

**From the Welfare Rolls to the Low-Wage Labor Market**  
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**December 15, 2004**

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) has been lauded for decisively “ending welfare as we knew it.” The Act eliminated the entitlement to cash assistance for single mothers that had been in place for 60 years. A single mother is no longer allowed to reject any job offer and to remain on welfare, as a recipient who refuses to search for work or co-operate with the welfare agency can be removed from the rolls. Welfare no longer provides a steady source of income, in part because of the 60-month lifetime limit on benefit receipt, and in part because of the requirement that most recipients search for work or engage in other qualifying activities specified by the state.

Together, welfare reform and the economic boom of the 1990s contributed to a dramatic decline in welfare caseloads and a substantial increase in the employment of single mothers. Welfare was so thoroughly reformed that it is no longer a countercyclical program--despite the recent recession, the national welfare caseload changed little between March 2001 and September 2003. In contrast, the Food Stamp program, which remains an entitlement for the poor, had a caseload increase of about 2 million families over this same period.

Although the extent of work has increased and the poverty rate has fallen since the mid-1990s, poverty among single mothers remains very high. In addition, many working single mothers lost health insurance as they made the transition from welfare to work. As is the case for other less-skilled workers, women who leave welfare for work face frequent spells of

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nonemployment and continuing economic hardship over all phases of the business cycle. And, welfare reform produced a small, but increasing, group of women who are disconnected from regular sources of economic support—they have no work, no cash assistance, and do not live in households that have other earners.

### **The Transition from Welfare to Work**

Less-educated single mothers left welfare and entered the labor force at a record pace after welfare reform. Figure 1 presents national data from the annual March Current Population Surveys for the period from 1975 to 2003 for single mothers between the ages of 18 and 54 who have completed no education beyond a high school degree.

From the mid-1970s to the early 1990s, about 40 percent of these single mothers received cash welfare at some point during each of the years. Congress began to vigorously debate welfare reform in 1993 and 1994. At about this time, there was an unprecedented decline in reliance on cash welfare—by 2001, only 14.2 percent of less-educated single mothers received benefits. Welfare receipt did not increase in response to the recession, remaining at roughly 15 percent. In a single decade, the national welfare rolls declined by more than 60 percent; in some states, the decline was 90 percent.

From the mid-1970s to the mid-1990s, about 60 to 65 percent of less-educated single mothers were employed at some time during the year. Figure 1 shows more cyclicalities in work than in welfare receipt. The annual employment rate fell by about 8 percentage points to a low of 57 percent during the recession of the early-1980s and then rose by 8 points back to 65 percent at the end of the 1980s recovery. In contrast, from 1993 to 2000, the period of welfare reform and a booming economy, employment rose by almost 20 points to 78 percent. Employment fell by 6 points following the recent recession, but at 71.8 percent in 2003, it remains higher than in

any year since 1997. Employment increases among single mothers were greatest for the racial/ethnic groups that had been most likely to receive cash welfare—African-Americans and Hispanics.

Many evaluations of the work experience of welfare recipients in the years following the 1996 reform show that about two-thirds were at work in any month. However, few studies have panel data on the length of time that these women stay employed. We have 6 \_ years of monthly employment data from a panel study of single mothers residing in Michigan, all of whom received cash welfare in February 1997.<sup>2</sup>

Given the education, labor market skills, experience and other human capital attributes of the typical welfare recipient and the way the low-wage labor market operates, getting a job is easier than keeping a job. Michigan recipients who started a job at some point between 1997 and 2003 could expect to work for 10 months before experiencing a month of nonemployment. The median employment spell was 12 months for a high school graduate, but only 7 months for a high school dropout.

In the early years of the panel study, about one-fifth of women who exited from a job to nonemployment had been laid off or fired; in the aftermath of the recession, about one-third of exits were due to firings or lay-offs. Voluntary quits fell from about one-fifth of job exits between 1999 and 2001 to about one-tenth between 2001 and 2003. The employment patterns of current and former welfare recipients are quite sensitive to the business cycle—a one percentage-

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<sup>2</sup> The Women's Employment Study (WES) was conducted by the Michigan Program on Poverty and Social Welfare Policy at the University of Michigan. Although WES interviewed only women from one urban Michigan county, results are similar to those of other state-specific studies. Respondents were interviewed five times between Fall 1997 and Fall 2003. Response rates were very high and there is no evidence of systematic attrition from the sample.

point increase in the local unemployment rate increases the 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, about one-third of respondents, worked in 90 percent or more of the months; in 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 even during the late 1990s economic boom are more likely than others to have low educational levels, few job-specific skills, and significant physical and mental health problems. As we discuss below, too little policy attention has been focused on the fact that relatively few former recipients were working in jobs that allowed them to escape from poverty.

