

From Welfare to Work: What the Evidence Shows*

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*This draft has references to studies supporting all assertions of fact.

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Executive Summary

The great transformation of the welfare system set off by state reforms in the early 1990s and by the 1996 federal welfare reform law had as its primary focus the encouragement of work by mothers on welfare. This goal has been achieved to a much greater degree than anyone expected, for employment rates among single mothers have experienced major gains. Combined with a strong economy and work incentives in the tax code, former welfare recipients who have left the rolls have experienced average employment levels of around 60 to 75 percent, far higher than anticipated and much greater than their work levels while on welfare. However, there remain two sources of concern. While incomes of single mothers as a whole have risen, incomes of women leaving welfare are only slightly above what they were when they were on welfare. Additional ways of increasing the incomes of such women need to be found. Second, there is a significant group of very disadvantaged women who have major difficulties with employment because of poor job skills, poor physical and mental health, and other problems, many of whom have left welfare. Special policies need to be directed toward this group.

The great transformation of the welfare system set off by state reforms in the early 1990s and by the 1996 federal welfare reform had as its primary focus the encouragement of work by mothers on welfare. The American public has made clear that work by welfare recipients is a defining goal whose pursuit deserves the highest priority in social welfare policy. One of the four goals listed by Congress in the 1996 legislation was to encourage job preparation and work. Work among welfare recipients is widely regarded as part of the social contract, a quid pro quo for the provision of income support, as well as a source of self-esteem and self-reliance among single mothers. This in turn is thought to increase their chances for long-run economic improvement for themselves as well as for their children.

Now that five years have passed since the 1996 reforms were enacted, much is known about whether this outcome has been achieved. The evidence shows that much success toward these goals has been attained. At the same time, there are remaining sources of concern which the Congressional debate over reauthorization should address. This policy brief reviews both the evidence and the concerns.

Employment Among Single Mothers Has Increased

The overriding single piece of evidence supporting achievement of the employment goal has been the dramatic increase in employment rates among single mothers in the last decade. Employment rates among single mothers, the group most affected by welfare reform, have been

slowly increasing for over fifteen years but have jumped markedly since 1994 (Figure 1).

Employment rates of this group rose from 60 percent in 1994 to 72 percent in 1999, a very large increase by historical standards. Among single mothers who have never been married--the group with the lowest levels of education and some of the highest rates of welfare receipt--employment rates rose even more, from 47 percent to 65 percent over the same period.

Not all of this increase can be attributed to welfare reform. Part of the increase has been the result of the robust economy and the longest and strongest peacetime expansion in the last fifty years. Until the most recent slowdown, employers have been desperate for workers and have dipped deep into the pool of single mothers and other disadvantaged individuals. Another factor encouraging employment is the expansion of the Earned Income Tax Credit (EITC), which has provided major financial incentives to work and has led many women to attempt to 'make it' off welfare given the boost in income the EITC provides (up to \$4,000 per year for families with two children). Other supports for women leaving welfare as well as for those never on welfare include increased child care subsidies, Medicaid benefits, and private health benefits through SCHIP. Nevertheless, despite these other factors, there is no question that welfare reform has played a significant role in the increase in single mother employment, and research studies that have attempted to parcel out the relative contributions of different forces support this conclusion.[1]

Most Women Leaving Welfare Find Work

These overall trends beg for more detail on how individual families have fared in the wake of welfare reform. The largest body of evidence comes from data on women who were on

welfare but have left, primarily those who left the Aid to Families with Dependent Children (AFDC) program before 1996 or its successor, the Temporary Assistance for Needy Families (TANF) program, after 1996. Most states have conducted such studies. The most recent review conducted by the Department of Health and Human Services indicates that the employment rate among welfare leavers is approximately 60 percent just after exiting welfare. Moreover, about three-quarters of welfare leavers have worked at some point in the first year after leaving the rolls. When they work, they generally work full-time. Their hourly wage rates range from \$7 per hour to \$8 per hour, somewhat above the minimum wage. Those who work earn about \$3000 per quarter, which translates into around \$12,000 per year. However, the latter is an overestimate because most leavers do not work for four quarters in a row; only a little over one-third do, signalling a potential problem with employment retention and stability. [2]

