BY SHELDON DANZIGER AND RUCKER C. JOHNSON

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, a.k.a welfare reform, has been widely praised for "ending welfare as we knew it." The act eliminated single mothers' firm entitlement to cash assistance, which had been in place for 60 years. A mother on her own is no longer allowed to reject a job offer and still stay on welfare. And welfare no longer provides an indefinite source of income for the poor, in large part because there is a 60-month lifetime limit on receiving benefits.

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The coincidence of welfare reform, which made it more difficult to collect benefits, and the economic boom of the 1990s, which increased the demand for marginally qualified workers, contributed to a drastic decline in welfare caseloads and a substantial increase in the employment of single mothers. Welfare was so thoroughly reformed that it no longer even serves as a buffer to the ups and downs of the business cycle: the national welfare caseload changed little after the recession began in March 2001. By contrast, the Food Stamp program, which remains a permanent entitlement for those with low incomes, had a caseload increase of about two million families between March 2001 and September 2003.

Although the number of single mothers working has increased and their poverty rate has fallen since the mid-1990s, poverty among single mothers still remains high. Women who leave welfare for work face frequent spells of unemployment. And many lose their health insurance as they make the transition from welfare to work. Moreover, welfare reform has produced a small (but growing) group of women who have been cut off from regular sources of income – they have no work or cash assistance, and they live in families that do not have other earners.

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THE TRANSITION FROM WELFARE TO WORK

Single mothers left welfare and entered the labor force at a record pace after the early

1990s. From the mid-1970s to the early 1990s, about 40 percent of less-educated (those with no more than a high-school degree) single mothers aged 18 to 54 received cash welfare at some point during each of the years. Congress began the vigorous debate over welfare reform in 1994. And since then, there has been an unprecedented decline in reliance on cash welfare. In a decade, the national welfare rolls declined by more than 60 percent – and in some states, by 90 percent. In fact, by 2001, only 14 percent of less-educated single mothers were receiving benefits.

Given the education, labor market skills, experience and other workplace attributes of the typical welfare recipient, getting a job is easier than keeping it.

From the mid-1970s to the mid-1990s, some 60 to 65 percent of less-educated single mothers were employed at some time during the year. There was, however, more cyclicality in work than in welfare dependence. The employment rate in this group fell by about eight percentage points to a low of 57 percent during the recession of the early-1980s, and then rose by eight points by the end of the 1980s recovery. In contrast, from 1993 to 2000, the period of welfare reform and a booming economy, employment in this group rose by almost 20 percentage points, to 78 percent. It fell by six points after the recent recession – but at 72 percent in 2003, it remains higher than in any year before 1997. Employment increases among single mothers were greatest for the racial or ethnic groups that had been most likely to receive cash welfare: African-Americans and Hispanics.

Evaluations of the work experience of welfare recipients in the years after the 1996 reform show that about two-thirds were at work in any given month. However, few studies have had access to data on the length of time that these women stay employed. We have six and a half years of monthly employment numbers from a panel study of single mothers residing in Michigan, all of whom received cash welfare in February 1997. The Women's Employment Study was conducted by the University of Michigan Program on Poverty and Social Welfare Policy. Although the study interviewed only women from one urban Michigan county, the results parallel those of other state-specific studies.

