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The new global labor market

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Before the collapse of Soviet Communism, China's movement toward market capitalism, and India's decision to undertake market reforms and enter the global trading system, the global economy encompassed roughly half of the world's population comprising the advanced Organisation for Economic Co-operation and Development (OECD) countries, Latin America and the Caribbean, Africa, and some parts of Asia. Workers in the United States and other higher-income countries and in market-oriented developing countries such as Mexico did not face competition from low-wage Chinese or Indian workers or from workers in the Soviet empire. Then, almost all at once in the 1990s, China, India, and the former Soviet bloc joined the global economy, and the entire world came together into a single economic world based on capitalism and markets.

This change greatly increased the size of the global labor pool, from approximately 1.46 billion workers to 2.93 billion workers (Figure 1). I have called this "the great doubling."[1] In this article I argue that the doubling of the global workforce presents the U.S. economy with its greatest challenge since the Great Depression. If the United States adjusts well, the benefits of having virtually all of humanity on the same economic page will improve living standards for all Americans. If the country does not adjust well, the next several decades will exacerbate economic divisions in the United States and risk turning much of the country against globalization.

The promise is that as the world economy grows rapidly, so too will the U.S. economy, creating the opportunity for shared prosperity for all. The danger is that as many firms invest in low-wage labor overseas, low-wage Americans will lose ground in the economy, as they have in the past two to three decades. Many will be unable to afford the health-care plans their firms offer, and many will find themselves in jobs with no coverage. Fewer will have private retirement plans. The sentiments against globalization revealed in the North American Free Trade Agreement (NAFTA) debate in the 1990s and in the debates over ways to deal with illegal immigrants in the early 2000s could combine to lead many Americans to blame the global economy for their woes. But it will not be globalization itself that is at fault, but rather the failure of the nation to choose policies that distribute the benefits of the global economy widely.

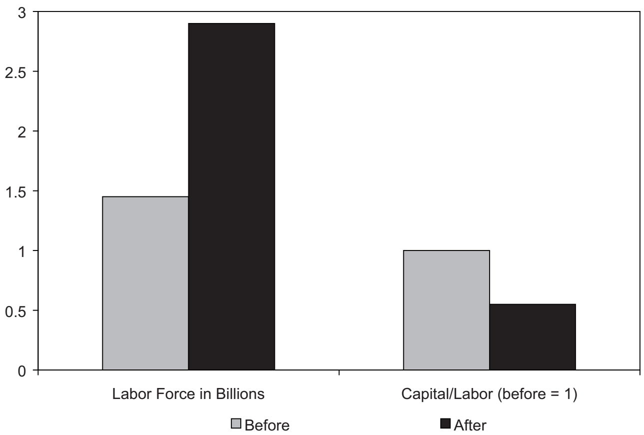

Figure 1. Old and new global labor markets.

Source: Employment from ILO data, http://laborsta.ilo.org, 2000. Capitol/labor ratio, calculated from Penn World tables, scaled so "before" is 1.0.

Note: "Before" shows the labor market that would have existed in the global capitalist system in 2000 if China, India, and the former Soviet bloc had remained outside the global economy. "After" shows the labor market with the addition of the workers and capital from those countries.

The capital/labor balance

What impact might the doubling of the global workforce have on workers? To answer this question, imagine what would happen if through some cloning experiment a mad economist doubled the size of the U.S. workforce. Twice as many workers would seek employment from the same businesses. You do not need an economics Ph.D. to see that this would be good for employers but terrible for workers. Wages would fall. Unemployment would rise. But if the nation's capital stock doubled at the same time, demand for labor would rise commensurately, and workers would maintain their economic position. In the simplest economic analysis, the impact of China, India, and the former Soviet bloc joining the global economy depends on how their entry affects the ratio of capital to labor in the world. This in turn depends on how much capital they brought with them when they entered the global system. Over the long run, it depends on their rates of savings and future capital formation.

Using data from the Penn World tables on yearly investments by nearly every country in the world, I have estimated the level of capital stock country by country and added the estimated stocks into a measure of the global capital stock. My estimates indicate that as of 2001, the doubling of the global workforce reduced the ratio of capital to labor in the world economy to 61 percent of what it would have been before China, India, and the former Soviet bloc joined the world economy. The reason the global capital/labor ratio fell greatly was that the new entrants to the global economy did not bring much capital with them. India had little capital because it was one of the poorest countries in the world. China was also very poor and destroyed capital during the Maoist period. The Soviet empire was wealthier than China or India but invested disproportionately in military goods and heavy industry, much of which was outmoded or so polluting as to be worthless.

The immediate impact of the advent of China, India, and the former Soviet bloc to the world economy was thus to reduce greatly the ratio of capital to labor. This has shifted the global balance of power to capital. With the new supply of low-wage labor, firms can move facilities to lower-wage settings or threaten to do so if workers in existing facilities do not grant concessions in wages or work conditions favorable to the firm. Retailers can import products made by low-wage workers or subcontract production to lower-cost locales. In 2004 the Labor and Worklife Program at Harvard Law School held a conference on the impact of the end of the Multi-Fiber Arrangement that gave quotas to different developing countries for selling apparel in the United States and other advanced countries. Union leaders representing apparel workers in Central America told the conference that firms were ordering workers to work extra hours without any increase in earnings under the threat of moving to China.[2] With wages in Central America three to four times those in China, the threat was a valid one. But the Chinese researcher at the meeting noted that the shift of apparel jobs to China was helping workers much poorer than those in Central America and thus was reducing world inequality and poverty.

In the long run, China, India, and the former Soviet bloc will save and invest and contribute to the growth of the world capital stock. The World Bank estimates that China's savings rate is on the order of 40 percent to 50 percent, higher than the savings rate in most other countries, which will help increase global capital rapidly.[3] Although China is much poorer than the United States, it saves about as much as the United States because its savings rate far exceeds the U.S. savings rate. Still, it will take about three decades to restore the global capital/labor ratio to what it had been before China, India, and the former Soviet bloc entered the world economy, and

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even longer to bring it to where it might have been absent their entry. For the foreseeable future the United States and other countries will have to adjust to a relative shortfall of capital per worker and to the power this gives to firms in bargaining with workers. This will affect workers in different parts of the world differently.

Effect on workers

The flow of capital to China and India to employ their low-wage workers will increase wages in those countries. Indeed, as their rates of economic growth have zoomed, real earnings have risen. In China, the real earnings of urban workers more than doubled between 1990 and 2002. Poverty fell sharply despite a huge rise in inequality in China. Real wages in India also rose rapidly.

But workers in many of the developing countries in Latin America, Africa, and Asia did not fare well. Employment in Latin America, South Africa, and parts of Asia shifted from the formal sectors associated with economic advancement to informal sectors, where work is precarious, wages and productivity low, and occupational risks and hazards great. The entry of China and India into the world economy turned many developing countries from the low-wage competitors of advanced countries to the high-wage competitors of China and India. Countries such as Peru, El Salvador, Mexico, and South Africa can no longer develop by producing generic low-wage goods and services for the global marketplace that the World Bank/International Monetary Fund model of development envisaged that they would do. The backlash against this orthodox form of globalization in Latin America reflects this failure.

The doubling of the global workforce also challenges worker well-being in the United States and other advanced countries. First, it creates downward pressures on the employment and earnings of less-skilled workers through trade and immigration. The traditional answer to this pressure is that the advanced countries should invest more in educating their workers. During the early 1990s' debate in the United States over the impact of the NAFTA treaty with Mexico, proponents of the treaty argued that because U.S. workers were more skilled than Mexican workers and thus more capable of producing high-tech goods, the United States would gain high-skilled jobs from increased trade with Mexico while losing low-wage, less-skilled jobs. Less-skilled U.S. workers would benefit from trade if they made greater investments in human capital and became more skilled.

The argument that the United States will gain skilled jobs while losing less-skilled jobs would seem to apply even more strongly to trade with China and India. The average worker in China and India has lower skills than the average Mexican worker. From this perspective, Chinese and Indian workers are complements rather than substitutes for American workers. Their joining the global labor pool reduces the prices of the manufacturing goods the United States buys and raises demand and prices for the high-tech goods and services the United States sells, which benefits educated labor. Lower prices for shoes, T-shirts, and plastic toys, and higher prices for semiconductors and business consulting and finance would be in the interest of all U.S. workers save perhaps for the last shoemaker or seamstress.

But these analyses ignore the second challenge that the advent of the highly populous low-wage countries to the global economy poses for the United States and other developed countries. This is that these countries are becoming competitive in technologically advanced activities. The model that economists use to analyze trading patterns between advanced countries and developing countries assumes that the advanced countries have highly educated workers who enable them to monopolize cutting-edge innovative sectors while the developing countries lack the technology and skilled workforce to produce anything beyond lower-tech products. In this model, American workers benefit from the monopoly the United States has in the newest high-tech innovations. The greater the rate of technological advance and the slower the spread of new technology to low-wage countries, the higher paid are U.S. workers compared with workers in the developing countries.

But the spread of higher education and modem technology to low-wage countries can reduce advanced countries' comparative advantage in high-tech products and adversely affect workers in the advanced countries. In 2004, when many engineers and computer specialists were troubled by the offshore transfer of skilled work, Paul Samuelson reminded economists that a country with a comparative advantage in a sector can suffer economic loss when another country competes successfully in that sector.[4] The new competitor increases supplies, and this reduces the price of those goods on world markets and the income of the original exporter. Workers have to shift to less desirable sectors—those with lower chance for productivity growth, with fewer good jobs, and so on. Some trade specialists reacted negatively to Samuelson's reminder. What he said was well-known to them but irrelevant. In the real world it would never happen.

Samuelson is right, and his critics are wrong. The assumption that only advanced countries have the educated workforce necessary for innovation and production of high-tech products is no longer true. Countries around the world have invested in higher education, and the number of college and university students and graduates outside the United States has grown hugely. In 1970, approximately 30 percent of university enrollments worldwide were in the United States; in 2006, approximately 12 percent of university enrollments worldwide were in the United States. Similarly, at the Ph.D. level the U.S. share of doctorates produced around the world has fallen from about 50 percent in the early 1970s to 18 percent in 2004.[5] Some of the growth of higher education overseas stems from European countries rebuilding their university systems after World War II, and some owes to Japan and Korea investing in university education. By 2005, several EU countries and Korea were sending a larger proportion of their young citizens to university than the United States. But much is due to the growth of university education in developing countries, whose students made up nearly two-thirds of university enrollees in 2000. China has been in the forefront of this; between 1999 and 2005, China increased the number graduating with bachelor's degrees fivefold to four million people.

At the same time, low-income countries have increased their presence in the most technically advanced areas. China has moved rapidly up the technological ladder, expanded its high-tech exports, and achieved a significant position in research in what many believe will be the next big industrial technology—nanotechnology. China's share of scientific research papers has increased greatly. India has achieved a strong position in information technology and attracts major research and development (R&D) investments, particularly in Bangalore. China and India have increasing footprints in high tech because as large populous countries they can produce as many highly educated scientists and engineers as advanced countries, or more, even though the bulk of their workforce is less skilled. Indeed, by 2010 China will graduate more Ph.D.s in science and engineering than the United States. The quality of university education is higher in the United States than in China, but China will improve quality over time. India has produced many computer programmers and engineers. And Indonesia, Brazil, Peru, and Poland—name the country—more than doubled their university enrollments in the 1980s and 1990s.

Multinational firms have responded to the increased supply of highly educated workers by "global sourcing" for workers. This means looking for the best candidates in the world and locating facilities, including high-tech R&D and production, where the supply of candidates is sufficient to get the work done at the lowest cost. Over 750 multinational firms have set up R&D facilities in China. The offshore transfer of computer programming or call centers to lower-wage countries is the natural economic response to the availability of educated labor in those countries. The combination of low wages and highly educated workers in large populous countries makes them formidable competitors for an advanced country.

The bottom line is that the spread of modern technology and education to China and India will undo some of the U.S. monopoly in high-tech innovation and production and place competitive pressures on U.S. workers. Eventually the wages of workers in China and India will approach those in the United States, as have the wages of European, Japanese, and to some extent Korean workers, but that is a long way off.

Finally, the development of computers and the Internet enhances the potential for firms to move work to low-cost operations. Business experts report that if work is digital—which covers about 10 percent of employment in the United States—it can and eventually will be offshored to low-wage highly educated workers in developing countries. The most powerful statement by a business group on this issue was given in 2005 by the Institute of Directors in the United Kingdom:

> The availability of high-speed, low-cost communications, coupled with the rise in high-level skills in developing countries meant offshoring has become an attractive option outside the manufacturing industry. Britain has seen call centres and IT support move away from Britain, but now creative services such as design and advertising work are being outsourced. There is more to come. In theory, anything that does not demand physical contact with a customer can be outsourced to anywhere on the globe. For many UK businesses this presents new opportunities, for others it represents a serious threat. But welcome it or fear it, it is happening anyway, and we had better get used to it.[6]

Transition to a truly global labor market

By bringing modern technology and business practices to most of humanity, current global capitalism has the potential for creating the first truly global labor market. Barring social, economic, or environmental disasters, technological advances should accelerate, permitting huge increases in the income of the world and eventually rough income parity among nations. But even under the most optimistic scenario, decades will be required for the global economy to absorb the huge workforces of China, India, and potentially other successful developing countries. After World War II it took 30 or so years for Western Europe and Japan to reach rough parity with the United States. It took Korea about 50 years to move from being one of the poorest economies in the world to the second rung of advanced economies. If the Chinese economy keeps growing rapidly and wages double every decade, as in the 1990s, Chinese wages would approach levels that the United States has today in about 30 years, and would approach parity with the United States about two decades later. India will take longer to reach U.S. levels. This period of transition to a truly global labor market presents both new opportunities and serious threats to worker well-being in the United States and other advanced countries.

How American workers fare in the transition will depend on a race between labor-market factors that improve living standards and factors that reduce those standards. On the improvement side are the likely higher rates of productivity due to more highly educated workers advancing science and technology and the lower prices of goods made by low-wage workers overseas. On the reduction side are the labor-market pressures from those workers and the worsening of terms of trade and loss of comparative advantage in the high-tech industries that offer the greatest prospects for productivity advances and the most desirable jobs. Which factors will win the race depends in part on the economic and labor-market policies that countries, the international community, unions, and firms choose to guide the transition. I can envisage a good transition scenario and a bad transition scenario.

In the good transition scenario, India, China, and other low-wage countries rapidly close the gap with the United States and other advanced countries in the wages paid their workers, as well as in their technological competence. Their scientists, engineers, and entrepreneurs develop and produce new and better products for the global economy. This reduces costs of production so that prices of goods fall, which improves living standards. The United States and other advanced countries retain comparative advantage in enough leading sectors or niches of sectors to remain hubs in the global development of technology. The world savings rate rises so that the global capital/labor ratio increases rapidly. As U.S. GDP grows, the country distributes some of the growth in the form of increased social services and social infrastructure—national health insurance, for instance—or through earned income tax credits so that living standards rise even for workers whose wages are constrained by low-wage competitors during the transition.

In the bad transition scenario, China and India develop enclave economies in which only their modern-sector workers benefit from economic growth while the rural poor remain low paid and a sufficient threat to the urban workers that wages grow slowly. The global capital stock grows slowly as Americans maintain high consumption and low savings. Eventually, citizens in the United States begin to blame globalization for economic problems and try to abort the transition and introduce trade barriers and limit the transfer of technology. To add to the nightmare, huge within-country inequalities in China, India, and other countries produce social disorder that creates chaos or gets suppressed by a global "superelite" who use their wealth and power to control a mass of struggling poor. The bad scenario resembles some recalcitrant Marxist's vision of global capitalism.

The challenge to the United States is to develop business, labor, and government policies to assure that the country and the world make a good transition. What might this entail?

First, this requires that the United States invest in science and technology and keep attracting the best and brightest scientists, engineers, and others from the rest of the world. The United States leads in science, technology, and higher education in part because it attracts huge numbers of highly educated immigrants. In the 1990s, dot-com and high-tech booms in the United States greatly increased employment of scientists and engineers without increasing the number of citizens graduating in science and engineering and without raising the pay of scientists and engineers relative to that of other professions. This was done by greatly increasing the share of foreign-born workers in the science and engineering workforce. Sixty percent of the growth of Ph.D. scientists and engineers consisted of foreign-born individuals, with the largest numbers coming from China and India. In 2000, over half of employed doctorate scientists and engineers aged less than 45 were foreign born. Many of the foreign born were United States educated, but most of those with bachelor's degrees were educated overseas. The country needs to maintain itself as an attractive open society to keep a large flow of highly educated immigrants.

From the perspective of U.S. university graduates, however, the immigration of large numbers of highly educated workers and global sourcing of jobs to low-wage countries threatens economic prospects. This reality contradicts the notion that skilled Americans need not worry about competition from workers overseas. If you study or work in science and engineering, where knowledge is universal, you should worry. Your job may not go to Bombay or Beijing, but you will be competing with individuals from those countries and other low-wage countries. For the United States to maintain its global lead in science and technology, it has to encourage American citizens to go on in these fields, as well as attract foreign talent. This requires more spending on basic research and development, allocating a larger share of research grants to young researchers as opposed to senior researchers, and giving more and higher-valued scholarships and fellowships. The United States needs to educate citizens with skills that differ sufficiently from those being produced in huge numbers overseas and to modernize the country's infrastructure so that U.S. workers have the best transportation, sustainable and affordable energy, and state-of-the-art machines and computers in order to compete with lower-wage workers in other countries.

For less-skilled and lower-paid Americans, there is a need to restructure the labor market for their services so they do not fall further behind the rest of the country. Some of the policies that can help workers through this period are "tried and true": a strengthening of rights at work that would allow them to gain a share of the profits of firms in non-traded-goods markets through shared capitalist arrangements; trade unions; higher minimum wages, which can raise wages at the bottom of the job market with little cost to employment; expansion of the Earned Income Tax Credit, which will improve incomes and living standards without raising the cost of labor; and provision of social services such as health insurance that makes them less costly to hire. Given the doubling of the global labor force, these workers will need greater social support than in past years to advance in the economy.