### **The Transition from Welfare Receipt to No Work and No Welfare**

Welfare reform led to a larger increase in employment among single mothers than most policy analysts expected when the law was passed. However, during the economic boom, but especially in the aftermath of recession, a significant minority find themselves without wages and without cash assistance. The bottom line in Figure 1 shows that in most years from 1975 through 2000, about 12 percent of less-educated single mothers had no earnings and no cash welfare; this number increased to 19.5 percent in 2003.

As was the case for single mother across the nation, welfare receipt declined more rapidly than employment increased in the Michigan panel study. As a result, the percentage of women who had no income from either cash welfare or work in a given month increased from zero in February 1977 to almost 20 percent by Fall 2003. Some of these women are temporarily between jobs; others living with a working husband or partner. We find that about 9 percent of respondents did not have regular sources of economic support for long periods of time—they

received no earnings and no cash welfare for over 25 percent of the study period (at least 20 months) and lived in a household that had no other earner or unemployment insurance recipient for at least three of the five survey waves.

Women become disconnected from regular sources of economic support for a variety of reasons, including losing welfare benefits due to sanctions or other administrative case closings, or losing wages after being laid off or fired. Respondents who were disconnected for long periods of time reported lower annual earnings in 2002 than did all respondents—\$2,900 vs. \$10,800. They also experienced a greater number of material hardships than other respondents—they were more likely to have been homeless at one or more waves (33 vs. 17 percent) or to have been evicted (40 vs. 24 percent) or to have sought charity in the six months prior to the 2003 interview (42 vs. 29 percent).

### **Low-Wage Jobs: Stepping Stones or Dead-Ends?**

While there is agreement that most welfare recipients can find work, there is controversy about their prospects for wage growth and self-sufficiency. Some view the low-wage jobs that most take as a port of entry into better-paying ones; others view them as the first in a succession of economic dead-ends. Our data allow us to examine how job quality improves over time.

In Fall 1997, working respondents in the Michigan study earned a median wage of \$6.66 (all wage rates are expressed in \$2003). As they accumulated work experience over the next six years, their median wage increased by 25 percent to \$8.35 in Fall 2003. All of this gain was achieved by Fall 2001, as there was no growth in the median wage rate between 2001 and 2003.

The government has an official poverty line, but no definition of what it means to have a “good job.” We define a good job as one that provides a net annual income (after payment of social security 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 will have a good job if she works at least 35 hours per week, has an hourly wage of at least \$7.75, and is offered health insurance benefits either immediately or after a trial period on the job. If the full-time job does not offer health insurance, we define a good job as one that pays \$9.40 per hour. This \$1.65 per hour difference over a full year of work is assumed to be sufficient to purchase a private health insurance policy and to pay small monthly fees to insure her children under the State Child Health Insurance Program. Women whose current job satisfies these wage and health insurance criteria but who voluntarily work part-time are also considered to have good jobs.<sup>3</sup> All other workers are considered as having “low-wage” jobs.

As was the case with employment trends, there is good news and bad news with regards to job quality. The good news is that the extent to which these welfare mothers found good jobs increased rapidly from 7.6 to 25.9 percent between 1997 and 1999. The bad news is that there was little change, to 28.9 percent, over the next four years. The likelihood of moving into a good job from a “low-wage” job is positively correlated with the regularity of employment, suggesting that, for some women, taking a low-wage job does provide a stepping stone to a good job.

More than 6 years after welfare reform, 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. Given that most women worked most of the time during a 6 \_ year period, why have so few found good jobs?

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<sup>3</sup> This definition of a “good job” was developed by Rucker C. Johnson and Mary E. Corcoran. 2003. “The Road to Economic Self-Sufficiency: Job Quality and Job Transition

One reason is the recession which reduced the year-to-year probability of transitioning into a good job by 32 percent, relative to the rate during the boom. Another reason is the type of jobs welfare mothers obtain, which in turn, is partly due to their lack of job skills and to their physical and mental health and other personal problems.

Unionized jobs and jobs in occupations other than the services were more likely than nonunionized jobs and service sector jobs to qualify as good jobs. In Fall 2003, one-sixth of working respondents were union members or worked in jobs covered by a union contract. Their median wage, \$10.15, was 28 percent above the \$7.94 median of nonunion workers. Three-quarters of unionized workers compared to two-fifths of nonunion workers had good jobs; 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, \$7.61, was 17 percent lower than the \$9.18 median of workers in other occupations.

### **Job Skills and Training Opportunities**

Welfare reform emphasized quick job placement and not education and training on the assumption that employment in *any* job will lead to the skill acquisition needed for successful transitions into good jobs. However, extensive work experience does not lead to good jobs because many low-wage jobs provide few opportunities for on-the-job training.