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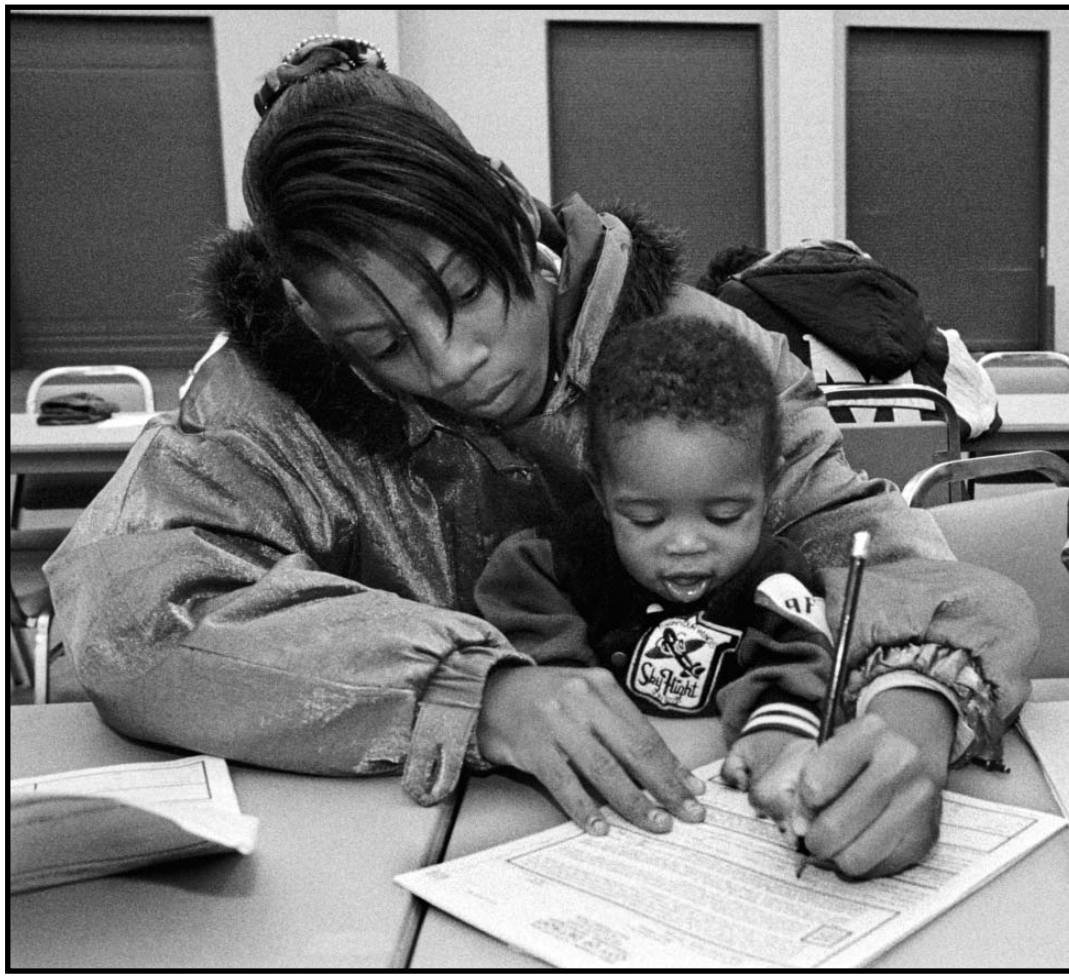
Michigan recipients who started a job at some point in 1997 to 2003 could expect to work for 10 months before experiencing a month of non-employment. The median length of employment was 12 months for a high-school graduate, but only 7 months for a high-school dropout.

In the early years covered by the study, about one-fifth of women who went from work to non-employment were laid off or fired; in the aftermath of the recession, about one-third of exits were because of firings or layoffs. Voluntary departures fell from about one-fifth of job exits from 1999 to 2001, to about one-tenth from 2001 to 2003. The employment patterns of former welfare recipients are quite sensitive to the business



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cycle – a one percentage point increase in the local unemployment rate increases their monthly probability of being laid off or fired by 8 percent.

Over the 79-month study period, respondents worked about two-thirds of the time. The most successful third of the respondents worked in 90 percent or more of the months; by contrast, about 12 percent of respondents worked in less than one-third of the months. The women who had the most difficulty getting and keeping jobs were more likely than others to have little education and few job-specific skills, along with significant physical and mental health problems. As discussed below, too little attention has been paid to the fact that relatively few former welfare recipients were working in jobs that allowed them to escape from poverty.

THE TRANSITION FROM WELFARE TO NO WORK

Welfare reform led to a larger increase in employment among single mothers than most policy analysts had expected when the law was passed. Nonetheless, a significant minority ended up without wages or cash assistance. As was the case for single mothers across the nation, in the Michigan study the numbers receiving benefits declined more

rapidly than the numbers gaining employment. As a result, the percentage of women who had no income from either welfare or work in a given month increased from zero in February 1997 to almost 20 percent by the fall of 2003.

Some of these women were temporarily between jobs; others were living with a working husband or partner. But about 9 percent of respondents did not have regular sources of economic support for long periods – they received no earnings and no cash welfare for at least 20 months of the 79-month study period and lived in households that had no other earner or unemployment insurance recipient for at least three of the five survey waves.