With productivity and GDP rising, the country will have the resources to raise social safety nets and supplement earnings so that work will be attractive even for those who face low-wage competition from overseas. Ideally, the competitive market would improve the well-being of all Americans without any policy interventions, but to the extent that globalization or any other factor prevents some groups from benefiting from economic growth, the country will need to buttress the living standards of those groups.

Conclusion

The world has entered a long and epochal transition toward a single global economy and labor market. There is much for the United States to welcome in the new economic world, but also much for the United States to fear. The country needs to develop new creative economic policies to assure that workers fare well during this transition and that the next several decades do not repeat the experience of the past 20 or 30 years in which nearly all the American productivity advance ended up in the pockets of the highest-paid individuals and very little in the pockets of normal workers. National policies toward education, worker rights, taxation, and investment in infrastructure can help the economy make the adjustments to assure that all will benefit. ■

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[1]A version of this article, "The Great Doubling: The Challenge of the New Global Labor Market," was published as a chapter in *Ending Poverty in America: How to Restore the American Dream,* eds. J. Edwards, M. Crain, and A. L. Kalleberg (New York: The New Press, 2007).

[2]Harvard Law School, Labor and Worklife Program, "The Ending of Global Textile Quotas: Understanding the New Shape of the World Economy" (briefing book available from Labor and Worklife Program, May 23–24, 2005).

[3]World Bank, "World Development Indicators," Table 4.9, http://devdata.worldbank.org/wdi2005/Section4.htm.

[4]P. A. Samuelson, "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," *Journal of Economic Perspectives* 18 (2004): 135–46.

[5]R. B. Freeman, "Does Globalization of the Scientific/Engineering Workforce Threaten US Economic Leadership?" *Innovation Policy and the Economy* 6 (2006): 123–58; and R. B. Freeman, "What Does Global Expansion of Higher Education Mean for the US?" NBER, U.S. Universities in a Global Market, Woodstock, Vermont, October 3–4, 2008.

[6]Institute of Directors, "Offshoring Is Here to Stay," January 23, 2006, http://www.politics.co.uk/issue-of-the-day/institute-directors-offshoring-here-stay-$370499$367012.htm.

Improving individual success for community-college students

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Community colleges are "the Ellis Island of American higher education," according to the January 2008 report of the National Commission on Community Colleges.[1] They provide a pathway into the middle class for many low-income individuals, including people of color, immigrants, full- and part-time workers, and students who are the first in their families to attend college. However, the increased access to post-secondary education that community colleges offer has not always translated into individual success for students. As many as 60 percent of incoming students at community colleges require at least one developmental (or remedial) course, and many drop out before receiving a credential, often because they never progress beyond developmental classes. Promising evidence from one program in the Opening Doors demonstration described in this article suggests that a one-semester "learning community" intervention can provide an early boost to freshman, helping students move more quickly through developmental requirements and earn more credits in their first semester.

Why focus on community colleges?

Community colleges make higher education affordable and accessible to virtually anyone seeking the opportunity. Today, about 1,200 community colleges serve nearly 12 million students. Almost half of all college students nationwide attend a community college.[2] Compared with four-year institutions, community colleges enroll more students of color and more low-income students. They are also more likely to enroll working adults and parents.[3]

Community colleges prepare students for transfer to four-year colleges and universities, and they provide training in a wide variety of occupations. As shown in Figure 1, recent data from the U.S. Census Bureau indi-

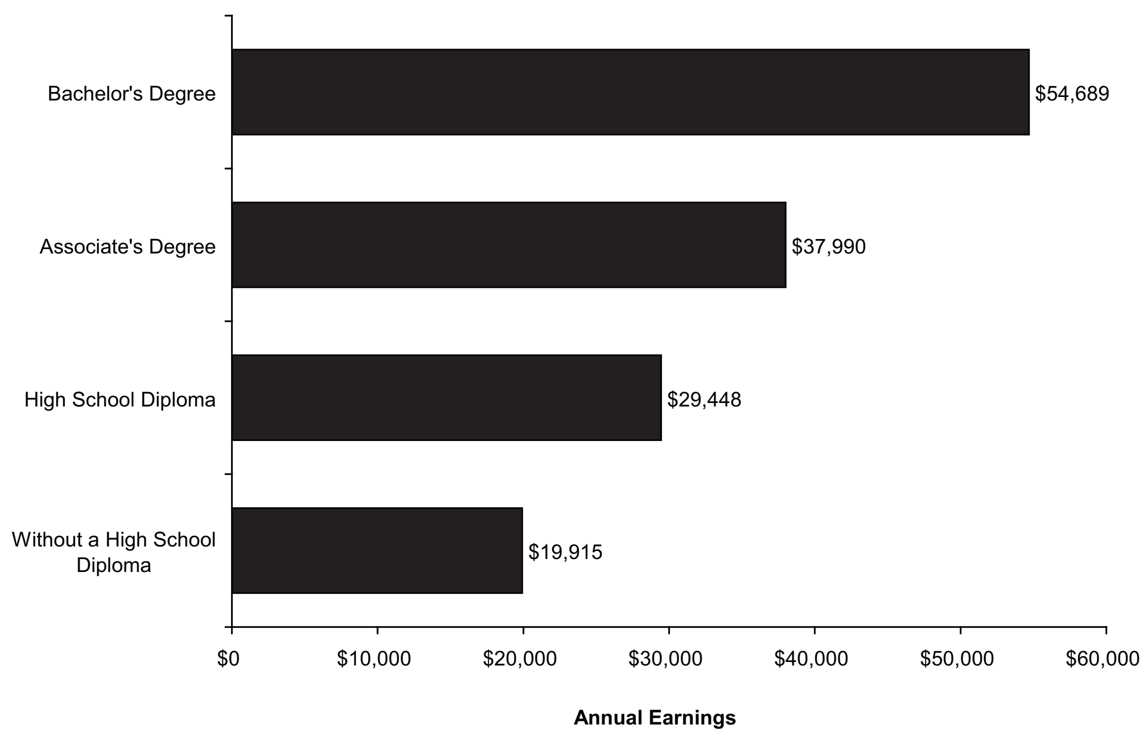

Figure 1. Average annual earnings, by educational attainment: Adults, nationwide, 2005.

Source: U.S. Census Bureau, *Educational Attainment in the United States: 2006*, "Table 9: Earnings in 2005 by Educational Attainment of the Population 18 Years and Over, by Age, Sex, Race Alone, and Hispanic Origin: 2006."

cate that in 2005, an adult with an associate's degree earned an average annual income that was almost one-third higher than that of an adult with a high school diploma. Given the widening earnings gap between individuals with a postsecondary credential and those with a high school diploma, community colleges represent a potential pathway out of poverty and into the middle class.

Unfortunately, although many people attend community colleges, only a minority of students end up receiving a degree. The U.S. Department of Education reported that only about one-third of students who entered community college intending to earn a higher-education degree accomplish this goal within a six-year period.[4] Completion rates are particularly low for students who are academically under-prepared and who must begin college with developmental-level courses. The approach described here reflects the search for effective strategies to help community-college students stay in school and succeed.

Opening Doors

The Opening Doors demonstration began in 2003 and includes four programs at six community colleges. This article provides a brief summary of a recent report on the effects of one community college's Opening Doors program on students up to two years after they entered the study.[5] A review of prior research and focus groups with past, current, and potential community-college students revealed some key factors that hinder students' progress.[6] These include: underpreparation for college-level work; the challenges of juggling school, work, and family; and institutional barriers such as inadequate support services and insufficient financial aid. Opening Doors is testing the following three promising strategies that colleges could adopt to address these factors:

(1) *Curricular and instruction innovations*, including learning communities in which a group of peers take blocks of classes together; customized instructional support; academic instruction for students on academic probation; and enhanced orientation courses to help students navigate the college experience.

(2) *Enhanced student services*, including stronger, more personalized academic advisement; career counseling; and tutoring.

(3) *Supplementary financial aid*, such as special scholarships or money directed to specific education-related costs, such as vouchers for textbooks.

Learning communities

Learning communities are a way of linking courses so that students have opportunities for deeper understanding and integration of the material they are studying, as well as more interaction with teachers and other students. The four most common models of learning communities are paired or clustered courses, cohorts in large classes, team-taught programs, and residence-based programs. The first of these models was used for the program described here. Two or more individually taught courses are linked, with between 20 and 30 students taking the courses together as a cohort. The classes are block-scheduled, so that they meet one after the other. By 2002, the National Survey of First-Year Academic Practices found that over 60 percent of responding colleges enrolled at least some cohorts of students into two or more linked courses. However, these programs generally involved only a small proportion of students; fewer than 20 percent of these colleges enrolled more than 10 percent of freshmen in such programs.[7]

Many community colleges adopt learning communities with the goal of improving the retention, persistence, and success of their most vulnerable students. Prior research on learning communities has suggested that they can increase students' integration and sense of belonging in the college community and their overall satisfaction with their college experience.[8] However, few studies have measured the effect of learning communities on key student outcomes such as persistence, course completion, and degree attainment, and none of the large-scale studies have used a random assignment research design.

The program at Kingsborough Community College

Kingsborough Community College in Brooklyn, New York, targeted its Opening Doors Learning Communities program to first-time incoming freshmen, ages 17 to 34, who planned to attend full-time during the day.[9] Administrators were particularly interested in targeting liberal arts majors, as they believed that many students in that group did not have clear academic or career goals and thus might benefit from a model that provided enhanced structure and support. They also made an effort to target students who missed the application deadline for the City University of New York (CUNY) system, and thus applied directly to Kingsborough often just weeks or days before the start of classes. These students tended to have poor outcomes, suggesting that they might benefit from the program.

Program services

The program placed students in groups of up to 25 that took three classes together during their first semester. The courses included an English course, usually at the developmental level; an academic course required for the student's major; and a one-credit freshman orientation course. The program also offered additional components designed to address students' barriers to retention and academic success, including:

- *Enhanced counseling and support provided by the orientation course instructor.* The counselor, usually called a "case manager," worked proactively to identify and resolve students' barriers to good attendance and performance. Ideally, the case manager met regularly with the other two learning community instructors in order to create an "early-warning" system to identify students needing assistance. Each case manager was usually responsible for three or four learning communities, or 75 to 100 students.
- *Enhanced tutoring.* While tutors are generally assigned to developmental English courses at Kingsborough, and may even attend classes, other tutoring is provided at a central lab. In the Opening Doors program, a tutor was assigned to each learning community and attended the English course, and often the subject-matter course as well. The intention was to insure that tutors were familiar with both the material being covered and the individual students, in order to position them to both help with the work in a given course, and to help students draw connections across the linked courses.
- *Textbook vouchers.* College textbooks are quite expensive, and studies have shown that many community-college students do not purchase their own books, but rather try to share or borrow books, or simply get by without them.[10] Opening Door students attending the initial 12-week fall or spring session received a $150 textbook voucher redeemable at the campus bookstore. Those who returned for a six-week winter or summer module could receive a second voucher worth up to $75.

Linking courses

The linked-course structure was the heart of the Opening Doors Learning Communities program. The structure was designed to achieve many goals: to help students build close, supportive relationships with their peers to ease the transition into college; to enhance learning by emphasizing the substantive linkages across different disciplines; and to facilitate closer connections among students, faculty, and case managers. In some learning community programs, courses are fully integrated under a single theme. At the other extreme, courses may be block-scheduled, with little integration. The Kingsborough program fell between these approaches, with the two linked courses remaining separate and distinct, but being coordinated to varying degrees. Surveyed faculty participating in the program all reported that they gave at least some joint assignments with their partner, and most reported that they developed a grading scheme together. Several English instructors reported that they assigned novels or other readings that related to the subject matter of the content course; several teams assigned some of the same texts for both courses. Interviewed students appeared to both be aware of and appreciate the links between their English and content courses. One student noted: "It doesn't feel like you have different classes. It's like it's all one class but different subjects. You can study easier. Use what you learned here [points to another place] here. It's like a web, it's all connected."

Evaluating program effects

In order to determine program effects, students were randomly assigned to either receive or not receive the Opening Doors program treatment. This assignment occurred just before students registered for classes. Random assignment ensures that the motivation levels and personal characteristics of students in the two groups were similar when the program began, so that any subsequent difference in outcomes can be attributed to the program. The study estimates the value added of Opening Doors, above and beyond what students normally receive. Kingsborough offers a rich array of academic programs and services, so the bar is set relatively high for the program to surpass. Also, the study examines the effects of the entire package of Opening Doors services, not the individual effects of each component.

An implementation study found that, despite a compressed planning period and the program's large scale, all of the key features of Opening Doors were put into practice. The program received strong, consistent support form the highest levels of the college administration, and many faculty, students, and administrators expressed positive views about the program. All of the learning communities had the same basic structure, but they varied in their content, class size, and in the degree to which faculty worked together and integrated their courses. Thus, while this study is a strong test of the structural features of a learning community, and Kingsborough's program appears to be at least as strong as, if not stronger than, the "typical" community college learning communities program, the study may not fully test the effects of tightly integrating course curricula.

Characteristics of the research sample

Table 1 shows some characteristics of the sample members based on a questionnaire completed just prior to random assignment. The research sample, like the population of Brooklyn, is racially and ethnically diverse. Reflecting the makeup of the college's entering full-time freshmen, the sample members were quite young when they entered the study. Very few of the Kingsborough sample members were married or had children (not shown). Most of the sample members had received their high school diploma or General Education Development (GED) certificate during the past year. Most reported that their main reason for enrolling in college was either to obtain an associate's degree or to transfer to a four-year institution. Almost half of the sample members reported speaking a language other than English at home—the same proportion as in Brooklyn overall. Almost three-fourths of the sample members reported that either they or at least one of their parents was born outside the United States.

Table 1
Selected Characteristics of Sample Members at Baseline

Characteristic	Percentage of Full Sample
Gender	
Male	45%
Female	55
Age	
17–18 years old	45
19–20 years old	34
21–34 years old	21
Race/ethnicity	
Hispanic/Latino	20
Black, non-Hispanic	38
White, non-Hispanic	27
Asian or Pacific Islander	9
Other	6
Diplomas/degrees earned	
High school diploma	71
General Educational Development (GED) certificate	29
Occupational/technical certificate	2
Date of high school graduation/GED receipt	
During the past year	70
Between 1 and 5 years ago	23
More than 5 years ago	7
Main reason for enrolling in college	
To complete a certificate program	3
To obtain an associate's degree	30
To transfer to a 4-year college/university	50
To obtain/update job skills	11
Other	8
First person in family to attend college	33
Language other than English spoken regularly in home	47
Respondent or respondent's parent(s) born outside U.S.	74

Source: MDRC calculations using baseline information form data.

Students at Kingsborough are required to take CUNY skills-assessment tests prior to beginning classes. Three-fourths of the study's sample members passed the reading test, but only 29 percent passed the writing test, and 29 percent passed both tests. Only those who passed both assessment tests could avoid developmental-level English. Of the 40 learning communities that operated during the study period, 31 included a developmental English course, and the other 9 included a credit-bearing freshman English course.

Educational outcomes

Table 2 shows some of the ways that the learning communities program directly affected students during their first semester.[11] Many higher education experts believe that students' academic and social experiences during that first semester play a substantial role in their future success—that students who develop strong initial connections with the material they study, with other students, and with faculty are more likely to persist in college than students who do not. Also, those who make better progress in meeting their developmental requirements may be more motivated to stay in school.

Table 2
Classroom and College Experiences of Sample Members

Outcome	Program Group	Control Group	Difference
Integration and sense of belonging at school			
Low	11%	17%	-6%***
High	16	13	3
Participation and engagement			
Low	15	22	-7***
High	18	12	6**
Using knowledge (critical thinking curriculum)			
Low	12	18	-6***
High	24	22	2
Acquired academic and work skills			
Low	13	18	-6**
High	21	16	5**
Rated college experience good or excellent	83	76	7***

Source: MDRC calculations from the Opening Doors 12-Month Survey.

Notes: A two-tailed t-test was applied to difference between research groups. Statistical significance levels are indicated as *** = 1 percent; ** = 5 percent; * = 10 percent. Rounding may cause slight discrepancies in differences.

The program improved students' experiences in college

When surveyed approximately a year after entering the study, students in the program group reported that they were more engaged with their coursework, instructors, and fellow students and had a stronger sense of belonging than did control group students. They were more likely to say that their courses required critical thinking and that they had acquired valuable academic and work skills. Finally, they were more likely to rate their college experience as "good" or "excellent." These findings strongly suggest that the learning community program provided a markedly different experience for students.

