, more schooling is associated with better jobs. Women who have not completed high school are more likely to lose jobs once they become employed, whereas women who have completed college have a significantly better chance of moving to a good job, either from joblessness or from a bad job.

Children make a large difference. Having a child under 5 makes it significantly less likely that women who are jobless will go to work. Having an infant under 1 year makes it significantly less likely that women will move from bad jobs to good jobs and more likely that they will move from good or bad jobs to joblessness.

Women living in areas of lower unemployment are more likely to find a job or to move from a bad job to a good job than are those in areas of higher unemployment. Women living near cities are more likely to find jobs or move from a bad to a good job than are women in nonurban areas. Women in the Midwest and South are less likely than women in the Northeast to move from bad to good jobs, and their jobs tend to be less stable.

Any previous work experience increases the stability of a woman's current employment and the likelihood that she will move from a bad to a good job. But the quality of the job matters. Time spent in bad jobs reduces employment stability—women who have worked in bad jobs are more likely to lose employment altogether or to move from a

good job to a bad job. In general, transitions from one employment state to another occur quite rapidly. The longer a woman stays in a particular job state, the less likely she is to leave it.

## Who turns to the welfare system for support?

Women who have sought support from the welfare system are a diverse group, including mothers who have never been married, mothers whose marriages have failed, and even a few who are currently married. Mothers who have completed high school or even some college may find themselves participating in a job search workshop with women who never finished 10th grade.

As a group, however, these mothers who turn to the welfare system differ substantially from women who never turn to welfare (see Table 1). On average, they have lower levels of education and basic skills and are more likely to be members of racial or ethnic minorities. They began having children younger and have more children to care for. Nearly two-thirds had their first child before they turned 20, and almost a third before they turned 18. In contrast, over half of mothers who never received welfare did not give birth to their first child until they were over 22. By 27, almost a third of welfare mothers had three or more children, compared to only 11 percent of mothers who never turned to welfare. With these characteristics, one would expect them to have a far more difficult time finding and keeping employment than women in general.

## How do the work experiences of recipients differ from nonrecipients?

Recipients entered the labor market rather more slowly than women who never received welfare, perhaps because their lower education and skill levels made it harder to find work, perhaps because more of them were caring for young children (see Table 1). And even though recipients were almost as likely to work over these ten years as nonrecipients, they spent much less time working and much longer periods jobless (see Figure 1).

Not only were women ever on welfare less likely to work in any given year between ages 18 and 27, but when they did work they did so for shorter periods than other mothers. At age 18, for example, welfare mothers worked an average of 25 weeks a year; mothers not receiving welfare worked 33 weeks. Mothers who had not finished high school but were not on welfare were working only 28 weeks at age 18, but by age 27 they worked almost as much (40 weeks) as the general population (42 weeks). Welfare mothers, working an average of only 35 weeks, still lagged.

**Table 1**  
**Selected Characteristics of Young Women,  
by Welfare Status at Age 27**

	Ever Received Welfare	Never Received Welfare
Education at Age 27		
Less than high school	44.5%	9.6%
High school graduate	40.3%	38.4%
Education beyond high school	15.2%	52.0%
Basic Skills (AFQT Percentile Rank) <sup>a</sup>		
1st–10th	32.8%	6.2%
11th–25th	22.6%	11.7%
26th–100th	44.6%	82.1%
Parental Status at Age 27		
One or more children	100.0%	44.2%
No children	0.0%	55.8%
Race/Ethnicity		
White, non-Hispanic	54.6%	84.1%
Black, non-Hispanic	36.7%	10.4%
Other	8.7%	5.5%
Labor Force Activity, Ages 18–27		
Ever worked	94.8 %	99.6%
Ever employed at age 18 <sup>b</sup>	65.4%	85.9%
Ever employed by age 20 <sup>b</sup>	86.7%	97.3%
Avg. no. of quarters with employment	18.9	31.9
Ever worked in 2 consecutive quarters	92.7%	99.2%
Ever worked in 4 consecutive quarters	81.8%	98.0%
Avg. length of employment spells	4.5 quarters	7.1 quarters
Avg. length of jobless spells	5.4 quarters	3.5 quarters
Avg. cumulative time in labor market	195.0 weeks	369.2 weeks
N (unweighted)	511	1533

**Source:** National Longitudinal Survey of Youth, 1979–1993, author's calculations.

<sup>a</sup>The Armed Forces Qualification Test (AFQT) measures an individual's verbal and mathematical skills developed while attending school and at home. It was administered to all NLSY participants in 1980.

<sup>b</sup>Of those ever employed.

The lower *rates* of employment at any age and the shorter *periods* of employment contribute equally to the gap in work between mothers who have received welfare and mothers who have not. If welfare recipients were to work as many weeks as mothers not receiving welfare, the average number of weeks they worked over 10 years would increase by 30 percent, even if the percentage of welfare mothers who worked remained the same. Equally, if welfare mothers worked no more than they now do, but as many of them worked as did mothers who had not received welfare, the average number of weeks worked would increase by about 30 percent.

Looking at the experience of the “average” welfare mother masks the fact that some women who ever use welfare do reasonably well in the labor market, whereas others do poorly. In the NLSY sample, welfare recipients fall into three main groups based on the time they spent working over the ten-year period. Roughly one-third of the group worked 25 percent or less of the time, another third worked between 25 and 50 percent of the time, and another third worked over half the time. In stark contrast, more than half of the women who never received welfare worked more than 75 percent of the time.

The welfare recipients who spend the least amount of time working are overwhelmingly women whose work prospects appear very unfavorable or for whom work may simply not pay. Almost two-thirds of those working less than 25 percent of the time had not completed high school and over half scored in the lowest decile on the Armed Forces Qualification Test (AFQT). Almost three-quarters had their first child before they turned 20, and nearly half of them had three or more children. These women were welfare recipients, on average, for 19 of the 40 quarters between ages 18 and 27.

## How much more work can we expect?

Table 2 suggests that women on welfare would work 30 percent more if their employment paths matched those of similar women who never received welfare. But a large gap in employment would still remain between welfare recipients and nonrecipients as a group, because women who fare poorly in the labor market are overrepresented among welfare recipients.

Recipients with the lowest levels of employment could experience the greatest gains in employment, primarily because the gap is largest for them. For example, if welfare recipients who scored in the lowest decile of the AFQT were to follow the same employment paths as their counterparts among women who never received welfare, they could potentially increase their employment by 48 percent, from 12.5 quarters to 18.5 quarters over the 10 years.

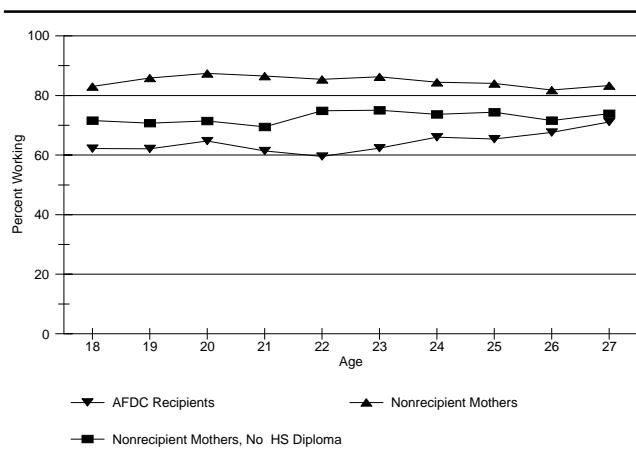


Figure 1. Percentage of women working, by age.

Source: National Longitudinal Survey of Youth, 1979–1993, author's calculations.

Here, of course, is the difficulty. Even if these women worked one-third more, they would still be working less than half the time between ages 18 and 27. Under the *best* of the scenarios presented in Table 2, welfare recipients would be jobless almost one-third of the time. Some of the time spent jobless occurs when very young women are still making the transition to steady work, but not all of it does. By the time they reach age 26 or 27, only about 61 percent of all recipients are projected to be working steadily, although there is, as already noted, substantial variation in work experience. And perhaps, when faced with no other alternatives, welfare recipients will work much more; we simply do not know.

## Conclusions

To meet the work expectations embodied in TANF, states must develop strategies for increasing employment among a diverse group of welfare recipients. Those with substantial work experience will probably have little difficulty in increasing their levels of employment if required to do so. But a large group has only a limited attachment to the labor force and is likely to have trouble finding employment in a market that increasingly values skills. In the NLSY group, nearly 50 percent of women who ever received welfare had not completed high school by the time they turned 27. Even in today's relatively robust economic climate, high school dropouts face an unemployment rate four times that of college graduates.

Previous welfare-to-work programs have had some success at increasing employment among recipients with moderate barriers to employment, but more limited success with the most disadvantaged.<sup>6</sup> If states are successful in getting the most disadvantaged recipients into the

**Table 2**  
**Actual and Simulated Work Experience for Welfare Recipients with Selected Characteristics**

	Quarters with Employment <sup>a</sup>		% Change	%Projected to Be Steadily Employed by Age 26/27
	Actual	Simulated		
All Women	29.7	—	—	—
All Welfare Recipients	18.9	24.5	29.6	61.0
Education at Age 27				
Less than high school	15.3	21.6	41.2	47.3
High school graduate	20.9	26.3	25.8	73.6
Beyond high school	24.3	28.4	16.9	67.6
Basic Skills (AFQT Percentile Rank)				
1st–10th	12.5	18.5	48.0	40.6
11th–25th	19.5	26.0	33.3	71.9
26th–100th	23.5	28.3	20.4	70.2
No. of Children (Mothers Only)				
1	23.3	28.9	24.0	79.3
2	19.4	24.2	24.7	59.7
3+	13.8	20.5	48.6	43.7
Level of Labor Force Involvement				
25% time or less	7.0	20.4	291.4	48.5
25–50% time	19.9	25.4	27.6	62.1
Over 50% time	30.9	28.2	8.7	73.4
Race/Ethnicity				
White, non-Hispanic	21.0	26.5	26.2	65.1
Black, non-Hispanic	16.4	22.2	35.4	55.7
Other	16.1	22.3	38.5	57.4

**Source:** National Longitudinal Survey of Youth, 1979–1993, author's calculations.

<sup>a</sup>Out of 40 quarters over ten years.

labor market, these women are likely still to experience long periods without work. They are already working about 70 percent as much as women with similar characteristics who have never received welfare. Even if their work effort increases to match that of their counterparts off the welfare rolls, fewer than half of the recipients with the lowest skills are likely to be steadily employed by their late twenties. ■

<sup>1</sup>This article summarizes a report to the Annie E. Casey Foundation, "How Much More Can They Work? Setting Realistic Expectations for Welfare Mothers," 1997, written while Dr. Pavetti was a Senior Research Associate at the Urban Institute, Washington, DC. The full report is available on the Urban Institute's World Wide Web site at <<http://www.urban.org>>.

<sup>2</sup>Current Population Survey, March Supplement, 1996.

<sup>3</sup>See, for instance, L. Pavetti and G. Acs, "Moving Up, Moving Out or Going Nowhere? A Study of the Employment Patterns of Young Women," a report to the Annie E. Casey Foundation, Urban Institute, Washington, DC, July 1997 (available on the Institute's Web site at <<http://www.urban.org>>).

<sup>4</sup>Only women who were interviewed in every survey year from 1979 to 1993 and whose labor market experiences are observed from ages 18 to 27 are included.

<sup>5</sup>Coefficients from the model are presented in an appendix to the full report.

<sup>6</sup>See J. Gueron and E. Pauly, *From Welfare to Work* (New York: Russell Sage Foundation, 1991); A. Hershey and L. Pavetti, "Turning Job Finders into Job Keepers," in *The Future of Children: Welfare to Work* 7, no. 1 (1997): 74–86.

# Will wages grow with experience for welfare mothers?

Mary Corcoran and Susanna Loeb

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It appears that wages grow little for welfare recipients over time, especially for those whose skills and circumstances place them among the most disadvantaged. But welfare recipients work far fewer years than do nonrecipients, and it is not clear whether their low rates of wage growth with age are due to more meager work experience or to lower returns to that experience. Will more time working, as the new welfare regimes require, bring better jobs and higher wages?<sup>1</sup>

Research on work experience and women's wages consistently finds that wages grow with work experience, that prolonged periods of joblessness lower women's wages, and that wage growth is lower when work experience is part time. Welfare mothers not only have less work experience than other women, but often work part time. These factors in themselves could lead to lower wage growth over time even if returns to experience are the same for recipients and nonrecipients.

There are, however, some theoretical reasons to suspect that women who have used welfare may have lower returns to work than do other women. First, about half of women on welfare lack a high school diploma or GED, and nearly three-quarters of long-term recipients score in the bottom quarter of the Armed Forces Qualification Test (AFQT), which measures verbal and mathematical skills. Wage growth may be slower for low-skilled workers. Second, long-term welfare receipt may erode work habits and self-confidence, leading to poor job performance or "learned helplessness" that handicap former recipients when they do work. Finally, employers may be inclined to stigmatize former recipients as "shiftless" and be disinclined to hire them into well-paid jobs or to train and promote them.

In this paper, we estimate how wages grew with experience between 1978 and 1992 for a national sample of women from the National Longitudinal Survey of Youth (NLSY). We compare women who received welfare with those who did not, and we compare short- and long-term recipients. We distinguish between years of full-time work and part-time work to explore whether these returns differ and to see whether part-time work explains some of the differences in wage growth over time between

recipients and nonrecipients. We also allow time out of the labor force to erode wages and assess whether this effect differs for recipients.<sup>2</sup> To capture skill levels, we include schooling attainment measures and AFQT scores and we look at wage growth differences associated with raising children.

Women in the NLSY sample who never received welfare spent, on average, 7.7 years working, 6 of them in full-time jobs (more than 35 hours a week), and 1.8 years not working. Those who received welfare averaged 4.8 years of work, 3.6 of them full time; they were jobless, on average, for 3.7 years. Beginning-year wages were only slightly higher for women who never received welfare (\$6.80/hr average, in 1997 dollars) than for those who did (\$6.32/hr average). But at the end, the gap was large. Nonrecipients averaged \$12.34/hr in 1997 dollars, recipients only \$7.86.

The discrepancy in wage growth between women who received welfare and women who did not could arise for a number of reasons. First, recipients may work less in each year. Second, when they work they may work in part-time instead of full-time jobs. Third, recipients' wages may grow less with experience. And, fourth, recipients' wages may decline more during extended periods without work. These are important distinctions to make. If wages grow slowly with experience, then recipients may not be able to earn a living wage however long they work. But if the wage growth gap arises primarily from differences in experience or type of experience, then, if time limits and the new welfare programs encourage more work, many prior recipients may eventually earn their way out of poverty.

We start with a series of regression analyses that look at the effect of experience and AFDC receipt on wage growth.<sup>3</sup> We find that average wage growth per year worked, for both welfare recipients and nonrecipients, is about 6 percent. We find no significant difference in the rate of wage growth between the two groups, and the average for recipients is even slightly higher than for nonrecipients, though this difference is tiny and statistically indistinguishable from zero.

Average wage growth conceals considerable variability over time. The rate of wage growth diminishes with experience: wages of nonrecipients grow by more than 11 percent in the first year, but the rate drops steadily thereafter and is 2 percent by year 7. The wage growth in the first year for recipients averages only 7.6 percent but this growth decreases more slowly over time to 4 percent in year 7. We also find that although there appears to be little difference in returns to full-time work for recipients and nonrecipients, the wage growth associated with part-

time experience is lower, and may not be positive, for recipients. Finally, we find that penalties for time spent out of the labor force are not higher for recipients. In fact, the average wage decline for each year spent without working is about 2.8 percent for nonrecipients but close to zero for recipients. One possible explanation for this result is that recipients may underreport how much they work while on welfare. Additionally, recipients may be in low-skill jobs, and the skills for these jobs do not depreciate as much during time not working. The minimum wage may also limit wage decreases in these jobs.

We introduced additional controls into our analyses to see whether differences between recipients and nonrecipients could be explained by easily measurable characteristics such as educational attainment and region of residence. With these controls, we again find no difference in average wage growth between recipients and nonrecipients, though the returns to part-time experience for AFDC recipients now appear positive. With additional controls for AFQT score, change in number of children and change in years of education, the story remains much the same, although it is less clear that recipients have initially slower wage growth but slower depreciation in the rate of growth.

In brief, our additional findings include:

1. Wage growth is, as expected, higher for women who acquire more schooling. Each additional year of schooling leads to approximately a 7 percent wage increase. In addition, respondents who completed college by age 27 saw wage growth that was 2–3 percentage points greater per year than those who started but did not complete college and approximately 4 percentage points greater than that of high school graduates or high school drop-outs. Although the wages of high school dropouts were lower than those of high school graduates, there was little difference in yearly wage growth between these two groups.

2. Low-skilled workers, as measured by the AFQT, show substantial returns to work experience. Wages grow approximately 1.5 percentage points more slowly for those with AFQT scores more than one standard deviation below the mean than they do for more highly skilled workers, even after educational attainment has been accounted for. However, this still implies a 5 percent average increase in wages for each year worked among this low-skilled group.

3. Wage growth is slower for women who have children. With each additional child, a woman's wages decline by approximately 4 percent.

4. Long-term welfare recipients, who are likely to be most severely affected by time limits, have the lowest wage levels. However, there is little evidence that their wage returns to work experience are lower than those of nonrecipients or short-term recipients. All specifications show substantial returns to work experience regardless of

length of receipt. Estimates of differences in returns to experience are all close to zero and statistically insignificant.

5. Wages grow more slowly when women work part time. Returns to 52 weeks of full-time work averaged 7.9 percent while returns to 52 weeks of part-time work averaged 4.9 percent. AFDC recipients showed even lower wage growth with part-time work than nonrecipients, though this difference was explained by differences in educational attainment and region of residence. We found no significant difference in wage returns to full-time work experience between recipients and nonrecipients.

These results suggest that full-time work experience will pay off for former welfare recipients. State welfare-to-work programs provide both sticks and carrots to encourage more work among recipients. Time limits are the stick; work incentives and supports for work (subsidies and set-asides for child-care and transportation costs, transitional health insurance for recipients, counseling and support services) are the carrots. If time limits and the new work incentives and supports lead recipients to work more, their chances of eventually earning a living wage will improve under a work-oriented welfare system. But the results also suggest that the prospects are not the same for all recipients. About half of the recipients in our sample spent less than 10 months on welfare and are unlikely to be much affected by time limits, though the new work incentives and supports still may increase work by lowering the expenses associated with work.

The greatest potential for wage growth is among long-time recipients—in the NLSY sample, these women, on average, spent over eight years on welfare. But this possibility is based on a very large and tenuous assumption: that long-term welfare recipients do not face strong barriers to full-time work. The low skills, family responsibilities, and personal limitations that hamper their ability to hold jobs suggest that, at best, their work behavior under the new system may come to resemble that of short-term recipients under the old system. Even this may be too optimistic a scenario. ■

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<sup>1</sup>This article summarizes the research reported in M. Corcoran and S. Loeb, "Welfare, Work Experience, and Economic Self-Sufficiency," unpublished paper, University of Michigan, 1999.

<sup>2</sup>The sample consists of 3,960 women who were 18 years old or younger in 1978 and had valid wage and hours worked data in at least two years after turning 18. Regression equations and coefficients are presented in full in the unabridged article.

<sup>3</sup>Throughout the analyses we use three different specifications: a pooled cross-section in which the outcome measure is the wage of individual  $i$  at time  $t$ ; a first difference analysis in which the outcome measure is the change in wages for individual  $i$  between each positive wage observation in the NLSY; and a between analysis, in which the outcome measure is the average wage change for each individual. This final specification is the least efficient but most clearly captures the differences we are trying to estimate.