In the Michigan study, we found that women working in jobs requiring cognitive skills (in particular, reading/writing) had higher wages and greater returns to work experience than those with jobs requiring only soft skills. Jobs requiring both reading/writing and computer skills were more likely to offer wage increases for merit, greater chances for promotion (with

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Patterns after Welfare Reform.” Journal of Public Policy Analysis and Management, 22/4: 615-39.

good performance), and were more likely to offer formal job training opportunities. Recipients who left welfare with fewer cognitive skills were thus less likely to initially obtain a good job and less likely to experience job quality improvements because their jobs provided fewer on-the-job training opportunities.

The emphasis on immediate job placement did work for some respondents, especially when unemployment rates were low and falling between 1997 and 1999. 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**

Prior to 1996, welfare was available to respond to economic shocks, such as layoffs, transitions to single motherhood due to childbirth or divorce, and limited earnings capacity due to skill deficiencies. Any income support system confronts a tradeoff between improving work incentives to promote long-run economic self-sufficiency and mitigating material hardships that accompany negative economic shocks. The 1996 reform has been so popular because Congress and the public had long felt that the prior system paid too little attention to work, by allowing single mothers to choose work or 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 that so many find themselves without any job in a typical month suggests that too little attention is now being paid to cushioning income shocks.

For some welfare recipients who lose jobs, unemployment insurance (UI) fills the gap. However, many single mothers work too little or earn too little to qualify for UI; part-time workers are ineligible for UI. Many single mothers leave jobs voluntarily or are fired because, for example, they are needed at home to care for ill children or relatives; these kinds of job exits

are not covered by UI. Reforms in UI could help some women who lose jobs and have exhausted their time-limited welfare benefits.

Many recipients make the transition from welfare to work 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 them to purchase subsidized parental coverage under the State Child Health Insurance Program could remedy this problem, as 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 policy option is to allow participation in education and training activities to satisfy the work requirement during economic downturns. Under current law, there is a fixed block grant that causes state budgets to be squeezed at the same time the need for the safety net is greatest. And, current 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 the mean wage of production workers. 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 options that would improve the safety net. The 1996 welfare reform successfully “ended welfare as we knew it,” reducing the welfare rolls and increasing employment. 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 and without welfare. If these and other policy changes were adopted the economic security of

women making the transition from welfare to work and millions of other low-wage workers would be enhanced.

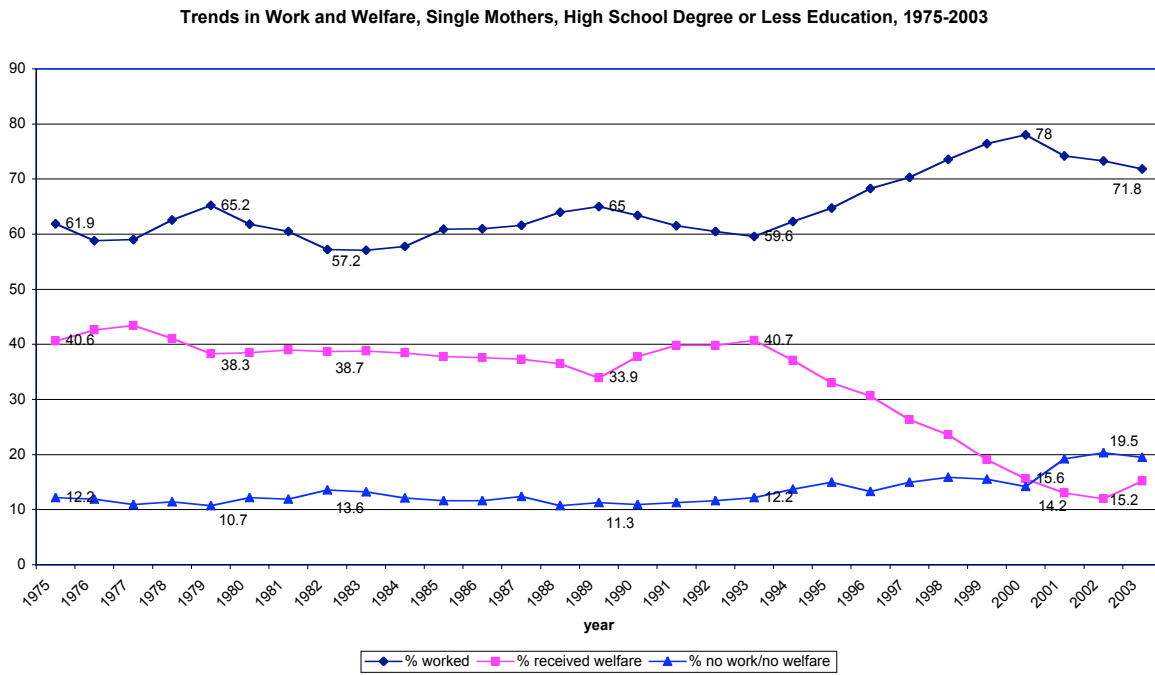


Figure 1.