The program improved several educational outcomes

Figure 2 illustrates some key outcomes during the program semester, the first semester that each student was in the study. Students in the program group attempted and passed about half a course more at Kingsborough during their first semester than control group students did, though this positive effect diminished in later semesters. They also earned almost one more "developmental credit." Developmental courses do not earn college credit, but they do count in determining whether a student is attending school full time. Program group mem-

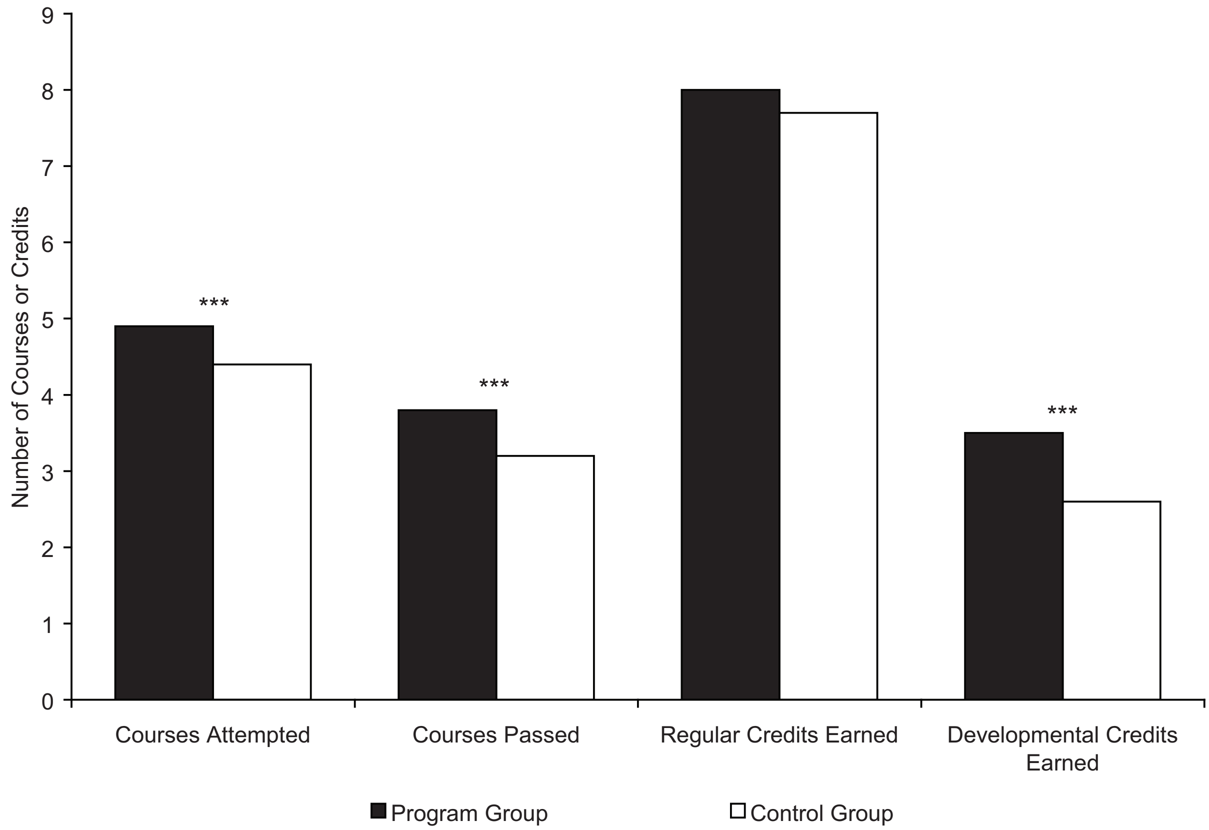

Figure 2. Educational outcomes during the program semester.

Source: MDRC calculations from Kingsborough Community College transcript data.

Note: A two-tailed t-test was applied to difference between research groups. Statistical significance levels are indicated as *** = 1 percent; ** = 5 percent; * = 10 percent.

bers were also more likely to pass all their courses during the first semester (not shown).

Students moved more quickly through developmental English requirements

A goal of the program was to help students more quickly complete developmental requirements and progress to college-level English. To enroll in the college-level course at Kingsborough, students who were placed in developmental courses must successfully complete them and then retake and pass reading and writing skills assessment tests. Figure 3 shows the proportion of the two research groups who took the tests during their first three semesters in the study and passed the tests by the end of that period (including students who passed the tests before starting their freshman year). The program increased the proportion of students who attempted and passed the tests. Although not illustrated in the figure, most of these impacts are driven by effects in the first (program) semester. It is notable, however, that the control group members had not "caught up" in their test-taking and passing by the end of the follow-up period.

We also examined progression through English courses for different subgroups of the research sample. Among the subset of the sample who failed both English skills assessment tests before starting their freshman year, program group members were more likely than their control group counterparts to enroll in developmental English during their first two semesters. Program group members who failed one of the tests before entering college were also more likely to enroll in developmental English during their first semester and were more likely to enroll in and pass college-level English during their first two semesters. The program did not affect progression through English courses among students who had passed both English assessment tests before starting their freshman year.

Evidence is mixed about whether the program increases student persistence in college

A central goal of all Opening Doors programs is to increase persistence in college. Initially, Kingsborough's program did not change the rate at which students reenrolled in subsequent semesters. In the last semester of the two-year follow-up period, however, a difference emerged: 53 percent of the program group registered for at least one course that semester at Kingsborough, compared with 48 percent of the control group. Data from the National Student Clearinghouse, which provides enroll-

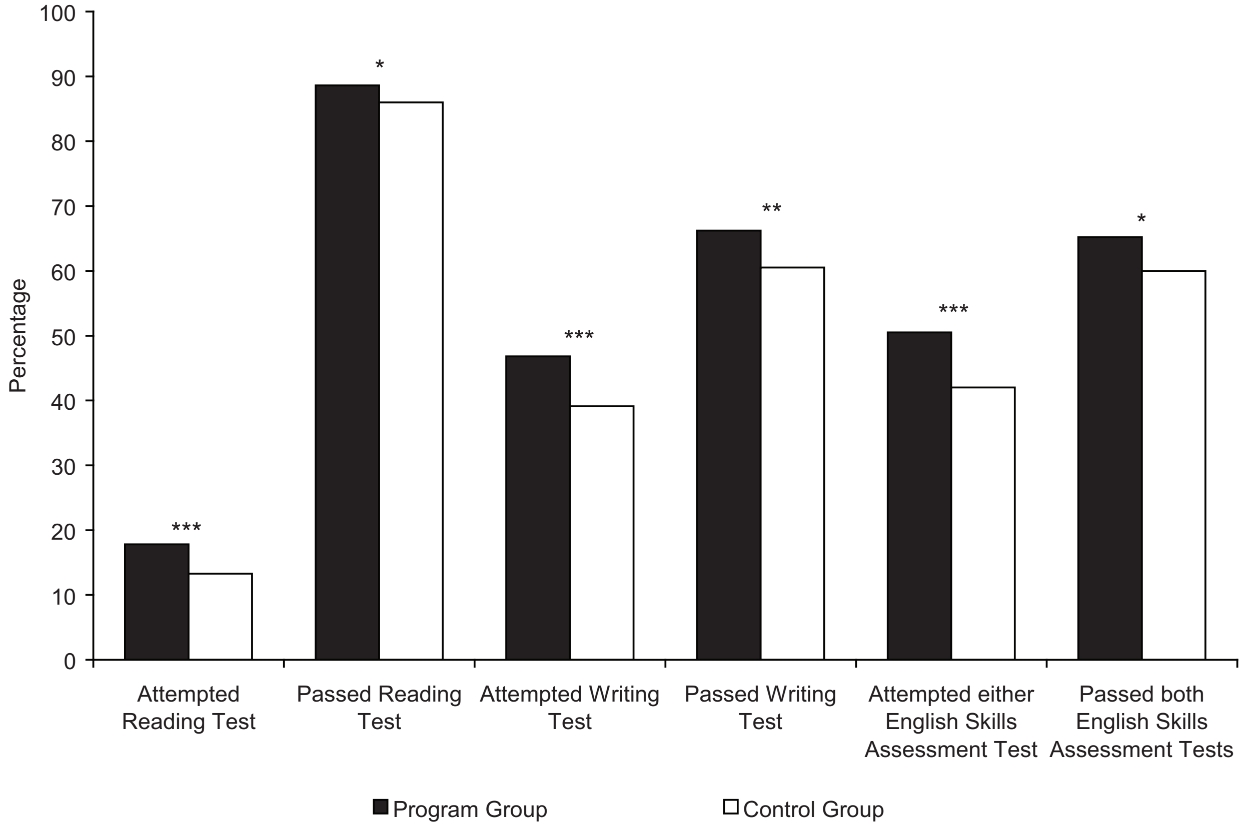

Figure 3. Effects on developmental requirements.

Source: MDRC calculations from City University of New York skills assessment test data.

Notes: Outcomes include data from the program semester through the second postprogram semester. A two-tailed t-test was applied to difference between research groups. Statistical significance levels are indicated as *** = 1 percent; ** = 5 percent; * = 10 percent.

ment information at most colleges in the nation, shows a similar effect on persistence emerging in the third post-program semester.

What are the implications of the results?

Opening Doors Learning Communities at Kingsborough substantially improved students' experiences in college and some key educational outcomes while they were in the program, but, for the most part, the effects did not persist. We plan to track sample members' outcomes for at least three years after their random assignment to the study to determine the longer-term effects on their academic performance, persistence, and graduation as well as on their later employment rates and earnings. Thus, the results in this article are not the last word on Kingsborough's program. The findings do indicate, however, that the learning community model shows promise as a strategy to help students move through developmental education.

Kingsborough's program lasted one semester. The college's administrators decided that there was no practical way to maintain the linked-course structure after the first semester, since students needed and wanted to take a variety of different courses in subsequent semesters. Also, the program was designed on the assumption that students' early experiences at college influence their later success, and administrators believed that students should transition into the regular college community as quickly as possible.

The question of how long a learning community program should continue is complicated. Still, the results from the Kingsborough study suggest that participating in a learning community program for more than one semester may yield more substantial effects, since the positive effects on academic outcomes were the largest during the first semester. If the options of a multiple-semester learning community or participating in a different learning community after the first semester are not possible, colleges could offer other kinds of enhanced services in later semesters, such as intensive counseling or more financial support. It is worth noting that, in some of the other sites in the Opening Doors demonstration, the early results follow a similar pattern: effects are largest when students receive enhanced services, and they diminish or even disappear after the services end.

The study at Kingsborough uses a specific program model, targeted to a certain group of students, in a particular setting. Other learning community models, target groups, and institutional settings may well lead to different results. Another rigorous study, the Learning Communities demonstration, was launched in 2006 and is using random assignment to test the effects of learning communities in six colleges.[12] ■

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[1]College Board, *Winning The Skills Race and Strengthening America's Middle Class: An Action Agenda for Community Colleges*, *Report of the National Commission on Community Colleges*, College Board, Center for Innovative Thought, New York, NY, 2008.

[2]American Association of Community Colleges, "CC STATS," accessed May 6, 2008, at http://www2.aacc.nche.edu/research/index.htm,.

[3]L. Horn and S. Nevill, "Profile of Undergraduates in U.S. Postsecondary Education Institutions: 2003–2004. With a Special Analysis of Community College Students," U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, 2006.

[4]U.S. Department of Education, National Center for Education Statistics, "Descriptive Summary of 1995–96 Beginning Postsecondary Students: Six Years Later," 2002.

[5]S. Scrivener, D. Bloom, A. LeBlanc, C. Paxson, C. E. Rouse, and C. Sommo with J. Au, J. J. Teres, and S. Yeh, *A Good Start: Two-Year Effects of a Freshmen Learning Community Program at Kingsborough Community College*, MDRC, New York, NY, 2008. The full report can be found at http://www.mdrc.org/project_31_2.html. The evaluation of the Opening Doors programs is being conducted by MDRC, a group of scholars who are part of the MacArthur Foundation-funded Research Network on Transitions to Adulthood, and an expert on the relationship between education and health to Princeton University.

[6]For more information on the focus groups, see L. Matus-Grossman and S. Gooden with M. Wavelet, M. Diaz, and R. Seupersad, *Opening Doors: Students' Perspectives on Juggling Work, Family, and College*, MDRC, New York, NY, 2002.

[7]B. O. Barefoot, *Second National Survey of First-Year Academic Practices*, Policy Center on the First Year of College, Brevard, NC, 2002.

[8]K. Taylor with W. Moore, J. MacGregor, and J. Lindblad, *Learning Community Research and Assessment: What We Know Now*, National Learning Communities Project *Monograph Series*, Evergreen State College, Washington Center for Improving the Quality of Undergraduate Education, in cooperation with the American Association for Higher Education, Olympia, WA, 2003.

[9]ESL students were excluded from the study, as they already had a learning communities program. Students in the four "career majors" for whom a separate learning community operated were also excluded from the first year of the study.

[10]"Penny Pinching 101: Hard Up for Cash, Students Skimp on Textbooks," *Community College Week* Volume 15, No. 14, February 17, 2003.

[11]This article presents effects for the full research sample at Kingsborough (1, 534 students) for up to two years after students entered the study.

[12]The demonstration is part of the National Center for Postsecondary Research, funded by the U.S. Department of Education.

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A primer on U.S. welfare reform

Robert Moffitt

Robert Moffitt is Kreiger-Eisenhower Professor of Economics at Johns Hopkins University and an IRP affiliate.

The most well-known transfer program for the poor in the United States provides cash support to low-income families with children, most of which are headed by a single mother. Called the "Aid to Families with Dependent Children (AFDC)" program prior to 1996 and the "Temporary Assistance to Needy Families (TANF)" program thereafter, it underwent a major structural reform in that year. The unprecedented reform imposed credible and enforceable work requirements for the first time in the history of the program, requirements which were extended to a large fraction of the caseload and were enforced by the use of sanctions that reduced or eliminated benefits for noncompliance. The reform also imposed lifetime time limits on the receipt of benefits.

Following the reform, the program caseload fell dramatically and employment rates of single mothers rose, as did average earnings and family income among the single-mother population. Poverty rates of single mothers fell. The often dire warnings of large-scale deprivation which were made at the time of the reform did not materialize, although there is some evidence that a small fraction of the single-mother population was made worse off by the reform. This article will review the U.S. experience and assess the origins and effects of the 1996 reform.[1]

Context: The U.S. system of means-tested transfers

The TANF program is only a small component in the larger system of means-tested transfer programs in the United States today. Table 1 shows the expenditures and caseloads for the nine largest such programs in 2004. The largest by far is the Medicaid program, which provides health care to low-income families (it is separate from the Medicare program, the social insurance program that provides medical care to the elderly regardless of income level). The Medicaid program provides medical care not only to poor families, including those single mothers who are on TANF, but also to the poor elderly and the disabled, who account for a much larger fraction of program expenditures than single mothers. The Supplemental Security Income (SSI) program, which provides cash benefits to low-income aged, blind, and disabled adults and children, is much smaller but still quite sizable in terms of expenditure. The Earned Income Tax Credit (EITC) program, an earnings subsidy program, which provides tax credits to low-income families with earnings, is third largest. The Food Stamp program, which provides food coupons to the poor, and programs for subsidized housing for the poor are fourth and fifth, respectively. The TANF program is, as the table shows, only the sixth largest program in the United States in terms of expenditure, and only half as much is spent on it as is spent on the fifth largest program. TANF's caseload is also small, although because it provides a cash benefit for all needs and not just a supplemental payment like Food Stamps and the EITC, its expenditure per recipient is larger than that of those two programs.

Table 1
Annual Expenditures and Caseloads of Nine Large Programs, FY 2004
(Current dollars)

	Expenditures (millions)	Caseloads (thousands)	Expenditures per Recipient
Medicaid	$300,300	56,100	$5,353
Supplemental Security Income (SSI)	39,839	7,139	5,581
Earned Income Tax Credit (EITC)	34,012[a]	19,163[b]	1,775
Food Stamps	30,993	24,900	1,245
Subsidized Housing[c]	29,844	4,576[d]	6,522
Temporary Assistance to Needy Families (TANF)	14,067	4,746	2,964
Child Care	11,854[e]	1,743[f]	6,801
Head Start	8,469	906	9,348
Jobs and Training	7,007	1,175[g]	6,645[g]

Source: K. Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004," Congressional Research Service, Washington, DC, 2006, Table 14.

Notes: Federal and state and local spending combined unless otherwise noted.

[a]Refundable portion only.
[b]Number of tax units.
[c]Section 8 and public housing, federal only.
[d]Number of dwelling units.
[e]Child care and development block grant (CCDBG) and TANF child care.
[f]CCDBG only.
[g]FY 2002.

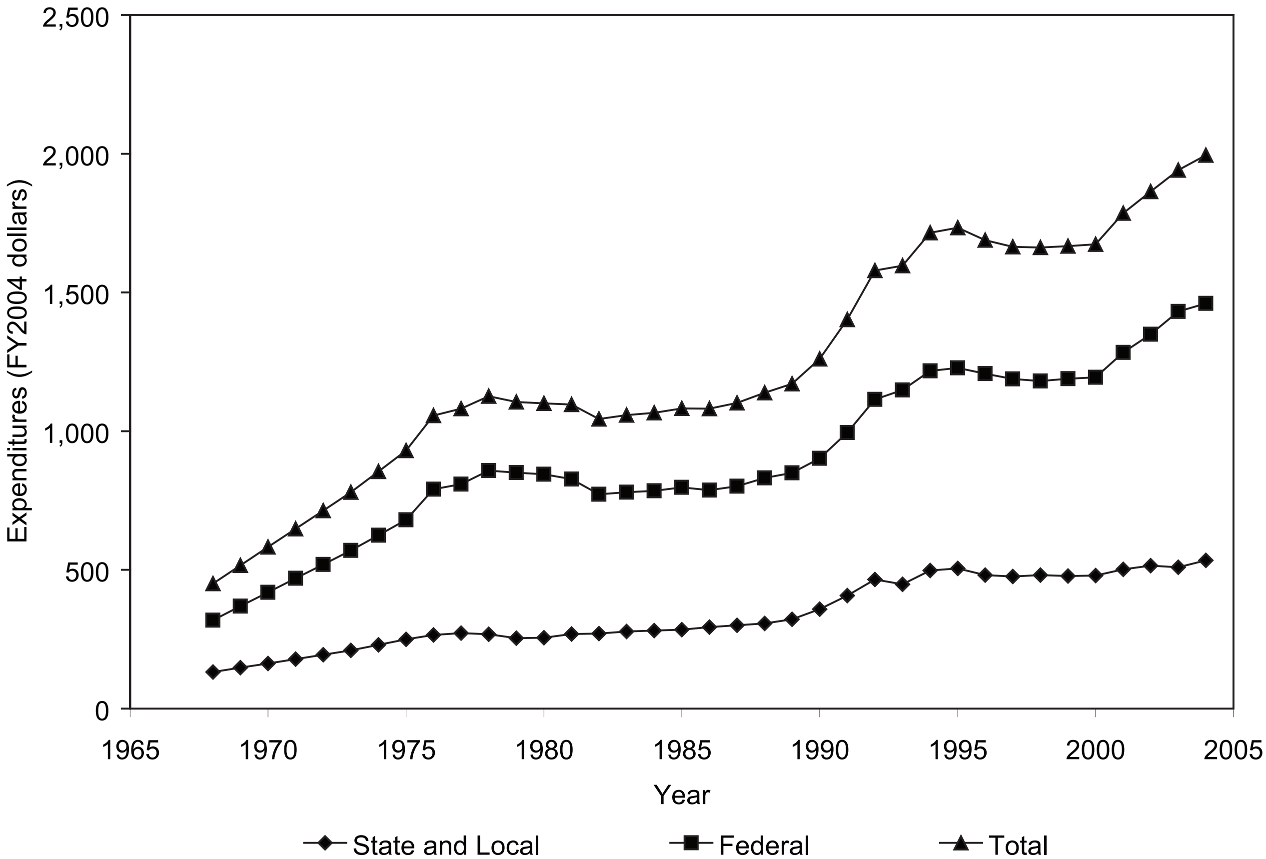

Figure 1. Real per capita expenditures on means-tested transfers, 1968–2004.