# Work, earnings, and well-being after welfare: What do we know?

Maria Cancian, Robert Haveman, Thomas Kaplan,  
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Researchers who wish to examine the economic well-being of those who have left welfare need accurate data on women's circumstances while on welfare and measures of individual and family well-being over an extended period afterward.<sup>1</sup> The most likely sources of this information are state administrative records, national longitudinal survey data, and targeted surveys. None provides a fully satisfactory solution.

1. Administrative data on welfare use are fairly accurate and current. They allow us to study all women at the time they were welfare recipients and to compare those who leave welfare with those who stay. Because the data may be linked longitudinally, it is possible to study women over a relatively long period and at frequent intervals, and to study small subsets of the population, such as women with children who receive Supplemental Security Income (SSI). Administrative records are, however, not fully revealing about a family's later economic and social circumstances—they generally do not include information on other adults in the household, on wages, or on sources of income other than public benefits and earnings reported to public agencies. They often contain no information on important aspects of well-being: hours worked, health status, or, after leaving, child care use and costs, for example.

2. National longitudinal surveys such as the National Longitudinal Survey of Youth (NLSY) can, in theory, provide more detailed information on family status, the extent of work, and broad measures of family economic well-being. But much of the information is self-reported, gathering and processing it takes time, and the information is often nationally representative rather than state-specific. This is a disadvantage for policymakers or administrators anxious for information by which to assess new policies.

3. Targeted surveys, collecting information from a particular population that is expected to be affected by the

welfare changes, can ask detailed questions about a family's experiences and well-being before and after leaving welfare.<sup>2</sup> Such surveys may be expensive and, again, take time. Several such surveys are under way, but they suffer from small samples that may not be representative and from selective or inaccurate responses.

IRP researchers have conducted two studies of the economic well-being and employment histories of women who have left welfare. In one, they used the NLSY, and in the other, Wisconsin state administrative data. In this article, we briefly report the findings from these studies, illustrate the problems inherent in each approach, and compare their findings with studies of postwelfare experiences in other states.

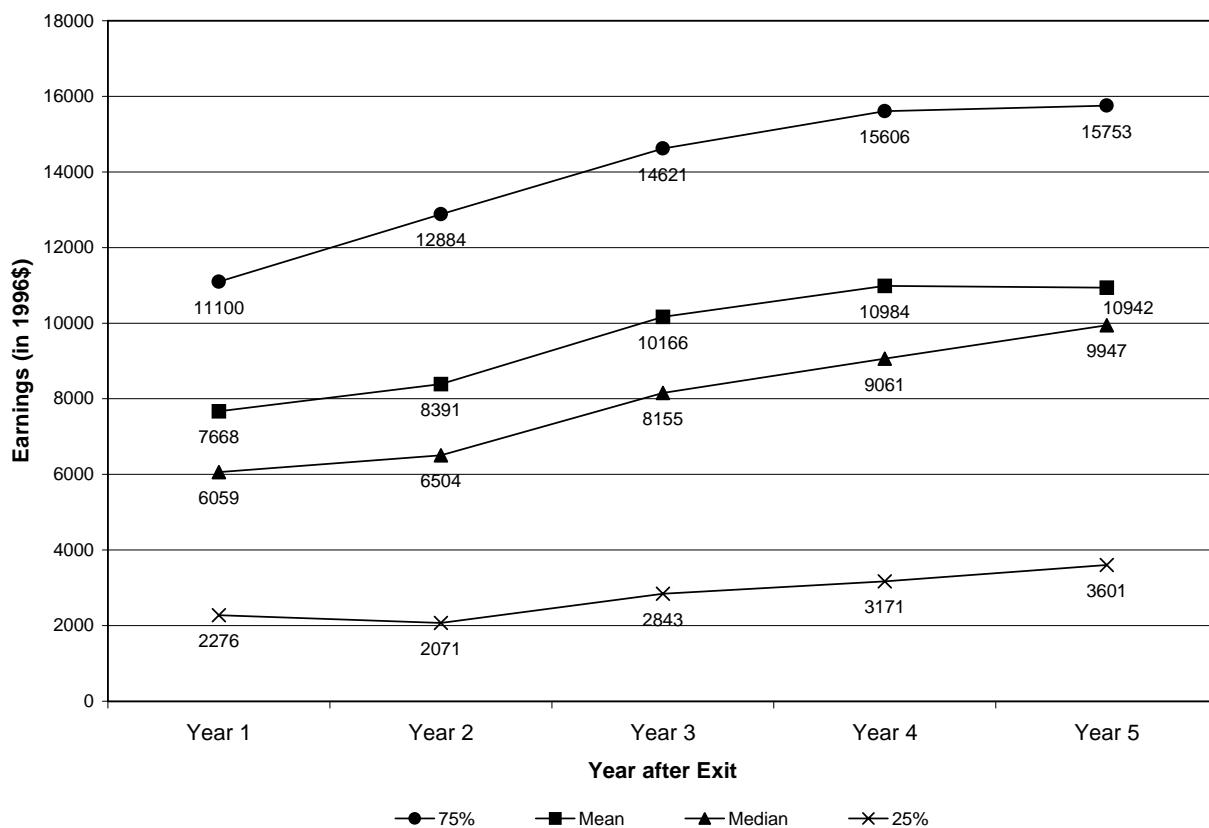
## Analyzing economic well-being after welfare

### National survey data: the NLSY

The NLSY includes women aged 14 to 21 in 1979, and oversamples the economically disadvantaged. Thus researchers can draw upon extensive information about sufficiently large populations. Daniel Meyer and Maria Cancian examined five years of data (1988–92) on the experiences after welfare of women who left AFDC before 1987. Because these are women who entered and left welfare at fairly young ages, they are not fully representative of the entire welfare-reliant population.<sup>3</sup>

In brief, Meyer and Cancian found:

1. Reliance on some form of means-tested assistance declined only slowly. Sixty percent of the women received some benefits, mostly food stamps, in the first year after they left, and five years later 40 percent were still food stamp recipients. In each year, around one-third of the women (not necessarily the same women) were receiving some AFDC benefits, and over one-quarter received at least half their family income from means-tested benefits. Around 20 percent of women never used means-tested benefits after first leaving AFDC.
2. In each of the five years after exit, about two-thirds of the women worked, and their work effort steadily increased. In the first year, 13 percent were working full time; in the fifth year, 25 percent. Real wages rose modestly. Over five years the median wage went from \$6.36 to \$6.73, while wages for those at the 25th percentile remained close to \$5.30 per hour (1996 dollars). But between increased work effort and modest wage growth,



**Figure 1. Earnings among workers in the first 5 years after exit.**

**Source:** Authors' calculations from the National Longitudinal Survey of Youth (NLSY).

**Note:** Among workers with observed earnings in each year. Unweighted sample sizes in years 1–5 are 580, 586, 554, 551, and 548, respectively.

annual earnings rose substantially, again excluding those at the 25th percentile (see Figure 1).

3. Median family income increased over the five years, from about \$12,000 to more than \$16,000. The three most important components of family income were the woman's own earnings, means-tested benefits, and income from a spouse or partner. In each year, about 60 percent had earnings, about 45 percent received some benefits, and about 40 percent of families had income from a cohabiting spouse or partner. Fewer than one-fifth of the women received any child support.<sup>4</sup> The importance of partners' earnings in those cases where women have partners makes it clear that measures of income that include only a woman's own earnings and means-tested benefits may substantially underestimate family income.

Despite substantial work effort and varied sources of income, 19 percent of the women were poor in all of the five years, and just 22 percent had incomes above poverty in every year. Only about 5–10 percent earned enough to pull their families above the poverty line.

#### State administrative data: Wisconsin

The Wisconsin administrative data include single women with children who were receiving AFDC benefits in July 1995. About half the cases, just over 26,000, left AFDC

in the following year. IRP researchers tracked those who left for a period of 15 months after they stopped receiving welfare. They tracked those who stayed from August 1996 to December 1997.<sup>5</sup> State administrative data include a range of social and economic outcomes, but there is no way to track those who moved out of state for the full period or were employed in jobs not covered by Unemployment Insurance (UI). There are also no measures of the earnings of a spouse or partner.

These difficulties notwithstanding, the administrative data achieved results not unlike those obtained with the NLSY data. Fifteen months after leaving welfare, about 30 percent of all who left were receiving no public assistance. The majority of leavers, even those who at no time returned to AFDC, received some form of public assistance, mainly Medicaid, over the entire period. About two-thirds worked at some time in each quarter; the proportion who did work and earn remained largely the same over the 15 months. In all groups, those with more education and older children, living in areas where unemployment was low, and those with some earnings in the two years before they left welfare were more likely to remain off public assistance and to work.

From the Wisconsin data we can estimate individual earnings and income (own earnings, cash welfare, and

the value of food stamps) but not family income. For all the leavers, median annual earnings were around \$7,800 in the year after exit—\$9,100 for those who never went back on welfare. We examined type of employment, and found that earnings rose for women in all industrial classifications save one—temporary agencies. But even so, only about 36 percent of women with one child, and only 17 percent of women with three children, had measured incomes greater than the poverty line in the first year after they left welfare. More than half of all leavers did not even reach the income level that they had shortly before leaving AFDC.

Both the NLSY and Wisconsin data show that recipients varied greatly in the extent of their employment, in earnings, and in family income. Some never achieved above-poverty incomes, others did quite well. For some, work appears to have been fairly constant, even if not always full time, and income rose and fell in ways that made them sometimes eligible and sometimes ineligible for AFDC.

Although neither study offers unambiguous answers to questions about the well-being of women after they leave welfare, both demonstrate the importance of women's own earnings. The average leaver with any earnings in the NLSY study earned about \$6,000 to \$7,000 in the first year after exit. The slightly higher earnings in the study based on administrative data suggest that the level of work and earnings among former welfare recipients has increased over the last few years. The reasons are unclear. Perhaps "work first" welfare policies and favorable economic conditions are compensating for the fact that more women with more marginal skills are entering the labor market.<sup>6</sup> But the data may also reflect circumstances peculiar to Wisconsin. Because benefit levels in the state are high, women had to anticipate earning correspondingly more to make it worth their while to leave welfare.

## Evidence from other states

The steep decline in AFDC/TANF cases nationwide, from nearly 5.1 million in January 1994 to just over 3 million in June 1998, has led a number of states to seek information on the circumstances (and sometimes the motivation) of those who have left the rolls. We compared Wisconsin data with recent studies of leavers in nine states: Iowa, Kentucky, Maryland, Michigan, New Mexico, South Carolina, Tennessee, Texas, and Washington.<sup>7</sup> The Maryland study, like one Wisconsin study, relied on administrative data, but most are based primarily on surveys—mail, telephone, in-home, or some combination. There are discrepancies of definition among them. In most studies, "leavers" include families headed by single parents and two-parent families, but Wisconsin and Washington State considered only families headed

by single, adult women at the time they were selected. "Leaving welfare" was not always defined the same way, and survey response rates ranged from 12 percent (a mail survey in New Mexico) to 85 percent.

In spite of these differences in methods and reliability, the studies begin to answer some important questions about women's lives after welfare:

*To what extent do leavers continue to use means-tested benefits?* About two-thirds of the leavers received some type of benefit in the first year after leaving welfare. This declined to 35–45 percent after a few years. Except for Kentucky and Washington, about two-thirds of leavers participated in Medicaid, at least for children. Except for Washington, about 50 percent received food stamps. Only Maryland and Wisconsin considered rates of return to welfare; in both states, about 20 percent returned in the first few months, much smaller percentages in later months.

*What proportion of leavers work?* About two-thirds of the women worked after leaving welfare. In the three states that sampled only leavers denied benefits for non-compliance, 42–53 percent were working at least part time; in states that surveyed all leavers, 49–70 percent were. The data are very hard to compare, but it looks as though about half of working respondents were employed full time.

*How much do leavers earn?* In Wisconsin and Maryland, which used UI data, 72–75 percent and 55 percent, respectively, reported earnings. Those working in Maryland had mean earnings of \$2,375 in the third quarter after leaving welfare. Iowa respondents reported quarterly earnings of about \$2,210, 15 percent less than the Wisconsin mean.<sup>8</sup> Mean hourly wages in three survey states clustered around \$6.50; in Washington, the mean was \$8.42.

*What sorts of jobs do leavers find?* The categories used are not necessarily comparable from state to state, but most studies found heavy concentrations of leavers in food service and retail trade.

## What is the best strategy for gathering information?

The state studies that we have reviewed in this article make one thing unambiguously clear: women receiving welfare are a very diverse group, and their outcomes after leaving welfare vary greatly. If we are to judge the success of current welfare policies and make informed decisions for the future, we need to know much more than we do now. Who is most likely to become self-supporting with minimal help, who will need more extended support in making a transition to steady work, and what kinds of programs and services are likely to be useful?

The studies suggest that a successful strategy for assessing the well-being of those who leave state TANF programs will combine analyses of state administrative data with improved, targeted state surveys designed to provide supplementary information. Some states, such as South Carolina, have achieved acceptable survey response rates, at least for interviews of 15–20 minutes. If such strategies work elsewhere, it may be especially useful to generate a set of standard survey questions that have been validated in different settings, that supplement what is generally available in administrative data, and that leave room for a brief interview tailored to topics of interest in particular states. ■

<sup>1</sup>This article summarizes an extended discussion with the same authorship and title, prepared for a conference on “Welfare Reform and the Macro-Economy,” Washington, DC, November 19–20, 1998. It is available upon request from IRP.

<sup>2</sup>Early findings from a new targeted survey of welfare recipients, the Women’s Employment Study, are reported in the article by Danziger and colleagues in this *Focus*.

<sup>3</sup>D. Meyer and M. Cancian, “Life after Welfare: The Economic Well-Being of Women and Children Following an Exit from AFDC,” IRP Discussion Paper 1101-96, University of Wisconsin-Madison, 1996, and “Economic Well-Being Following an Exit from AFDC,” *Journal of Marriage and the Family* 60 (1998): 479–92; M. Cancian and D. Meyer, “Work after Welfare: Women’s Work Effort, Occupation, and Economic Well-Being,” unpublished manuscript, July 1998.

<sup>4</sup>Meyer and Cancian, “Life after Welfare,” Tables 3–5, enumerate income sources for all women exiting AFDC, and separately for those always poor and those never poor in all the five years.

<sup>5</sup>The final report for this project, M. Cancian, R. Haveman, T. Kaplan, and B. Wolfe, “Post-Exit Earnings and Benefit Receipt among Those Who Left AFDC in Wisconsin,” October 1998, is posted in full on the IRP web site (<http://www.ssc.wisc.edu/irp/pubs/leavers3.pdf>). “Leavers” were defined as those who received no AFDC benefits for two consecutive months between August 1995 and July 1996.

<sup>6</sup>A December 1998 Urban Institute policy brief comments: “Today, by working full time at the minimum wage and supplementing her earnings with tax credits, food stamps, and other public assistance, a mother with two children can bring her income to almost 120 percent of the poverty level.” N. Coe, G. Acs, R. Lerman, and K. Watson, *Does Work Pay? A Summary of the Work Incentives under TANF*, Urban Institute New Federalism Policy Brief A-28, Washington, DC.

<sup>7</sup>Findings from the state studies appear in Appendix Table 1 of the article summarized here. The individual state reports are: T. Fraker and others, *Iowa’s Limited Benefit Plan* (Washington, DC: Mathematica Policy Research, 1997); S. Cummings and J. Nelson, *From Welfare to Work: Welfare Reform in Kentucky* (Louisville, KY, Center for Policy Research and Evaluation, Urban Studies Institute, University of Kentucky, 1998); *Life after Welfare: Second Interim Report* (School of Social Work, University of Maryland, 1998); L. Colville, G. Moore, L. Smith, and S. Smucker, *A Study of AFDC Case Closures Due to JOBS Sanctions: April 1996 AFDC Case Closures* (Michigan Family Independence Agency, Administration for Legislation, Budget and Analysis, May 1997); *Survey of the New Mexico Closed-Case AFDC Recipients, July 1996 to June 1997* (Bureau of Business and Economic Research, University of New Mexico, September 1997); *Survey of Former Family Independence Program Clients: Cases Closed April through June 1997* (Division of Program Quality, South Carolina Department of Social Services, June 1998); *Impact Evaluation of Families First: A Compilation of Reports* (Nashville, TN: Bureau of Business and Economic Research/Center

for Manpower Studies, University of Memphis, August 1998); C. Nemir, R. Sanders, and D. Warren, *Why People Leave Welfare: Reasons Former Clients Give for the Decline in Welfare Caseloads in Texas* (Austin, TX : Texas Legislative Council Research Division Issue Brief, October 1997); *Washington’s TANF Single-Parent Families Shortly after Welfare: Survey of Families Which Exited TANF between December 1997 and March 1998* (Management Reports and Data Analysis, Division of Program Research and Evaluation, DSHS Economic Services Administration, July 1998).

<sup>8</sup>Iowa sampled only those sanctioned for noncompliance, and the results are consistent with Wisconsin results for leavers who had been sanctioned.

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# Will employers hire welfare recipients?

Harry J. Holzer

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We know that welfare recipients are leaving the rolls in very large numbers, and that more of them appear to be working, at least part time. But questions remain. What jobs, and how many of them, are actually available, especially to the least skilled and experienced or to inner-city residents and minorities? What wages and benefits might former welfare recipients expect, and will their jobs offer any upward mobility? How many of these jobs will still be there when the very tight labor markets that now prevail begin to disappear?

It may be years before studies of welfare-to-work programs now under way can tell us how the least skilled among welfare recipients will fare under different labor market circumstances and welfare regimes. But we may learn much from employers, who constitute the demand side of the labor market in which welfare recipients must find a secure foothold.

To begin to answer these questions and many others, in the summer and fall of 1997 we surveyed 900 employers from three Michigan cities, Detroit, Flint, and Grand Rapids. These cities are a mix of large and small metropolitan areas with different degrees of reliance on older manufacturing industries, different employment patterns, and different demographic structures.<sup>1</sup> Michigan was one of the earliest states to radically revise its welfare policies and in 1996 implemented a statewide welfare-to-work program, Michigan Works.<sup>2</sup>

The employer sample roughly represents the distribution of the workforce among large and small firms. In a 20-minute telephone interview with the official at the firm who was responsible for entry-level hiring, we asked about the skills of the firm's workforce, the recruitment, training, and demographic characteristics of the most recently hired non-college-educated worker, any recent experiences with welfare recipients or with labor market intermediaries such as Michigan Works agencies, and whether the firm would be willing to hire unskilled welfare recipients (those without high school diplomas or recent work experience) now or over the next year. We also asked questions designed to help us gauge the effect of a tight labor market on hiring and the potential consequences of an economic downturn for employment.

## Job availability

Employers claim that they are willing to fill 3 percent of their jobs right away with unskilled welfare recipients, and up to almost 9 percent over the course of the next year. Considered strictly in the aggregate, this represents a significant number of potential jobs when compared to the likely influx of job seekers formerly on welfare. Nationwide, welfare recipients constitute about 3 million households, and it is generally estimated that about 1–2 million household heads will be pushed into the labor market because of work requirements or time limits—a large number, but representing less than 2 percent of the national labor force.

But this aggregate comparison might be misleading. First, other job seekers might also be competing with welfare recipients for these jobs. Second, jobs are not evenly distributed among metropolitan areas and across industries. For instance, only in Detroit is the percentage of jobs available in the central city (nearly 6 percent) higher than in suburban areas (about 3 percent). In Flint, suburban employers estimated that they might currently offer 4.6 percent of jobs to welfare recipients, about twice the estimate for the central city. In Grand Rapids, both estimates were smaller, 2.3 percent for suburban employers and 1.9 percent for inner-city employers.

