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# UPJOHN INSTITUTE

## Employment Research

APRIL 2009

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*Merve Cebi and Stephen A. Woodbury*

## Health Insurance Tax Credits and Health Insurance Coverage of Low-Income Single Mothers

**T**he Omnibus Budget Reconciliation Act of 1990 (OBRA) introduced a refundable tax credit for low-income families who purchased health insurance coverage for their children. This health insurance tax credit (HITC) existed during tax years 1991, 1992, and 1993, and was then rescinded. Curiously, although many economists have espoused a refundable tax credit directed toward low-income families (Burman et al. 2007; Cogan, Hubbard, and Kessler 2005; Furman 2008; and Pauly 1999, among others), no one has estimated the effects of the HITC on health insurance coverage.

This article summarizes the evidence we report in a recent study (Cebi and Woodbury 2009) in which we use Current Population Survey data and a difference-in-differences approach to estimate the effect of the 1991–1993 HITC on health insurance coverage of low-income single mothers. Access to health care for low-income women and their children is a concern that extends well beyond health policy. Indeed, for many TANF and Medicaid recipients, lack of affordable health insurance has been a key barrier

to escaping welfare. The findings of our study suggest that during 1991–1993, the health insurance coverage of single mothers was about 6 percentage points higher than it would have been in the absence of the HITC. These findings hardly suggest that an HITC would be a panacea for low-income families' access to health care, but they do suggest that an HITC could be an effective component of a broader set of policies to expand access to health care.

### The Health Insurance Tax Credit, 1991–1993

When Congress passed OBRA, it added a supplemental credit for health insurance purchases to the basic Earned Income Tax Credit (EITC) program. This HITC was a refundable tax credit for low-income workers with one or more children who bought health insurance—either employer-provided or private nongroup—covering the children. The credit offset only the cost of health insurance—not copayments, deductibles, or out-of-pocket health expenses. The credit was refundable, so taxpayers with no federal income tax liability could

still receive a payment from the Internal Revenue Service. The HITC was repealed effective December 31, 1993, so it was available only during tax years 1991, 1992, and 1993.

The HITC and the EITC had the same eligibility criteria, and their schedules were similar. For example, in 1991, a taxpayer with earnings and a qualifying child could receive a credit up to \$428 if he or she bought private health insurance that covered the child. For households with earned incomes of \$1 to \$7,140, the credit was 6 percent of earned income. For households with earnings between \$7,140 and \$11,250, the credit was \$428 (6 percent of \$7,140), and for households with earnings between \$11,250 and \$21,250, the credit phased out at a rate of 4.28 percent per added dollar earned. In 1991, the average credit was \$233, or 23 percent of the reported average annual health insurance premium of \$1,029. Also in 1991, 2.3 million taxpayers received health insurance credits of \$496 million (U.S. Government Accountability Office 1994).

**Main Findings**

To estimate whether the HITC affected the private health insurance coverage of low-income single mothers, we develop a difference-in-differences analysis using 1988–1993 Current Population Survey data on women aged 19–44 who worked (had annual hours greater than zero), were single (never married, widowed, or divorced), and had less than a high school education. We focus on high school dropouts because these women are likely to have low earnings and be eligible for the HITC. (We cannot explicitly examine low earners because the EITC creates incentives for earners to change their hours of work so as to qualify for the credit, and the sample would be self-selected.)

We divide the sample of low-education working single women into two groups—those with children and those without. The population potentially affected by the HITC—the “treatment” group—was low-income working families with children. If the HITC had any effect on private health insurance coverage, then the coverage of low-income working families with

children would have been greater than otherwise between 1991 and 1993. As a “control” group we use working single women without children and with less than a high school education. Because they do not have children, these women are ineligible for the HITC, but they should face essentially similar labor markets, tax policy (apart from the

**The estimates suggest that the Health Insurance Tax Credit increased health insurance coverage of working single mothers by about 6 percentage points.**