Sources: K. Spar, "Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2002–FY2004," Congressional Research Service, Washington, DC, 2006, Tables 3 and 4; and U.S. Department of Commerce, *Statistical Abstract of the United States*, U.S. Census Bureau, Washington, DC, 2006, Table 2, Population.

The U.S. welfare reforms of the 1990s reduced expenditures and caseloads in the AFDC and TANF programs. However, many of the other programs listed in Table 1 have grown. Figure 1 shows trends in real total expenditures since 1968 in the eighty largest means-tested programs in the United States, revealing that per-capita expenditure in total is higher today than ever in its history. The spurt in real expenditure growth in the late 1960s and early 1970s was the result of growth in AFDC, Food Stamp, and Medicaid expenditures, but this was followed by a decade (approximately 1978–1988) of flat expenditure growth. However, the period of flat growth was followed by an explosion in expenditure that occurred more rapidly—in the space of six years, from 1990 to 1996—and which was the result of large increases in spending on the EITC, SSI, and Medicaid. Expenditure rose again after 2001 as a result of growth in the Medicaid and Food Stamp programs. Thus, the decline of the AFDC-TANF program is not representative of means-tested-transfer reduction in the society as a whole, but it does represent a shift in the groups to whom expenditure is directed and in the type of benefits provided. Specifically, expenditure growth has been directed more toward specific groups of individuals (the aged, disabled, workers) and toward discrete needs (food, medical care, housing) rather than general support.

So why does the TANF program continue to receive so much attention given its current minor status? First, TANF remains the only general-purpose cash transfer program in the United States and thus most closely fits the public image of "welfare" as well as the policy and academic notion of a negative income tax. Second, reforms in the TANF program have been the most prominent in reflecting U.S. society's increasing emphasis on work, and it therefore has considerable symbolic value. Third, it is still an important program for a particular group—low-income single mothers—who have difficulty working.

The AFDC program and 1996 welfare reform

In 1935, the Social Security Act created the AFDC program along with the Old-Age Social Security and Unemployment Insurance programs.[2] AFDC provided cash financial support to low-income families with "dependent" children, defined as those who were deprived of the support or care of one biological parent by reason of

Table 2
Major Legislation in the AFDC and TANF Programs

Date	Title of Legislation	Main Provisions
1935	Social Security Act	Created the AFDC program for low-income children with only one parent present in household
1961	Amendments to the Social Security Act	Created AFDC-UP program for children in two-parent families where primary earner is unemployed
1967	Amendments to the Social Security Act	Lowered the benefit reduction rate to 2/3; created the Work Incentive (WIN) program
1981	Omnibus Budget Reconciliation Act of 1981	Increased the benefit reduction rate to 1; imposed a gross income limit; counted income of stepparents; allowed waiver authority
1988	Family Support Act of 1988	Created the JOBS program for education, skills training, job search assistance, and other work activities; created transitional child care and Medicaid programs; mandated AFDC-UP in all states
1996	Personal Responsibility and Work Opportunity Reconciliation Act	Abolished the AFDC program and created the TANF program

death, disability, or absence from the home, and who were under the care of the other parent or another relative. In practice, the vast majority of such families were those with a single mother and her children. In 1935, most such families were widowed, and the program was intended to allow mothers to stay at home with their children rather than be forced to work. In keeping with the "federal" system in the United States, the AFDC program was created as a shared federal-state responsibility, with the federal government subsidizing state payments and setting certain restrictions on eligibility requirements and benefit determination, but leaving states with a large degree of latitude in both of these areas. This led to wide variation in benefit levels among states. However, most states set a 100 percent benefit-reduction rate—benefits were reduced dollar-for-dollar for every extra dollar of earnings—providing little or no incentive to work.

The AFDC program underwent several reforms prior to the 1990s, as shown in Table 2. In 1961, two-parent families were made eligible for the program if the primary earner was unemployed, at state option. However, asset and income limits for eligibility were not adjusted upward and, consequently, few two-parent families have ever been part of the program. In 1967, financial work incentives were attempted by reducing the benefit-reduction rate from 100 percent to 67 percent, an idea made popular by the "negative income tax" discussions at the time. This reform appeared to have little effect on the AFDC caseload, however, which continued to rise after the reform (see below). The benefit-reduction rate was increased back to 100 percent in 1981. In 1988, the federal government shifted toward a job-search and job-training strategy to increase employability and work instead of just using financial incentives. However, neither the level of work among recipients nor the caseload itself was much affected by the 1988 reform.

These reforms illustrate the increasing emphasis on work in the AFDC program. The emphasis has often been ascribed to the increasing labor force participation rate of women, which has occurred in other countries as well. This change altered the view that mothers should stay at home with their children to a new view that work, even by mothers of young children, was natural and even expected. Of course, this emphasis raises many issues concerning its possible effects on children themselves as well as the adequacy of child care, but the change in the views of the public and of policymakers was unmistakable.

Another shift revealed by these developments was a change from financial incentives to more direct inducements to work. The 1967 reforms failed to have an impact on caseloads and expenditures, and financial incentives were rarely considered as a main tool thereafter. In fact, even the 1967 legislation created a small work program, which mandated that women whose youngest child was over six years old enroll in a work-related program, usually some type of job placement program. However, the rule was rarely enforced and few women were enrolled. In the 1970s, the federal government considered other work programs but these never passed Congress. After the 1981 legislation, however, a number of states began, on their own, experimenting with small-scale work programs, often voluntary, offering job-search, work experience, or basic skills training programs to certain categories of recipients. The results of these experiments were fairly positive and contributed to the 1988 legislation. However, that legislation, which mandated work for many recipients and set "participation" requirements for the states, proved to be very difficult to administer. States found the creation of the complex jobs programs required by the law to be difficult and expensive. As a result, full implementation of the law was never achieved and seemed unlikely, at least in the short

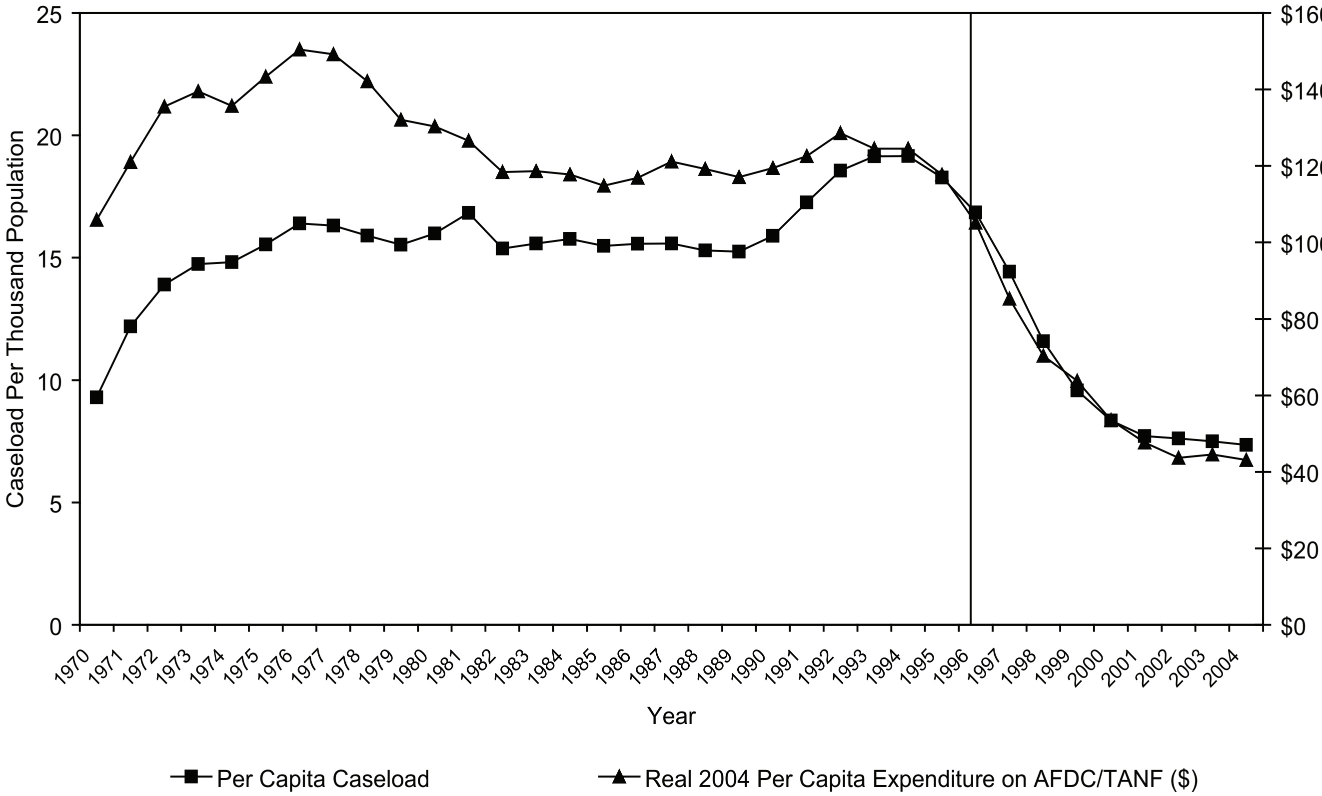

Figure 2. Per capita AFDC-TANF caseload and expenditure, 1970–2004.

Sources: U.S. Department of Health and Human Services, "Indicators of Welfare Dependence," *Annual Report to Congress*, Appendix A, Table TANF4, Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, 2006; and U.S. Department of Commerce, *Statistical Abstract of the United States*, U.S. Census Bureau, Washington, DC, 2006, Table 2, Population.

run, to reduce caseloads and expenditures. The 1988 legislation was widely regarded as a failure.

The course of program expenditures and caseloads up to the early 1990s is illustrated in Figure 2. Both expenditures and caseloads rose sharply in the early 1970s for a variety of reasons, including an increase in take-up among eligibles as welfare stigma fell, as well as the superior access to Food Stamp and Medicaid benefits for women on AFDC. The 1981 legislation had no discernible impact. Both caseloads and expenditures rose sharply in the late 1980s, an event mostly the result of a recession but which surely made implementation and the success of the 1988 legislation more difficult. Thus, by 1990, policymakers saw that a number of reform efforts had been attempted over the previous two decades, both financial incentives and more direct work programs, with little success in reducing caseloads or expenditures. In addition, the evaluation literature indicated that the incomes or employment rates of low-income single mothers were not significantly increased by the reforms.

The 1990s and TANF

Early in the 1990s, in response to the lack of effectiveness of prior reforms, individual states began experimenting with quite different types of reforms. An increased emphasis on work requirements was the most important single new element. Education and training were generally ruled ineligible to meet the requirements, instead emphasizing work. Government jobs were also not generally provided—the rules stipulated that work in a private sector job was necessary. Often an initial period of job search was allowed, but that had to be followed by actual work. To enforce these requirements, states also began imposing "sanctions"—defined as temporary or permanent withdrawal of benefits—on recipients for failure to comply with work and other requirements. Although such sanctions had been present in some form previously in the AFDC program, they had never been as aggressively enforced.

Several other features were often introduced into the state reforms: (1) a negative-income-tax-like reduction of marginal tax rates on earnings to provide financial incentives to work; (2) time limits on benefits, stipulating that recipients could not receive benefits for more than a certain number of years, at least within a given calendar period; and (3) the imposition of family caps, which specified that AFDC recipients would not receive higher benefits if they had additional children while on AFDC.

Table 3
Comparison of the AFDC and TANF Programs

Item	AFDC	TANF
Financing	Matching grant	Block grant
Eligibility	Children deprived of support of one parent or children in low-income two-parent families (AFDC-UP)	Children in low-income families as designated by state; AFDC-UP abolished. Minor mothers must live with parents; minor mothers must also attend school
Immigrants	Illegal aliens ineligible	Aliens ineligible for five years after entry and longer at state option
Form of Aid	Almost exclusively cash payment	States free to use funds for services and noncash benefits
Benefit Levels	At state option	Same
Entitlement Status	Federal government required to pay matched share of all recipients	No individual entitlement
Income Limits	Family income cannot exceed gross income limits	No provision
Asset Limits	Federal limits	No provision
Treatment of Earnings Disregards	After 4 months of work, only a lump sum $90 deduction plus child care expenses; and nothing after 12 months	No provision
Time Limits	None	Federal funds cannot be used for payments to adults for more than 60 months lifetime (20 percent of caseload exempt)
JOBS Program	States must offer a program that meets federal law	JOBS program abolished
Work Requirements	Parents without a child under 3 required to participate in JOBS	Exemptions from work requirements are narrowed and types of qualified activities are narrowed and prespecified (generally excludes education and classroom training) and must be 20 hours/week rising to 30/week for single mothers
Work Requirement Participation Requirements	JOBS participation requirements	Participation for work requirements rise to 50 percent by FY 2002
Child Care	Guaranteed for all JOBS participants	No guarantee but states are given increased child care funds
Sanctions	General provisions	Specific provisions mandating sanctions for failure to comply with work requirements, child support enforcement, schooling attendance, and other activities
Child Support	States required to allow first $50 of child support received by mother to not reduce benefit	No provision

Source: V. Burke, "New Welfare Law: Comparison of the New Block Grant Program with Aid to Families with Dependent Children," Report No. 96-720EPW, Congressional Research Service, Washington, DC, 1996.

Note: "No Provision" means that the law had no requirement of the type (e.g., no income limits and no asset limits).

Congress subsequently took action in 1996 by enacting the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which simultaneously reduced federal authority over the program but also mandated many (but not all) of the popular state-level features. Table 3 summarizes the differences between AFDC and TANF. The PRWORA legislation converted the previous matching grant to a block grant and removed much of the federal regulatory authority over the design of the program. Thus states were free to set their benefit levels, as before, but also the tax rate, income limits, asset requirements, and even the form of assistance (cash or in-kind services). The last provision is important because it allows states to use TANF dollars to support child care, job search, social services, and other types of expenditures; there are no requirements on how much or little must be spent on cash aid directly. In addition, no federal definition of who is to be included in the assistance unit was imposed; the AFDC-UP program was abolished and states were able to cover two-parent families at their discretion. In addition, and importantly, the entitlement nature of the program was ended and states were not required to serve all eligibles.

At the same time, however, the law imposed new federal authority in some specified areas. Federal funds were not to be used to pay adults for more than 60 months of TANF benefits over their lifetimes, although states were allowed an exemption from this requirement for 20 percent of their caseloads. Minors who had dependent children were required to stay in school and live with their parents in order to receive federal TANF dollars. In addition, while the 1988 JOBS program was abolished, new work requirements were imposed that required that states enroll significantly greater fractions of the caseload in them (as many as 50 percent of single-mother recipients and 90 percent of two-parent families were to comply) and which narrowed the list of exemptions from the requirements. Recipients involved in general education and training could not be counted toward these participation requirements, as in many of the prior state reforms. The hours of work per week required were also greatly increased—up to 30 hours per week for single mothers and more for two-parent families.[3]

The most dramatic departures from the AFDC program were TANF's time limit and work requirement provisions. Lifetime time limits were a new concept in U.S. transfer programs and were based on a quite different philosophy of the aims of public assistance than had been the case theretofore. States were allowed certain types of exemptions from the time limits and were also allowed to grant temporary extensions to individual families, so long as the total number did not exceed 20 percent of the caseload. The work requirements in the new legislation were much stronger than in previous law and changed the orientation from education and training to work per se. The law also allowed states to impose sanctions on recipients for failure to comply with the work requirements, sanctions which were much stronger than in past law and which were rigorously enforced. The work emphasis of the law was further reinforced by an increase in the funds made available for child care.[4]

After the 1996 legislation, states moved forward vigorously to design TANF programs along the lines indicated by the law and, in many cases, went beyond the minimum required. For example, many states imposed time limits shorter than the five-year maximum required by the federal law. Other states imposed sanctions on recipients much stronger than those required. The states also embraced work requirements and sanctions vigorously. The most notable movement was toward a "Work First" approach in which recipients and new applicants for benefits were moved as quickly as possible into work of any kind, with a de-emphasis on education and training. Again, many states imposed strong sanctions for failure to comply with these requirements, usually beginning with an initial partial sanction at first noncompliance and then graduating to a more severe, full sanction at subsequent noncompliance. The work requirements were also often strengthened by frequent requirements for job search and work registration at the point of application for TANF benefits that had to be complied with before benefit receipt could begin. In addition, the majority of states lowered their benefit-reduction rates, usually to approximately 50 percent.

The PRWORA legislation represented more than simply a redirection of the employment goal and an increased emphasis on work. A new goal appeared, which was to reduce "dependency," a term much used in public discussions, which is more or less defined as long-term receipt of welfare benefits. Such dependency was presumed by the PRWORA legislation to have deleterious effects on adults and children, and its reduction became a goal in and of itself. Another new goal of welfare reform in the 1990s was to reduce the rate of nonmarital childbearing and to encourage marriage. This goal was explicitly stated in the preamble to the PRWORA legislation but the law itself had very few provisions directly relating to it.

Effects of the reform

There was a large effort by the research community to evaluate the effects of the welfare reform in the few years following 1996. This proved to be quite difficult because no evaluation plan was built into the legislation and its provisions were not tested prior to passage of the law.[5] In general, four basic types of evaluation methodologies were used.[6] First, analysts examined simple time trends in the outcomes of interest from before 1996 to after 1996, to determine if a break in the trend occurred.[7] This method is complicated by the fact that other things, such as the economy, may have been changing at the same time. Second, a variation on this method compared changes in outcomes over time for the groups most heavily affected by the reform—for example, less educated or low-income single mothers—to those for groups not so affected by the reform but similar in some other respects—such as more educated or higher income single mothers, married women, or women without children.[8] Third, many studies made use of the fact that different states enacted different programs prior to 1996, allowing a comparison of outcomes for women in different states as a measure of the effects of reform and allowing a control for the state of the local economy.[9] These methods are complicated by the fact that states differ in many other respects that are often difficult to control for and by the short windows of time allowed for the evaluation. Finally, there were a series of randomized experiments, all begun prior to 1996, which tested elements of the PRWORA legislation by a rigorous experimental-control methodology.[10] A drawback to this method is that the programs were not designed to replicate all features of PRWORA and hence differed from them significantly in most cases. Another limitation is that experiments, at least those tested on welfare recipients, will always miss "entry" effects.