Six years after the law changed, about half of working mothers had jobs that did not pay enough to keep a family of three out of poverty, even though they accumulated an average of 54 months of work experience.

Women became disconnected from regular sources of economic support for a variety of reasons, including losing welfare benefits because of administrative sanctions and losing wages after being laid off or fired. Respondents who were disconnected for long periods reported far lower annual earnings in 2002 than did respondents in general: $2,900 versus $10,800. They were also more likely to have been homeless at one or more survey waves (33 versus 17 percent), to have been evicted (40 versus 24 percent) or to have relied on private charity in the six months before the 2003 interview (42 versus 29 percent).

LOW-WAGE JOBS: STEPPING STONES OR DEAD-ENDS?

While there is agreement that most welfare recipients can find work, their prospects for wage growth and self-sufficiency are less clear. Some analysts view the low-wage jobs that most take as a portal to better-paying ones; others see such jobs as the first in a succession of economic dead ends. Our data offers some insight into what actually happens.

In the fall of 1997, working respondents in the Michigan study earned a median wage of $6.66 (in 2003 dollars). As they accumulated work experience over the next six years, their median wage increased to $8.35. However, all of this gain was achieved by the third quarter of 2001; there was no growth in the median wage rate from 2001 to 2003.

The government has an official poverty line, but no definition of what constitutes a "good job." We define a good job as one that provides a net annual income (after payment of Social Security payroll levies plus federal and Michigan state income taxes, and after receipt of the Earned Income Tax Credit and Food Stamps) that exceeds the poverty line for a single mother with two children ($14,824 in 2003) and allows her to maintain health insurance. A woman thus has a good job if she works at least 35 hours a week (or voluntarily works part-time), has an hourly wage of at least $7.75, and is offered health insurance relatively soon after being hired. If the full-time job does not include health insurance, we define a good job as one that pays $9.40 an hour. This $1.65 per hour difference over a full year of work is assumed to

be sufficient to purchase private health insurance and to pay small monthly fees to insure children under the State Child Health Insurance Program.

As was the case with employment trends, there is good news and bad news with regard to trends in job quality. The good news is that the portion of welfare mothers who found good jobs increased from 8 percent to 26 percent between 1997 and 1999. The bad news is that there was little change over the next four years. The likelihood of moving into a good job from a bad one is positively correlated with the regularity of employment, suggesting that, for some women, taking a low-wage job does indeed provide a steppingstone to a good job.

Six years after the law changed, about half of working mothers had jobs that did not pay enough to keep a family of three out of poverty, even though they accumulated an average of 54 months of work experience. And more than one-third had no job at all. Given that most women worked most of the time during a six and a half year period, why had so few found good jobs? One reason is the recession, which significantly reduced the probability of making the transition into a good job. Another reason is the type of jobs that welfare mothers obtain, which in turn is partly caused by their lack of job skills, and their physical and mental health.

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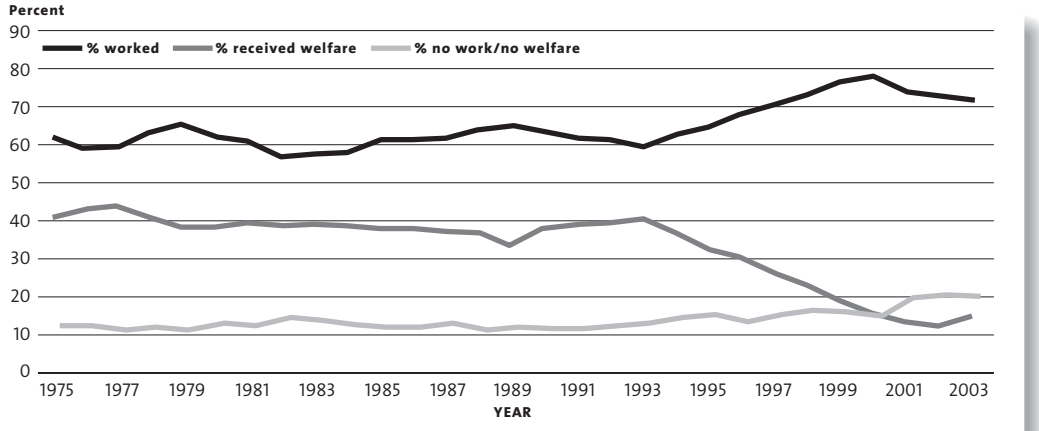
Unionized jobs and jobs in occupations other than services were more likely than non-unionized jobs and service-sector jobs to qualify as good jobs. In the fall of 2003, one-sixth of working respondents were union members or worked in jobs covered by union contracts. Their median wage, $10.15, was 28 percent higher than the median of non-union working mothers. Three-quarters of unionized workers, compared with two-fifths of non-union workers, had good jobs. Moreover, those in unionized jobs were also less likely to have been laid off. Most respondents worked in non-unionized service sector jobs. Their median wage was just $7.61.