These employment rates are considerably higher than critics of the 1996 reforms feared. Some of these critics predicted that families would be made destitute and homeless following the reforms, or that there would not be enough jobs for women leaving welfare. At least on average, this has not occurred. That 60 to 75 percent of welfare leavers have found employment is especially remarkable given that, over the decade prior to reform, the employment rate of mothers while they were on AFDC was never more than 9 percent. Equally notable in this light is the fact that almost 30 percent of women remaining on the rolls are now employed.[3]

The 60 percent employment rate of welfare leavers is not much different than that of women who left the AFDC program prior to welfare reform.[4] Employment rates over the period 1984 to 1996 ranged from 48 percent to 65 percent, varying by the state of the economy and the area of the country. These rates are similar to those following reform. This is

surprising because many more women have left the welfare rolls in this era of reform than in any prior period, and many of those who have left have been more disadvantaged than women who have left the rolls in prior periods. Many of the women who have left welfare since 1996 have been drawn from the more disadvantaged portions of the welfare caseload--those with especially low levels of education and job experience, for example.[5] That employment rates of leavers have not been lower than those experienced by past leavers is further evidence supporting a strong effect of welfare reform.

Further, random-assignment evaluations of pre-1996 welfare reform programs which had time limits and work requirements--and consequently were reasonably close in character to the post-1996 programs put in place by the states--also show positive effects on employment and earnings from welfare reform relative to what they would have been otherwise. This provides further support for a strong effect of reform per se. The employment and earnings gains in these demonstrations average the outcomes of both women who have left welfare as well as women who have stayed on the rolls, and therefore represent a more comprehensive measure of average outcomes than studies of leavers alone.[6]

Two of the most important reforms in the 1996 legislation were the imposition of federal time limits on the length of welfare receipt, and the use of more stringent sanctions for not complying with work requirements and other rules. A natural question is how women who hit a time limit or who are sanctioned have fared relative to women who have left voluntarily or because of different inducements. However, time limits have had relatively little effect so far because most states have retained the five-year federal maximum and, as a result, large numbers of recipients will not begin to hit limits until late Fall 2001 or Spring 2002. Some states do have

shorter time limits than five years but they have exempted large numbers of families from the limits and have granted large numbers of extensions. These exemptions and extensions have typically been granted to the most disadvantaged families, so that it is primarily those with significant employment and earnings while on TANF who hit the time limit in these few states. As a consequence, in the one or two states where significant numbers of families have left welfare because they hit a time limit, post-welfare employment rates of those leavers are quite high (e.g., 80 percent). But in other states where fewer families have hit the limit, employment rates of time-limited leavers are no different than those of other leavers.[7]

More is known about sanctions because they have been in force for most of the period since 1996 and sometimes from before that date, and many more women have been sanctioned than have hit time limits. The studies of women who have left welfare because of sanctions show that such women are less likely to have jobs than other welfare leavers.[8] This appears to be because sanctioned welfare recipients tend to be less educated, in poorer health, and to have lower job skills in general than other welfare recipients. Unfortunately, this finding suggests that sanctioning may often be occurring often among women who are the most disadvantaged and have the greatest number of difficulties with work.

Women Leaving Welfare Have Low Incomes

Despite the high employment levels of women who have left welfare, their incomes increase only modestly after leaving the welfare rolls. About half of leavers experience an increase in income immediately after leaving, with the other half experiencing a decline. After a year or two off the rolls, earnings gains slightly exceed losses in TANF benefits. When EITC

income is added in, the gains are slightly higher. However, the major change in income after leaving welfare comes increased income from other family members (very little from boyfriends and other unrelated persons, however). Such income is a larger component of total household income than either the earnings of the leaver herself or TANF and Food Stamp income. As a result of additional income from this source, total household income grows by about 20 percent after two years off the rolls. Income from other household members is thus a key ingredient to sustaining the incomes of women leaving welfare.[9]