Another research question related to whether the goal of assessing the effects of reform was to estimate the cumulative effect of all provisions of the law, or to assess the effects of each component separately. It has proven difficult to evaluate the effects of separate components because, at least after 1996, all states implemented some form of the major components; thus no one of them was introduced while the others were not. Much of the knowledge of the effects of individual components arises from the period before 1996, when different states adopted different policies, but the problem with this type of analysis is that many of the policies were quite different from the later TANF versions. In principle, the fourth methodology—randomized experiments—could be used to assess the incremental effect of a given component holding the others fixed. Most of the evidence on the effects of individual components arises from experimental studies, as discussed below.

Finally, there are a number of issues concerning the outcomes of interest. A major set of outcomes of interest to policymakers and the public relate to the effect of the reform on individual levels of employment and earnings, and on total family income and rates of poverty. Another set of outcomes of interest to some groups were the effects of the reform on child-bearing and marriage, while another set focuses on children—the effects on child development, behavior, educational levels, and so on. However, it should also be noted that many policymakers regarded a reduction in the welfare caseload, and in welfare expenditures, as an outcome of interest in its own right. In this view, even if employment, earnings, income, and the other outcomes were unaffected by the law, it could still be regarded as successful if it reduced the caseload because "dependency" had been reduced.

Findings

Several reviews of the research literature on the effects of 1990s welfare reform in the United States have been written.[11] Here, a relatively short summary of the findings is provided.

The simplest method of assessing the effects of the reform is to examine time-series trends in the outcomes of interest. For example, Figure 2 shows trends in AFDC-TANF expenditures and caseloads. These figures show a dramatic reduction in both over the relevant period, with the caseload dropping to levels in 2004 below even those in the first year shown, 1970. This historically unprecedented decline is one of the strongest pieces of evidence in support of a welfare reform effect. Two complicating factors must be stated, however. One is that the unemployment rate was falling at the same time and, indeed, it fell to historically low levels as well; this could have reduced the welfare caseload by itself. The other complicating factor is that the decline in the caseload began somewhat prior to 1996. Most analysts believe that this was partly the result of the state-level welfare reforms that began in the early 1990s, but contributing factors could have been the state of the economy as well as concomitant expansions in the Earned Income Tax Credit.

Table 4 summarizes the findings from reviews of the literature on the effects of welfare reform. The statistical studies of the effect of welfare reform on welfare use in general almost all show that the reform reduced welfare use. These studies control for the state of the economy and hence indicate that not all of the decline was a result of changing economic conditions. The central tendency of the findings suggests that caseloads fell by about 20 percent and employment increased by about 4 percent. The studies all show some contribution of the economy to the caseload decreases and employment increases as well, however, and many attempt to quantify the relative contributions of welfare reform and the economy to the decline in welfare use. The estimates range considerably but some assign at least half of the decline to the effects of an improved economy. Even if this is correct, it still implies a large effect of welfare reform.

The findings on employment and earnings confirm the time-series evidence presented earlier, indicating consistently positive effects of welfare reform. About two-thirds of women who left welfare were employed in the immediate period following reform, and many more were employed at some point over a longer period of one or two years.[12] This was one of the most surprising results of welfare reform, as historical employment rates of women on welfare had never exceeded 10 percent or 15 percent, and were usually less than 10 percent. The idea that two-thirds of these women were capable of working, or even that a selected portion of recipients (the more job-ready) were capable of working at these levels, was a major surprise and resulted in a fundamental change in policymakers' views of the work ability of women on welfare.

A high fraction of those who left welfare worked full time (defined as 35 hours per week or more), and hourly wage rates of those who worked were reasonably high.[13] Another outcome of interest is whether there were increased earnings from individuals in the household other than the welfare recipient herself—for example, older children, spouses or cohabitors, or other relatives. The evidence has indicated considerably greater increases in this form of earnings than expected.[14] The general interpretation is that families that went off welfare increased employment of many family members in order to sustain family income.

Another issue of interest is whether welfare reform affects wage growth. Conventional wisdom is that the age-

Table 4
Results of Research on the Overall Effects of U.S. Welfare Reform

Outcome	Findings
Caseload	(1) Most studies show negative effects, both pre-1996 and post-1996, although the improved economy explains a significant portion of the caseload decline as well (2) A large fraction, if not the majority, of the effect arose from decreased entry to the program rather than increased exit (3) Those leaving welfare did so partly because of sanctions; those sanctioned were sometimes the more disadvantaged families rather than the more advantaged (4) Those leaving welfare often lost access to other benefits and services
Employment	(1) Most studies show positive net effects on employment rates (2) Women who left welfare had employment rates of approximately 60 percent to 70 percent (3) Employment rates of women on welfare rose from less than 10 percent to over 30 percent (4) Those who were not employed often had income from others in the family or from other transfer programs (5) A high fraction worked full time as well as part time
Earnings	(1) Most studies show a positive net effect on earnings (2) Women who left welfare also showed increased earnings from others in the household (3) Hourly wage rates are above the official minimum wage (4) Mixed evidence on whether wages grow with experience after leaving welfare
Family Income and Poverty	(1) Most studies show increases in average family income and declines in poverty rates (2) Women who left welfare had, on average, only small increases in income and declines in poverty; those who did not enter welfare experienced strong increases in income and declines in poverty (3) The incomes of women who left welfare rose little because the loss of benefits almost cancelled out the increase in earnings and increase in other household members' income (4) Some early studies showed a decline in income and increase in poverty among very low-income single-mother families; this does not show up in consumption
Childbearing and Marriage	Most studies show no discernible effect

Source: R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature* 40 (December 2002): 1105–66; R. Moffitt, ed., *Means-Tested Transfer Programs in the United States*, (Chicago: University of Chicago Press, 2003); and J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005).

earnings profiles of low-skilled workers are particularly flat, perhaps because the types of jobs that low-skilled workers hold have little human capital and training content that would lead to increased earnings. This would suggest that former welfare recipients would also have slow wage growth after leaving welfare, and a number of studies support this suggestion.[15] This has generated a source of considerable policy concern because it was hoped that former recipients would gain experience in the labor market, leading to increased wages, which would reduce the probability of coming back onto welfare in the future. However, the evidence is completely mixed on this issue, with a significant number of high-quality studies also showing that the returns to work experience are just as high among low-skilled workers and single mothers as among other types of workers.[16]

The evidence on the effects of welfare reform on total family income, and on poverty rates, is also very important. The general findings from the statistical studies support the poverty rate time trends mentioned earlier, showing that incomes of disadvantaged single-mother families rose and poverty rates fell, relative to various comparison groups, in the years following welfare reform.[17] However, the studies have indicated that the large majority of these income gains occurred among women who did not enter welfare rather than among those who left welfare after reform. This implies that the gains from welfare reform were not evenly spread, having their largest effects on those low-income family wage-earners who already had some job skills, rather than the most disadvantaged. In addition, most studies indicated that the increased earnings that women obtained after leaving welfare were either equal to the welfare benefits lost or a bit below them. The reason that family incomes rose modestly is because other family members increased their earnings and because the families were able to secure more benefits from welfare programs other than TANF. It is consequently unclear whether welfare reform worked because it "made work pay." If "making work pay" means ensuring that earnings of a woman are greater off welfare than her benefits on welfare, the evidence does not indicate a strong effect, if any.

It should be emphasized that these results concerning earnings after welfare are based on averages of all women leaving welfare, not just those who were employed. The fact that 60 percent to 70 percent of former welfare recipients worked after leaving welfare necessarily implies that 30 percent to 40 percent did not.[18] The latter group typically experienced a reduction in family income and, obviously, did not have earnings greater than their welfare benefits. Their reductions in income were lessened by increased other-family-member earnings and increased benefits from other programs, but these did not offset the loss of welfare benefits. For those who were employed after leaving welfare, however, earnings were generally somewhat greater than the welfare benefits lost, although these families also supplemented their incomes with other-family-member earnings. Thus, it may be that "work pays" if work can in fact be achieved, but that does not necessarily mean that going off welfare pays, in general.

Another piece of information relevant to changes in family income subsequent to welfare reform is how take-up rates of those eligible for TANF on a financial basis changed. A large part of the reduction in the caseload was a result of decreases in the fraction of families that receive TANF despite being financially eligible. Participation rates among financial eligibles dropped from around 80 percent in the early 1990s to 69 percent in 1997, and further dropped to 42 percent by 2004.[19] These reductions were no doubt a result of families that were sanctioned off welfare as well as eligible families that chose not to apply for the program because of the new work requirements or that attempted to apply and were rejected for failure to meet those requirements.

Some research on former welfare recipients examined which other government programs they availed themselves of after leaving welfare. These data are available only for selected states, but indicate a rather sparse set of other government benefits were received.[20] The most commonly received form of benefit was food stamps, which 33 percent to 74 percent of former-recipient families received. However, almost 100 percent of families received food stamps prior to leaving welfare because such benefits were automatically granted to AFDC recipients, so there was a significant reduction in receipt after leaving welfare.[21] Between 7 percent and 20 percent of families received Supplemental Security Income (SSI) benefits, which are made available to families with aged, blind, or disabled adults and children. Between 4 percent and 8 percent received some form of Social Security income, often from the Social Security Disability Insurance program.

Finally, the evidence on the effects of welfare reform on family structure and marriage indicates weak effects, if any. The proponents of the 1996 legislation hoped that nonmarital fertility would fall and that marriage rates would rise as a result of the reform. However, the 1996 welfare reform had few provisions directly aimed at fertility and marriage, the main exception being optional state provisions for family caps. It is also the case that increasing earnings among women could work to decrease marriage, inasmuch as it allows women to be more economically independent. In any case, the results from the three surveys mentioned above show, overwhelmingly, either insignificant effects of welfare reform overall or of individual components on either fertility and marriage, with rare exceptions, and even the specific studies of the effects of family caps show weak effects at best, based on the highest-quality studies.[22] On the basis of these findings, it is generally agreed that if the government is to alter fertility and marriage patterns among the poor, some other types of policies will be necessary.

Findings on components

The results summarized thus far pertain to the overall effect of welfare reform and not to the effects of specific components such as work requirements, sanctions, or time limits.

From econometric studies, there is some evidence on at least two policy components, sanctions and time limits. There have been a few studies of the effects of sanctions, showing them to have a negative effect on the size of the caseload.[23] There have been more econometric studies of time limits, which have been shown to have a negative effect on the caseload and positive effect on employment rates.[24]

A larger number of experiments tested the effects of work requirements or financial incentives (i.e., reductions in marginal tax rates or increases in earnings subsidy rates), or, sometimes, both combined. Experiments that imposed work requirements—backed up by sanctions—but without financial incentives showed reductions in welfare usage ranging from 3 percent to 12 percent, increases in employment rates ranging from essentially zero to 15 percent, but no effects on family income.[25] A much smaller number of experiments tested financial incentives essentially alone,[26] the most well-known of which was the Minnesota Family Investment Program.[27] The "MFIP" program increased welfare usage by about 10 percent, had very little effect on employment rates, but increased family income. The higher welfare usage rates occurred because negative-income-tax decreases in a marginal tax rate keep more families on welfare by allowing them to work at higher earnings levels than before, and the small effects on employment occurred because such a program raises the break-even level of earnings (that is, the maximum level of earnings at which benefits can be received) and hence reduces employment relative to families that leave welfare altogether. The positive effects on family income arise because higher benefits are paid to everyone—there is no benefit reduction for any family, in contrast to work requirement programs.

A few experiments tested combined work requirements with financial incentives, the most well-known again being the MFIP program, one variant of which required recipients to work.[28] Like the first MFIP program discussed above, this program increased welfare usage and family income but had significant positive effects on employment. This result shows that financial incentives can be helpful in increasing employment even when work requirements are the major policy reform; the "pull" of financial rewards is an important supplement to the "push" of mandatory work.

Another component issue that has been examined by randomized experiments is whether work requirements that attempt to move welfare recipients into employment as quickly as possible have greater or smaller effects than programs that attempt some form of human-capital investment through increased education or training rather than immediate employment.[29] The evidence in the studies that have been conducted on this question indicates that the human-capital investment approach does not dominate and, in fact, is often inferior to the Work First approach.[30] Rapid-employment programs increase employment and reduce welfare usage quickly, whereas human-capital development programs, which cost much more, have no greater employment effects three years after the initiation of the reform. However, Hotz et al. argue that greater employment gains from the human capital approach appear if a longer-term follow-up is conducted.[31] In any case, Bloom and Michalopoulos argue that the best approach is neither rapid-employment nor human capital for everyone, but rather a more nuanced approach that separates the caseload according to their needs, requiring rapid-employment for those with significant pre-existing job skills and a human-capital strategy for those with greater needs for skill improvement.[32]

Remaining and future issues

Most of the remaining and future welfare reform issues currently under discussion in the United States concern fine-tuning and modifications in the current reform rather than wholesale change. That the 1996 welfare reform was a success, in overall terms and on average, is almost universally accepted by policy analysts and researchers.

One set of issues revolves around whether work should be substantially increased among women remaining on welfare or whether the remaining caseload should be thought of as predominantly composed of women who have great difficulties with working because of a variety of health, education, and family problems. These questions have not been resolved in any clear way. There is widespread sentiment that increased assistance of two types is needed for the approximately 40 percent of former welfare recipients who are not working and the approximately 20 percent of all low-income single mothers who are not working and not on welfare. One is increased work supports in the form of better child care and some type of human-capital strategy. A second type of assistance is increased support of non-employment-related services to address the health, substance abuse, and family and child issues of this population. Blank has proposed that states set up new programs designed specifically for those who have special difficulties with finding employment and that a variety of both employment-related and non-employment-related services be provided for such families.[33]

The concern with providing further assistance to those off welfare who have either employment or non-employment-related problems goes to the heart of the 1996 welfare reform: that reform could be viewed as having removed the "safety net" for most families by no longer guaranteeing them financial support should their incomes fall below stipulated levels. While the removal of this safety net appears to have had positive effects on many single mothers by inducing them to work and provide support to their families without the help of welfare, some have not been so successful and are in need of continued assistance. Because they are off welfare, however, providing this assistance is difficult.

An issue that still remains is the effect of time limits. Evidence to date suggests that approximately 25,000 families hit a time limit by early 2002, and since then about 3,000 families have hit their limits each year.[34] These are relatively small numbers compared to the size of the caseload, at least since 2002. As a consequence, most analysts believe that time limits have had much less effect than anticipated (although it should be reemphasized that many more women may have left welfare in anticipation of hitting the limit).

Finally, another overarching issue is the relative lack of programs and services made available to unskilled prime-age males, both married and unmarried. Most transfer programs exclude them, with the exception of the EITC for those with dependents, and food stamps are a major exception that provides universal support. But Medicaid, SSI, housing, and child care are not well targeted on this group, and TANF provides little support to low-income married men. Training programs, while important, are too small in scale to make much of a difference. This is a group that many believe is largely neglected by the current system, yet has major employment problems, which are not being adequately addressed. ■

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[1]This article draws from a paper prepared for the Economic Council of Sweden conference "From Welfare to Work," Stockholm, May 7, 2007.

[2]A more detailed discussion of the AFDC program's history can be found in R. Moffitt, ed., *Means-Tested Transfer Programs in the United States* (Chicago: University of Chicago Press, 2003), upon which this section partly draws.

[3]The law imposed specific penalties on the states for not complying with these mandated provisions. These penalties took the form of percentage reductions in the block grant allocation for each type of violation. The work participation requirements were considerably ameliorated by another provision of the law which reduced those requirements in proportion to the amount of caseload reduction a state experienced. Because caseloads fell dramatically after the reform, the participation requirements were greatly reduced as well.

[4]However, the guarantee of child care for working recipients that existed under AFDC was abolished under TANF. That guarantee was widely seen by states as a constraint on their ability to increase employment because it meant that states could not force women to work without first providing sufficient child care slots.

[5]For extensive discussions of the nature of the evaluation difficulties, see R. Moffitt and M. Ver Ploeg, *Evaluating Welfare Reform in an Era of Transition* (Washington, DC: National Academy Press, 2001), and R. Blank, "Evaluating Welfare Reform in the United States," *Journal of Economic Literature* 40 (December 2002): 1105–66.

[6]For a detailed discussion of evaluation methodologies, see Moffitt and Ver Ploeg, *Evaluating Welfare Reform*.

[7]See, e.g., K. Murray and W. Primus, "Recent Data Trends Show Welfare Reform to Be a Mixed Success: Significant Policy Changes Should Accompany Reauthorization," *Review of Policy Research* 22 (2005): 301–324.

[8]See, e.g., D. Ellwood, "The Impact of the Earned Income Tax Credit and Social Policy Reforms on Work, Marriage, and Living Arrangements," *National Tax Journal* 53 (2000): 1063–1105.

[9]See, e.g., P. Levine and D. Whitmore, "The Impact of Welfare Reform on the AFDC Caseload," *National Tax Association Proceedings, 1997* (1998): 24–33.

[10]See, e.g., C. Miller, V. Knox, L. Gennetian, M. Dodoo, J. Hunter, and C. Redcross, *Reforming Welfare and Rewarding Work*, Vol. I, *Final Report on the Minnesota Family Investment Program: Effects on Adults* (New York: MDRC, 2000).

[11]Blank, "Evaluating Welfare Reform"; Moffitt, *Means-Tested Transfer Programs*; J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005); and R. Blank, "What We Know, What We Don't Know, and What We Need to Know about Welfare Reform," presented at the Conference on Welfare Reform Ten Years After, University of Kentucky, 2007.

[12]G. Acs and P. Loprest, *Leaving Welfare: Employment and Well-Being of Families That Left Welfare in the Post-Entitlement Era* (Kalamazoo, Michigan: Upjohn Institute, 2004).