By far the highest percentages of jobs estimated to be available now were in retail trade; firms estimated that they might hire welfare recipients for 5.6 percent of jobs. This sector includes "eating and drinking establishments," where potential demand for welfare recipients is particularly high (9 and 27 percent of jobs available now and over the next year, respectively). Manufacturing has more unskilled jobs than services, but proportionately fewer of them are filled by women, and levels of skill demanded in manufacturing have risen over the past two decades. Manufacturing firms estimated that 1.5 percent of jobs now available might be filled by welfare recipients. Demand in the different parts of the service sector

This article is based upon "Will Employers Hire Welfare Recipients? Recent Survey Evidence from Michigan," *Journal of Policy Analysis and Management* 18, no. 3 (summer 1999) and used by permission, and "Employer Demand for Welfare Recipients and the Business Cycle: Evidence from Recent Employer Surveys" (IRP DP 1185-99, March 1999), University of Wisconsin-Madison. The opinions expressed are those of the author.

**Table 1**  
**Determinants of the Availability of Jobs for Welfare Recipients: Means (%)**

Employment Measures	All Jobs	Manufacturing	Retail Trade	Service
<b>Employees in Jobs That:</b>				
Do not require education, experience, or training	36.5	42.7	53.3	26.8
Also require no reading or arithmetic	12.5	14.3	15.9	9.9
Are also filled by women	6.0	5.9	8.7	6.1
<b>Measures of Hiring Activity</b>				
New hire rate into any unskilled jobs over past 12 months	79.4	82.5	101.1	62.2
Net new employment growth rate over past 12 months	10.2	10.0	16.2	7.5
<b>Measures of Unmet Demand and Labor Market Tightness</b>				
Job vacancy rate	5.7	3.9	7.7	4.9
Difficult to find qualified applicants				
Somewhat	42.5	39.1	52.2	39.3
Very	38.6	46.4	33.0	37.5
Have hired a less-than-qualified worker in the last 2 years	39.6	48.3	46.8	32.5
Newly hired workers who are less than qualified	6.6	3.5	10.0	6.0

**Source:** Survey of Michigan Employers.

was quite variable, but overall a little below the average (2.5 percent now available).

### The determinants of job availability

The willingness of firms to hire welfare recipients is determined not only by the number of unskilled positions they must fill, but also by their ability to draw other applicants. This depends in part on the wages and benefits the firm offers relative to other local firms, its recruitment strategy, and the tightness of the local labor market. Faced with labor shortages, employers may raise wages, recruit more intensively—or be more willing to consider applicants who might not under other circumstances meet their criteria.

Table 1 shows that 6 percent of all jobs in the firms that we surveyed—perhaps even fewer newly available jobs—are likely to be available to women with few skills, little experience, and poor reading and math skills.<sup>3</sup> There also appears to be a substantial unmet demand for labor. Overall vacancy rates of 5–6 percent (as measured in this survey) are higher than the unemployment rates for the area—a very unusual situation reflecting the tightness of the labor market.<sup>4</sup> Over 80 percent of employers claim to have had at least some difficulty in finding qualified applicants, and roughly half claim to have hired workers who did not meet their usual criteria in the last two years.

Through a series of regression equations, we explored the relative importance of these features of the labor market for the work prospects of welfare recipients. Our estimates suggest that a 10-percentage-point increase in the number of unskilled workers currently employed in a firm implies a 1–3-percentage-point increase in available jobs for welfare recipients. A 1-percentage-point increase in the current vacancy rates at a firm also has large

effects, raising job availability for welfare recipients by one-third to half a percentage point. If a firm has recently hired less-than-qualified workers, it is also likely to have more jobs available for welfare recipients, though the effects are not statistically significant.

### Access to available jobs

Workers' access to available jobs (defined as the willingness or ability to apply for and accept these jobs) is affected not only by transportation but by the nature of information networks among job seekers, or by real or perceived discrimination. Firms located in the suburbs or away from public transportation would be difficult to reach for those without cars.<sup>5</sup> Suburban firms might be inaccessible to inner-city residents who are simply not aware of them or where they are—true of small establishments in particular. Jobs in establishments filled by informal recruitment (referrals by current employees or help-wanted signs) will be less accessible, except to those living nearby. Finally, firms that now receive no or very few applications from minorities might be especially inaccessible to African-American or Hispanic job seekers.

We found that the majority of jobs potentially available to welfare recipients might be relatively inaccessible to inner-city residents and/or minorities (Table 2), at least in the absence of job search assistance or other labor market interventions. About 40 percent are in small establishments located in the suburbs, for example, and over three-quarters of them recruit informally.

Because accessibility will vary considerably by the characteristics of a particular metropolitan area, I examined each city separately and compared central-city with suburban locations. There were indeed major differences.

**Table 2**  
**Jobs Accessible to Welfare Recipients**

	Currently Available	Available over Next Year
% Jobs Available to Recipients That Are:		
In small firms (50 or fewer workers)	71.0	63.5
Located in suburbs	64.5	57.3
In small firms in the suburbs	45.2	38.4
More than 0.3 mile from public transit stop	31.3	28.2
More than 30 min. from downtown	17.6	19.1
More than 0.3 mile from transit stop and more than 30 min. from downtown	44.3	44.1
Filled by informal recruitment	77.4	76.7
Receive no applications from African-American applicants	32.3	33.7

**Source:** Survey of Michigan Employers.

For example, over 70 percent of available jobs in the Detroit area are located in the suburbs, but just about half of those in Flint and Grand Rapids are. Within each area, African Americans constitute a higher fraction of job seekers than they do of the population as a whole, but they are much less likely to apply to suburban firms, many of which receive no African-American applicants at all (in Detroit, 42 percent, in Flint 53 percent, and in Grand Rapids 58 percent of suburban firms had no African-American applicants). Over a quarter of all jobs available to welfare recipients in Detroit and Flint, and half of those in Grand Rapids, were in firms that do not receive applications from African Americans.

## Employers' views of welfare recipients

### Main employer concerns

We asked employers about the kinds of assurances they would require from an agency seeking to place welfare recipients with them. Interestingly, job skills ranked low on the list; only 20 percent of employers considered them "very important." But basic cognitive skills rated fairly high; 60 percent thought them "very important." Far and away the greatest employer concerns related to so-called "soft skills"—about 90 percent worried about absenteeism and work attitudes. And though a similar percentage worried about substance abuse, only half would require any assurances regarding a criminal record. Half the employers would administer drug tests or criminal background checks; 30 percent would do neither.

### Previous experience with welfare recipients

Over half of the firms we surveyed said that they had hired welfare recipients in the past two years; 30 percent of those hired were no longer with the firm.<sup>6</sup> The specific problems that employers described were basically those noted above, although the actual incidence of such prob-

lems seems lower than anticipated. About 60 percent had at least some problem with absenteeism and tardiness, 28 percent with work attitudes. Other problems such as inadequate skills, substance abuse, and crime were mentioned much less frequently.

## Characteristics of the jobs available to welfare recipients

We asked employers whether there was a particular job in which they would be most likely to hire welfare recipients and also sought details of jobs into which recipients had been hired over the past two years. Table 3 shows both prospective jobs and jobs into which recipients had actually been hired. Of all the prospective occupations we were able to identify, some two-thirds were blue-collar or service jobs. The kinds of jobs mentioned most frequently included cashiers, receptionists, office clerks, restaurant workers, nurses aides, maids/janitors, and, among blue-collar workers, assemblers and freight handlers.

Of the jobs already filled by welfare recipients (over 40 percent of them in sales or clerical work), large fractions involved the use of basic cognitive skills, computers, or customer contact. Over three-quarters of those hired had high school diplomas or GEDs, and only 14 percent of jobs were filled by candidates who had neither educa-

**Table 3**  
**Characteristics of Jobs Available to Welfare Recipients**

Job Characteristic	Prospective Jobs (%)	Have Hired in Past 2 Years (%)
Clerical	19.8	22.4
Sales	7.6	21.1
Blue-collar	33.9	18.1
Service	31.4	36.5
Hourly Wage	\$6.59	\$6.34
Potential for merit increases	81.4	78.7
Chance for Promotion with Good Performance		
Excellent	31.3	39.6
Good	42.1	34.9
Health Insurance	65.1	58.7
Credentials Required		
High school diploma or GED	—	78.3
Previous related experience	—	46.0
Previous training or certification	—	30.0
None of the above	—	14.2

**Source:** Survey of Michigan Employers.

**Note:** "Prospective" jobs refer to those among employers who say they have openings for welfare recipients now or will have during the next year, as well as those who say that would hire if offered a subsidy. The occupations listed are from employers who actually specified an occupation (about 65 percent of the total sample).

tional credentials, skills, nor experience. The qualifications of these newly hired employees are better than those of the unskilled, inexperienced recipient on whom we focused our questions. Yet the wages, benefits, and promotion possibilities actually offered by these jobs are not very different from those prospectively available to our especially low-skilled welfare recipient.

It seems likely that welfare recipients already in the labor market constituted a more highly skilled or motivated group than the welfare recipients who might soon enter it. Many of the latter group are also plagued by disabilities or other serious barriers to employment, and their ability to perform the tasks that employers expect may be quite limited. Employers might experience greater difficulties with the recipients whom they are, prospectively, ready to hire than with those they have already hired.

## Policies to improve employment

### Placement agencies

The Michigan Works agencies to which all welfare recipients are referred provide job search instruction and in some cases job placement assistance.<sup>7</sup>

How active are these agencies, and what have their effects been? Our survey indicates that under 17 percent of all firms in the three metropolitan areas had been contacted by a job placement agency seeking jobs for welfare recipients. These contacts appear to have been quite successful: about two-thirds of those approached hired one or more referred workers, and about three-quarters of the workers hired were still working at the time of the survey.

The use of labor market intermediaries constitutes perhaps the least expensive approach to helping recipients with job search and placement activities. The low cost of this option, relative to other interventions, and its apparent success at the time of the survey suggest that it is a fruitful path to follow.

### Wage subsidies and tax credits

Tax credits or subsidies “targeted” to firms that hire disadvantaged workers have been the subject of much experimentation and debate. To date, research suggests that wage subsidies have achieved modest gains in the employment of the targeted group, particularly when they are used in conjunction with job placement assistance and training. But it also suggests that much of the gain may have come from the displacement of other workers rather than from expanded employment.<sup>8</sup>

We attempted to gauge employers’ interest in subsidies or credits with a series of questions on hypothetical wage subsidies and recently implemented federal tax credits for hiring long-term or unskilled welfare recipients.

Roughly one-third of all employers claimed they would hire additional welfare recipients if they were offered 50 percent wage subsidies, and perhaps another 6 percent of all jobs over the following year would be filled by welfare recipients. But most of this prospective increase would come from existing jobs currently held by other unskilled workers, not from newly created jobs.

Ignorance of the new federal tax credits was widespread, and employers’ responses, when informed of them, were not encouraging. Even though the credit could be received for up to two years, only 8–9 percent of employers thought it would make them more likely to retain welfare recipients. Less than 20 percent would be interested enough in the credit to inquire about the eligibility of new female employees.

Clearly, the potential effects of wage subsidies and credits will depend rather a lot on how they are implemented. Our results suggest they must be more heavily advertised and made “user friendly,” with as little paperwork as possible. Nor will they necessarily be sufficient to overcome problems such as absenteeism and poor work performance.

### Employer provision of training and support services

In a very tight labor market, when employers have difficulty attracting and retaining workers, they may have somewhat greater incentive to provide work supports and training. Very small numbers (5–15 percent) would help with transportation or child care. However, almost half would provide remedial training in basic skills, and over 80 percent would provide job-related training. Tax credits and especially technical assistance would, employers said, increase their willingness to provide this kind of help.

Firms that had hired less-than-qualified workers in the past two years were more willing to provide each type of workplace support or benefit, and more responsive to the various government interventions suggested. We found little evidence to suggest, however, that the pay offered to welfare recipients would improve in tighter labor markets.

### Potential effects of business cycles

Our survey turned up an encouragingly large number of actual and prospective jobs, relative to the population of welfare recipients that will need them. But it is also possible that employers overstated the number of jobs potentially available in order to appear more socially responsible and, as already noted, welfare recipients are not the only candidates for these low-skill positions.

Perhaps most important, the potential job availability that we estimated is highly correlated with measures of labor market tightness, such as current job vacancy rates

and the hiring of less-than-qualified workers. Because these would decline dramatically during a recession, the number of jobs available to welfare recipients would also decline. We sought, therefore, to gauge the potential effects of the business cycle on labor market demand for welfare recipients.

Vacancy rates during recessions are roughly 4–5 percentage points less than the rates observed in this survey, or in the range of 1–2 percent. Cross-sectional OLS estimates using our survey data suggest that declines in demand for welfare recipients would be 0.8 to 1.3 percentage points, in the neighborhood of 25–40 percent of all current demand for recipients. Longer-term hiring would be reduced by somewhat greater absolute magnitudes. Business-cycle effects would vary with industry, and they appear to be twice as large in retail trade as in the overall economy. These estimates remained fairly constant when we incorporated controls for other factors that are likely to affect demand, such as rates of gross hiring and turnover.

The notion that aggregate labor market conditions affect employer willingness to hire less-skilled workers is supported by comparisons between our 1997 data and employer data collected in 1992–93, when Detroit was beginning to recover from recession and unemployment in the area averaged around 7 percent. Our preliminary analyses suggest that employers in 1997 were more willing than they had been in 1992 to hire workers who lacked high school diplomas or previous experience and to hire black (especially male) applicants.

Data on prospective employer demand for welfare recipients do not offer a perfect substitute for data on actual demand when a downturn occurs. But overall, these results imply that the labor market difficulties of recipients will almost certainly grow more severe during the next recession. Some of the least-skilled welfare recipients have not yet entered the labor market, and may be reaching time limits for assistance by the start of the next downturn. There may, therefore, be some need for countercyclical job creation measures, perhaps through public service employment, and certainly for improved safety nets (including broader unemployment insurance coverage) to help this population. ■

<sup>1</sup>For example, African Americans constitute 24, 20, and 6 percent of the metropolitan-area populations in Detroit, Flint, and Grand Rapids, respectively. But the proportions of African Americans living in inner-city areas are 76, 48, and 19 percent. Over the past two years or so, unemployment rates have been roughly 4 percent in Detroit and Grand Rapids and 5–6 percent in Flint, though in Detroit and Flint rates in the central cities have been two or three times higher than those in the suburbs.

<sup>2</sup>For a brief description, see this *Focus*, p. 34, note 3.

<sup>3</sup>Because of increasing demand for skills over time, comparable percentages estimated for the most recently hired workers are actually lower than those in Table 1.

<sup>4</sup>There has been a small change in the wording of the vacancy question from earlier surveys. This one asked employers about all "vacancies that you are currently trying to fill," where most earlier surveys had asked only about those immediately available for occupancy. The measured vacancy rate is unlikely to be heavily affected by this wording, though the issue is being further explored in subsequent versions of the survey.

<sup>5</sup>Danziger and her coauthors found that 47 percent of their sample of Michigan welfare mothers had either no access to a car or no driver's license (see this *Focus*, p. 32, Table 1).

<sup>6</sup>In this sample, the median length of time since hiring was about 6 months, so this seems a fairly high rate of turnover in a short period. It is considerably higher than the national *annual* average of about 40 percent. However, it may not be much higher than one would expect for low-wage, low-skill jobs in general.

<sup>7</sup>K. Seefeld, J. Sandfort, and S. K. Danziger, "Moving Toward a Vision of Family Independence: Local Managers' Views of Michigan's Welfare Reforms," University of Michigan, Ann Arbor, February 1998. This report is available on the World Wide Web site of the Michigan Program on Poverty and Social Welfare Policy, <<http://www.ssw.umich.edu/poverty/pubs.html>>.

<sup>8</sup>L. Katz, "Wage Subsidies for the Disadvantaged," in *Generating Jobs: How to Increase Demand for Less-Skilled Workers*, ed. R. Freeman and P. Gottschalk (New York: Russell Sage, 1998); J. Bishop and M. Montgomery, "Does the Targeted Jobs Tax Credit Create Jobs at Subsidized Firms?" *Industrial Relations* 32 (1993): 289–306.

# Barriers to work among welfare recipients

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Most state welfare-to-work programs now emphasize job search assistance as the starting point for applicants for aid.<sup>1</sup> This “work first” strategy may be appropriate for many people who turn to welfare for short-term assistance. But for some portion of welfare recipients, the capacity to work regularly or steadily may be undermined by substantial barriers: lack of basic work skills and experience; transportation problems; health and mental health problems including depression or substance abuse; and domestic violence. Because the last two years have seen drastic declines in the numbers on welfare nationwide, those who remain on the rolls are more likely to have serious problems than those who have left.

How prevalent are such barriers to employment among welfare recipients? How many women face multiple barriers? And how, precisely, do such barriers affect their prospects of getting and holding a job—any job? Past research has identified many problems, but has not systematically explored how frequent they are, and how serious are their consequences.<sup>2</sup> A new panel survey of welfare recipients is designed to remedy these omissions.

## The Women’s Employment Study

In September 1997, the Women’s Employment Study (WES) began surveying 753 mothers with children who were on the welfare rolls in an urban Michigan county in February 1997.<sup>3</sup> The women were aged between 18 and 55 years at the time they were randomly selected from among active single-mother cases of the Michigan Family Independence Agency. Women in the sample were interviewed again in late 1998 and will be interviewed for a third time in early 2000. The interviews range over work histories and current employment, work skills and schooling, knowledge of workplace norms, discrimination encountered at work, physical and mental health, alcohol and drug dependence, children’s health, and experiences with domestic violence.

During the 1997 interview, 58 percent of the women were working at least 20 hours a week, as required for assistance in Michigan; 48 percent of those employed were working full time (35 hours a week or more).<sup>4</sup> Fifty-six percent were African-American, 44 percent white. Almost half (46 percent) were aged 25–34; the remainder were evenly divided between women 18–24 and those 35 or over. Only 24 percent were living with a spouse or partner at the time of the interview, and 43 percent were the primary caregiver for at least one child under the age of 2.

## The barriers to employment

In our interviews we used 14 specific measures, each of them a potential barrier to employment. We briefly characterize them below, and they are itemized in Table 1.

If the respondent has not completed high school or received a GED, her low level of education constitutes a barrier to work. If she has worked in only one year in five since she turned 18, her low work experience is a barrier. If she does not have access to a car or does not have a driver’s license, she faces a work barrier.

We asked whether a woman’s previous employment had involved particular skills and tasks: working with a computer or with electronic machines, watching gauges, writing letters or memos, talking with customers face to face or on the phone, reading instructions, filling out forms, and doing arithmetic. Those who had done fewer than four of these tasks are considered to have this work barrier. We also asked respondents about their attitude to seven common workplace norms: missing work without calling in, tardiness, taking longer breaks than scheduled, leaving work early, not correcting a problem pointed out by a supervisor, refusing tasks not in the job description, and not getting along with a supervisor. Those who thought that five or fewer of these actions would not be “a serious problem” are classified as having this work barrier.<sup>5</sup>

We asked a series of specific questions about workplace discrimination, whether based on sex, race, or welfare status. Did women believe that they had ever been refused a job, not promoted, or fired for any such reason? Did their current or most recent supervisor make racial slurs or insulting remarks about women and welfare recipients? Had they been sexually harassed at work? Reports of four or more such instances are considered a barrier to employment.