Other evidence on impacts of welfare reform on income come from random-assignment demonstrations which have measured the effects of several pre-1996 state welfare reform plans. For the states whose plans most resembled those implemented after 1996 around the country-- those with work requirements and time limits--income was essentially unchanged by the reforms three years after they began. However, neither the EITC nor the income of other family members was included in the income calculation, so it is probable that some income gains were in fact attained, possibly in the same 20 percent range as found in other studies. These demonstrations also show that, in the absence of earnings disregards, income is not likely to greatly increase for a several reasons. One is that many women work part-time and hence have quite modest earnings, not enough to make up for lost benefits. Another is that many women are sanctioned off the rolls and have little or zero earnings, yet they lose benefits. A third is that many states reduce TANF benefits dollar-for-dollar when earnings increase, at least if women stay on the welfare rolls, therefore cancelling out any gain in income that might have result from the increase in work.[10]

The EITC has played a significant role in keeping household income from declining as much as it might have. However, many women off welfare do not receive the EITC if they have

not been able to achieve steady employment. Others who are working do not have enough earnings to achieve the maximum EITC payment and others do not apply for it in their tax returns. Thus the EITC has assisted some families but not all, and those families with income declines tend to be those that have benefited from it the least.

Studies also show that welfare leavers have experienced declines in their receipt of Food Stamps and Medicaid. It appears that this is not a result of loss of eligibility so much as a result of lower participation even while eligible, possibly because access to eligibility-determining offices is reduced or more difficult to sustain. For whatever reason, low rates of benefit receipt are a significant problem among TANF leavers.[11]

Women who have left welfare are not the only ones affected by reform. Low-income single mothers who do not come onto welfare at all, who choose to stay off welfare to try to make it in the labor market, may have had increases in income over time. Indeed, the fact that the incomes of low-income single mothers as a whole have risen over time at the same time that incomes of welfare leavers have been relatively stagnant suggests that the incomes of such “non-entrants” have indeed risen.

Some Leavers Are Not Doing Well

The flip side of the high employment rates of 60 to 75 percent of women who have left welfare is that 25 to 40 percent of those women are not working. Indeed, some studies have indicated that as many as 18 percent of leavers in some areas have not worked at all for a full year after leaving the rolls.[12]

This group is of some concern. Because they have lost their welfare benefits and do not

have earnings, they have lower incomes than nonworking women who are still on TANF. Some fraction of these nonworking leavers have a spouse or partner who brings in some income to the household, and others supplement their income with benefits from other government programs. One of the most common program benefits received by this group are disability benefits from either the Supplemental Security Income program or the Social Security Disability Insurance program for the mother or her children, a reflection of a high prevalence of health problems and disability that hinders work. Nevertheless, even with the income from other family members and from government programs, nonworking leavers have considerably lower income than they did when they were on welfare and, consequently, leaving welfare has been particularly disadvantageous for these women and their children.[13]

The existence of such a group is a reflection of a more general diversity in the experiences of welfare leavers, for while some have fared reasonably well off welfare, others have not. Employment rates of less educated leavers are considerably below those of more educated leavers, and poverty rates are higher, as are the employment and poverty rates of those leavers who are in relatively poor health.[14] Random-assignment demonstrations of time-limited pre-1996 welfare reforms show some evidence that welfare reform results in a larger fraction of families ending up with below-average incomes. [15] The presence of a group of women who have left welfare and are not doing well is consistent with broader trend studies indicating that the poorest single mother families in the U.S. have experienced declines in income in the post reform period.[16]

The Number of Women Going onto Welfare Has Declined

As noted previously, women who were once welfare recipients and have left welfare are not the only ones affected by welfare reform. Another group of women has chosen not to apply for welfare subsequent to reform, possibly discouraged by the work requirements and other new mandates that come with being on welfare, and possibly encouraged by the good economy to attempt to stay off welfare and work. Other women have applied for welfare but have been rejected. Over 20 states have formal diversion programs, which encourage women through financial inducements and other means to not come onto the welfare rolls. More than 30 states have either diversion policies or have imposed work requirements that must be fulfilled prior to eligibility for benefits.[17]

The decline in the number of women coming onto the TANF rolls has been very large in the post-reform era. [18] In some states, the decline in entry onto welfare has been more important quantitatively than the increase in exit rates in accounting for the caseload decline.[19] This finding puts a different light on the caseload decline and demonstrates that there is an important group of women other than leavers whose employment, earnings, and income should be of interest to policy-makers. Unfortunately, no studies have been conducted to date which examine this group, so their employment status and well-being remains unknown. However, the studies which have showed large post-reform increases in employment rates of single mothers as a whole, which necessarily combine both those who have left welfare and those who have not come onto the rolls, strongly suggests that employment rates of “non-entering” women are high.