[13]Acs and Loprest, *Leaving Welfare*.

[14]R. Bavier, "Welfare Reform Data from the Survey of Income and Program Participation," *Monthly Labor Review* 124 (July 2001): 13–24.

[15]R. Moffitt and A. Rangarajan, "The Effect of Transfer Programs on Work Effort and Human Capital Formation: Evidence from the U.S.," in *The Economics of Social Security*, eds. A. Dilnot and I. Walker (Oxford: Oxford University Press, 1989); G. Burtless, "Employment Prospects for Welfare Recipients," in *The Work Alternative: Welfare Reform and the Realities of the Job Market*, eds. D. Smith Nightingale and R. Haveman (Washington, DC: Urban Institute, 1995); D. Card, C. Michalopoulos, and P. Robins, "The Limits to Wage Growth: Measuring the Growth Rate of Wages for Recent Welfare Leavers," Working Paper No. 8444, Cambridge, MA: National Bureau of Economic Research (NBER), 2001.

[16]T. Gladden and C. Taber, "Wage Progression among Less Skilled Workers," in *Finding Jobs: Work and Welfare Reform*, eds. R. Blank and D. Card (New York: Russell Sage, 2000); J. Grogger, "Welfare Reform, Returns to Experience, and Wages: Using Reservation Wages to Account for Sample Selection Bias," Working Paper No. 11621, National Bureau of Economic Research, 2005; H. Connolly and P. Gottschalk, "Do Earnings Subsidies Affect Job Choice? The Impact of SSP Subsidies on Wage Growth," working paper, Chestnut Hill, MA: Boston College, 2006.

[17]Blank, "Evaluating Welfare Reform"; J. Grogger and L. Karoly, *Welfare Reform: Effects of a Decade of Change* (Cambridge, MA: Harvard University Press, 2005).

[18]R. Blank, "Improving the Safety Net for Single Mothers Who Face Serious Barriers to Work," *The Future of Children* 17 (Fall 2007): 183–197, estimates that 20 percent to 25 percent of all low-income single mothers—whether former welfare recipients or not—are neither on welfare nor working, and have low incomes and high poverty rates.

[19]U.S. Department of Health and Human Services, "Indicators of Welfare Dependence," *Annual Report to Congress*, Table 4a, Washington, DC: Office of the Assistant Secretary for Policy and Evaluation, 2007.

[20]Acs and Loprest, *Leaving Welfare,* Table 6.2.

[21]In the general population of all families, participation rates of families that were eligible for the Food Stamp program fell from 70 percent in 1994 to 48 percent in 2000, although they rose back to 55 percent by 2004, see U.S. DHHS, "Indicators of Welfare Dependence," Figure 4.

[22]For an illustrative study, see R. Schoeni and R. Blank, "What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty and Family Structure," Working Paper No. 7627, Cambridge, MA: NBER, 2000.

[23]Levine and Whitmore, "Impact of Welfare Reform."

[24]J. Grogger and C. Michalopoulos, "Welfare Dynamics Under Time Limits," *Journal of Political Economy* 11 (June 2003): 530–554; J. Grogger, "Time Limits and Welfare Use," *Journal of Human Resources* 39 (Spring 2004): 405–24; and B. Meyer and D. Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers," *Quarterly Journal of Economics* 116 (2001): 1063–1114.

[25]See Tables 5.1, 6.1, and 7.1 in Grogger and Karoly, *Welfare Reform,* for the results from 13 experiments of this type; and D. Bloom and C. Michalopoulos, "How Welfare and Work Policies Affect Employment and Income: A Synthesis of Research," Next Generation Project report, MDRC, New York, 2001, for a discussion of 11 experiments.

[26]Financial components were considered to be tested "essentially" alone because other reform components were also bundled into the treatments.

[27]Miller et al., *Reforming Welfare*.

[28]Miller et al., *Reforming Welfare*.

[29]See, e.g., S. Danziger and K. Seefeldt, "Ending Welfare Through Work First," *Families in Society* 81 (2000): 593–604.

[30]Bloom and Michalopoulos, "How Welfare and Work Policies Affect Employment and Income."

[31]V. J. Hotz, G. Imbens, and J. Klerman, "Evaluating the Differential Effects of Alternative Welfare-to-Work Training Components: A Reanalysis of the California GAIN Program," *Journal of Labor Economics* 24 (July 2006): 521–566.

[32]Bloom and Michalopoulos, "How Welfare and Work Policies Affect Employment and Income."

[33]Blank, "Improving the Safety Net."

[34]M. Farrell and S. Rich, "Time Limits: An Update on State Policies, Implementation, and Effects on Families," presented at the Welfare Research Conference, Washington, DC: U.S. Administration for Children and Families, 2007.

Out of Reach: Place, Poverty, and the New American Welfare State

Scott W. Allard

Sweeping changes in welfare programs since 1996 have transformed the way America cares for its poor. Today, for every dollar spent on cash welfare payments, some twenty dollars are spent on service programs targeted at the working poor—job training, adult education, child care, emergency assistance, mental health care, and other social services. *Out of Reach* examines our current system and the crucial role that geography plays in the system's ability to offer help.

Drawing on unique survey data from almost 1,500 faith-based and secular service organizations in three cities, IRP affiliate Scott W. Allard examines which agencies are most accessible to poor populations and looks at the profound impact of unstable funding on assistance programs. Allard argues that the new system has become less equitable and reliable, and he concludes with practical policy recommendations that address some of the more pressing issues in improving the safety net.

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Rethinking the safety net: Gaps and instability in help for the working poor

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Introduction

The "safety net," a term we use to describe a system of security that ensures no one falls below a minimum standard of living, can be thought of as the bundle of government and nongovernment antipoverty programs intended to help the roughly 60 million low-income Americans who lack adequate income, food, housing, or access to health care.[1] Quite often poverty research and policy discussions of the safety net revolve around its governmental components, particularly those programs designed to reduce the prevalence of material poverty. For example, public assistance programs such as Food Stamps, Temporary Assistance for Needy Families (TANF) welfare cash assistance, and the Earned Income Tax Credit (EITC), which together provide about $80 billion in total aid to working poor families, receive substantial attention from researchers and policymakers. Medicaid, which provided coverage to roughly 30 million non-aged, nondisabled families in 2003 at a cost of about $70 billion,[2] is also prominent in policy debate.

Less salient in the public mind or in poverty research, but critical to how the safety net helps working poor populations, are social service programs that promote work activity and greater personal well-being through job training, adult education, child care, temporary emergency food or cash assistance, and substance abuse or mental health treatment.[3] Social service programs are funded primarily by federal, state, and local governments, but nonprofit organizations play a key role in service provision through the contribution of private program resources and essential street-level service delivery. Discussing the modern safety net, Smith (2002) concludes that "nonprofit social service agencies have a more central role in society's response to social problems than ever before" (p. 150).[4] In total, social services now likely receive somewhere between $150 and $200 billion in public and private financing annually.[5]

The prominence of social service programs in the contemporary safety net has numerous implications for policy and research. Here, I focus on two. First, delivery of social service programs is very different from delivery of cash assistance programs. Whereas welfare or food stamp benefits can be delivered directly to recipients through the mail or an electronic benefits transfer (EBT) card, most social services cannot be mailed or delivered to an individual at home. Instead, clients typically visit a service agency, often several times, to receive assistance. Social service programs have a fundamentally local character and can vary more widely by place than we often realize. Poor individuals who do not live near relevant service providers may lack information about available services or may find it difficult to access programs. This may be particularly true for low-income populations with limited access to transportation. For these families, inadequate access to providers may be the equivalent to being denied social service aid.

The next implication of the prominence of social service programs in the contemporary safety net is that funding of social service programs, more so than most safety net assistance, can change from year to year. Whether due to changing needs, fluctuation in available revenues, or shifts in public priorities, the allocation of government and nongovernment program funds for social services can be inconsistent or unpredictable from one year to the next. Because funds typically contract during economic downturns and budget crunches, just when demand for assistance increases, public and private social service programs have poor countercyclical properties. The uneven provision of social service funds also fosters instability in the delivery of assistance to poor individuals and destabilizes the nonprofit sector that provides many services. Thus, inadequacies in both accessibility and consistency have the potential to adversely affect social service provision for working poor populations.

Despite these realities, few studies examine the spatial or financial context of social service provision. In this article, I examine these issues through the lens of the Multi-City Survey of Social Service Providers (MSSSP) completed with executives and managers of nearly 1,500 public, nonprofit, and for-profit organizations in three metropolitan areas (Chicago, Los Angeles, and Washington, DC) between June 2004 and August 2005. Capturing the wide variety of community-based organizations that administered programs to working-age adults in households with incomes near or below the federal poverty line, the MSSSP collected information on location, services, clients, funding, and organizational characteristics

Table 1
Characteristics of Social Service Providers in the MSSSP

Characteristic	Chicago	Los Angeles	Washington, DC
Type of organization			
Government	23	36	24
Nonprofit	71	60	74
Primary revenue source for nonprofit service organizations			
Government grants and contracts	44	33	26
Private giving	5	15	11
Nonprofit grants	9	6	13
Annual budget			
More than $1 million	59	43	35
$1 million–$200,000	28	31	38
$200,000–$50,000	9	15	19
Less than $50,000	4	11	8
Percentage of clients living within three miles of the service provider			
+75%	41	39	41
51–75%	24	26	20
26–50%	20	20	21
0–25%	16	16	18
Total number of service providers	444	548	399

Source: Multi-City Survey of Social Service Providers (MSSSP).

Note: Numbers reported are percentages of organizations. Primary revenue sources are defined as those that compose at least 50 percent of a nonprofit organization's operating budget each year.

from a range of governmental and nonprofit social service providers. With response rates that exceed 60 percent at each site, these surveys are the most comprehensive and geographically sensitive data about social service provision currently available.[6]

Characteristics of service providers in three cities

Nonprofit organizations deliver a significant share of the assistance to poor individuals at the street level (see top panel of Table 1). More than 70 percent of providers in Chicago and Washington, DC, and 60 percent of providers in Los Angeles are nonprofits. One-quarter to one-third of all providers interviewed for the MSSSP are government organizations, most often local agencies and county branches of state agencies that operate a range of health and human service or employment-related programs. Although not shown here and excluded from the analyses that follow, I find that relatively few for-profit agencies provide services to low-income populations in these three cities.[7]

The MSSSP asked executive directors and program managers whether their organization currently offered one of eight core services to low-income adults at no or low cost: outpatient mental health counseling; outpatient substance abuse treatment; assistance finding affordable housing or paying rent; adult education; job placement or training; emergency assistance; food assistance; and assistance preparing tax returns or the EITC or assistance with financial planning, savings, or investment. Responses to these questions exhibit much similarity across the three metropolitan areas sampled by the MSSSP, probably reflecting the common needs of poor individuals in urban areas, the priorities and incentives of federal government programs, and societal beliefs about the types of assistance communities should provide to disadvantaged populations.

Although many providers in these three urban communities are nonprofit organizations, the second panel in Table 1 shows that government revenue sources are central to the funding of social service programs. Roughly one-third of all nonprofit agencies are dependent upon government grants or contracts, meaning that they draw at least 50 percent of their total budget from that revenue stream. There is modest variation in dependence upon public revenues across the three cities, with nearly 45 percent of providers in Chicago reliant upon government funds, compared to 33 percent in Los Angeles and 26 percent in Washington, DC. Nonprofits are far less reliant upon other common revenue sources such as private giving or grants from larger nonprofit organizations or foundations. About 10 percent of all nonprofits, mostly emergency assistance providers, report being dependent upon private giving; a similar percentage indicates dependence on funding from other nonprofit organizations.

About 46 percent of all providers, public and nonprofit, have annual budgets over $1 million, with some variation across the three cities. Nearly two-thirds of government agencies reported budgets above $1 million, compared to 43 percent of nonprofit organizations. Not only do the larger organizations provide many different services and retain sizable professional staffs, they also tend to provide more resource-intensive services such as mental health counseling, substance abuse treatment, and employment-related programming. Local safety nets also include a substantial number of small and modest-sized nonprofit service organizations, many of which are missed by typical sources of data such as IRS tax-exempt filings. Nearly one-quarter of all the nonprofit providers interviewed operate with annual budgets of less than $200,000, with about 9 percent reporting budgets under $50,000. Many of these smaller agencies focus on addressing temporary food and material needs of working poor families.

Consistent with the argument that access to service providers is an important determinant of service utilization, most agency caseloads are composed predominately of residents from the surrounding neighborhood. Six out of ten providers across the three cities maintain caseloads in which a majority of clients live within a three-mile radius. Even though the three cities vary in size and in type of public transit systems, there are few differences in the proportion of clients living within three miles. The City of Los Angeles covers 1,725 square miles—nearly three times the size of Chicago and more than ten times the size of the District of Columbia—yet the share of providers in Los Angeles that draw a majority of their clients from within three miles is almost identical to that found in Chicago and Washington, DC—65 percent.

Access to service providers

To provide insight into the accessibility of service providers to concentrations of need in these three cities, I calculate a service accessibility score. The score reflects a residential census tract's access to social service opportunities within three miles relative to the average tract in that city, weighting for the number of poor individuals within three miles to control for potential demand. I use these service accessibility scores to make comparisons among different types of census tracts or neighborhoods. For example, Neighborhood A, with an access score of 1.10, is located within 3 miles of 10 percent more service opportunities than the metropolitan mean tract. If Neighborhood B has an access score of 0.90, it is located near 10 percent fewer service opportunities than the metropolitan mean tract. Neighborhood A thus has access to 22 percent more service opportunities than Neighborhood B (1.10 ÷ 0.90 = 1.22). If providers are more likely to locate near or within impoverished neighborhoods, then service accessibility scores will be at or above one in high-poverty neighborhoods. I report mean access scores pooled across the three cities for tracts with different types of race composition and poverty rates in Table 2. Below I distinguish between low-poverty census tracts (defined as having a poverty rate of less than 10 percent), moderate-poverty tracts (poverty rate of 11 percent to 20 percent), high-poverty tracts (poverty rate of 21 percent to 40 percent), and extremely high-poverty tracts (poverty rate greater than 40 percent).[8]

Table 2
Access to Social Service Providers in the MSSSP

Type of Census Tract	Mean Access to All Services
Poverty Rate	
0 to 10%	1.20
11 to 20%	0.92
21 to 40%	0.76
+40%	0.70
Percentage of Tract Population African American	
0 to 25%	1.11
26 to 50%	0.85
51 to 75%	0.73
+75%	0.58
Percentage of Tract Population Hispanic	
0 to 25%	1.09
26 to 50%	0.98
51 to 75%	0.81
+75%	0.76
Percentage of Tract Population White	
0 to 25%	0.63
26 to 50%	0.95
51 to 75%	1.07
+75%	1.25

Source: MSSSP; 2000 Census.

Note: Numbers reported are mean service accessibility scores reflecting access to all social service providers and controlling for potential demand in the surrounding area.

In each city there is evidence of mismatches in service accessibility; services are much more accessible in lower- than in higher-poverty areas. On average, census tracts with high or extremely high poverty rates—those with the greatest demand or need for assistance—have access to about 30 percent fewer service providers than the average residential tract in each city. Although not reported in Table 2, these patterns persist in all three cities. For instance, high-poverty tracts in Chicago, with a score of 0.70, have access to 30 percent fewer service providers or service opportunities than the average tract in Chicago. Similarly, extremely high-poverty tracts in Los Angeles and Washington, DC, have access to 33 percent and 31 percent respectively fewer social service opportunities than the mean tract.

Table 3
Volatility in Funding and Service Provision among Government and Nonprofit Organizations

	Percentage of All Government and Nonprofit Organizations[a]
Report Decrease in Funding from Any Revenue Source in Previous Three Years	39%
	Percentage of Government and Nonprofit Organizations Reporting a Funding Decrease[b]
Reduced Staff in Previous Year Due to Funding Decrease	60%
Reduced Services in Previous Year Due to Funding Decrease	47
Reduced Clients in Previous Year Due to Funding Decrease	38
Temporarily Closed Site in Previous Year Due to Funding Decrease	7

Source: MSSSP.

Notes: [a] N = 1,323. [b]N = 510.

Living in neighborhoods highly segregated by race—often high-poverty or extremely high-poverty neighborhoods—significantly diminishes access to the safety net. The disparities in access scores between neighborhoods with large percentages of racial minorities and those with smaller percentages are quite striking. Census tracts that are predominately African American—that is, where the percentage of African Americans exceeds 75 percent—have access to 42 percent fewer service opportunities than the average tract and less than half as much access as tracts where more than 75 percent are white. Similarly, predominately Hispanic tracts are proximate to 24 percent fewer service providers than the average tract, and have access to 60 percent fewer service opportunities than tracts that are mostly white.[9]

A number of factors shape the location decisions of social service agencies and affect their accessibility to high-poverty neighborhoods. Perhaps most importantly, agencies find it difficult to locate affordable and adequate office space near or within high-poverty areas. Location choices may be driven by the need to access sources of government revenue, fee-based income, or private support. At times, agencies can run into difficulty finding a suitable location when confronted with "not in my backyard" sentiment. This attitude leads landlords or residents to resist the establishment of new social service programs or agencies in their immediate community out of concern that programs for low-income populations will attract individuals viewed as undesirable to the area. Nonprofit service organizations can also be attracted to neighborhoods with strong community-based institutions and high levels of civic engagement or social capital. Location incentives also vary across different service sectors. For example, job-training programs might locate closer to employers than to low-income program clients because proximity to employers may be critical to build the relationships necessary to place clients. Employment service agencies may also choose to locate away from high-poverty areas in order to help clients learn how to cope with the challenges of commuting to a job. Such providers may be more likely to locate in outer urban or inner-tier suburban areas because recent job growth in many communities has occurred outside of the central city. In the end, service providers must locate with the interests and needs of multiple stakeholders, constituencies, and obligations in mind. Proximity to clients is only one of many considerations when deciding on a location.