TRENDS IN WORK AND WELFARE, SINGLE MOTHERS, HIGH SCHOOL DEGREE OR LESS EDUCATION, 1975-2003



JOB SKILLS AND TRAINING OPPORTUNITIES

Welfare reform emphasized quick job placement rather than education and training, and thus banked on the assumption that *any* job would lead to the skill acquisition needed for a good job. However, work experience hardly assures a way up.

In the Michigan study, we found that women working in jobs requiring cognitive skills (in particular, reading and writing) had higher wages and greater returns to work experience than those with jobs requiring only "soft" skills, such as talking to customers. Jobs requiring both reading/writing and computer skills were more likely to offer wage increases for merit and greater chances for promotion, and were more likely to offer formal training opportunities. Recipients who left welfare with fewer cognitive skills were thus less likely to obtain a good job initially and less likely to gain the skills to move ahead.

The emphasis on immediate job placement did help some respondents, especially in the 1997-1999 period when unemployment rates were low. Given the recession, and the return to higher unemployment rates, however, the labor market prospects of many former recipients are unlikely to improve without additional training.

IMPROVING THE POST-WELFARE REFORM SAFETY NET

Before 1996, welfare was available to buffer economic shocks – layoffs, transitions to single motherhood due to childbirth or divorce, and the like. Any income support system faces a trade-off between maintaining work incentives to promote long-run economic self-sufficiency, and mitigating material hardships that follow from economic and personal traumas. The 1996 reform has been so popular because Congress and the public felt that the prior system undermined the work ethic by allowing single mothers to choose between work and welfare.

There is no reason to return to the pre-1996 system. However, the fact that so few recipients managed to hold good jobs and so many find themselves without any job in a typical month suggests that too little attention is now being paid to cushioning income shocks.

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For some former welfare recipients who lose jobs, unemployment insurance fills the gap. However, many single mothers work too few hours or earn too little to qualify for insurance. And many single mothers leave jobs voluntarily – say, to care for sick children – and do not qualify for unemployment insurance. Broadening eligibility for unemployment insurance could thus make a big difference for women who lose jobs and have exhausted their time-limited welfare benefits.

Many recipients manage the transition from welfare to steady employment, but end up without health insurance. In 2003, more than one-fifth of working mothers in the Michigan study had no health insurance coverage. Expanding Medicaid eligibility, or allowing working mothers to purchase subsidized coverage for themselves under the State Child Health Insurance Program, could remedy this problem since most of the children of the uninsured remain covered by one of these programs. This is especially important, as welfare mothers have significantly more physical and mental health problems than other women of the same age.

Another option is to allow participation in education and training activities to satisfy the work requirement during economic downturns. Under current law, states receive a fixed block grant in both fat times and lean, meaning that state budgets are squeezed hardest just when the need for the safety net is greatest. Moreover, the law requires a fixed percentage of the welfare caseload to be working in every month, whether the unemployment rate is high or low.

Finally, the minimum wage has not increased for seven years and is now at an historic low relative to average wages. If it were increased, many of the women whom we now classify as having "low wage" jobs would move into good jobs.

These are but a few ways to fill in the holes in the safety net. The 1996 welfare reform did reduce the welfare rolls and did increase the proportion of poor women who work. However, too many single mothers work full-time but remain in poverty and without health insurance. And a small but increasing number find themselves without work or welfare benefits. If the modest changes suggested above were adopted, the economic security of mothers making the transition to work would be considerably enhanced.

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