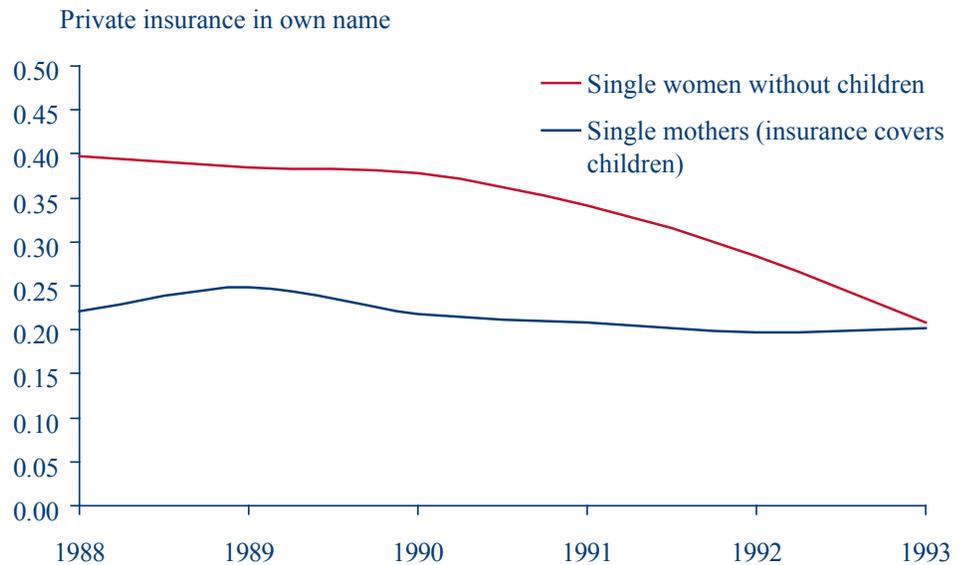
HITC), and other economic conditions as low-education working single mothers (the treatment group).

Figure 1 compares the average private health insurance coverage rates of working single mothers and of working single women without children during 1988 through 1993. The coverage rate for single women without children fell

between 1988 and 1993 (from 39.8 to 20.9 percent), with most of the drop occurring after 1990 (from 37.8 to 20.9 percent). A likely explanation for the drop after 1990 is the recession of 1991, which would have reduced both employment and access to employer-provided health insurance of single women. The private health insurance coverage rate of single mothers also fell from 1988 to 1993, but by much less—from 22.1 to 20.2 percent. Did the HITC cushion the fall of health insurance coverage of working single mothers?

Table 1 shows a simple difference-in-differences analysis of the HITC. It displays the average private health insurance coverage rates for single mothers and single women without children in the years before and during the HITC. The first row shows that health insurance coverage for single mothers (the treatment group) fell by 2.4 percentage points between 1988–1990 and 1991–1993. The second row shows that, over the same time period, coverage fell for single women without children

**Figure 1 Health Insurance Coverage Rates for Low-Education Working Single Mothers and Low-Education Working Single Women without Children**



NOTE: Data are from the March 1989–1994 Annual Demographic Supplements to the Current Population Survey (CPS). The samples include working single women with less than a high school education, with “working” as positive hours and positive earnings during the year. We exclude women who are in school full time, those who are separated from their spouses, and those who report being ill or disabled. Means are tabulated using CPS March supplement weights. Sample sizes are 2,228 (single mothers) and 1,433 (single women without children).

**Table 1 Private Health Insurance Coverage Rates for Low-Education Working Single Mothers and Low-Education Working Single Women without Children**

	Before HITC (1988–1990)	During HITC (1991–1993)	Difference
Single mothers	0.244 (0.013) [1,153]	0.220 (0.013) [1,075]	–0.024 (0.018)
Single women without children	0.389 (0.018) [741]	0.299 (0.017) [692]	–0.090 (0.025)
Difference	–0.145 (0.022)	–0.080 (0.022)	—
Difference-in-differences	—	—	0.065 (0.031)

NOTE: See Figure 1. Figures are average private health insurance coverage rates. Robust standard errors are in parentheses. Sample sizes are in brackets.

(the control group) by 9 percentage points. The implication is that, after netting out the declining trend in insurance coverage, the private health insurance coverage of single mothers was higher by 6.5 percentage points than it would have been without the HITC.