Volatility of funding and service delivery

Because access is likely to be shaped by the availability of program funding, it is important to note that many government and nonprofit social service providers report reduced program funding in recent years (Table 3). Cuts in funding occurred fairly consistently across the three cities. About 40 percent of government and nonprofit providers in Los Angeles and Chicago experienced a decrease in funding recently, as did 30 percent of providers in Washington, DC.

Instability of social service program funding affects the consistency of assistance that agencies deliver to the poor. Fewer resources or less reliable resource flows will be accompanied by fewer or less predictable services. To provide insight into the impact of lost program funding, service providers were asked whether they had pursued any of the following four responses to recent funding losses: reductions in staffing levels, reductions in services offered, reductions in numbers of clients served, or temporary closure of their facility. Seven out of ten government and nonprofit service providers experiencing a decrease in funding reported pursuing at least one of the four coping strategies, and almost half of them pursued more than one.

Funding reductions were most likely to trigger cuts in staffing. Sixty percent of public and nonprofit service organizations experiencing decreases reported reducing the number of paid staff as a result. Staff salaries and benefits are large line items in agency budgets, and it can be difficult to find grants that cover such administrative costs. By reducing staff, agencies can balance budgets and attempt to maintain service delivery levels with fewer personnel. Given that service organizations typically are understaffed, however, the loss of staff is likely to shrink the organization's capacity to serve over time. For agencies providing staff-intensive services or those unable to draw upon volunteers, client caseloads can expand only so far before the agencies are unable to deliver services in an adequate and timely fashion.

Given the difficulty of finding replacement funds for an entire program, the loss of funds from a key revenue source may force agencies to simply shut down a program. Again consistent with expectations, service reductions are quite common among agencies experiencing funding cuts. Nearly half of all government and nonprofit service providers reporting funding decreases reduced services to low-income clients. Highlighting the connection between programs and staffing levels, 84 percent of agencies reducing services also reported reducing staff.

Funding cuts may affect caseload sizes directly. Over one-third of providers reduced the number of clients served in response to lost income. The MSSSP does not probe to find out how agencies cut caseloads, but there are several possibilities. Some agencies may restrict new clients or put caps on caseload sizes, limiting the access of new applicants. In other instances clients may need to spend more time on waiting lists; this option avoids denying assistance to anyone in need, but it provides less immediate help. In yet other settings, an agency may simply eliminate a program midstream and cut off clients currently receiving help.

In the most extreme scenario, agencies may not be able to persevere with strategic staff layoffs, service cutbacks, or limits on client caseloads. Instead, they may have no choice but to close their doors temporarily or permanently. In addition to the 15 percent of agencies that were no longer operational when the MSSSP tried to contact them, another 7 percent of all government and nonprofit service agencies interviewed had closed their sites temporarily in the past year because of funding problems. Taken together, these findings suggest that as many as one-quarter of all agencies that report offering assistance to poor individuals at a given time will close for at least a short period and perhaps permanently.

Policy and research implications

Evidence presented here indicates holes in the safety net. Areas most in need are mismatched from the local government and nongovernment agencies that deliver assistance. A low-income household living in a high-poverty neighborhood or a predominately minority neighborhood has access to far fewer service providers than a low-income household located in an affluent, predominately white neighborhood. Not only is the safety net mismatched, but it is also volatile and unstable. Many providers report lost program funds in recent years that have forced cutbacks in program offerings, staff, or the number of clients served. Combined, these results suggest that social assistance for poor people is not as well matched or well suited to social needs as we might otherwise expect.

Improved access to the safety net will hinge on building information technology systems that better link individuals in need with community resources and service providers. More attention should be paid to the space and facility needs of service organizations. Efforts to provide agencies with a mix of technical assistance for facilities planning, data resources to aid facility placement decisions, and access to financial resources that can help acquire or expand facilities may be particularly useful in closing mismatches between available help and those seeking help. Improving service access will also require paying greater attention to how changes in the geography of poverty affect the manner in which communities fund and provide social assistance. Declining poverty rates in many central city neighborhoods and increasing poverty rates in nearby suburban communities pose complications for providers.[10] Agencies operating in areas with substantial declines in poverty may become even more vulnerable rather than better able to serve the community. Increased numbers of poor individuals in outer-urban areas and inner suburbs, where there may be few public or private resources available to increase service provision, will lead to increased demands for assistance that will outpace the ability of these communities to provide help.

In addition, public financial commitments to social service programs should be maintained, particularly at a time when poverty and income inequality are on the rise. Decreases in government social service funding will hamper the ability of low-income populations to achieve greater economic self-sufficiency, and their failure to do so will place additional burdens on both the public and private elements of the safety net. As important, cuts in public expenditures will increase the vulnerability of local nonprofits, lynchpins of the contemporary American safety net. A retrenchment of social welfare programs, therefore, jeopardizes the foundations of the safety net more profoundly than is commonly realized. In addition to maintaining or increasing public commitments to the safety net, I argue that we must also increase private commitments. One step toward strengthening the nonprofit service sector would be to cultivate greater and more durable fund-raising capacity. Given the dependence of nonprofits upon government sources of revenue and the instability of revenues from year to year, diversifying the nonprofits' funding portfolios will increase the stability of the agencies and the services they provide.

In spite of the central role that social services have come to play in local safety nets, we have relatively little information about social service organizations and how they provide services. Research exploring government and nonprofit social service provision, therefore, will also play an important role in identifying how governments and communities can best deliver assistance to working poor populations. While this article generates important insight into issues of service delivery, future research should seek to develop more precise measures of program accessibility, particularly measures that can be more sensitive to the adequacy of service provision relative to need and to program quality. To permit meaningful comparisons across communities, we should pursue data collection efforts that are geographically representative of several different regions or metropolitan areas and that would allow us to assess the spatial dimensions of the social service sector. Finally, there is need for further inquiry into the needs of working poor families and the factors shaping utilization of social service programs to address those needs.

Through a combination of private and public efforts, we have the opportunity as a nation to achieve a uniquely American safety net that is compassionate toward the needs of the poor. Communities can work together to provide bundles of services that support work and provide assistance through periods of economic uncertainty. Better coordination and planning of social service programs can reduce the mismatches, inefficiencies, and instabilities currently present in local safety nets. Ultimately, by strengthening both our public and private commitments to helping the poor, we can provide a safety net that offers support to those in need while remaining true to traditional American values of individualism, efficiency, and equitable access to opportunity. ■

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[1]This article draws upon the author's book *Out of Reach: Place, Poverty, and the New American Welfare State* (Cumberland, RI: Yale University Press, forthcoming 2008).

[2]J. Holahan and A. Ghosh, "Understanding the Recent Growth in Medicaid Spending, 2000–2003," *Health Affairs: The Policy Journal of the Health Sphere*, Web exclusive, http://content.healthaffairs.org/cgi/reprint/hlthaff.w5.52v1, p. W5–59; S. Zedlewski, G. Adams, L. Dubay, and G. Kenney, "Is There a System Supporting Low-Income Working Families?" *Low-Income Working Families Series*, No. 4, Urban Institute, Washington, DC, 2006.

[3]Social services are defined slightly differently in other research settings; see S. R. Smith, "Social Services," in *The State of Nonprofit America,* ed. L. M. Salamon (Washington, DC: The Brookings Institution Press, 2002).

[4]S. R. Smith, "Social Services."

[5]To arrive at this figure, I draw upon data from the Congressional Research Service (2003) that finds federal, state, and local government to spend about $110 billion annually on a variety of social services, including job training, housing, adult education, and energy assistance programs. See Congressional Research Service, *Cash and Noncash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY2000–Y2002*, Report No. RL32233, 2003. In addition, I estimate that the employment service and human service nonprofit sector has revenues of about $80 billion each year, much of which comes from government funding sources. This estimate of the nonprofit service sector is based on Internal Revenue Service data of tax-exempt nonprofit employment and human service organizations drawn from the National Center for Charitable Statistics at the Urban Institute. These estimates include only organizations with National Taxonomy of Exempt Entities codes likely corresponding to provision of direct services. I exclude mental health and substance abuse service providers, housing and shelter, and civil rights or legal aid programs because it is difficult to discern which agencies within these categories are most likely to provide direct services to working age adults on-site or in an outpatient capacity. Thus, it is likely that this is a lower-bound estimate of nonprofit social service revenues.

[6]Respondents were drawn from databases of government and nongovernment service agencies constructed for each city or rural region from community directories, social service directories, county agency referral lists, phone books, and Internet searches. Agencies were included in the study if they advertised programs for nondisabled working age low-income adults. MSSSP interviews in metropolitan Washington, DC, included agencies located in the District of Columbia, as well as in Prince George's County and Montgomery County in Maryland to the northeast and communities in northern Virginia (Alexandria, Arlington, Loudoun County, Fairfax County, and Prince William County).

[7]Only 4 percent of all providers interviewed reported for-profit status.

[8]I calculate city-specific service accessibility scores with data from the MSSSP as follows. First, I determine which nonprofit and government agencies currently are operating programs on-site available to nondisabled working poor adults. Next, I total the number of clients served by all agencies or a particular type of agency located within three miles of each residential census tract (using tract centroid-to-centroid distances). To account for potential demand for services, I sum the number of individuals with income below the poverty line within three miles of each residential tract, and then divide the number of clients served by the total number of persons in poverty. Thus I calculate a set of demand-, distance-, and organization-weighted service accessibility scores as follows: $A_i = \Sigma(CS_i) \div \Sigma(P_i)$, where A_i is the initial access score for tract i. CS_i reflects the number of providers offering a particular service (S) to low-income adults within three miles of tract i, multiplied by the number of clients served in each agency in a typical month (C). To account for potential demand, I divide by the total number of persons living below the poverty line (P_i) within three miles of tract i. To be able to compare tracts to each other, I divide this tract-specific access score by the average of that access score for the metropolitan area.

[9]Although here I report access to all service providers in the three cities together, findings are similar within each city and across different service areas.

[10]A. Berube and E. Kneebone, "Two Steps Back: City and Suburban Poverty Trends, 1999–2005," *Metropolitan Policy Program, Living Census Series*, The Brookings Institution, Washington, DC, 2006; P. A. Jargowsky, "Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s," *Metropolitan Policy Program, Living Census Series,* The Brookings Institution, Washington, DC, 2003.

A longitudinal perspective on income inequality in the United States and Europe

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According to conventional inequality measures based on cross-sectional data, the United States has over the last 30 years exhibited not only the highest level of income inequality among industrialized nations, but also the fastest growth in the level of income inequality. Many European nations have also experienced acceleration in the growth of income inequality over the same period, but theirs has been less dramatic.

Inequality measures based on cross-sectional data may, however, overstate national differences in inequality by ignoring the economic mobility of individuals over time. This article addresses that shortcoming by using longitudinal data. The results confirm that the United States has the highest income inequality, and find no systematic cross-national differences in economic mobility. The analysis also sheds some light on why there is relatively little economic mobility in the United States.[1]

The conventional view of income inequality differences

Much research has been conducted in an effort to understand why U.S. income inequality is so high and why it has been growing so rapidly. The research leaves little doubt that the U.S. economy features both the highest dispersion of wages and the highest inequality of standards of living in the industrialized world.[2] The United Kingdom has experienced inequality growth similar to that of the United States, although the growth did not occur until the 1980s, and it was brought to a halt by Tony Blair's Labour government in the late 1990s. Some European countries, such as Finland and Sweden, have also seen brief periods of growth in inequality during the 1990s, yet many countries, including Germany, France, and Canada, have experienced even less, if any, growth in income inequality.[3]

Most analysts agree that these persistent differences in the level of economic inequality across nations with the most advanced economies are attributable to differences in economic institutions between the United States and Europe.[4] Chief among these differences are the nature and generosity of public safety nets and social services systems that result in stronger protection in Europe against the effects of adverse economic events. Another important difference is that labor unions in Europe are better able to negotiate more equitable wage policies than their counterparts in the United States. In Europe, the combination of more egalitarian tax and transfer systems and more compressed wage structures has contributed to the more equitable standards of living.

Mobility bias in conventional income inequality data

This research intends to address important concerns about the role of time when assessing the impact of more egalitarian public policies. The vast majority of studies that compare economic inequality across nations have relied on cross-sectional income data for a sample of households or individuals whose current or past year's annual incomes have been recorded. Thus, conventional research rests on snapshots of economic inequality in different nations at specific points in time.

The problem with the study of the cross-sectional distribution of income is that the data do not account for economic mobility at the level of individuals and households. This matters because economic mobility may be an important mechanism that, over time, reduces economic inequalities that exist at any one point in time. For example, some poor or middle-class households may move up the income ladder, while some middle- or upper-class households may move down.

The problem is particularly acute in cross-national comparisons of societies that differ in the level of economic mobility they generate. When countries that appear most unequal in the cross-sectional data are also those with the most opportunities for upward mobility over time, significant mobility bias may result.

To address this bias, it is essential to use longer-term data that follow individual and household incomes over time. The few existing longitudinal studies confirm that economic mobility has significant egalitarian effects. For example, studies that used a full decade of income data report that cross-sectional inequality indices overstate permanent income inequality by 25 percent to 30 percent.[5]

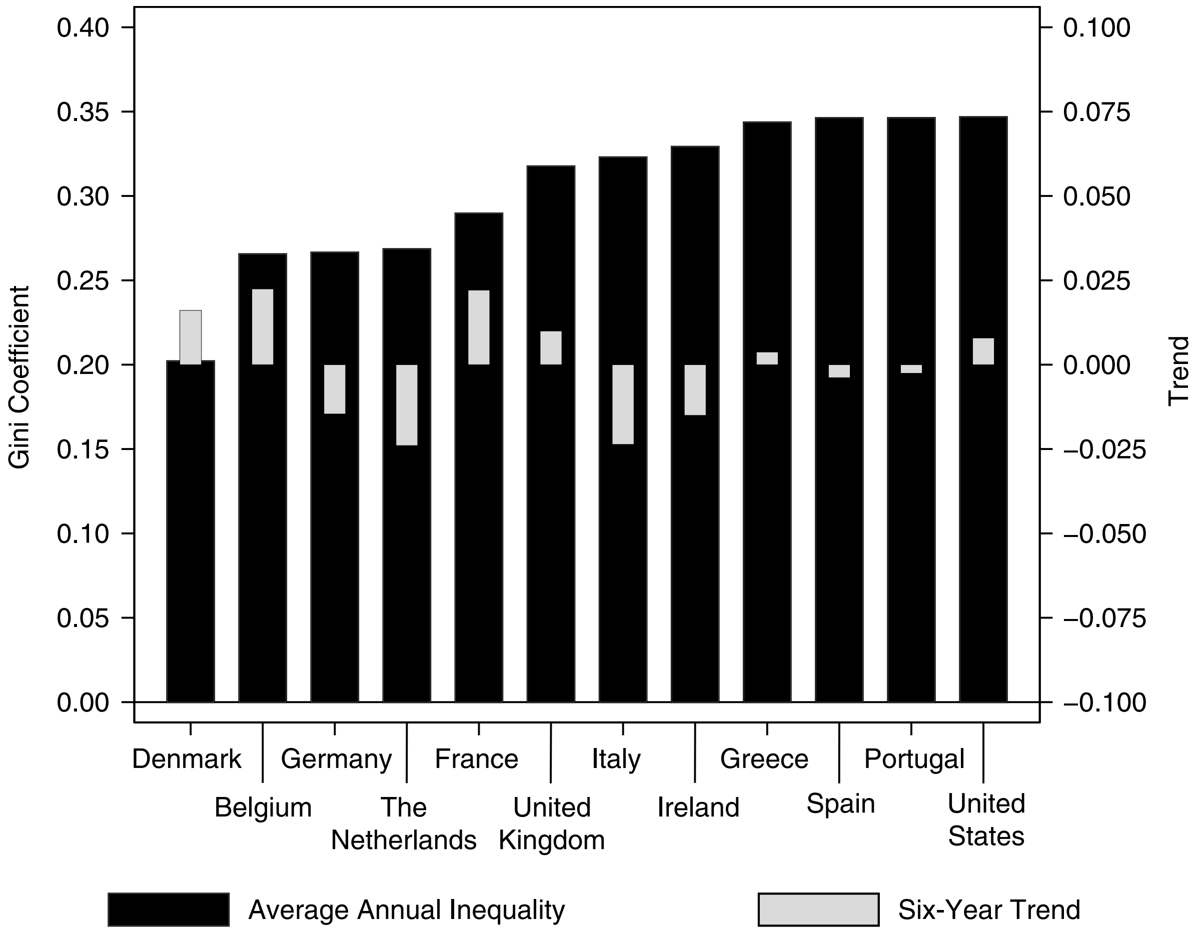

Figure 1: Income inequality in the United States and Europe, mid-1990s.

Sources: European Community Household Panel (ECHP) 1994–99; Panel Study of Income Dynamics (PSID)—Cross-National Equivalent File 1992–97, own estimates.

Notes: Working-age population aged 25–54. Average annual inequality is the Gini coefficient for average annual disposable income averaged over six years, 1991 through 1996 in the United States and 1993 through 1998 in European countries. Six-year trend shows the change in the annual Gini coefficient over the same six-year periods.

An analysis of economic inequality based on longitudinal data

To address these concerns, the following analyses use longitudinal income data from the mid- to late 1990s, the most recent period for which extensive and comparable data is available, for the United States and eleven Western European states of the European Union. With this, the present study includes a more extensive set of countries than was available to previous studies of economic mobility. The analyses aim to provide a systematic cross-national comparison of income inequality and economic mobility for a broad range of countries that differ considerably, both with respect to labor market institutions and tax, transfer, and social services policies.

This analysis is based on standardized income data from the 1992–1997 Panel Study of Income Dynamics (PSID) and the 1994–1999 European Community Household Panel (ECHP).[6] The comparative dataset includes annual income information over a period of six years for some 43,000 individuals from the United States, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, and the United Kingdom.[7] The key variable of interest is the distribution of each individual's real disposable annual income, which serves as a summary measure of individual standard of living or well-being.[8] All income data are deflated to 1995 national currencies, and the new Organisation for Economic Co-operation and Development (OECD) equivalence scale is used to adjust incomes for the economies of scale in consumption that are associated with household size. Throughout the analysis, the sample has been restricted to the core working-age population of individuals aged 25 to 54.