We used standard psychological screening tests to assess women for five serious mental health disorders that might have occurred within the last 12 months: major

**Table 1**  
**Prevalence of Specific Employment Barriers**

Barriers	% in Sample with Barrier (1)	% Nationally with Barrier (2)	% Working 20 Hours/Week	
			With Barrier (3)	Without Barrier (4)
<b>Education, Experience, Skills, and Norms</b>				
Less than high school	30.1	12.7 <sup>a</sup>	39.8†	65.4
Low work experience	10.2		46.1†	59.0
Fewer than 4 job skills	21.1		34.2†	64.0
Knows 5 or fewer norms	9.1		56.7	57.8
<b>Perceived Discrimination</b>				
Reports 4 or more instances of discrimination	13.9		46.7†	59.5
<b>Transportation</b>				
Has no car and/or license	47.3	7.6 <sup>b</sup>	44.6†	69.4
<b>Physical Health</b>				
Mother has health problem	19.4		39.0†	62.2
Child has health, learning, or emotional problems	22.1	9.7 <sup>c</sup>	48.5†	60.6
<b>Mental Health and Substance Abuse</b>				
Depression	26.7	12.9 <sup>d</sup>	48.0†	61.2
PTSD	14.6		55.0	58.1
Generalized anxiety disorder	7.3	4.3 <sup>d</sup>	54.5	57.9
Alcohol dependence	2.7	3.7 <sup>d</sup>	70.0	57.3
Drug dependence	3.3	1.9 <sup>d</sup>	40.0*	58.3
<b>Domestic Violence</b>				
Severe abuse within last year	14.9	3.2–3.4 <sup>e</sup>	55.4	58.1

**Source:** Women's Employment Survey (N = 713), authors' calculations. Note: Women with multiple barriers will appear in multiple categories.

\*Difference between columns 3 and 4 is significant at the .10 level.

†Difference between columns 3 and 4 is significant at the .05 level.

<sup>a</sup>Current Population Survey, 1998: % women aged 18–54 without a high school diploma or equivalent.

<sup>b</sup>1990 Census: % of women in households with no vehicle available.

<sup>c</sup>National Longitudinal Survey of Youth, 1994: % of all mothers aged 29–36 with children who have one of six limitations.

<sup>d</sup>National Comorbidity Survey, 1994: % of all women aged 15–54 who meet diagnostic criteria for each disorder.

<sup>e</sup>Commonwealth Fund Survey and 1995 National Family Violence Survey: % of all women aged 18 and over who report severe physical abuse.

depression, post-traumatic stress disorder, generalized anxiety disorder, and alcohol and drug dependence. Women were also asked about physical limitations and general health. If they rated their general health as "poor" or "fair" and if their physical limitations placed them in the lowest quartile of a physical-functioning scale compared to the general population of women in their age group, that is a work barrier. If they reported that at least one child had a physical or emotional problem or a learning disorder that limited the child's regular activities, that is a work barrier also.<sup>6</sup>

Finally, if a woman's answers to questions on a widely used scale measuring domestic violence showed that she had, in the last 12 months, experienced severe physical abuse, that is a barrier to work.<sup>7</sup>

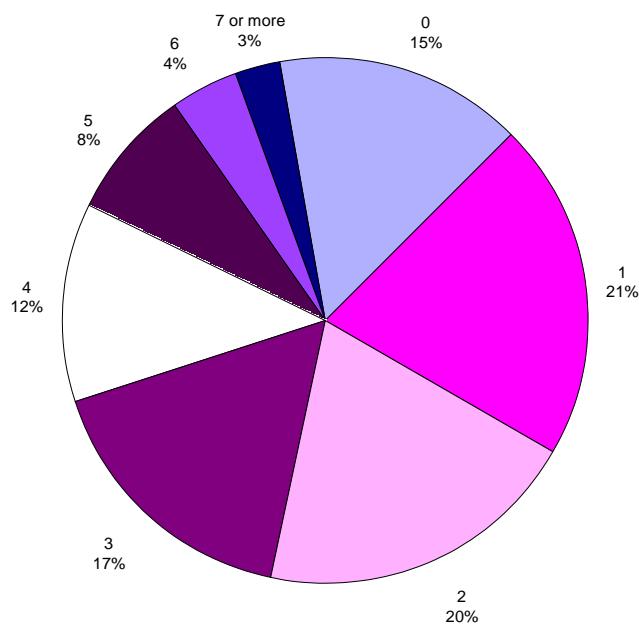
## How common are the barriers to work?

Table 1 reports the prevalence of each of the individual barriers to work among the women in this survey and,

where possible, in national samples (columns 1 and 2); it also lists the proportion of women with and without a particular barrier who are working (columns 3 and 4).

The educational and skill deficits reported in Table 1 are comparable to those found in other studies: substantial percentages had not completed high school and possessed few job skills. But only about 10 percent had little work experience, or failed to recognize workplace norms. About half the women did not have a driver's license or access to a car—this in an urban community poorly served by public transportation. About half also believed that they had been subjected to discrimination, and 14 percent reported four or more instances.

The Michigan welfare recipients in this sample had much higher rates of mental and physical health problems and much greater experience of domestic violence than do women in national samples. Over a third of respondents met the criteria for at least one of the five mental disorders for which we tested. One woman in four, for example, had experienced a major depression within the



**Figure 1. Prevalence of multiple barriers among welfare mothers.**

**Source:** Women's Employment Survey.

past year, and 7 percent met the criteria for generalized anxiety disorder—much higher than the national rate (Table 1). Respondents were twice as likely as the general population of adult women to report physical limitations, and three to five times as likely to describe their general health as “poor” or “fair.” But the incidence of substance dependence is very low—a finding that is perhaps contrary to the common stereotype of welfare mothers as alcohol and drug abusers.<sup>8</sup> About 15 percent of the women reported severe physical abuse by a husband or partner during the past year—a rate four or five times the national average, but similar to rates in other welfare studies.

Considered alone, eight of the 14 barriers we examined are linked with a significantly lower likelihood that the woman is working (Table 1). Three of them reflect deficient education, skills, and work experience, but discrimination, transportation problems, personal health or the health of a child, and, among mental disorders, depression may all seriously impede steady employment. To a lesser degree, so may drug dependence, but neither alcohol dependence nor exposure to domestic violence are significantly associated with lower work levels in this first wave of our survey.

### How many women face multiple barriers?

Only 15 percent of respondents had no barriers to work (Figure 1). Multiple barriers were common; two-thirds of the women had two or more barriers and one-quarter had four or more. One or two barriers may have little effect on employment, but as difficulties mount, the likelihood of work diminishes. Lack of a high school diploma does

not by itself constitute a rigid barrier against a job, but an employer might be less than willing to hire a depressed high school dropout with few work skills and transportation problems.

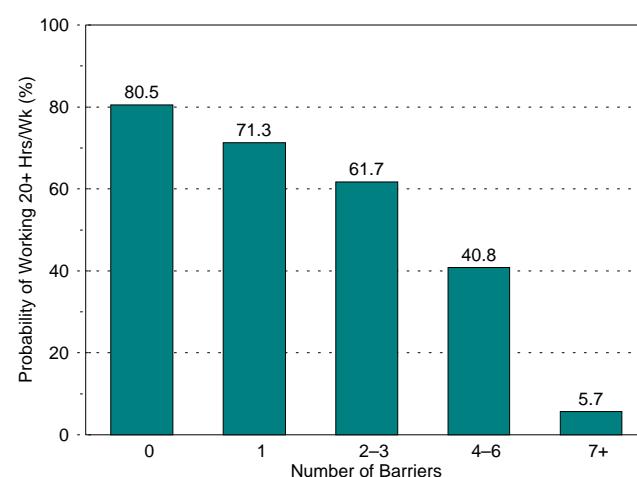
We found few racial differences in the type and number of barriers to employment. African-American recipients in our sample were significantly more likely to report that they had transportation problems and fewer job skills.

### How seriously do work barriers affect employment?

We estimated a regression model which expresses employment of less than 20 hours a week as a function of the 14 barriers and a series of demographic control variables. The number of barriers that a woman faces is significantly associated with the likelihood that she will work. The 20 percent of women who face only one work barrier are a little less likely to work than those who face none. Thereafter, the likelihood that a woman works at least half-time (20 hours a week) decreases steadily as her number of potential barriers increases. The 24 percent of respondents with four to six potential barriers to work have about a two in five (41 percent) chance of working.

For those facing seven or more barriers, the likelihood of employment is only about 6 percent. Figure 2 shows the probability that a single, African-American mother aged 25–34, living in an urban census tract with a child under the age of 2, would work at least 20 hours a week, depending on the number of barriers she faces.

Among the demographic variables, residence in an urban area and mother's age are positively related to working,



**Figure 2. Estimated effect of employment barriers on work.**

**Source:** Women's Employment Survey, authors' calculations. Respondent is a single, African-American mother aged 25–34, with one child under 2, none aged 3–5, living in an urban census tract, and has received welfare for seven years.

whereas her years of prior welfare receipt and having a very young child are negative and significant. Marital status is not a significant factor, nor race; thus the probability of employment for white recipients resembles that of African-American mothers with comparable characteristics.

Some barriers are more significant than others. Other studies of employment among welfare recipients have typically predicted employment on the basis of women's education, work experience, welfare experience, and demographic characteristics—what is generally described as the human capital model. We estimated the likelihood that women in our sample would work using both this model and an expanded model that included the other 12 barrier measures, and found the expanded model to be a better overall predictor of employment. In addition to education, six other barriers are significant constraints on employment: few work skills, lack of access to transportation, mother's poor health, drug dependency, depression, and perceived experiences of workplace discrimination (Table 2). Few work skills and drug dependence each make about 20 percentage points difference in the probability that a woman with that barrier will work more than 20 hours a week. But about 20 percent of the sample have few work skills, whereas only 3.3 percent are drug-dependent. In the expanded model, being younger, and having young children and more years on welfare, also reduce the odds of working, whereas living in an urban census tract increases employment. In this model, neither race nor marital status are significantly associated with employment. Neither prior work experience nor knowledge of workplace norms predict employment status.

## Policy implications

Throughout 1997, the Michigan economy was extremely strong. State welfare caseloads had dropped by 15 percent between February 1996 and February 1997, and unemployment in the urban Michigan county from which we drew our sample of welfare recipients averaged 5.7 percent. Jobs were readily available, and at the end of the year over half of the women in the sample were fulfilling the state work requirement of at least 20 hours a week. About 40 percent of them worked in the service sector; for all the women, average wages were \$212 a week. The low wages and lack of health insurance in many of the jobs suggest the continuing importance of policies that make work pay: refundable child care credits, the earned income tax credit, and health coverage for children, in particular.

For the sizable minority of women with no barriers or one barrier to employment (most of them already working), a program that emphasizes "work first" and help in job search may provide sufficient services and support while they rely on assistance. But for the remainder,

**Table 2**  
**Effect of Particular Barriers on Predicted Probability of Work**

Barrier	Probability of Working 20 Hrs/Week (%) <sup>a</sup>	Difference That Barrier Makes in Probability of Working <sup>b</sup>
Less than high school education	70.9	10.7
Transportation	67.4	14.2
Few work skills	64.4	17.2
Drug dependence	60.2	21.3
Mother's health barrier	68.7	12.9
Major depression	73.1	8.5
Perceived discrimination	68.5	13.1

**SOURCE:** Women's Employment Survey, authors' calculations.

<sup>a</sup>Respondent is a single, African-American mother aged 25–34, with one child under 2, none aged 3–5, living in an urban census tract, and has received welfare for seven years.

<sup>b</sup>That is, difference between the probability of working for women with no barriers and the probability of working with only the single barrier in the row. For example, almost half of the women have no access to a car or no driver's license, and there is a 14.2- percentage-point difference in the probability of working between those women and women with no barriers.

facing difficult circumstances and multiple barriers, targeted, individualized support services, improved access to transportation, and increased and specific job training, counseling, and treatment for mental and physical problems, will continue to be necessary. Those facing multiple barriers may well need to work in sheltered workshops or community service jobs before they can handle the demands of the workplace. And their ability to achieve a stable and independent life for themselves and their children is likely to be improved by more comprehensive and accessible health and mental health counseling and social service programs. ■

<sup>1</sup>The April 1999 report that is summarized in this article is posted in full on the World Wide Web site of the Program on Poverty and Social Welfare at the University of Michigan, <[www.ssw.umich.edu/poverty/pubs.html](http://www.ssw.umich.edu/poverty/pubs.html)>. The research was supported by the Charles Stewart Mott Foundation, the Joyce Foundation, the National Institute of Mental Health (R-24M551363), and the University of Michigan Office of the Vice-President for Research.

<sup>2</sup>Summaries of research findings are A. Kalil, M. Corcoran, S. Danziger, and others, "Getting Jobs, Keeping Jobs, and Earning a Living Wage: Can Welfare Reform Work?" IRP Discussion Paper 1170-98, University of Wisconsin-Madison, August 1998; K. Olson and L. Pavetti, "Personal and Family Challenges to the Successful Transition from Welfare to Work," unpublished paper, Urban Institute, Washington, DC, 1996; and F. Kramer, "The Hard to Place: Understanding the Population and Strategies to Serve Them," Welfare Information Network *Issue Notes* 2, no. 5 (March 1998), also available on the Web at <[www.welfareinfo.org/hardto.htm](http://www.welfareinfo.org/hardto.htm)>

<sup>3</sup>Major changes were introduced into the Michigan welfare system as early as 1992. In 1994 the state began shifting to a work-based system with the introduction of Work First, a program stressing rapid entry into the labor market, rather than education and training, for welfare

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## Danziger, notes (continued)

recipients. After October 1996, AFDC was replaced by the Family Independence Program (FIP). Under FIP, joint orientations conducted by the Family Independence Agency and the Michigan Works! Agency became a condition of eligibility for benefits, minor parents were required to live in approved settings, and mothers of newborn children were excused from the Work First program only while children were less than 12 weeks old. In April 1997, many eligibility workers and employment and training specialists became Family Independence Specialists, a new classification of workers who function as case managers. "Personal responsibility" contracts were required of most recipients and sanctions for noncooperation were tightened. Thus by the time interviews began at the end of 1997, welfare recipients had, at least in theory, been participating in a heavily work-oriented program for almost a year.

<sup>4</sup>The state of Michigan has an income disregard of \$200 per month plus 20 percent of additional earnings, allowing many welfare recipients to work part time and still receive cash assistance.

<sup>5</sup>Workplace measures in this section are adapted from questions in H. Holzer, *What Employers Want: Jobs Prospects for Less-Educated Workers* (New York: Russell Sage, 1996), from K. Newman (personal

communication), and from L. Berg, L. Olson, and A. Conrad, "Causes and Implications of Rapid Job Loss among Participants in a Welfare-to-Work Program," paper presented at the Annual Research Conference of the Association for Public Policy Analysis and Management, Bethesda, MD, 1991.

<sup>6</sup>See R. Kessler, K. McGonagle, S. Zhao, and others, "Lifetime and 12-Month Prevalence of DSM-III-R Psychiatric Disorders in the United States: Results from the National Comorbidity Survey," *Archives of General Psychiatry* 51 (1994): 8–19.

<sup>7</sup> M. Strauss and R. Gelles, "Societal Change and Change in Family Violence from 1975 to 1985 as Revealed by Two National Surveys," *Journal of Marriage and the Family* 48 (1986): 465–79.

<sup>8</sup>It is possible that respondents underreported alcohol and drug use, because the rates we found are somewhat lower than those reported among welfare recipients in national samples. See R. Jayakody, S. Danziger, and H. Pollack, "Welfare Reform, Substance Abuse, and Mental Illness," Poverty Research and Training Center Working Paper, University of Michigan, December 1998, available on the Center's Web site, <<http://www.ssw.umich.edu/poverty/pubs.html>>.

# Examining care after welfare ends

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We are already beginning to learn what happens economically to single mothers who leave welfare, for we have adequate research structures in place to answer questions about jobs and wages. We are not well placed to learn about changes in the care given to children, elders, and others in poor communities when single mothers formerly on welfare move into the workforce. Yet there may be changes and they may be important ones.

In the absence of a social safety net or a wage-earning partner, single mothers must now provide financially or risk losing custody of their children. Unlike most mothers of young children, single mothers will have no discretion to limit their work involvement or work hours. With wages too low to purchase services to replace those they once provided, they are likely to depend on informal supports through their personal networks. If they do, they will incur obligations to those who help them. Yet mandatory work will consume much of the time they once invested in giving and reciprocating care.

The argument that poor single mothers should work for pay is often supported by reference to the majority of “other working mothers,” who managed to balance family and employment responsibilities. The implication is that balancing work and family is the same for the affluent and for the poor; but while it is similar, it is not the same. The jobs, wages, personal networks, and local environments of single mothers who once received welfare will affect how they define the tasks of caregiving and how they organize their resources and efforts to accomplish them.

To suggest some questions, conceptual frameworks, and directions for research into the effects on caregiving of mandatory-work programs, I draw upon studies of kinship and personal networks in sociology and anthropology and from my own study of work and family among single mothers on welfare during the last years of Aid to Families with Dependent Children (AFDC).<sup>1</sup> In the largest cities of two states, I observed and conducted in-depth interviews of single mothers on welfare and program workers in welfare-to-work programs. Using those qualitative data, I reported mothers’ accounts of earning and caring, paying particular attention to the personal

networks of these mothers—their size and structure, the roles of network members, the frequency and directions of exchange, the resources people brought to the network, and the obligations they incurred.

Most women I interviewed had used welfare to allow them more time to provide care to children and close kin. All had also worked at paid jobs in the past and expected to do so again. But AFDC had enabled them to make decisions about how best to allocate their time and efforts when conflicts between caregiving and earning emerged. Some worked part time while continuing to qualify for welfare benefits, some left jobs to stay home full time, others moved in and out of jobs depending on their home situation. These work patterns were not made up simply of attitudes and calculations about work, but emerged from strategies to balance work and family.<sup>2</sup>

The strategies of mothers on welfare become more intelligible when one considers both economic and noneconomic motives and the social contexts of economic actions. In studying poor urban single mothers, I identified three main contexts that influenced the strategies they used to sustain family life. There are, first, *moral economies*—the family commitments and communal values as well as the economic pressures that shape mothers’ allocations of resources and efforts. Then there are *personal networks*—the personal relations of dependence and exchange that shape earning and caregiving. Finally, under the rubric of *urban environments* are the local environments of family life and personal networks, including the neighborhoods in which poor single mothers live.

## Moral economies

The single mothers I interviewed organized their resources and efforts around the well-being of their children. They believed their children’s interests favored efforts to maximize economic well-being, but they also favored investment in caregiving, and the two goals were frequently at odds. Mothers described how they kept children at home until the children could talk, so that when they went back to work they could use children’s accounts to monitor the quality of the day care their children received. They spoke of the need for responsive and attentive care when they explained why they personally took care of sick kinfolk. The absence of subsidized institutional alternatives was not always a factor in such decisions. Among African-American mothers, for example, protecting children or vulnerable elders from the pain of racism or from neglect by racist institutiona<sup>1</sup>

caregivers frequently entered moral economic calculations.

Under AFDC, women had some discretion to take account of the personal needs of children and kin. With mandatory work and active enforcement of sanctions, caregiving practices that are widely regarded as beneficial and that are a main constituent of identity and standing in a community must become a lower priority than getting and keeping a job. One consequence may be a lower level of caregiving.