Without further tests, it would be unwise to conclude from the simple analysis in Table 1 that the HITC had a positive effect on the health insurance coverage of single women with children. Accordingly, we have developed difference-in-differences estimates controlling for individual characteristics that are correlated with health insurance coverage. The findings are similar to those in Table 1. We have also performed a number of falsification tests to check whether the findings hold up under closer examination. For example, because women with more education tend to have higher earnings and are less likely to be eligible for the HITC, we would expect to estimate a relatively small (or no) effect of the HITC on working single mothers with high school and college. We would also expect the effect of the HITC to be nil for single mothers who do not work, again because they were ineligible for the HITC. The data support these expectations. Finally, we have performed sensitivity tests to check whether changes in Medicaid, state-level economic condition, or state welfare programs may be responsible for the changes we attribute to the HITC. The main finding appears to hold up to these

sensitivity tests—the estimates suggest that the HITC increased health insurance coverage of working single mothers by about 6 percentage points.

### Conclusion

With a new administration in Washington, and both houses of Congress now led by Democrats, sweeping reform of the U.S. health care system is receiving far more attention than in recent years. But as Zelinsky (2009) notes, incremental change, or Charles Lindblom’s “muddling through,” is the style of change in democracy, so employer-provided health benefits are likely to remain a central feature of U.S. health care financing for the foreseeable future. It may be too early to dismiss incremental policy changes that have the potential to reduce health care costs or increase access to health care. A refundable tax credit for health insurance directed toward low-income families—like the HITC of the early 1990s—has been espoused by many economists. The estimates we describe here suggest that the HITC increased health insurance coverage of low-education working single mothers by about 6 percentage points. Perhaps the HITC should remain in the health policy discussion after all.

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Kristin S. Seefeldt

# Women, Work, and Welfare Reform

*This article summarizes findings from the book, Working After Welfare: How Women Balance Jobs and Family in the Wake of Welfare Reform, published in 2008 by the Upjohn Institute (ordering information on p. 7–8).*

Mishon is a hotel housekeeper in her early thirties with two teenagers. In 2004, she earned just over the minimum wage. Instead of looking for a higher-paying job, she preferred to stay with her current employer because her schedule was stable, which allowed time in the evenings to help her children with their homework. Amanda, an office manager earning about \$10 an hour, said that she too needed to spend time with her children rather than return to school to get a better job. “A lot of my time that I could devote to education and to work, I choose to spend on my children, and that’s temporary,” she said. “Once the kids are grown, I won’t have any real reasons to keep me from growing and moving ahead.”

Mishon and Amanda were part of the Women’s Employment Study (WES), which was originally designed to follow about 750 Michigan welfare recipients as they attempted to make the transition from welfare to work. Over the course of the study, the majority of women left the welfare rolls for employment. However, many policymakers and advocates have noted that simply moving women from welfare and into jobs does not make their families self-sufficient. Indeed, studies in several states following families leaving welfare found that for women who worked, wages were in the \$7–\$8 an hour range (Acs and Loprest 2003).

When the WES surveys concluded, researchers conducted in-depth interviews in 2004 with some members of the study, including Mishon and Amanda, who had found jobs and had more or less remained steadily employed. While these women are typically considered

the “successes” of welfare reform, many faced challenges in moving further up the economic ladder. Some found it difficult to obtain jobs that paid higher wages or to find opportunities to increase their skills and thus their employment options. But the most common theme that emerged in women’s stories was the challenge of balancing work and family demands and the sacrifices women made to their own career advancement so that their children’s lives would be disrupted as little as possible.

*Working After Welfare: How Women Balance Jobs and Family in the Wake of Welfare Reform*, which was published last year by the Upjohn Institute,

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## **Employment rates among the sample climbed steadily throughout 1997 and 1998 and reached a peak in November 1999, when nearly 80 percent of the women were employed.**

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explores issues related to employment advancement using both the survey and interview data from the Women’s Employment Study. This article provides highlights from the book.

### **The Women’s Employment Study**

The WES is a panel survey that began in 1997 and followed a random sample of welfare recipients from one urban Michigan county, collecting five waves of survey data between 1997 and 2003. All women were between the ages of 18 and 54 when the study began, received Temporary Assistance for Needy Families in February 1997, and were African American or white U.S. citizens.

Most of the sample left welfare by 2003 and did not return. Many of these women worked in at least some months during a year. Employment rates among

the sample climbed steadily throughout 1997 and 1998 and reached a peak in November 1999, when nearly 80 percent of the women were employed. In August 2003, the last month for which we have employment data for all respondents, just over two-thirds, 68.6 percent, were employed.