While the key interest of this article is to assess cross-national differences in the level and structure of economic mobility longitudinally over a six-year period, it is helpful to begin the analysis with an examination of

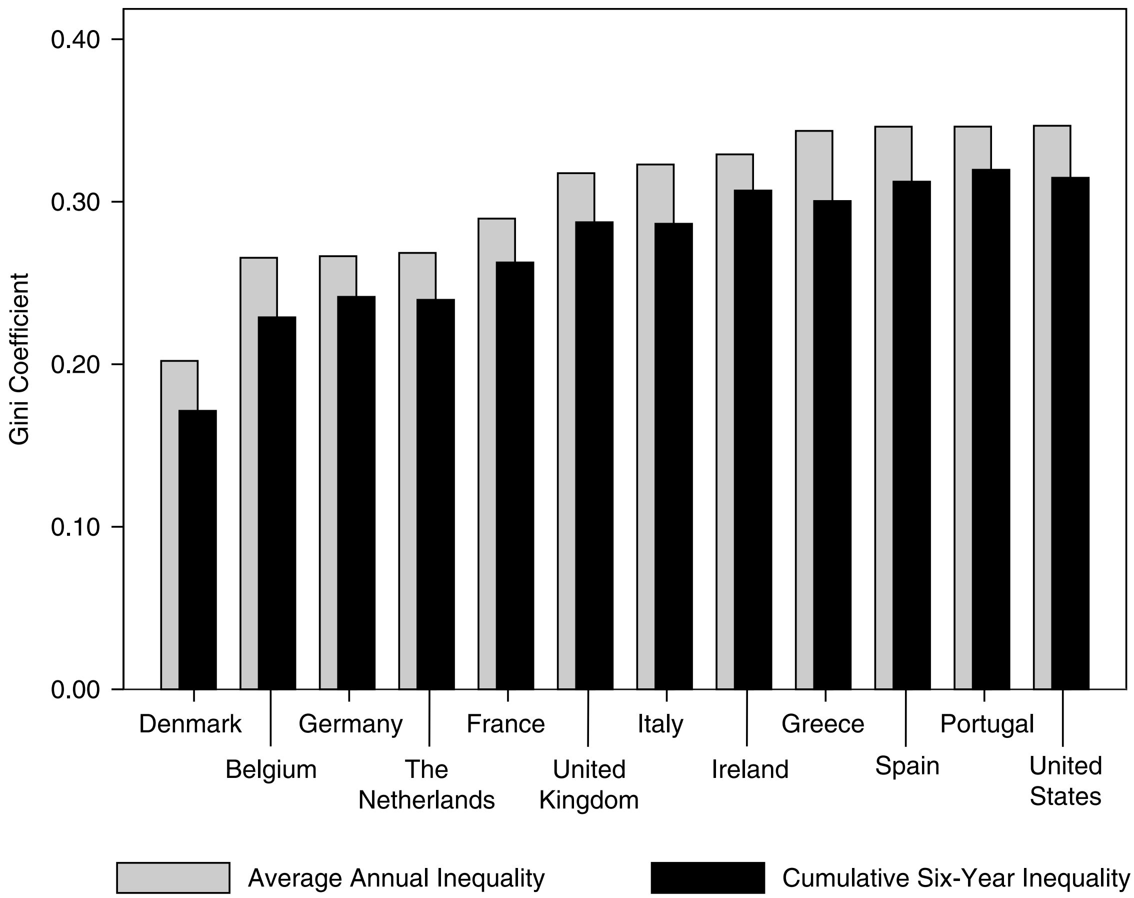

Figure 2: Inequality of annual and six-year real equivalent disposable incomes.

Sources: European Community Household Panel (ECHP) 1994–99; Panel Study of Income Dynamics (PSID)—Cross-National Equivalent File 1992–97, own estimates.

Notes: Working-age population aged 25–54.

cross-national income inequality differences using cross-sectional data. Figure 1 shows the Gini coefficient for annual disposable incomes averaged over the six-year observation window.[9] The United States has the highest level of income inequality, confirming the conventional wisdom about cross-national differences.

However, longitudinal trends in income inequality among European countries in the mid- to late-1990s were quite heterogeneous. In the United States, the growth of income inequality came to a halt during the Clinton administration. This is reflected in a very small increase of less than one percentage point in the Gini using 1991 to 1996 income data. The only European country with a similar trend during the 1990s is the United Kingdom. Among the remaining countries in the analysis, Denmark, Belgium, and France had stronger inequality growth than either the United States or Britain; there was no change for most of the Southern European economies; and income inequality actually declined significantly in Germany, the Netherlands, Italy, and Ireland.

Cross-national differences in economic inequality, the longer-term view

The longitudinal data underlying Figure 1 also allow us to address cross-national differences in income inequality while using cumulative incomes over a longer (six-year) observation window, thus taking economic mobility into account. Figure 2 shows the outcome of this analysis, comparing the findings using the six-year observation window to the average annual income figures shown in Figure 1.

Figure 2 clearly shows that the Gini coefficient for six-year incomes is consistently smaller than that for single-year incomes. For the United States, the Gini for the six-year period falls by a full three percentage points to .315, which suggests that 10 percent of U.S. income inequality that exists at any point in time is eroded over just six years. Decreases of similar magnitude between average annual inequality and six-year cumulative inequality are found in all 12 countries. The ratio between the Gini

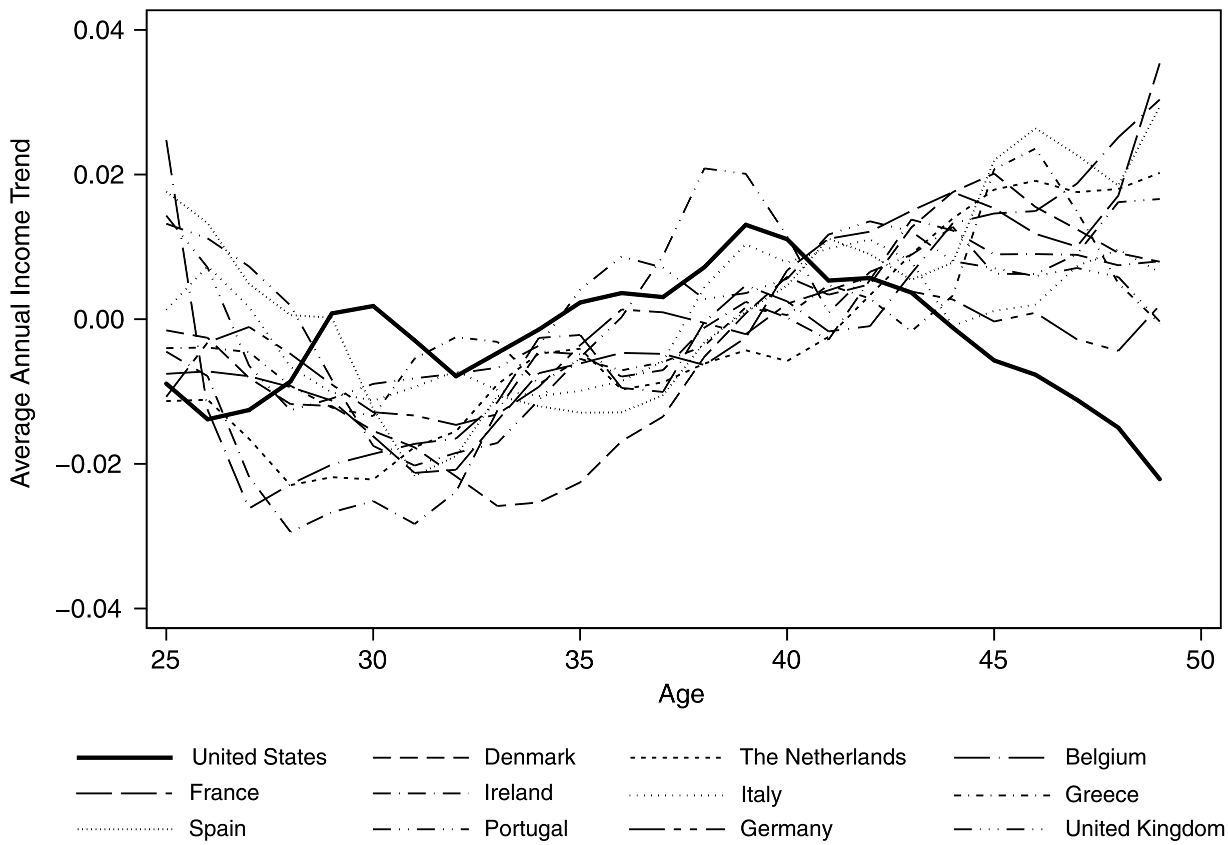

Figure 3: Life-cycle trends in log real equivalent incomes, age-specific slope parameters.

Sources: European Community Household Panel (ECHP) 1994–99; Panel Study of Income Dynamics (PSID)–Cross-National Equivalent File (CNEF) 1992–97, own estimates.

Notes: Working-age population aged 25–54. Lowess-smoothed age-specific income trend parameters (bandwidth h = 0.25).

coefficient for six-year incomes and the Gini coefficient for single-year incomes (a measure of inequality persistence also known as Shorrock's R) ranges between .85 (Denmark) and .93 (Ireland). Thus, between 7 percent (in Ireland) and 15 percent (in Denmark) of point-in-time inequality is equalized by mobility within just six years.[10] The United States, where 10 percent of annual average income inequality was eroded over the six-year period, falls well within this range. The data thus provide no indication that European economies that feature strong safety net institutions would systematically generate any less mobility than the United States, with its smaller safety net programs and less robust labor union protections.

American exceptionalism revisited, or, Why is there so little mobility in the United States?

It is surprising that so little economic mobility is evident in the U.S. data, particularly given the weaker nature of American labor market institutions and more laissez-faire public policies compared to those of most European countries.

To shed some light on this issue by examining the structure of income dynamics in greater detail, we used a regression model to decompose the data into a permanent income component (individual's average income over the six-year period) that we use to show age-specific lifestyle trends; a linear person-specific trend in individual income over the six-year observation window; and a transitory variance component that captures random fluctuations around an individual's income trend.

The U.S. pattern of economic mobility is clearly distinct from that of many European economies in all three income trend components. With respect to life-cycle patterns of economic mobility, the age-specific trend estimates in permanent income provided in Figure 3 show that, in virtually all European nations, there is a pattern of declining disposable incomes (relative to average income growth) during an individual's thirties and increasing incomes (again, relative to average income growth) during their forties and fifties. The U.S. pattern is just the opposite: an individual's standard of living rises throughout their thirties, but declines sharply afterwards. The degree to which older American workers fall behind, compared to older European workers, is noteworthy.

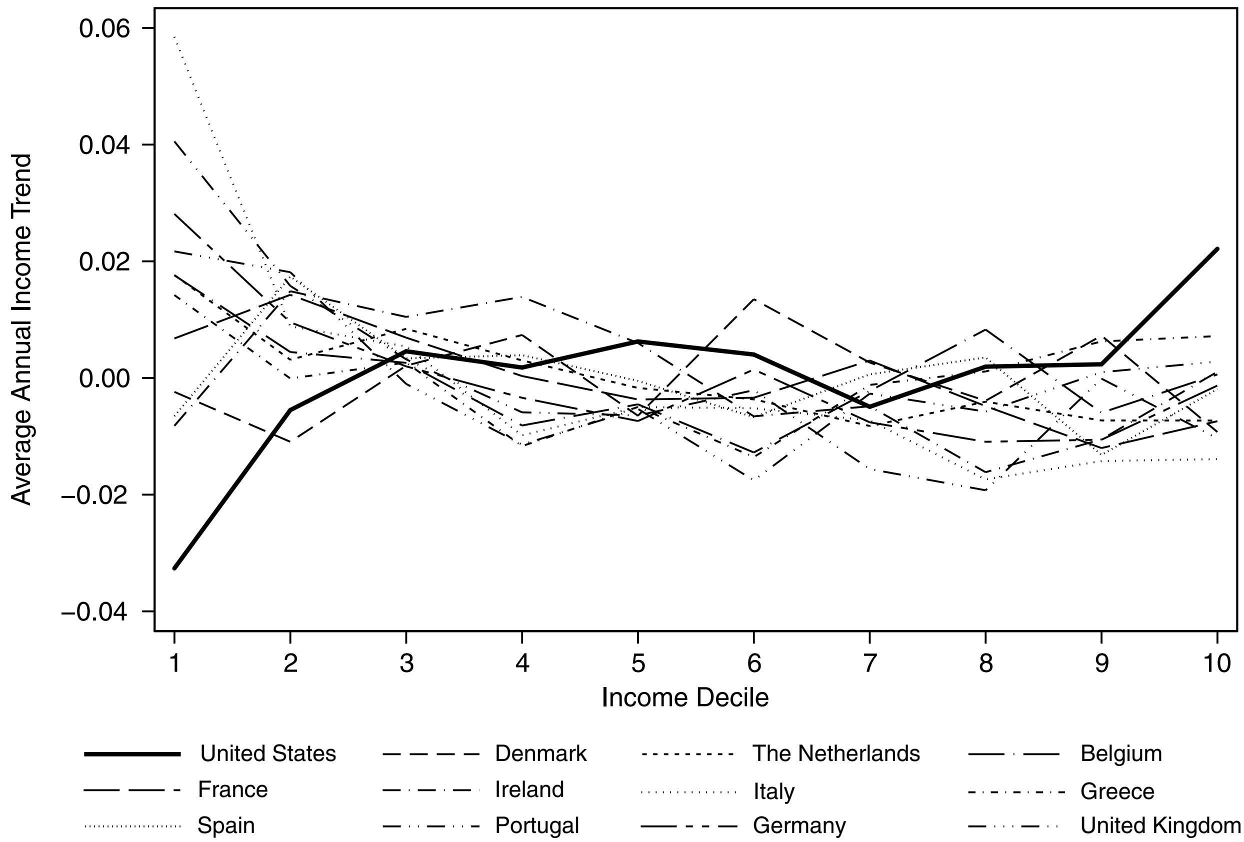

Figure 4: Trends in log real equivalent incomes (bi) by permanent income position.

Sources: European Community Household Panel (ECHP) 1994–99; Panel Study of Income Dynamics (PSID)–Cross-National Equivalent File (CNEF) 1992–97, own estimates.

Note: Working-age population aged 25–54. Arithmetic means of individual-specific income trends (parameter bi). Income deciles derived from the distribution of permanent incomes y0.

Another clear-cut U.S.–European difference is evident in the analysis of individual mobility across the income distribution. Figure 4 illustrates the average individual income trend parameter separately by deciles of the distribution of permanent incomes over the six-year observation period. On this measure, economic mobility over time decidedly works to the advantage of the poor in most European countries, as incomes in the lower parts of the income distribution rise disproportionately relative to overall income growth. In contrast, in the United States, those at the bottom of the income distribution experienced income growth significantly below average (in fact, they experienced actual income losses), while incomes grew well above average for those at the top of the distribution.

Finally, the United States is exceptional in terms of the level of transitory income dynamics, that is, the level of random income change over time. In that sense, income instability in the United States is about three times as high as in European countries like Denmark, Germany, or France, and economic prospects for individuals and families are correspondingly much less predictable.

Summary

Taking a longitudinal perspective does not fundamentally alter the conventional wisdom about cross-national differences in income inequality. During the 1990s, the United States continued to be the country with the highest level of income inequality in the industrialized world, and this outcome holds regardless of whether inequality is measured cross-sectionally at a single point in time, or longitudinally following the same households over a number of years. This finding is explained in part by cross-national differences in life-cycle patterns of economic mobility and by the polarization of the income distribution over time, both of which seem to be following more equalizing patterns in European countries than in the United States. If economic inequality is at least partly a matter of public policy, then the evidence suggests that strengthening labor unions and public safety net programs in the United States would promote greater economic equality. ■

[1]This article draws from Markus Gangl, "Income Inequality, Permanent Incomes, and Income Dynamics: Comparing Europe to the United States," *Work and Occupations* 32, No. 2 (May 2005): 140–162.

[2]A. B. Atkinson, L. Rainwater, and T. M. Smeeding, *Income Distribution in OECD Countries: Evidence from the Luxembourg Income Study* (Paris: Organisation for Economic Cooperation and Development, 1995).

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[4]D. Bradley et al., "Distribution and Redistribution in Postindustrial Democracies," *World Politics* 55 (2003): 193–228; S. Moller et al., "Determinants of Relative Poverty in Advanced Capitalist Democracies," *American Sociological Review* 68 (2003): 22–51; and B. Western and K. Healy, "Explaining the OECD Wage Slowdown Recession or Labour Decline?" *European Sociological Review* 15 (1999): 233–249.

[5]M. Gittleman and M. Joyce, "Have Family Income Mobility Patterns Changed?" *Demography* 36 (1999): 299–314; and R. Aaberge, A. Björklund, M. Jäntti, M. Palme, P. J. Pedersen, N. Smith, and colleagues, "Income Inequality and Income Mobility in the Scandinavian Countries Compared to the United States," *Review of Income and Wealth* 48 (2002): 443–469.

[6]Further information on the data sources underlying this article is available in R. V. Burkhauser, B. A. Butrica, M. C. Daly, and D. R. Lillard, *The Cross-National Equivalent File: a Product of Cross-National Research* (Ithaca, NY: Cornell University, 2001); and Eurostat, *UDB Manual, European Community Household Panel Longitudinal Users' Database, Waves 1 to 6, Survey Years 1994 to 1999* [DOC. PAN 168/2002-12] (Luxembourg: Eurostat, 2002).

[7]Austria, Finland, and Sweden joined the European Union in 1995, yet are not considered in this analysis as respective ECHP data have only been provided since 1996.

[8]"Real disposable income" refers to post-tax, post-transfer income.

[9]The Gini coefficient is a standard statistic for measuring economic inequality. It ranges from 0 (when all individuals have identical incomes) to 1 (when all income is received by a single individual).

[10]In addition, this statement even applies in case of a conservative measure like the Gini coefficient that is most sensitive to mobility around the mode of the distribution. The Shorrock's R coefficients are between .65 and .80 for the MLD, and .66 and .84 for the Theil coefficient, both inequality measures that are more sensitive to the tails of the income distribution.

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