Replacing the priority of care changes moral economies of households, and potentially of the communities in which they are embedded. Once work must come first, attitudes and norms may adapt, as mothers come to view care in poor day care centers or by irresponsible relatives as adequate. Studies of life after welfare should aim to capture changes in attitudes toward care as well as changes in caregiving practices. Inability to allocate time and energy to caregiving may affect individual attitudes and community norms of care.

If, for instance, family and communal networks cannot prevent a deterioration in child care in poor families when mothers work, and family crises raise the possibility of government intervention, community interests in keeping families whole may favor silence, not merely revised norms of care. We could see fewer reports of child neglect and abuse even as rates of such neglect increase.

## Personal networks

A majority of the single mothers I interviewed in earlier welfare-to-work programs received some support for care from kin and others close to them: money, goods, and services that helped families subsist; emotional succor, advice, and encouragement for single parents; and care itself, primarily child care. But most of them had small, kinship-based networks of support, centered on the mother-daughter relationship.

### Kin

The kin most involved with the women I interviewed were their mothers, adult daughters, sisters, fathers, brothers, and aunts, in that order. The mothers of single mothers were, for many, the primary adult relationship. Two-thirds of the women maintained close ties with their mothers; half received care, help, goods, or money. Whether or not they were part of the household, maternal grandmothers often provided regular or emergency child care and participated in the daily homemaking rituals.

Observers who praise the richness of close kin networks have tended to pay more attention to the supports that mothers receive, forgetting that such supports must also

be reciprocated. In the accounts that I collected, single mothers who received help also gave frequent help and care to kin.<sup>3</sup> One mother, for example, cared for her brothers' children any time he "dumped them," because she needed his car to get to her night job. She had been dropped from a training program that provided her with child care because she had stayed home too often with her nephews. Several had taken intensive care of their sick mothers. Others had taken in the children of siblings disabled by alcohol or drug addiction, or young relatives who had fled domestic conflict or abuse.

In some of these cases, obligations to give care reciprocated support previously received. In other cases, reciprocation was likely to be long in coming, if at all. Before entitlement to welfare ended, single mothers were able to measure these obligations against the work obligations imposed by welfare-to-work programs; sometimes they would decide to use welfare to meet their commitments and to accept the economic sacrifices that decision entailed.

One likely change after welfare ends is that, in order to help daughters subsist, grandmothers may themselves need to invest more time in earning than in caregiving, reducing children's access to attentive and flexible care. Another is "doubling up" to share household expenses. If existing patterns predict future ones, single mothers will most often move in with their mothers, a strategy that may save money but may yield few additional hours of child care to the large minority of single mothers who already draw heavily upon grandmothers for care.<sup>4</sup> Moreover, among the women I interviewed who had previously lived with their mothers, conflicts had often overwhelmed the advantages of the relationship. Single mothers are more likely to live with kin than are married mothers, but like all other families they have steadily abandoned the practice over the course of the century.<sup>5</sup>

### Fathers and boyfriends

The women I interviewed rarely considered the fathers of their children as part of their family networks because their contributions were so irregular and undependable. Even so, irregular contacts and contributions may be convertible to steadier and more lucrative ones during times of great need. The end of welfare may deepen mothers' interest in activating relationships with children's fathers, a strategy that may secure support and care from fathers' relatives also.

Although involving children's fathers may increase child care and support, single mothers who do this also stand to lose authority over children to their formerly uninvolved fathers. Doing so may also risk alienating boyfriends, who, in my study, were steadier contributors of cash and material goods to households than were fathers, and were an important source of emergency child care. Women who sometimes used welfare to end relationships with

abusive or exploitative husbands or boyfriends may now be less able to do so, to the detriment of caregiving.

### Friends and neighbors

I have focused on kinship networks because the women in my study did not report extensive exchanges with friends, beyond emotional support and sociability. Among network members who were not close kin, older women neighbors helped more with care of children than friends did. Mothers sometimes reciprocated this help by paying, driving the neighbor to appointments, or buying her groceries with food stamps. Friends were more likely to be peers who had children of their own. Most women I interviewed were hesitant to ask friends for child care help or money because of the burden of repayment in kind.<sup>6</sup>

### Networking as a solution

In the welfare debates it was widely argued that single mothers' personal networks and extended families would support their mandatory work and that poor communities would "pull together" as they have always done in adversity. Yet the literature on poverty and social networks is not so encouraging.

In the first place, large-scale studies of kinship and social networks suggest that ample networks may be rarer among the poor than ethnographic studies have implied. I have already noted how small are the personal networks of the urban single mothers I interviewed. The large-scale studies show that attitudes toward kin support are not necessarily associated with actual patterns of exchange. Poor mothers, especially racial and ethnic minorities, receive less money, child care support, and household support from relatives than do the nonpoor. Less than half of all single mothers receive substantial support from their parents.<sup>7</sup>

Moreover, networks of support are also networks of obligation. And the poor who receive support are more likely also to give support than those who are not poor.<sup>8</sup> Among families and kin, what goes around in one stage of the life cycle—taking care of older relatives, for example—frequently comes around at a much later time in life. Those who participate in kinship networks pervaded by poverty may also carry heavy, permanently unreciprocated obligations—for example, care of the children of neglectful siblings. The caregiving obligations of poor single mothers are not necessarily reciprocated in kind or quantity during their parental years.

Reciprocation is especially consuming of time and energy for those whose low incomes mean they can give only of themselves. In the new programs, mothers will have less time to reciprocate the help others give them, and may not earn enough to replace with purchased services the care they themselves once provided. In the short run, increasingly asymmetric patterns of exchange

may not damage relationships and constrict close kin networks. In the long run, however, those who give a lot but do not receive may begin to feel exploited.

At welfare's end, single mothers' greater need for support and lesser capacity to reciprocate may, over time, overburden and "burn out" relationships, constricting their kinship networks and undermining the moral and material capacities of these networks. The personal networks the women create to replace them may be more loosely knit, less bound by the communal obligations of kinship, and composed of others who also have few resources to share. Such characteristics will make their personal networks more fragile, less communal, and more exacting of immediate reciprocity.<sup>9</sup>

Though religious and charitable voluntarism might provide some stable, beneficial, and communal ties for mothers in need, the capacities and influences of these groups are likely to be limited where poverty is more geographically concentrated than churches and charities are. This is one way that urban ecologies make a difference in caregiving.

### Urban environments

Low-income single-mother families live in the poorest and most dangerous city neighborhoods, and many child-care patterns have been shaped by the need to adapt to these surroundings. Staying home and keeping children indoors are widespread modes of protecting homes and children, concentrating parental influence, and mediating negative peer influences.<sup>10</sup>

Although some single mothers might use employment to finance moves to safer neighborhoods, many are not likely to earn enough to do so. Employed mothers may be less able than those who used welfare to cultivate the kinds of neighborhood relations that help to protect children.

Mothers as well as agency staff in the welfare-to-work programs I studied told me that women left jobs or programs when a wave of crime swept through their neighborhood or their homes were burgled. They left after finding that children ordered to stay home after school had ventured out, or children returning home from school were frightened on the streets. They described the need, for example, to meet the school bus before and after school as an obstacle to employment. Finally, few existing public programs serve children who are deemed "old enough" to look after themselves. Single mothers I interviewed had sometimes used welfare to leave jobs temporarily, when trouble threatened for their teenage children.

If the end of welfare brings crowding, shortages of money or food, and greater maternal stress, we may see increases in domestic conflicts with older children as

well as problems associated with the absence of supervision. Under such tenuous domestic circumstances, it seems reasonable to predict that older teenagers may increasingly seek to leave or be sent out on their own. The public may first register the effects of welfare's end in encounters with teenagers in the schools or on the streets.

To examine caregiving at welfare's end, we need a range of strategies. Focusing on the indicators of caregiving, we can map changes in social networks and track rates of teen homelessness or child neglect. But some of the ways we typically register change may become less useful if the ethos and norms of care begin to change. Longitudinal qualitative and community studies can examine changes in practices and meanings of caregiving and in the relationships in which they are embedded. ■

<sup>1</sup>A more extended version of this study is S. Oliker, "Examining Care at Welfare's End," to appear in *Frameworks for Care Work*, ed. M. Harrington Meyer (New York and London: Routledge, forthcoming 2000). Articles reporting the earlier studies of welfare-to-work families are S. Oliker, "The Proximate Contexts of Welfare and Work: A Framework for Studying Poor Women's Economic Choices," *Sociological Quarterly* 36 (Spring 1995): 251–72, and "Work Commitment and Constraint among Mothers on Welfare," *Journal of Contemporary Ethnography* 24, no. 2 (July 1995): 165–94.

<sup>2</sup>See also K. Edin and L. Lein: *Making Ends Meet: How Single Mothers Survive Welfare and Low-Wage Work* (New York: Russell Sage Foundation, 1997).

<sup>3</sup>C. Stack, *All Our Kin: Strategies for Survival in a Black Community* (New York: Harper and Row, 1974); A. Roschelle, *No More Kin: Exploring Race, Class, and Gender in Family Networks* (Thousand Oaks, CA: Sage Publications, 1997)

<sup>4</sup>The benefits to this strategy are likely to be concentrated among whites, who are now less likely than members of racial minorities to reside with kin. See L. Hao and M. Brinton, "Productive Activities and Support Systems of Single Mothers," *American Journal of Sociology* 102, no. 5 (1997): 1305–44.

<sup>5</sup>S. Ruggles, "The Origins of African American Family Structure," *American Sociological Review* 59, no. 1 (1994): 136–51.

<sup>6</sup>Roschelle, *No More Kin*, found that single mothers were more likely to exchange child care help with friends than were married mothers. But those who received child care help from friends also gave child care help. See also D. Hogan, D. Eggebeen, and C. Clogg, "The Structure of Intergenerational Exchanges in American Families," *American Journal of Sociology* 98 (1993): 1428–58.

<sup>7</sup>Roschelle believes there has been a "demise of social support networks in minority communities" (*No More Kin*, p. 149); see also Hogan, Eggebeen, and Clogg, "The Structure of Intergenerational Exchanges."

<sup>8</sup>See, for example, Stack, *All Our Kin*; Roschelle, *No More Kin*.

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<sup>10</sup>E. Anderson, *Streetwise: Race, Class, and Change in an Urban Community* (Chicago: University of Chicago Press, 1990); K. Rosier and W. Corsaro, "Competent Parents, Complex Lives: Managing Parenthood in Poverty," *Journal of Contemporary Ethnography* 22 (1993): 171–204; F. Furstenberg, "How Families Manage Risk and Opportunity in Dangerous Neighborhoods," in *Sociology and the Public Agenda*, ed. W. Wilson (Newbury Park, CA: Sage, 1993).

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# Credit cards and the poor

Edward J. Bird, Paul A. Hagstrom, and Robert Wild

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Poor families have had two traditional shields against economic hardship: cash savings and welfare. It appears, however, that we should now add a third: credit cards. Their use has expanded rapidly among the general population, including the poor; in 1995, 36 percent of poor families held a credit card. Poverty is often transitory, and more families may be using credit cards rather than welfare or other means to meet income shortfalls.<sup>1</sup> Given the characteristics of credit cards, reliance on them by poor families carries consequences that should not be overlooked.

In essence, a credit card is a flexible, no-questions-asked loan that does not require people to restrain their consumption, as a savings account would, or expose them to the stigma and time-consuming hassle of applying for welfare. Ahead of time, a credit card may seem an attractive alternative. But unlike savings or welfare, credit cards have the serious consequence of leaving their users with a debt that must be paid. A laid-off worker needs only a few months of living off credit cards to amass a debt several times greater than the worker's normal monthly income. At interest rates of 15–18 percent, it may take years for a family to recover from such a burden of debt. During this time, the family may face serious restraints on consumption, have little chance to build a precautionary savings fund, and be vulnerable to new economic shocks.

The use of credit cards as consumption insurance creates a potentially difficult issue for poverty policy, which typically does not dwell upon the wisdom of decisions that may ultimately impoverish people. The hardships of elderly poor people are in no way diminished by arguments that they "should have" saved enough for retirement. The hardships of poor families burdened by heavy credit card debt are similarly real and, if such debt has become a significant aspect of the lives of poor people, it deserves close examination.

Between 1983 and 1995 the percentage of all U.S. families holding a credit card rose from 65.4 to 76.6 percent, and the average monthly balance (in real 1995 dollars) rose from \$751 to \$1,852, according to the Federal Reserve Board's Survey of Consumer Finances (SCF), a

household-level survey that has been conducted every three years since 1983. (See Table 1.) At the same time as credit card debt rose, so too did income, wage, and consumption inequality. How has the easier availability of credit affected low-income families? How accessible is it, and how widespread its use? And is the existence of easy credit temporarily softening the impact of welfare reform, as people rely on credit cards to smooth consumption?

To explore these questions, we use the SCF. To take account of the business cycle, we use data from the 1983 and 1992 surveys, conducted at the end of recessions, and from the 1989 and 1995 surveys, conducted during long growth periods. We base much of our analysis on contrasts between all households and poor households.

## Patterns of credit card use

Several key indicators of credit card use changed significantly between 1983 and 1995. Some of this change is related to the business cycle, but much of it, particularly among the poor, seems to represent long-run shifts in the use of credit. During the period of economic prosperity in the 1980s, nonpoor families acquired both more credit and more debt, whereas poor households expanded their access to credit but lowered their debt burdens. During the 1990–91 recession, nonpoor households moderated credit and debt growth whereas poor households greatly increased both. But during the period of economic growth that began in 1992, the patterns of the 1980s did not return; both poor and nonpoor families dramatically increased their access to credit cards and their average debt balance.

Table 1 provides evidence of clear cyclic effects—the number of cards rising during growth periods and falling during the 1990–91 recession—but also shows that the overall trend is upward. If each card has roughly the same limit, an increase in the number of cards indicates increased availability of credit.

In one sense, the lowest-income household is not the most vulnerable, since it is already in serious economic difficulties. Real economic risk—the probability of serious income losses and a decline into poverty—is highest among the near poor (those with incomes at 100–150 percent of the poverty level) and the lower middle classes (those at 150–200 percent of the poverty level). By 1995, 56.9 percent of near-poor households and 65.7 percent of lower-middle-class households held at least one credit card. Across all income groups, credit card use rose, and

**Table 1**  
**Patterns of Household Credit Card Use**

Credit Card Use	1983		1989		1992		1995	
	All	Poor	All	Poor	All	Poor	All	Poor
% with at least 1 card	65.4	17.0	69.7	20.3	74.3	34.2	76.6	36.2
<b>Among them:</b>								
Average no. of cards	5.0	2.5	5.7	3.0	5.1	2.9	5.4	3.1
% Carrying balance	56.6	60.8	57.9	56.7	59.0	76.9	61.9	68.6
Average balance	\$751	\$778	\$1,362	\$343	\$1,366	\$1,085	\$1,852	\$1,380
Average charges per month	NA	NA	\$554	\$184	\$429	\$115	\$618	\$162

**Source:** Federal Reserve Board, Survey of Consumer Finances. Post-recession years shaded.

**Note:** All money figures are in real 1995 dollars. Poverty is determined by applying the federal poverty line definitions of the survey year to reported household income, then removing households with more than \$100,000 in net worth (excluding housing). NA = not available.

the average monthly balances maintained by families more than doubled in the 12 years after 1983. After 1989, the balances held by poor households rose very much faster than those held by households in general. In 1995, near-poor households, which in 1983 had an average monthly balance of only \$475, were carrying the largest balance among all income groups, poor and nonpoor—over \$2,000 a month. The clear implication is that reliance on credit cards had grown considerably among poor and near-poor households.

The varying responses of families at different income levels to the recession of 1990–91 are particularly illuminating. Upper-income groups responded by decreasing the number of cards held and decreasing or holding constant the average balance; overall, this reflects a pattern in which credit cards are used as a payment vehicle. When a recession reduces consumption, such households use their credit cards less. The near-poor and the poor, in contrast, responded by increasing the frequency of positive balances and the average balance held. This suggests that credit cards are seen as consumption insurance, to be used as a borrowing instrument when a recession lowers incomes.

## Consequences

The mere fact that a household exited the recession of 1990–91 poor and with a credit card balance does not immediately imply any extended hardship. The important question is the ratio of debt to monthly income. Table 2 shows that the percentages of all households in which the average monthly credit card balance was greater than average monthly income rose dramatically after 1983; by 1995 almost 16 percent of households had debt-to-income ratios greater than 1.0. The incidence of heavy debt was greater among the poor; in 1995 over one in eight poor households had credit card debt more than

twice as large as monthly income. Most of this increase occurred during the 1990–91 recession, but it did not stop when the recession ended.

A growing share of household debt is held in the form of credit cards—in 1995, such debts amounted to 39 percent of all debt held by poor households. Despite the burdens credit cards impose, they have remained in heavy demand, especially among the vulnerable families at the lower end of the income distribution. One indicator of this demand is the number of poor families rejected for credit; this rose from 5 percent in 1983 to 25 percent in 1992, then fell to 16 percent in 1995. The number of households hesitating to apply for credit cards because they anticipated being rejected also rose; in 1995 a quarter of poor households was in this category.

Despite the increase in credit balances, delinquency did not rise dramatically. Indeed, the percentage of poor families with delinquent payments, though high, has actually fallen since such data first became available in 1989.<sup>2</sup> The level of debt keeps rising, but even poor households have apparently been able to reduce consumption enough to meet credit card obligations.

## Credit cards and marriage, employment, and the life cycle

### Married versus unmarried poor households

Almost half of married poor households held credit cards in 1995, compared to just over a third of unmarried poor households—a group that includes single parents as well as single individuals. Both groups had seen average monthly balances rise during the early 1980s recession, then fall during the economic upswing (Table 3). After the recession ended in 1992, married poor households reduced the average balance slightly, but unmarried poor

**Table 2**  
**The Incidence of Heavy Credit Card Debt**

Household Income and Credit Card Debt Ratio	Families in Each Category (%)			
	1983	1989	1992	1995
All Households				
Debt-to-income ratio >1	3.6	8.9	12.2	15.8
Debt-to-income ratio >2	1.0	3.5	6.0	8.1
Income Below Poverty Line				
Debt-to-income ratio >1	5.6	6.0	14.9	15.6
Debt-to-income ratio >2	3.4	4.3	10.6	11.9
100-150% of Poverty Line				
Debt-to-income ratio >1	4.6	11.2	16.5	23.2
Debt-to-income ratio >2	0.9	6.4	6.7	14.6
150-200% of Poverty Line				
Debt-to-income ratio >1	4.6	18.2	14.3	19.2
Debt-to-income ratio >2	<0.5	9.4	6.9	9.1
Above 200% of Poverty Line				
Debt-to-income ratio >1	3.0	8.4	10.7	14.8
Debt-to-income ratio >2	0.7	2.4	4.7	6.6

**Source:** Federal Reserve Board, Survey of Consumer Finances. Post-recession years shaded.

households substantially increased credit card borrowing, more than doubling average balances by 1995.

### Employed versus unemployed households

The pattern earlier noted reaffirms itself here: overall, households with working heads increased the number of cards and the size of the average balance during good economic years, and reduced them during recessionary times. Working poor households, once again, did the opposite. The average monthly balance held by poor working families rose from 1989 to 1995; the proportion carrying a monthly balance peaked in 1992 at 86.5 percent (Table 3). Fewer unemployed poor families (though still about 62 percent) carried monthly balances, but for them too the amount of debt rose steadily after 1989.