### **Descriptive Findings on Employment Transitions**

Chapter 3 of the book presents findings from a series of analyses looking at the employment trajectories of the 421 women in the WES who were working at the beginning of the study (1997 or 1998). I computed a wage that, assuming full-time, full-year work, would still leave a family of three (a single mother and two children, the typical family in the WES) below the federal poverty line. In 1997 this rate was \$6.15 an hour (or \$6.25 in 1998). I consider women working in jobs paying those wages (or less) to have below-poverty-wage jobs in the initial period. In 2003, the comparable wage rate for a below-poverty-wage job is \$7.05 an hour. I categorize women as having above-poverty-wage jobs if their hourly rates put them above the federal poverty line. In 1997–1998, this would translate into wage rates above \$6.16–\$6.26.

Among respondents working in 1997 or 1998, 55.1 percent were in poverty-wage jobs and 44.9 percent were in above-poverty-wage jobs. By 2003, a much smaller proportion, 26.6 percent, were in poverty-wage jobs, with 50.8 percent in above-poverty-wage jobs. The remaining 22.6 percent reported no work during 2003, and thus I categorize them as being unemployed. As shown in Table 1, just over 17 percent of working sample members started and ended the study employed in poverty-wage jobs, or jobs that paid less than \$7.05 an hour (in 2003 dollars). A smaller fraction, 9 percent, were working in above-poverty-wage jobs (that is, jobs paying more than \$7.05 an hour) when the study started, but by 2003 they were no longer being paid this much and instead were in poverty-wage jobs. About a quarter moved from poverty-wage jobs to above-poverty-

**Table 1 Employment Transitions, 1997–1998 to 2003, Workers with Valid Starting Wages (n = 421)**

Transition type	%
Poverty wage both periods	17.3
Poverty wage to above-poverty wage	24.7
Poverty wage to unemployment	13.1
Above-poverty wage both periods	26.1
Above-poverty wage to poverty wage	9.3
Above-poverty wage to unemployment	9.5

NOTE: A poverty-wage job is equivalent to \$6.15 an hour or less in 1997 and \$7.05 and hour in 2003.

SOURCE: Author's tabulations from WES data.

wage jobs, while just over 9 percent held an above-poverty-wage job in both periods.

### Selected Multivariate Findings

Regression analyses document that a number of human capital problems, such as not knowing proper workplace behaviors, low levels of previous work experience, and prior discrimination are associated with ending the study in a poverty-wage job or with unemployment. Persistent transportation and health problems were significantly related to remaining in a poverty-wage job or to becoming unemployed. This set of findings suggests that the strong economy of the late 1990s allowed some women to get low-paying jobs but not necessarily advance or enjoy stable employment.

These analyses provide some insight into the types of barriers that keep people in lower-paying jobs or contribute to unemployment; however, they do not shed light upon the actual processes behind movements up or down the employment ladder. Several chapters in the book use information from qualitative interviews with a number of WES respondents to illustrate some of the employment patterns described above. Through in-depth discussions with these women, I learned more about the problems they encountered in finding and keeping jobs and the choices and trade-offs they made in balancing work and family life.

### Qualitative Findings

Tensions between motherhood and career advancement opportunities,

whether it be decisions to return to school or choices women make about upward movement on the job, emerged as perhaps the most striking common feature across interviews. This was true regardless of the wage level of the jobs in which women worked. Women expressed a strong desire to spend time with their children and participate in their activities. This desire sometimes got in the way of further advancement.

Jackie, who worked in a grocery store, did not apply for a promotion because it meant transferring to a store farther away. She explained how her daughter's schedule played a role in her employment

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### The strong economy of the late 1990s allowed some women to get low-paying jobs but not necessarily advance or enjoy stable employment.

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decisions: "If it [the job] was in my store, I probably would [apply], but if it was somewhere else, I just can't do it right now because of my nine-year-old . . . I'd have to get up earlier and I ain't got nobody here to get my daughter."

Concerns about their children's well-being were also a main reason that women put off participating in education and training. Amanda, the office manager of a law firm, represents this struggle. She said, "My choices are to take night classes and not be around the kids, which I don't like. They're teenagers—they need me at home now more than they ever did . . . I have daughters. My youngest has a boyfriend now, so I don't want to be one of those moms and then complain later on, 'Well,

what happened?'" If I take classes during the day, I'm missing work, which is my paycheck, so I can't do that because my paychecks are lower. I can't do that."