Issues for Reauthorization

The overall picture of employment of single mothers in the wake of welfare reform is a favorable one, indicating widespread work among former welfare recipients and among low income single mothers as a whole. With this accomplishment taken as a given, reauthorization should focus on those areas in which improvement can be made.

There are two major areas that deserve attention. One is the broad issue of how to improve the income gains of women who have left welfare for work. Income gains are too modest for too many families, with earnings gains insufficient to counter reductions in benefits and with poverty rates remaining high. Aside from the need to increase incomes of the former welfare families for its own sake, income gains from leaving welfare will be necessary, in the long term, to provide the financial incentives for women to want to leave welfare for work. While sanctions and work requirements can continue to be used to push women into the workforce, they will operate much more successfully if the financial incentives operate in the same direction.

More supports for working families in the form of increased child care assistance, assistance with transportation, and other work-related services can be of some use in this direction. Moving more women from part-time work to full-time work would be another direction to pursue, but this approach has limits if adequate child care and transportation are not available. Providing stronger financial incentives with state EITCs and enhanced TANF earnings disregards are also possible, although the latter will only encourage work on the TANF rolls, not off them. Major improvements beyond this are likely to come only from increased earnings at the jobs which recipients hold. This calls for expanding policies aimed at job retention, skills enhancement, and job training. States are now only beginning to think about

these types of policies and have a long way to go before such policies are widespread and have a major impact on incomes.

The second major issue is how to develop policies to assist families that have special difficulties in establishing employment. These families are sometimes called the “hard-to-serve,” although that term begs the question of what types of services are needed. The term “hard-to-employ” is a more accurate descriptor. One important result of the studies reviewed here is that many of these families are found not to be on TANF or on any other major welfare program. Rather, they are already on their own off welfare and have very low incomes. Any set of services that are directed mainly to TANF recipients alone, on the presumption that the most disadvantaged families are still on the rolls, will not reach these families. This fact requires a major expansion of assistance to the non-TANF population. Some states, notably Wisconsin, have made such an expansion a major goal, but most states are very far from having penetrated this population deeply with services and programs.

Most observers already recognize that designing policies that will be successful in moving the nonemployed families into significant work levels will be very difficult, given the severity of the difficulties these families face. These difficulties include low levels of education and job skill, significant health problems--both physical and mental--and often problems of substance abuse and domestic violence. The multiple interlocking and overlapping sets of problems faced by these families should give pause to any optimistic view of easy solutions that will lead to steady employment and significant earnings gains.

Given these difficulties, a more open discussion of assistance policies for families who are very unlikely to be able to achieve significant employment gains in the short term or even

medium term should be conducted. Long-term cash assistance accompanied by job training, health insurance, and better programs aimed at reducing substance abuse and domestic violence need to be directed toward this population independent of employment considerations. While the strong work incentives that are currently in place should remain, thereby continuing to provide financial incentives to such families to work at higher levels than they currently do, simply strengthening work supports and further increasing work incentives will not, by themselves, provide much help to these groups.

Virtually all states have already starting taking steps to develop programs for these groups. They have begun with the first step, which is to attempt to identify those who have problems of these types and to design an appropriate set of services for them. However, the states must develop these programs much more before a well-working set of identification procedures are in place and an adequate service delivery structure is established.[20] In coordinating treatment of these families with employment programs, states can use their ability to exercise exemptions from work requirements and time limits as a short-term strategy. But more active and aggressive policies will be needed to address the needs of these families, both on TANF and off, and the significant funds necessary to do so will have to be assured to be in place.