### Patterns of household debt, by age

Among virtually all age groups, in poor and nonpoor families alike, credit card usage increased from 1983 to 1995. Average balances rose steadily; not unexpectedly, they were largest among households with heads aged between 26 and 35. By 1995, about 85 percent of poor families in that age bracket were carrying substantial monthly balances (over \$2,000). Among older poor households (heads aged 46–55), balances had been halved, but 85 percent of families were still carrying a thousand-dollar monthly debt balance.

The most striking changes occurred at both ends of the age distribution. In 1983, nearly half of poor elderly households (head aged 65 or over) were carrying a monthly balance of around \$500. Elderly households in

general reduced the size of monthly balances after both recessions ended. Nevertheless, by 1995 elderly poor households had a monthly credit card debt burden of over \$800.

Among the youngest poor households, those with heads under 25, credit card use soared. In 1983, only 13 percent held a credit card, but by 1992, over one-third did so (compared to nearly 75 percent of all households). But poor young households, although they had an average of three credit cards apiece, still carried the lowest monthly balances of all, around \$500 in 1995.

In general, the proportion of families carrying a balance from month to month declined with age, though it remained twice as high among the poor as among the nonpoor. It seems clear that the young rely most heavily on credit cards as a financial instrument, possibly because they are less likely to have savings.

The revolution in credit has been quite equitably distributed. In the 1980s the flexibility of credit card borrowing became newly available to people who had not previously had access to it: the young, the old, the unemployed, and especially and more generally the poor. By the mid-1990s, the practice of carrying large debt balances on credit cards had risen significantly for households of many demographic types.

### The implications of the credit revolution

The SCF data suggest two distinct types of credit card users. Some families use the card as a means of payment, usually paying off the balance every month but taking on debt when income seems secure and rising. Another type of family adopts credit cards as a form of consumption insurance, using good times to acquire new cards and to pay off large balances acquired during lean times.

This dual explanation is consistent with the observation that poverty is often a transitory state. But those who become poor during recessions and use credit cards to survive will accrue large balances that must then be paid.

If the growth in credit card use by poor and near-poor families that occurred before 1995 continues, many such families may find themselves facing average monthly balances of around \$2,000 by about 2005. At an interest rate of 18 percent, a household with \$10,000 annual post-tax income would take 14 months to pay off such a debt if it devoted 20 percent of its income—\$167 out of \$833 per month—to the task. If the family paid only the minimum \$50 per month—6 percent of monthly income—the debt would take five years to clear.

It is clearly important to determine why some vulnerable households rely on cards rather than on savings or welfare. Faced with dire consequences of an immediate in-

**Table 3**  
**The Burden of Credit Card Debt, by Household Characteristic**

	All Households				Poor Households			
	1983	1989	1992	1995	1983	1989	1992	1995
Married								
% carrying balance	58.4	60.1	59.3	63.0	71.7	55.1	77.5	69.9
Average balance	\$844	\$1,477	\$1,513	\$2,070	\$1,091	\$395	\$1,447	\$1,404
Unmarried								
% carrying balance	52.4	53.5	58.4	60.2	50.8	53.7	68.6	67.0
Average balance	\$526	\$1,132	\$1,099	\$1,459	\$497	\$332	\$629	\$1,315
With Working Head								
% carrying balance	63.7	65.9	64.9	68.4	65.3	61.6	86.5	75.7
Average balance	\$873	\$1,654	\$1,627	\$2,200	\$704	\$505	\$1,141	\$1,705
With Nonworking Head								
% carrying balance	36.1	34.4	44.3	44.8	55.0	47.5	62.0	62.6
Average balance	\$398	\$507	\$721	\$940	\$735	\$215	\$771	\$1,090
Aged 25 and younger								
% carrying balance	62.2	66.2	77.1	76.9	29.4	42.9	82.6	61.5
Average balance	\$533	\$1,016	\$1,073	\$1,713	\$250	\$286	\$679	\$504
Aged over 65								
% carrying balance	23.8	26.4	36.8	33.1	48.4	54.5	63.3	50.7
Average balance	\$198	\$370	\$631	\$539	\$521	\$253	\$1,049	\$806

**Source:** Federal Reserve Board, Survey of Consumer Finances. Post-recession years shaded.

**Note:** All money figures are in real 1995 dollars. Figures are for households with at least one card. These figures do not appear in the article published in the *Journal of Policy Analysis and Management* and are based on a slightly different sample from the figures in Tables 1 and 2.

come loss, poorer households may be more willing than richer ones to commit themselves to a longer-run but manageable decline in consumption. A full exposition of these decision-making patterns would require estimation of a model with transactions costs, to enable us to determine the likelihood that a household might become permanently immiserated by the use of credit cards. How many income shocks are required to put a near-poor household that relies on credit cards into bankruptcy or long-run consumption poverty?

The data also suggest that the credit card market has grown more by expanding into economically vulnerable populations than by intensifying the use of credit among the economically secure, for reasons that might repay exploration. Given rising wealth inequality in the United States, it seems unlikely that the credit-worthiness of the poor has improved relative to that of the middle class. Perhaps the continuing low level of interest rates has increased the supply of loanable funds.

The implications for welfare policy are also worth considering. If vulnerable households in the lower and middle levels of the income distribution increasingly

view their credit cards as rainy-day funds, has this played a role in the diminished political support for means-tested welfare? Are people using credit cards to avoid recourse to welfare? In so doing, they may soften the short-run consequences of welfare reform and the now obligatory transition to paid employment, while lengthening and hardening the long-run consequences. In particular, an increase in credit card debt may become a significant hurdle to welfare-to-work policies by greatly reducing the consumption that can be generated from regular paid employment. ■

<sup>1</sup>The article summarized here appeared as IRP Discussion Paper 1148-97, University of Wisconsin-Madison, 1997. A version using a slightly different sample was published in the *Journal of Policy Analysis and Management* 18, no. 1 (Winter 1999): 125–33; material from that article is used here by permission of the journal. “Poor families” refers to families with incomes below the federal poverty line for families of that size.

<sup>2</sup>The percentage of poor households more than two months delinquent on any debt during the five years preceding the survey year fell from 10.8 percent in 1989 to 5.5 percent in 1995.

# New Hope and W-2: Common challenges, different responses

Thomas Kaplan and Ingrid Rothe

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Wisconsin Works (W-2) and New Hope are distinct programs, but they share a common emphasis on moving people with limited work experience and education into a stable job and greater financial independence. New Hope and W-2 operated in about the same time and place, using different strategies to promote their common emphases. A comparison of the strategies can inform a range of potential program responses to the challenges that welfare-to-work programs now face.

New Hope was designed as an antipoverty project for low-income adults by the Congress for a Working America, began in 1992 as a prepilot program, and in August 1994 moved toward full implementation in two areas of Milwaukee with large concentrations of poor families. The Greater Milwaukee Committee, a coalition of business executives, helped in implementing the proposed program, which received funding from multiple private and public sources; about 40 percent of project expenditures came from state and federal tax revenues.

The W-2 program started a few years later. In 1993 the Wisconsin Legislature abolished Aid to Families with Dependent Children (AFDC) as of January 1, 1999, and directed that plans for a replacement be created. W-2 was developed during 1994–95 by the state Department of Health and Social Services, with assistance from the Hudson Institute, a national think tank, and was enacted into law in April 1996. The program began for new applicants in September 1997, and current AFDC recipients were phased in over the next seven months. W-2 operates statewide, but over 80 percent of participants since the program began have lived in Milwaukee County. The program is entirely funded by state and federal revenues.

Work is central to both these programs, not just as income but as a source of social integration and personal dignity. Neither program provides cash assistance in the absence of work or, in the case of W-2, full engagement in required activities.<sup>1</sup> Both emphasize helping people connect to the labor market and move toward greater economic security and independence through work. Both recognize that the process may be quite difficult, as par-

ticipants struggle to fulfill the terms of the employment plans that they sign.

The programs share several operational similarities:

1. Both adhere generally to “work-first” principles, emphasizing quick movement into jobs.
2. Both offer community service jobs (CSJs) as jobs of last resort, created with program funds, to those who do not find work in the regular labor market.
3. Both offer participants financial help with child care costs and health insurance.

## Key program differences

1. New Hope had a different and more universal eligibility than W-2 does. All adults over 18, whose incomes were at or below 150 percent of poverty and who were willing and able to work, were eligible. Some 25 percent of New Hope participants either had no children or were

### Primary sources used in this report:

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not caretakers of minor children. W-2 cash assistance is available only to parents who are caretakers of minor children.

2. New Hope was designed as a rigorous, small-scale experimental test of a version of a work-based system to help people escape poverty through work. The New Hope experiment was, at least for single parents with minor children, an entirely voluntary option or supplement to the dominant AFDC and, later, W-2 programs. Those single parents with minor children who were unable or unwilling to meet New Hope demands could instead participate in AFDC or W-2.

W-2 serves as a replacement for AFDC, operating statewide through 75 independent, local W-2 agencies, five of them in Milwaukee County. No alternative program exists for many W-2 participants.

3. Nothing in New Hope was designed for people who could not work owing to significant physical or mental health problems, drug or alcohol abuse, or the need to care for a child with a disability. The lowest tier of W-2, W-2 transitions, is designed for such participants, some of whom may remain there until they gain eligibility for the federal Supplemental Security Income (SSI) program.

4. New Hope actively recruited participants from its target communities, but W-2 has not done so, at least until recently.

5. New Hope emphasized that those in the program should take advantage of all services for which they were eligible, including federal programs like Food Stamps and New Hope child care assistance, health insurance, and wage subsidies. W-2, at least in the beginning, stressed what its policy manual calls the “light touch,” that is, providing only as much service as an eligible person asks for or needs.<sup>2</sup>

6. The goal of New Hope was to ensure that its participants had an income above the federal poverty line. The W-2 policy manual, in contrast, described its standard of fairness as “comparison with those who are working to support their families and have not asked for public assistance.” New Hope participants who worked at least 40 hours a week received an income, including the New Hope wage supplement and federal and state earned income credits, at least equal to the federal poverty line for a family of that size, up to a maximum of four dependents.<sup>3</sup> W-2 provides grant levels that do not vary with family size and that more closely match the minimum wage than the federal poverty line.

7. New Hope viewed CSJ participants as workers, whereas W-2 views them as “jobseekers” not yet in real jobs. In consequence, New Hope participants in CSJs paid Social Security payroll taxes and were eligible for earned income credits, Social Security benefits, and unemployment insurance. Participants in W-2 CSJs receive a “grant” rather than a wage, do not pay payroll taxes,

and do not gain eligibility for the benefits of regular employment.

## Responses to common challenges

In seeking to move people who are poor and/or dependent on public assistance into stable jobs, both programs face comparable tasks. These include coaching and counseling participants, managing and training the staff who do so, dealing with cases of noncompliance, providing CSJs that both challenge and protect participants, and assuring that vocational training resources are appropriately targeted, child care and health care insurance expenses available, and staff and managers have the information resources they need.

### The role of case management

The practice of social services case management has tended to swing between two poles: from active intervention in clients’ lives to a minimalist version as data entry operator; the latter prevailed as AFDC came to an end. New Hope case managers (“project representatives”) were an early indication that practice might again be reversing itself. Project reps were given wide discretionary powers and complex managerial functions: they were at one and the same time “door openers,” job coaches, counselors, and benefit calculators.

As door openers, project reps recruited participants and saw that they were enrolled in all appropriate programs. As job coaches, their aim was basically to get participants moving in the labor market, and the reps could choose whether to intervene actively or to restrict themselves to giving advice. Counseling was also a role that varied according to reps’ individual preferences and the participant’s needs; at a minimum, it involved a great deal of sympathetic listening. Perhaps 25–35 percent of project reps’ time went to calculating wage supplements and participants’ contributions to child care and health insurance benefits. Inevitably, these roles sometimes conflicted, and there was talk of dividing project reps’ responsibilities, but managers and staff ultimately decided that the duties were mutually reinforcing.

The original plans for W-2 created a separate door opener/gatekeeper position (Resource Specialist, RSP) but centralized other case management duties in one staff member, the Financial and Employment Specialist (FEP). The RSP’s function is to gather information about the applicant, to make referrals to other sources of assistance such as child support, Food Stamps, Medicaid, and child care, and to encourage use of job-seeking tools such as Jobnet. If the applicant is diverted away from the W-2 program, it is likely to be at this stage. In some W-2 agencies, however, diversion has not played a prominent role, and that RSP role has not materialized. These agencies have interpreted the goal of helping people move

toward self-sufficiency as requiring extensive early interaction by the FEP with potential participants.

The FEP is coordinator, job coach, and counselor, identifying types of assistance that might help participants, developing employability plans with them and encouraging them to follow through, checking on their progress, coordinating access and referral to other services, and determining whether to excuse absences from assigned activities. As with the New Hope project, the case management role in W-2 varies—and was designed to vary—with the individual agency and FEP.

It is difficult to generalize, but several of the larger W-2 agencies appear to place more emphasis on trying to prevent people being fired or quitting after just a few weeks on the job than did New Hope, which focused instead on trying to help participants learn from the experience. But at least in Milwaukee, the central job coaching duties of FEPs are similar to the job coaching performed by New Hope.<sup>4</sup> Case managers in both system try to provide frequent positive reinforcement to participants.

### **The use of sanctions**

If New Hope participants worked an average of 30 hours a week in the previous month or six weeks, they were entitled to a wage subsidy, health insurance, and child care assistance. If their work hours fell below this level, no benefits were available. These provisions were not presented negatively, as a sanction, but positively, as a reward for work. Nevertheless, this policy is in effect a 100 percent sanction for failure to meet the 30-hour work requirement.

W-2 has a more graduated sanction policy. For those in the two lower tiers of the employment ladder, receiving grants in CSJ or W-2 transition slots, the penalty is \$5.15 for each hour of failure to perform their assigned activities without good cause. Repeated missed hours may incur a “strike,” and participants who accumulate three strikes become ineligible to participate in the W-2 tier in which the strikes were incurred.

No W-2 participant has yet received three strikes in any W-2 tier, though the use of sanctions for missed hours has greatly increased. In March 1999, W-2 agencies statewide sanctioned 35 percent of CSJ and W-2 transition participants, imposing average penalties of \$372 (55 percent of the grant) on CSJ participants and \$212 (34 percent) on W-2 transition participants. There is no information on whether the monthly sanctions represent repeated sanctions against the same cases or whether sanctions applied once or twice are helpful in increasing compliance with the program.

### **Community Service Jobs**

Both programs regard the CSJs as in part a mechanism for improving the “soft” job skills of participants, who

are expected to learn appropriate work habits and increase their ability to organize their lives and those of their children to facilitate new work patterns.

New Hope believed that CSJs filled another potential need: if too few jobs were available in the local economy, CSJs provided backup work.

As already noted, New Hope viewed CSJs as “real jobs”; with a few exceptions they were usually full time, participants had to apply for the slot, and training was limited to what a newly hired employee not part of New Hope would receive. At any given point, fewer than 10 percent of New Hope participants were in a CSJ; over the life of the program, 32 percent utilized CSJs at some time. Each CSJ was limited to 6 months, and participants could use CSJs for up to 12 months of their 36 months of New Hope eligibility.

In W-2, CSJs are used more frequently and are considered one step on the ladder toward a “real job.” W-2 participants are placed in a particular slot, typically for 20–30 hours a week, and classroom training is a significant component of the week for many participants. Training ranges from early motivational sessions to later, more strictly vocational training that may offer instruction in entry-level jobs. In March 1999, CSJ participants constituted about 47 percent of the W-2 caseload. Participants are limited to two years in the CSJ tier.

W-2 agencies have developed two basic CSJ models. The first develops or identifies positions in nonprofit or even for-profit private employers. The second, adopted by some Milwaukee agencies, creates businesses owned by the W-2 agency to provide employment positions.

During the CSJ assignment, both New Hope program reps and W-2 FEPs continue to assist participants in solving problems that might prevent them fulfilling their program obligations—breakdowns in child care or transportation, family emergencies, necessary paperwork, and budgeting income. In both programs CSJ site supervisors also provided job-related instruction and helped participants learn to take direction, interact with fellow employees, and understand the consequences of failure to perform.

### **Formal training of program participants**

Both New Hope and W-2, as noted, began with explicit policies that minimized formal training, whose role in promoting escape from poverty has been the subject of lengthy debate. Although acknowledging that people needed advanced education and skills to get on career ladder paths, New Hope did not initially try to incorporate training into the demonstration. It later allowed CSJ participants to be paid for up to 10 hours a week of school or training, provided they also worked 30 hours a week in the CSJ placement, and provided opportunities for some

CSJ participants to learn an occupational skill as members of closely supervised work teams in nonprofit agencies.<sup>5</sup>

In the original W-2 plan for CSJs, formal classroom training could account for no more than 10 hours of a 40-hour week. This has now been modified to allow more hours of training if it occurs at the CSJ job site. Some W-2 agencies have taken advantage of this change to provide job-specific literacy and numeracy training at CSJ sites, but practice varies. Among the five Milwaukee W-2 agencies, the percentage of participants assigned to at least 10 hours training per week during a week in April 1999 ranged from 23 to 77 percent.

### **Staff training**

The amount of discretion granted case managers under New Hope and W-2 means that training of new and continuing staff is especially critical. Both programs follow generally similar strategies: frequent review of individual cases and possible problems by case managers and their supervisors, and periodic meetings to encourage all staff to develop a shared sense of the agency's purposes and procedures. In both, training of new hires includes shadowing an experienced worker for a time and then performing more and more of the job activities, at first under supervision, and then independently for a growing caseload.

Because of the more layered governance structure of W-2 as a statewide, publicly funded program, a formal W-2 training component is also provided by the Department of Workforce Development (DWD). This is efficient in part because the W-2 computer system, CARES, imposes some standardization and is complex enough to require considerable instruction. But some local agencies informally "retrain" new hires in areas where they believe the DWD training may not be entirely consistent with the way they implement W-2.

### **Child care assistance**

New Hope participants working 30 hours a week, with at least one dependent child under the age of 13, were eligible for financial help with child care as long as the provider was county- or state-licensed or certified. New Hope paid the provider directly, less a monthly copayment that varied with earnings. Unemployed participants were offered up to 3 hours' child care assistance a day as long as they were looking for work.

Under W-2, eligibility for child care assistance was extended to parents entering the program with incomes less than 165 percent of the poverty line and, after entry, with incomes below 200 percent of the poverty line. In Milwaukee, the parents secure the provider, who then bills Milwaukee County for the cost of care, less a required copayment that the parent pays directly. Some serious early problems with long delays in referrals and pay-

ments in Milwaukee appear to have been largely resolved after the state provided extra funds to the county to hire more administrative staff. Some W-2 agencies operate emergency child care facilities, and many of the larger CSJ sites also provide day care. There remain problems in obtaining child care for shift workers or for children who are ill, and with transportation to child care sites.

In both programs, fewer participants used the child care subsidy, especially early on, than was expected. During the first year after entering New Hope, only about 36 percent of single parents used the child care assistance in at least one month. Through the first five quarters of W-2 only about 28 percent of participants used child care assistance at some time in each quarter, even though almost two-thirds of W-2 cases included a child below school age.

### **Earned Income Credit (EIC)**

Wisconsin has a relatively generous state EIC that, in combination with the federal EIC, can provide necessary extra cash to low-income workers. The federal EIC is available either as a lump sum at tax-filing time or, in its "advanced" form, as regular wage supplements added to the worker's paycheck.

The advanced EIC was a prominent part of the benefit tables that determined the New Hope wage supplement and was at first strongly promoted. Faced with participants' continuing reluctance to take it, New Hope reps eventually changed their tack, instead making sure merely that participants could make an informed decision. W-2 benefit structures made no assumptions about the EIC, but some W-2 agencies have also heavily promoted the advanced EIC. Some agencies include the EIC in their discussions about budgeting and managing income. Again, results have been mixed.