In fact, one-third of the women we interviewed, when asked about their greatest challenges to further advancement, said that responsibilities to their children prevented them from moving up. A number of women believed that once their children were grown, they could devote time to themselves and would be able to advance. Sierra held this view, noting that her purpose for working now was not to get ahead but to provide for her children: "It's my family and kids right now. It [work] ain't just for me, basically right now it's for the kids. I'll have my life later." Of course, putting children before job advancement did mean that, generally, the family's income remained low.

### Conclusion

Many former welfare recipients are actively engaged in the labor market; some have moved up the employment ladder, but many others still earn relatively low wages. Yet most women we interviewed believed that their chances to improve were limited because of their responsibilities as parents. When faced with a choice between higher wages or control over their schedules, many chose the latter. Policy could do more not only to respect that decision but to help families by better supporting working parents.

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# Mass Privatization and Mortality: Is Job Loss the Link?

W.E. Upjohn Institute Issue Brief

John S. Earle

Was mass privatization responsible for the increased mortality in postcommunist societies during the 1990s? This claim appears in a recent article in the British medical journal *Lancet*, and has been subsequently reported in many newspapers (see Stuckler, King, and McKee 2000). The article documents a robust correlation between the extent of privatization and the adult male mortality rate using country-level data for about 24 economies of Eastern Europe and the former Soviet Union. A storm of controversy among defenders and attackers of “shock therapy” policies has ensued. While much of the discussion is ideological, legitimate questions can be raised about various aspects of the methodology of the article, including the use of country-level data to study death and ownership—phenomena that are inherently micro.

What requires more attention is the question of causality: how could changing ownership from state to private have raised mortality? The *Lancet* authors theorize that privatized firms cut employment, and then refer to the extensive evidence on the negative impact of unemployment on health to link job loss to mortality. But is the first step valid; that is, does privatization systematically lead to substantial job loss? The *Lancet* article provides no evidence on this question.

In a forthcoming study in the *Economic Journal* (Brown, Earle, and Telegdy forthcoming) we find that the answer is a clear “no.” Our analysis is not at the country level, as in the *Lancet* article. The problem with such aggregated data is that a variety of confounding influences may explain the results—just the sort of issues that have heated up the blogosphere, but that may never be resolved simply because they cannot be measured. Instead, our

analysis uses data on nearly every manufacturing firm inherited from the socialist period in four major transition economies: Hungary, Romania, Russia, and Ukraine. The firm is the level at which decisions on employment are made, and with our data we directly observe ownership, employment, and many other variables. Equally important, we observe firms for many years (up to 20 years in these databases), so we can follow the path of employment and other variables for long periods both before and after privatization takes place. We also observe firms that are never privatized, which together with those that are not yet privatized (but will be) can form a control group in examining the effect of privatization on employment within a particular industry and year. The ability to compare firms within industries and years—apples with apples, rather than apples with oranges—is another benefit of analyzing data at the level of the decision maker, rather than the aggregate.

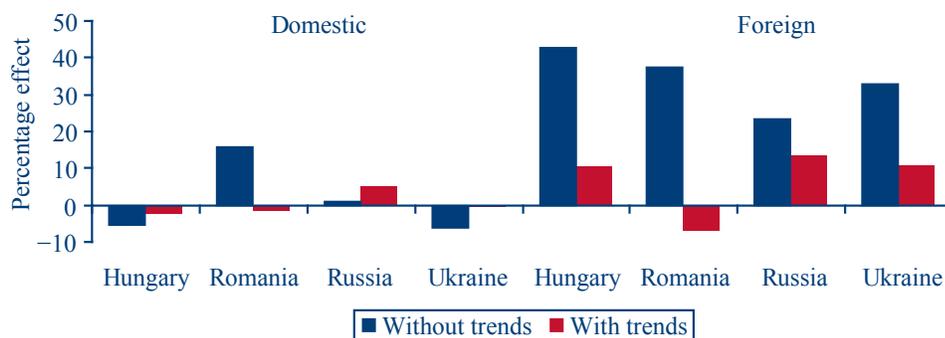
Analyzing these data with several statistical methods to control for possible biases due to selection of firms for privatization, we find no evidence that privatization systematically lowers firm-level employment. Figure 1 contains results with two alternative methods: firm fixed effects and firm-specific trends (labeled “without trends” and “with trends” in the figure, respectively). The estimated effects of privatization to domestic owners are generally positive, and where they are negative the magnitudes are very small and usually statistically indistinguishable from

zero. The estimated effects of foreign privatization are almost always positive, large, and statistically significant, generally implying a 10–30 percent expansion of employment following the foreign acquisition. In the country with the most (in)famous mass privatization, Russia, the domestic privatization effects are positive, and when estimated with trends the effect is the largest of any of these four countries. Analysis of the long time series shows that the absence of negative employment effects of privatization is the consequence neither of delayed restructuring several years after privatization nor of preprivatization downsizing, which is negligible in these economies.