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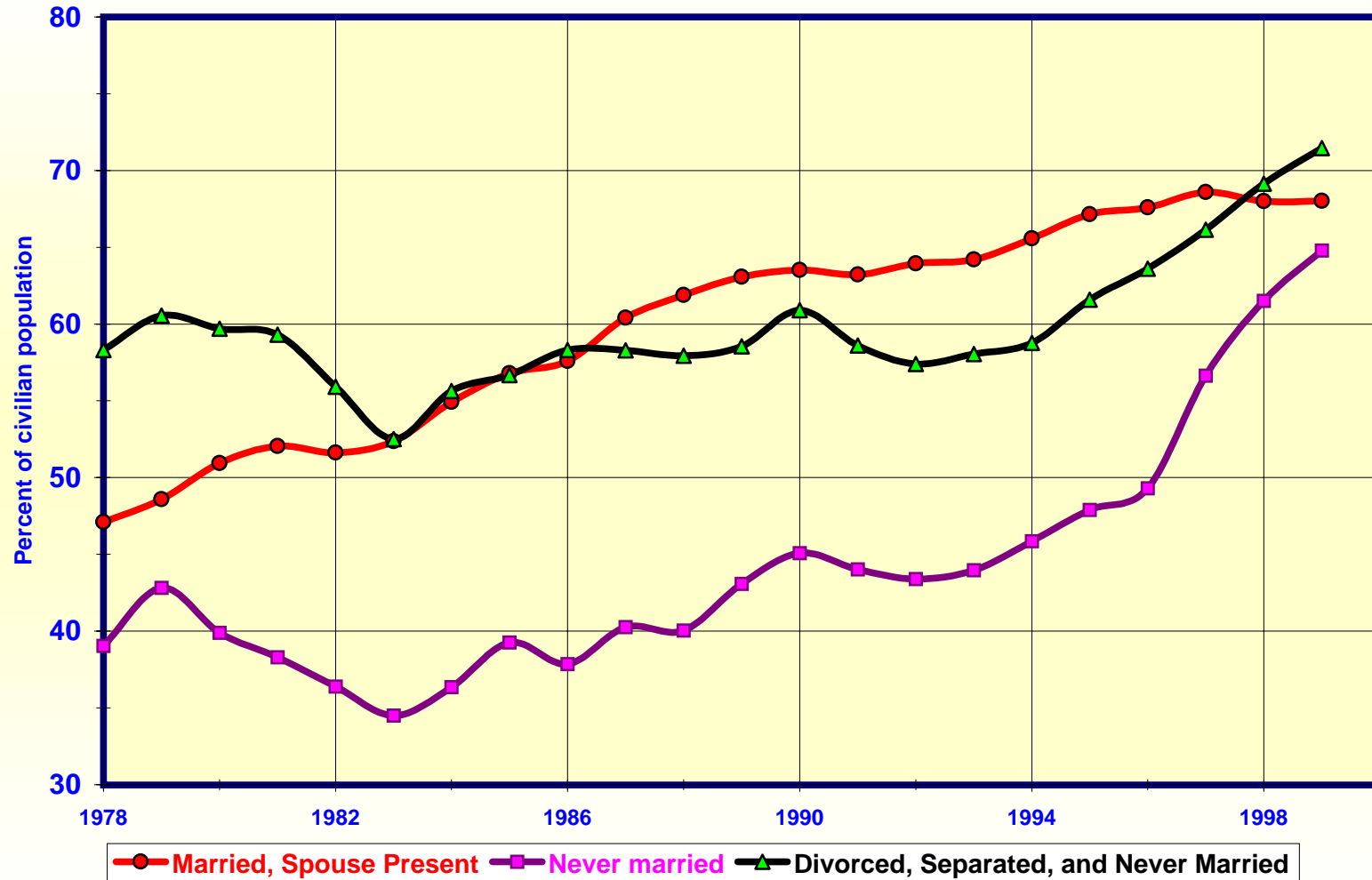
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Figure 1. Employment / Population Ratio of Mothers Who Live with Their Own Minor Children



Source: Tabulations from unpublished data from the Bureau of Labor Statistics by Dr. Gary Burtless, Brookings Institution.