### **Transportation**

Even where public transportation is available, not every job site or child care center is easily accessible. Many low-income workers do not have driver's licenses or access to cars (only about half of New Hope participants did). At New Hope, CSJ developers succeeded in identifying many jobs in or near the relatively confined New Hope geographic boundaries. This helped, as did the practice of providing small loans to purchase bus passes for the first month on a job. Staff also referred participants to the Family Loan Program of Family Service of Milwaukee in order to apply for low-interest loans to purchase or repair automobiles.

W-2 agencies also report transportation problems. Otherwise appealing job sites may be in practice very hard to reach, so that placing people there is problematic. Busing between home, work, and child care center can require four or five hours a day in travel, and a missed connection can result in a lost day for a participant. Bus passes

are available at most Milwaukee W-2 agencies, and some agencies operate vans or contract for van services. Several agencies have also worked with legal or paralegal providers to resolve driver's licensing difficulties.

### **Health insurance**

The availability of health insurance has been critical to the success of self-sufficiency efforts. At New Hope, many reported that it was the most valuable service offered. During most of the project, eligible New Hope participants could choose one of two large HMOs in Milwaukee; each had many providers in the New Hope area. New Hope paid the HMO premium directly and billed the participants for their share, which depended on ability to pay.<sup>6</sup>

The New Hope health insurance was available as a last resort if other insurance could not be obtained. Some New Hope participants were eligible for Medicaid, others received insurance through their employers (if employer-sponsored insurance premiums were higher than those charged by New Hope, the program made up the difference). The two HMOs reported that their costs for New Hope recipients exceeded their New Hope charges; the excess cost was considered a corporate contribution.

Most participants in W-2 CSJ or transition placements are eligible for and receive Medicaid, which continues to be available for up to a year after participants leave for private employment. Children have different income eligibility requirements under Medicaid, or they may obtain eligibility through "spend-down" procedures, and may be eligible for the program even if parents are not. All agencies contacted indicated that health insurance was a problem for some departing participants and probably contributed to the return of some people to W-2. Under the state's new health insurance program BadgerCare, recently approved by the federal Department of Health and Human Services and scheduled to start in July 1999, Medicaid benefits will be provided to families up to 200 percent of the poverty line.

### **Time limits**

New Hope was not designed with any lifetime limits for general eligibility. However, there were time limits to the use of CSJs. And because the program was a demonstration, there was a de facto time limit of three years. Since all participants faced the same time limit, the effect of the "clock" on the effort of New Hope participants to become self-supporting is unclear.

W-2 participants also face two types of time limits: the two-year limit on continuation in a single type of paid placement, and the five-year limit on total paid placement. The earliest date at which any new W-2 participant can reach the five-year limit is 2002, but a few participants in the experimental precursor to W-2, Work Not Welfare, are now reaching two-year limits.<sup>7</sup>

W-2 agencies and workers vary in their philosophy regarding time limits as a tool. Some see them as additional reasons that participants should opt for diversion, "saving" the limited benefit "until they really need it." Others have a more open-door approach, believing that two or five years provide sufficient opportunity to become employed. Some agencies engage in intensive case management for those whose remaining eligibility is short, assigning them to FEPs who have very low caseloads of 10 or so participants.

### **Evaluating the programs**

When New Hope was designed, little was known about strategies that might result in greater income security and better labor market outcomes than traditional welfare programs. Program designers built in the capacity for a careful evaluation of the program's effects on use of benefits and services, employment and economic well-being, and family well-being. They raised funds for an experimental evaluation with randomly selected treatment and control groups, and contracted for the evaluation with the Manpower Development Research Corporation (MDRC). Results of the two-year evaluation by MDRC, released April 1999, are summarized on pp. 49–50.

As part of the terms of the various waivers granted for Wisconsin experiments in welfare reform that preceded the national legislation of 1996, the state was obliged to evaluate the experiments. State officials, however, saw a number of institutional barriers to a full-scale classical experimental design even for these more limited programs, and were very reluctant to use such a design for W-2. It is, indeed, difficult to imagine that a program designed in part to change fundamental social attitudes about work and welfare could be effective without strongly influencing a control group that would still receive the traditional AFDC. Instead, the state government created a W-2 Management Evaluation Program that has endorsed and in some cases actively stimulated a number of evaluation projects.<sup>8</sup>

In designing their programs, the originators of New Hope and W-2 were responding to broad dissatisfaction with traditional welfare programs and, among welfare policy makers, a general sense that decades of experiment with economic incentives and training programs had produced less than stellar results. Both turned to models that relied on techniques of close supervision by case managers who had much discretionary authority. There is an increasing interest in such models nationwide, suggesting that policy makers may learn much from the varied strategies of the two Wisconsin programs. ■

*notes continued on p. 50*

## The New Hope Project: Two-year results of the MDRC evaluation

In December 1998, the last enrolled participants in the New Hope Project ended their spell of eligibility, and the project is now coming to an end. This innovative project, which began operating as a demonstration program in 1994, sought to improve the lives and reduce the poverty of low-income workers and their families in two areas of Milwaukee, Wisconsin. In return for a commitment to work at least 30 hours a week, low-income workers or those currently unemployed were offered the opportunity to participate in a program that offered earnings supplements to raise participants' income to the poverty level for their household, affordable health insurance, child care subsidies, and a full-time job opportunity in a community service job (CSJ) for those unable to find a job on their own.

New Hope operated outside the existing public assistance system. Funded by a consortium of local, state, and national organizations interested in work-based antipoverty policy, by the state of Wisconsin, and by the federal government, it was designed and operated by a community-based nonprofit organization. During its operation, it served a diverse population of low-income people. For example, 37.5 percent were employed at enrollment, and 84.9 percent had been employed full time during their adult work life; a little over one-third of the sample received no public assistance or Medicaid at enrollment. Men made up 28.4 percent of the sample; 21.8 percent of the sample were married, 18.3 percent separated, divorced, or widowed, and 59.8 percent were never married.

One goal of the project was to provide credible information to policymakers on the implementation, effectiveness, and cost of the New Hope approach. To this end, the organization contracted with the Manpower Demonstration Research Corporation (MDRC) to conduct an independent evaluation. At the start of enrollment, 1,357 applicants were randomly assigned to either a program group with access to New Hope services or a control group that did not have access to New Hope services but could seek other services.

In April 1999 MDRC issued a report that compares the experiences of participants during the first two years of their eligibility with the experiences of the control group. Here are its findings in brief.

Overall, New Hope increased employment and earnings, leading in turn to increased income during the first year of follow-up and enabling some low-income workers to earn their way out of poverty. New Hope's effects on employment and income, coupled with its provision of health insurance and child care subsidies, set off a chain of beneficial effects for participants' families and their children. On average, New Hope participants were less

stressed, had fewer worries, and experienced less material hardship (particularly that associated with lack of health insurance) than control group members. Participants' children had better educational outcomes, higher occupational and educational expectations, and more social competence; boys also showed fewer behavior problems in the classroom.

Analyses found that New Hope's effects varied with the employment status of its participants at random assignment. Those working part time or not at all needed to either find a full-time job or increase their hours of work to qualify for earnings supplements, health insurance, and child care subsidies. New Hope project staff assisted them in this process, sometimes by offering the opportunity to apply for CSJs when they were needed. Those working full time (30 hours or more) could take advantage of program benefits immediately, without having to increase their work effort.

About two-thirds of the sample were not employed full time at random assignment. New Hope reduced by half the number of participants who were never employed during the two years of follow-up (from 13 percent for the control group to less than 6 percent for New Hope participants). Average two-year earnings of the portion of the program group not employed full time at random assignment (including those who had no earnings) increased by \$1,389, from \$10,509 for the control group to \$11,898 for the program group. This increase in earnings, boosted by New Hope's earnings supplement and the Earned Income Credits (EICs), resulted in a substantial income gain of \$2,645 over the two-year follow-up period, which made it possible for many of these participants to work their way out of poverty.

CSJs were important in bringing about the employment effect for participants who were not employed full time at random assignment. However, most CSJ users moved into unsubsidized employment once their eligibility for CSJ employment ended, and many CSJ users had both CSJ earnings and earnings from unsubsidized employment in the same quarter.

The project is described in Focus 18, no. 1 (Special Issue 1996): 82–85. The MDRC report is H. Bos, A. Huston, R. Granger, G. Duncan, T. Brock, V. McLoyd, and others, *New Hope for People with Low Incomes: Two-Year Results of a Program to Reduce Poverty and Reform Welfare* (New York: MDRC, 1999). The executive summary of the report is posted on the MDRC World Wide Web site at <<http://www.mdrc.org/>>.

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For the remaining one-third of the sample (those employed full time at random assignment), there were modest reductions in hours worked and earnings. These participants were less likely to work more than 40 hours a week and did not experience net income gains, partly because New Hope reduced their receipt of AFDC and food stamps. In the second year of follow-up, New Hope's effect on income for this group was a reduction of \$1,148, or 7.5 percent.

The evaluation includes a "Child and Family Study" of family dynamics and outcomes for children, including school outcomes. Focusing on sample members with children aged 3–12 at the two-year follow-up — 89.8 percent of whom were women, and 69.4 percent of whom were receiving Aid to Families with Dependent Children at enrollment — this study found evidence that New Hope increased the use of center-based child care and other structured out-of-school activities. Among those employed full time at random assignment, New Hope increased the quality of parent-child interactions. This may reflect participants' greater ability to achieve a sustainable balance between work and parenting by cutting down on long work hours.

From teacher reports, it appears that New Hope had substantial positive effects on the classroom behavior,

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school performance, and social competence of children in the sample. These effects occurred primarily for boys, who also showed less problem behavior and higher educational and occupational expectations than boys in the control group.

These analyses show that a package of earnings supplements, health and child care benefits, and full-time job opportunities can substantially increase the work effort, earnings, and income of those who entered the program working less than full time, but wanting to work more hours. They also show that earnings supplements may lead to modest reductions in work effort among those already working full time or more. The New Hope benefits allowed these participants to make ends meet without working excessive overtime or simultaneously holding multiple jobs.

Finally, the New Hope evaluation shows how modest changes in income, employment, and family resources can have significant effects on noneconomic outcomes, such as family well-being and child outcomes. A narrow focus on economic outcomes may underestimate the effects of interventions like New Hope, whose benefits extend beyond those outcomes. ■

### **New Hope and W-2, notes, continued**

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<sup>1</sup>W-2 exempts parents with an infant under 12 weeks old from the work obligation.

<sup>2</sup>W-2 case management has become more aggressive as caseloads have declined.

<sup>3</sup>In order to qualify for any benefits, New Hope participants had to work an average of 30 hours a week.

<sup>4</sup>Most W-2 agencies outside Milwaukee are the same agencies that previously operated AFDC, and FEPs are frequently converted AFDC intake or eligibility workers, who may have had years of experience working in a system that rigidly defined interactions with participants.

<sup>5</sup>Between 10 and 20 percent of CSJ participants chose this option.

<sup>6</sup>For example, premiums for a family of three or more ranged from \$14 to \$129 a month.

<sup>7</sup>On this program, see *Focus* 18, no. 1 (Special Issue 1996):77–81.

<sup>8</sup>These are listed in the longer report of the same title that is summarized in this article. It was prepared for the New Hope Project in May 1999.

# Poverty: Improving the Measure after Thirty Years A Conference

Thomas Corbett

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Meeting at the University of Wisconsin–Madison in April, 1999, a number of academics and public officials from across the country overwhelmingly agreed that the existing official U.S. poverty measure needs to be improved. The present measure does not accurately identify who is poor and who is not; it cannot, therefore, be expected to measure the consequences of recent reforms with any confidence. Conference attendees also agreed that identifying flaws in the existing measure was the easy part; developing a consensus on a new measure remains a political and technical challenge.

Those coming together in Madison were drawn from varied perspectives and situations. There were officials from several federal agencies who have been deeply immersed in the highly technical issues raised in constructing a new measure. There were representatives from research and advocacy organizations who were interested in how a new measure might affect their work or the constituencies they represent. There were public policy students from the LaFollette Institute who had only recently been introduced to the issues.<sup>1</sup> There were state officials and political experts who focused on what a new measure might imply for the existing equilibrium in the debate about policy or the allocation of resources. And there were the academics who research poverty-related questions.

Attendees did review many of the complex conceptual and technical issues involved in constructing a new measure.<sup>2</sup> But the gathering primarily directed its attention toward determining where areas of agreement existed and exploring possibilities for advancing improvements to the measure. It is to these aspects of the conference that we pay particular attention to here.

## The official measure

The present poverty measure was made official by an Office of Management and Budget (OMB) directive in 1969. This directive codified the work that Mollie Orshansky, an analyst with the Social Security Administration, had done earlier in the decade and established a single, authoritative measure by which economic impoverishment would be calculated. Orshansky's poverty

thresholds were originally determined as three times the cost of a minimally adequate diet, which in turn was based on the U.S. Department of Agriculture's economy food plan. (The multiplier of three was based on 1950s estimates of the proportion of resources expended on food by low-income households.) Gross cash income is compared with the appropriate threshold, adjusted for family size, to determine poverty status.

This measure worked well in the 1960s. The Orshansky thresholds were remarkably consistent with a poverty measure derived from an alternative approach using 50 percent of median income and also with public perceptions of a "minimally adequate" level of resources for a typical family. But over time, the policy world has changed dramatically. In the 1960s, positive taxes were not an important determinant of well-being for low-income families. The payroll tax was equal to only 3.625 percent on \$4,800 of earnings, and the income tax threshold was equal to 93 percent of the poverty line for a family of four. Negative tax policies affecting low-income families, such as the Earned Income Tax Credit (EITC), were not introduced until the mid-1970s. In-kind programs such as Food Stamps and Medicaid were small, experimental initiatives or nonexistent when Orshansky was developing her concept of resource inadequacy.

In recent years, in-kind transfers and negative tax transfers have far outstripped cash welfare transfers as important sources of support for low-income families. Expenditures for food, which accounted for about one-third of family income in the 1950s, now account for as little as one-seventh. Not surprisingly, as the policy environment has changed, the official measure has come under criticism for a variety of shortcomings. It excludes in-kind benefits, including food stamps and housing assistance, when counting family resources. It ignores direct tax payments, such as payroll and income taxes, when measuring family resources. By the same token, it also ignores the contribution to family resources provided by refundable tax credits, the EITC being the outstanding example. It disregards regional variation in the cost of living, in particular the cost of housing, in determining a family's consumption needs. It ignores differences in health insurance coverage in determining family resources, and differences in medical spending in determining family consumption needs. It ignores the cost of earning wage income, including child care costs, when calculating the net income available to families containing working members. Finally, the official thresholds have never been updated to reflect changing levels or patterns of consumption by U.S. households.

## Steps toward an improved measure

In early 1995, the National Research Council of the National Academy of Sciences published recommendations from the Panel on Poverty and Family Assistance suggesting ways in which the present measure can be revised.<sup>3</sup> The report received critical acclaim as a well-considered analysis of the measure's flaws and as a set of reasonable remedies, but public-sector response was muted at best.<sup>4</sup> As Mark Greenberg of the Center for Law and Social Policy pointed out at the April 1999 conference, 1995 was probably the worst possible time politically to suggest major changes in the measurement of an ideologically charged indicator of societal well-being such as poverty. The transfer of political power in the House of Representatives in the Fall of 1994 distracted political attention and made any changes in the measure difficult at best.

Nevertheless, with support from the Annie E. Casey Foundation, the Institute for Research on Poverty and the Brookings Institution, with assistance from Wendell Primus at the Center on Budget and Policy Priorities, have been working to move the poverty measure agenda along. Since April of 1997, this project has held a number of workshops and conferences designed to stimulate work toward a new measure and facilitate cooperation toward that end.

In 1997, the Office of Management and Budget convened a federal Interagency Technical Working Group to "improve the measurement of income and poverty." The group has met at least five times and has created subgroups to work on specific technical issues.

A good deal of noteworthy research has been conducted over the past several years by analysts in the Bureau of Labor Statistics and the Bureau of the Census, which has responsibility for official thresholds and annual poverty statistics. Patricia Doyle, Thesia Garner, David Johnson, Martina Shea, Stephanie Shipp, and Kathleen Short have been particularly active. In addition, poverty panel member David Betson of the University of Notre Dame has written on valuing home ownership, equivalence scales, and estimates of out-of-pocket medical expenditures.

In June of 1999, the Bureau of the Census plans to issue a report on experimental measures of poverty that incorporate the NRC panel recommendations, as modified by subsequent research.

## Why changing the measure is problematic

If changing the poverty measure were easily done, it would have been done by now. First, we must agree on what it really means to be poor. This is not as straightforward as it may appear. At the conference, Robert

Haveman and Melissa Mullikin pointed out basic differences in the way poverty can be conceptualized.<sup>5</sup> The standard approach measures one's economic position by comparing "command over resources" against some measure of a minimal level of well-being. But one can plausibly argue for alternative concepts, such as a family's annual consumption or its capacity to be self-reliant. In short, even our basic notion of poverty is not without controversy.

Second, we expect a poverty measure to accomplish several tasks. A number of panelists at the conference commented on the demands and expectations we place upon this single measure of well-being. Depending upon perspective and situation, some see the measure as merely a way to separate the impoverished from those not in dire economic need. From this perspective, the measure must adequately separate those without even minimal resources from those who have enough and enable us to accurately identify the needy. Others see the poverty measure as a way to determine who is in need and should therefore receive social assistance of various kinds. Still others would use poverty rates as a way to distribute social resources across groups and jurisdictions, as an important dimension of any resource allocation formula. Still others focus on its role as an indicator of societal well-being. In this role, it can be used to assess performance (e.g., the consequences of welfare reform), or as an advocacy tool. Finally, some see the poverty measure as an important tool for assessing how we are doing as a society over time, and how various subgroups are faring relative to one another. In this sense, the poverty measure becomes an instrument for creating a critical social indicator. As Patricia Ruggles commented at the conference, we may simply be asking too much of a single measure.<sup>6</sup>

Third, we must confront the political reality that there will be winners and losers. Papers by Gary Burtless, by David Betson and Jennifer Warlick, and observations by other conference participants laid out the various choices and tradeoffs that a new measure entails.<sup>7</sup> Altering the relative odds of being identified as poor has profound real and symbolic consequences. Primary among these are:

- *Compositional changes.* Changing the measure alters the relative vulnerability to poverty of various groups. Claims on resources or public attention, in part, may depend on the perceived vulnerability of the group, whether children, or the elderly, or the working poor, or single mothers. How will advocacy groups respond if the relative vulnerability of the people they represent changes under a new poverty measure?
- *Geographical distribution.* Changing the measure can alter the geographical distribution of the poor. Under some scenarios, poverty increases on both coasts, whereas the midsection of the country does relatively well. This can be seen as good or bad news,

**Table 1**  
**Voting Summary: A Poverty Measure Conference Exercise**

Issue	Yes	No	Abst./na <sup>a</sup>	Perc/vote <sup>b</sup>	Perc/all <sup>c</sup>
<b><i>Changing the resource definition</i></b>					
1. Should the resource base be expanded? (e.g., in-kind benefits)	42	0	2	100%	95%
2. Should income and payroll taxes paid and tax credits received be incorporated	42	2	0	95%	95%
3. Should nondiscretionary expenses for work and work-related child care be excluded	33	6	5	85%	75%
4. Should imputed flows from equity in housing be included	7	10	27	41%	16%
5. Should some medical expenditures be excluded	12	18	14	40%	27%
<b><i>Changing the threshold definition</i></b>					
6. Should equivalence scales be smoothed and adjusted	30	0	14	100%	68%
7. Should geographic differences in cost-of-living be adopted	12	15	17	44%	27%
8. Should the thresholds be adjusted over-time by changes in income as opposed to consumer expenditures	13	14	17	48%	29%
<b><i>Strategic issues</i></b>					
9. Should the new measure yield the same rate as the old in the first year	11	22	11	33%	25%
10. Should the new measure be assigned a different name (hardship index)	22	15	7	60%	50%

<sup>a</sup>Na= Not accounted for, counting error or lazy voters.