These empirical results strongly contradict the notion, frequently assumed but little investigated, that large job cuts follow privatization. Why is this assumption empirically incorrect? One possibility is that privatization matters little for firm behavior: new private owners do not restructure and do not lay off workers. Our research investigates this possibility by decomposing the employment effects of privatization into two components, “productivity” and “scale” effects. Holding the firm’s scale—its level of production—constant, an increase in productivity tends to lower employment. Holding constant the level of productivity, an increase in scale tends to raise it.

Our empirical analysis of these mechanisms finds that privatization tends to raise both productivity and scale. Both effects are much larger in firms

**Figure 1 Estimated Privatization Effect on Employment**



SOURCE: Brown, Earle, and Telegdy (forthcoming).

# New and Recent Books

## The Power of a Promise

### Education and Economic Renewal in Kalamazoo

Michelle Miller-Adams

When a group of anonymous donors announced in 2005 that they would send



every graduate of the Kalamazoo Public Schools to college for free, few within or outside this mid-sized Michigan community understood the magnitude of the gesture. In the first comprehensive account of the

Kalamazoo Promise, Michelle Miller-Adams addresses both the potential and challenges inherent in place-based universal scholarship programs and explains why this unprecedented experiment in education-based economic renewal is being emulated by scores of cities and towns across the nation.

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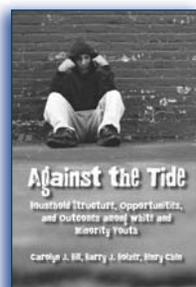
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## Against the Tide

### Household Structure, Opportunities, and Outcomes among White and Minority Youth

Carolyn J. Hill, Harry J. Holzer, and Henry Chen

The authors examine the effects of household structure on young adults and how these effects might have contributed to the negative trends in employment and educational outcomes observed for young minorities over time.



In addition to studying these links, they also provide a better understanding of the means through which growing up in a single-parent household might affect youth outcomes,

and they reveal other factors that might either reinforce or counteract these household effects.

The bottom line, say the authors, is that young people growing up in single-parent households face a combination of additional challenges compared to young people growing up in two-parent families, and that these challenges, while not insurmountable, pose a significant hurdle to achieving educational and employment success.

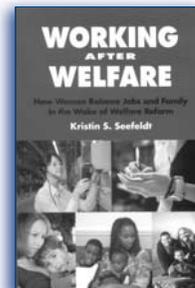
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## Working After Welfare

### How Women Balance Jobs and Family in the Wake of Welfare Reform

Kristin Seefeldt

In *Working after Welfare: How Women Balance Jobs and Family in the Wake of*



*Welfare Reform*, we experience the day-to-day struggles these women face and the reasons why they tend to remain in low-wage, dead-end jobs. The hundreds of women who were followed in the WES were not constrained

by the decision whether to work or to stay home and raise their kids, but by one of finding the right balance between caregiving responsibilities and their families' financial and other needs. Interestingly, though, once that balance was attained, many women chose to remain in a job or forego additional schooling even if it meant stagnant or slow wage growth for fear of interrupting their children's schedules or because of an unwillingness to spend less time with their families.

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privatized to foreign investors, with 10–25 percent increases in productivity, and 15–40 percent increases in scale. The dominance of the scale over the productivity effect implies the positive impact of privatization that we observe on employment.

In none of these countries do we observe substantial job cuts due to privatization. The causal link hypothesized in the *Lancet* article is not supported by the firm-level data. Nor is it supported by other studies we have carried out of layoffs and worker turnover in privatized firms. Of course, it is possible that some other link, not

suggested by the article and unrelated to employment outcomes, could explain the observed privatization-mortality correlation at the country level. Our analysis suggests that further progress on this question would benefit from analysis of data at the level where the action occurs: individual data in the case of death, and firm data in the case of privatization.

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