<sup>b</sup>Perc/Vote= The percentage of affirmative responses over all those voting.

<sup>c</sup>Perc/All= The percentage of all affirmative responses over all voting and not voting. N = 44.

depending on whether the relative change is viewed as a reflection of extant policies or as a predictor of future federal resources.

- *Historical understandings.* A new measure may well reshape our understanding of the record of U.S. poverty. The conventional wisdom holds that the economic position of children has been worsening and that of the elderly has been improving. What if a new measure modifies those assumptions? What would that do to our understanding of which public policies have worked and which have not?
- *Resource allocation consequences.* There is nothing that necessarily ties a new statistical measure of poverty to the allocation of public resources. Still, many would reasonably worry that a change in the measure would eventually have real consequences for who is helped and who isn't.
- *Recasting the political debate.* The political consequences of a new poverty measure might be large; they are certainly unpredictable. For example, suppose the poverty rate changes as a result of a new

measure. A rise might be viewed as a transparent attempt to increase spending on the poor or, conversely, to demonstrate that prior spending has been ineffective. A drop in the rate might be viewed as a threat to continued efforts to deal with poverty—or as evidence that public initiatives are working and should be expanded.

The conference participants were in agreement that any new measure could not be separated from real or imagined political concerns and that it must be carefully thought through.

## Assessing current sentiment

As a final action of this conference, attendees participated in a straw vote to determine areas of agreement and areas where confusion or conflict remained (Table 1). The vote should not be taken too seriously. Although the attendees present during the vote were drawn from several important constituencies—the federal government,

academia, the political arena, and advocacy groups—they were in no way representative of all the constituencies that would be involved in any process of change. Still the vote may indicate what a well-informed group of decision makers, and those in a position to influence them, think about key issues.

Ten issues were posed to the group.<sup>8</sup> Five of them were concerned with how available resources would be calculated, three with the setting of poverty thresholds, and two with strategies for moving to a new measure. On some issues, there was clear agreement; on others, considerable disagreement. On still other issues, it was clear that the attendees wished to have more information before making a decision.

### Changing the resource definitions

With respect to resources, conference participants were nearly unanimous in their belief that a new poverty measure should incorporate in-kind public benefits that are a cash equivalent, such as food stamps. There was a similar consensus on incorporating positive (e.g., income and payroll) taxes and negative taxes (e.g., the EITC) in the calculation of available resources to be applied against the poverty threshold. In both cases, 95 percent of those voting supported the change. There also was substantial agreement that nondiscretionary expenses associated with work should be deducted from available resources. Some 85 percent of those voting on the issue and 75 percent of all those participating in the voting exercise agreed with this suggested modification to the poverty measure.<sup>9</sup>

There was much less agreement on other suggested changes to the calculation of resources. Arguments have been made that an income stream should be computed from the equity in property (i.e., home ownership). It also has been argued that resources should be adjusted downward for out-of-pocket medical expenditures. These are very complex topics that affect certain groups quite differently. Accounting for medical expenditures affects the well-being of the elderly disproportionately. Moreover, there is not even a conceptual agreement on the best technical approach. For instance, how does one separate discretionary from nondiscretionary medical outlays? Only 27 percent (16 percent of all participating in the voting process) agreed with incorporating actual out-of-pocket medical expenditures in the calculation of resources.

### Changing the thresholds

Conference attendees first considered whether to change the way in which equivalence scales, adjustments for households of different sizes, are calculated. They next voted on whether the thresholds ought to differ in response to variations in the cost of living, particularly housing costs. Finally, they voted on whether the thresh-

olds should be updated by changes in society's income (or resource) levels over time, or whether adjustments should reflect only price changes. Support for the former would constitute a relative poverty scale that would be sensitive to alterations in the distribution of income; the latter would continue the current practice where the thresholds represent the same purchasing power as when first developed in the 1960s (an absolute scale).

There was support for updating the equivalence scale. All of those actually voting and two-thirds of those participating in the voting exercise supported this measure. The complex issues of adjusting the thresholds over time and across jurisdictions (states) generated considerable controversy. In both cases, there were sharp divisions among actual voters and many abstained. Geographic variation in the thresholds, for example, would recast the existing distribution of the poor across states and communities. Immediately, some states (and politicians) would look better or worse, and the current equilibrium in the distribution of resources might be upset. Though adjusting thresholds for varied regional living costs makes conceptual sense, it is not an easy decision politically.

Finally, the group explored potential strategies of moving from the old to a new poverty measure. They first examined a proposal suggested in earlier work by Gary Burtless, Tom Corbett, and Wendell Primus. These authors argued that the parameters of a new poverty measure should be calibrated in such a way that the aggregate rate of the new measure and the existing measure would be identical *in the initial year of use*. The rationale for this artificial constraint is to defuse reservations about any implicit political agenda. There proved to be little support for this expedient strategy. Only one-third of those voting and one-fourth of those participating in the voting process endorsed the idea. On the other hand, there was support for renaming the new measure. Those endorsing this approach presumably saw an improved measure existing alongside the current poverty measure, eventually replacing it as acceptance grew.

### A question of procedure

The conference also clarified some strategic divisions over how to change the poverty measure. Should revision be an explicitly political process that directly involves legislation by Congress, because of the controversy that swirls around poverty programs and issues? Or should it be treated in the same way as revisions to equally important and potentially controversial measures, such as inflation or unemployment statistics, which occur as the result of technical review by the responsible statistical agencies? Over the years, many government statistical measures have been regularly updated. Only the poverty measure has remained frozen in time.

No agreement on how to proceed was reached, but several points were made regarding future strategy:

- The policy community must agree on one alternative to the current measure or acceptance in the broader community will be difficult. If multiple alternatives are proposed, confusion will result and the benefits of an official measure will be lost.<sup>10</sup>
- The process of establishing a new measure can be done through a new OMB directive, but must also involve much work in key political circles to address concern about what a change might mean.
- As part of this selling process, the political and practical consequences of moving to a new measure must be fully explicated. If a new measure alters the compositional or geographic distribution of poverty, the extent of the change must be measured and dealt with openly.
- Mechanisms for routinely improving the poverty measure must be thought through. There have always been certain functions and statistical measures that we believe to be too important to be left fully in the political arena. We insulate some of these technical tasks from political interference. The measurement of poverty may be one of these.

Fixing other flaws noted by the NAS panel will not be easy, because of conceptual controversy, data problems, and political concerns. Experts and interested parties remain divided over many of the issues first raised by the NAS panel, or in the debate generated by the panel's deliberations: whether and how to reflect medical expenditures, the costs and benefits of home ownership, and differences in the regional cost of living.

Despite the differences among conference attendees, there was overwhelming agreement that the poverty measure must be changed. We regularly reexamine and improve key economic indicators such as national output, the incidence of joblessness, or price levels. A national measure of economic hardship is no less important to understanding how we are doing as a society. Yet our official measure is flawed by virtually any standard of assessment. That recognition is the starting point for renewed efforts to continue the work so well begun by the NRC panel in 1995. This effort will be further reinforced by the publication of several variants of the experimental measure in the forthcoming Census Bureau report. ■

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<sup>10</sup>A class of students from the LaFollette Institute for Public Affairs, under the direction of Tom Kaplan, prepared background materials for the conference and assisted in many important ways. These background papers will appear in the IRP Special Report on the conference. Articles not otherwise identified below were presented at the conference, which was held at the University of Wisconsin-Madison on April 15–17, 1999.

The conference organizers are grateful to the Annie E. Casey Foundation for their support of this project.

<sup>2</sup>See *Focus* 19, no. 2 (Spring 1998) for a full discussion of the problems with the official poverty measure.

<sup>3</sup>C. Citro and R. Michael, *Measuring Poverty: A New Approach* (Washington D.C.: National Academy Press, 1995).

<sup>4</sup>See G. Fisher, "An Overview of Developments since 1995 Relating to a Possible New U.S. Poverty Measure," unpublished paper (April, 1999). Mr. Fisher is an analyst with the U.S. Department of Health and Human Services, Office of the Assistant Secretary of Planning and Evaluation. The paper represents his own views and not those of the Department.

<sup>5</sup>Robert Haveman and Melissa Mullikin, "Alternatives to the Official Poverty Measure: Perspectives and Assessment."

<sup>6</sup>Patricia Ruggles is the Deputy Assistant Secretary for Human Services Policy in the Office of the Assistant Secretary for Planning and Evaluation in the federal Department of Health and Human Services.

<sup>7</sup>Gary Burtless, "Political Consequences of an Improved Poverty Measure," and David Betson and Jennifer Warlick, "Reshaping the Historical Record with a Comprehensive Measure of Poverty."

<sup>8</sup>An eleventh issue was posed to conference attendees in a slightly different format and is not included in the table. They were asked whether the poverty measure (old or revised) should continue to be based on the Current Population Survey (CPS), or whether the Survey of Income and Program Participation (SIPP) should be used instead. The vote was: SIPP as currently constituted, 0; a revised and improved SIPP, 32; CPS, as now, 0; abstain or not voting, 12.

<sup>9</sup>On each issue the number voting in favor or against differed. Some actually voted to abstain whereas others did not vote. These may represent different views with abstentions clearly representing a position that the voter desires more information and the latter something closer to confusion. Not all attendees were equally conversant with the issues. For convenience, we aggregated the abstentions and non-voters.

<sup>10</sup>This point was made by Ron Haskins, Staff Director of the Human Resources Subcommittee, U.S. House Ways and Means Committee.

# IRP Minority Scholars, 1999: Research Projects

In March, three young researchers selected as IRP Minority Scholars for 1999 came to UW-Madison for one- to two-week visits during which they gave seminars, worked on their own projects, and conferred with an IRP adviser and other faculty affiliates. Here they give brief reports about the research projects that their seminars presented.

## African-American urban representation amid the urban transition of the 1970s and 1980s

Robert A. Brown

For African Americans, the quest for representation has been an issue of historic proportion, and one of the most significant developments in contemporary American politics over the past thirty years has been the growth in the number of black elected officials. African Americans have made considerable progress at all levels of government, having their greatest success at the urban level. In a somewhat unfortunate irony, African Americans achieved a greater measure of urban political representation during the 1970s and 1980s when many cities struggled—economically, socially, and politically. Moreover, many of the cities in which blacks became mayors and city council members were among the nation's most economically ravaged cities with some of the highest levels of poverty and unemployment—cities such as Detroit, Gary, and Newark.

How have black mayors governed their cities? Specifically, have black mayors and city council members actually altered the fiscal priorities of city governments in ways responsive to the needs and concerns of black citizens, many of whom are mired in serious poverty? And how did black mayors govern during the 1970s and 1980s as many cities were experiencing significant economic and demographic change? Did they respond to the policy interests of black constituents, given the formidable constraints upon the fiscal capacity of their city governments? Finally, did black mayors govern their cities in ways different from white mayors, even those in cities with high levels of poverty?

My research seeks to answer these questions by examining city governments' expenditures on public welfare and housing and community development, two of the three major social policy categories for which many city governments have some responsibility. The major proposition I test is whether black mayors and city council members have a significant, positive effect upon cities' social spending. My analysis of urban fiscal policy uses expenditure data of the city governments, which are compiled by the Census Bureau of the U.S. Department of Commerce and are available in its *Censuses and Annual Surveys of Governments*. The data I developed have annual fiscal data for American cities from 1972 to 1988 and include all of the nation's cities with at least 50,000 residents, approximately 380 cities. The data include the

necessary control variables for demographic and economic factors that also affect cities' social spending.

Using pooled regression analysis, I find that black mayors clearly had an effect upon increasing social spending for housing and community development. However, there is variation in the seeming ability of mayors to affect their cities' social spending: black mayors failed to exhibit any significant influence upon public welfare spending. My analyses thus far have also found that white mayors in cities with higher poverty rates increased the housing and community development spending of their city governments, although at lower levels than those of black mayoral cities. The strong positive effects exhibited by white mayoral cities with higher poverty rates indicate that political officials attempt to respond to the economic demand within cities for necessary social provision. These results, in particular, introduce a new aspect to traditional political science research regarding the race of political officials and their influence upon urban social policy, suggesting that mayors in cities experiencing serious economic problems generally commit city government resources to policy that is of great consequence to many urban citizens.

Robert A. Brown is Assistant Professor in the Department of Political Science and Program for African American Studies at Emory University.

## Examining job retention outcomes of federal welfare-to-work employees

Susan T. Gooden

On March 8, 1997, President Clinton announced the federal government's Welfare to Work initiative, a major effort designed to provide job opportunities for welfare recipients in federal agencies. In particular, all executive departments and agency heads are expected to use all available hiring authorities to hire welfare recipients into government positions. Although such hiring is an important step in realizing the policy goals of federal welfare reform legislation, other steps remain. In particular, the ability of welfare recipients to retain their jobs after employment is equally important in promoting long-term economic self-sufficiency.

One challenge that states, localities, and service providers face is developing job retention benchmarks for welfare employees. What are reasonable job retention rates?

Do the job retention patterns of welfare employees differ from other employees? Often, this difficulty is attributable, in part, to the absence of a comparison group to assist in developing job retention goals. The study that we are undertaking compares job retention patterns between welfare-to-work employees and other employees who are working in similar federal occupations.

Using quantitative data from the U.S. Office of Personnel Management's Central Personnel Data File, this study examines job retention outcomes of the federal Welfare to Work initiative. This analysis compares 3- and 6-month job retention rates of welfare-to-work employees with other federal employees in terms of age, education, occupational category, grade, work schedule, race, and Veterans' Preference. In total, we examine 18,500 federal employees.

This study also utilizes qualitative field research to interview senior and front-line managers in various federal agencies regarding their agency's approach toward hiring and retaining welfare hires and their managerial experiences with welfare-to-work employees. These results will provide useful insights into the dynamics of job retention among welfare recipients who are hired into federal sector employment.

Job retention is important to welfare recipients, program administrators, and employers. For welfare recipients, job retention may be the first step toward establishing a positive work history, moving up the career ladder, and securing financial independence. Many program administrators at the state and local levels routinely report job retention rates as an indicator of economic self-sufficiency outcomes. Job retention goals are typically specified when state and local governmental agencies provide job placement services. Despite the demand for entry-level employees, employers are often concerned about the risk involved in employing welfare recipients and the costs associated with hiring and losing an employee within the first months of employment. This study provides useful information to each of these groups on job retention outcomes among newly employed welfare recipients.

The study is under the direction of Susan T. Gooden and Margo Bailey. Susan Gooden is an Assistant Professor in the Center for Public Administration and Policy at Virginia Tech. Margo Bailey is an Assistant Professor of Public Administration at The American University.

## **Employment and enrollment status and the likelihood of a nonmarital teenage pregnancy**

Lauren M. Rich

In this study, we estimate random- and fixed-effects models of the monthly likelihood of pregnancy among a sample of white, African-American, and Hispanic teens from the National Longitudinal Study of Youth (NLSY).

Our primary independent variable is school enrollment and employment status in the current month. We build on previous research on this topic by testing and controlling for the presence of unobserved variables which may be correlated with both enrollment and employment status and the likelihood of pregnancy. Also, because enrollment and employment are jointly determined for teenagers, we employ a measure which allows for the joint influence of these variables. Finally, we also include a direct measure of perceived future opportunities, which may be related to current and past enrollment and employment status.

The NLSY is particularly appropriate for this endeavor because it contains extensive work history data which allow for the construction of monthly employment status. In addition, each year it queries respondents regarding their enrollment in each month of the prior year. Finally, it includes a large number of individual and family background variables which we employ as control variables, including mother's and father's education, number of siblings, number of years with both parents until age 13, religious identification and frequency of attendance at religious services, and achievement test scores. The major disadvantage of the NLSY is that premarital pregnancies are underreported, particularly among African Americans. We deal with this problem by restricting the sample to young women aged 14–16 in 1979. Because older teens are more likely to have experienced an unreported pregnancy, we believe that restricting the sample in this way should minimize the proportion of young women with an unreported prior pregnancy.

We find that, in the raw data, the likelihood of pregnancy in a given month is lower for months in which young women are either enrolled or both enrolled and employed, relative to months in which they are neither enrolled nor employed. When we separate the sample by race/ethnicity, we find that this pattern continues to hold for whites and Hispanics, but not for African Americans.

After controlling for differences in observable characteristics, we find that, for whites, the probability of pregnancy in a given month is significantly lower in those months in which young women are either enrolled, employed, or both (relative to months in which they were neither enrolled or employed). For Hispanics, we find that the probability of pregnancy in a given month is significantly lower only in those months in which young women are enrolled only.

We then conduct tests which confirm the presence of unobservable, individual-specific characteristics that are constant over time and which indicate that these variables are correlated with some or all of the observed explanatory variables. After controlling for these differences, we find that the probability of pregnancy continues to be significantly lower in those months in which young white women are either enrolled or both enrolled and employed. In the case of Hispanics, however, enroll-

ment is no longer associated with a significantly lower likelihood of pregnancy.

These results suggest that current enrollment and/or employment may reduce the time available to some young women to engage in risky behaviors such as premarital sex. It may also be that young women who are currently employed and/or enrolled perceive a higher opportunity cost associated with premarital pregnancy. However, we find little evidence that higher occupational expectations, which may be affected by past employment or enrollment, are associated with a lower likelihood of pregnancy.

The causes of the racial differences in the relationship between enrollment/employment status and the likelihood of pregnancy deserve further investigation, especially in light of the fact that rates of premarital pregnancy are higher among these groups. In particular,

further research might profitably examine whether this result is due to differences in the types of schools attended by African Americans and Hispanics versus those attended by whites. Similarly, future research might examine whether the types of jobs held by African-American and Hispanic young women differ significantly from those held by whites.

The study is being conducted by Lauren M. Rich and Sun-Bin Kim. Lauren Rich is Assistant Professor in the School of Social Work at the University of Pennsylvania. Sun-Bin Kim is a graduate student in economics at the University.

## An invitation to minority scholars in poverty research

The Institute for Research on Poverty offers the opportunity for minority scholars in the social sciences to visit IRP, interact with its faculty in residence, and become acquainted with the staff and resources of the Institute. The invitation extends (but is not restricted) to those who are in the beginning years of their academic careers. The intent of the program, which is supported by the University of Wisconsin-Madison, is to enhance the skills and research interests of minority scholars and to broaden the corps of poverty researchers.

Visits of one-week duration by three scholars can be supported during the academic year 1999–2000. The scholars will be invited to give a seminar, to work on their own projects, and to confer with an IRP adviser, who will arrange for interchange with other IRP affiliates.

Applications will be reviewed, and the visitors selected, by the IRP Executive Committee. Interested scholars should send a letter describing their poverty research interests and experience, the proposed date(s) for a visit, a current curriculum vitae, and two examples of written material to Betty Evanson, Institute for Research on Poverty, 1180 Observatory Drive, Madison WI 53706; fax: 608-265-3119; e-mail: evanson@ssc.wisc.edu. Deadline for applications is September 1, 1999.

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