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Employment Research

APRIL 2000

Employment as a "Solution"
to Welfare

◆
Employment-Related
Child Care Issues

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New Books

Vol. 7, No. 1

Employment Research is now published quarterly by the W.E. Upjohn Institute for Employment Research. Issues will appear in January, April, July, and October.

The Institute is a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Timothy J. Bartik

Employment as a "Solution" to Welfare Challenges over the Next Ten Years

Recent U.S. welfare reforms culminated in the 1996 welfare reform bill. This bill

- changed federal welfare funding from a matching grant to states to a fixed block grant,
- imposed requirements on states to increase employment of welfare recipients or reduce welfare rolls,
- gave states greater authority to deny or cut off welfare benefits, and
- forbade (with some exceptions) using federal dollars to provide welfare to an individual for more than five years during that individual's lifetime.

The bill assumes that employment can and should replace welfare for most welfare recipients. The bill also assumes that many welfare recipients can achieve employment if welfare agencies just give them a "push."

So far, welfare reform has not been the disaster that some predicted. As welfare rolls have declined, employment rates of less-educated single mothers have increased (Figure 1). Half of those moved off welfare gain income, while the other half lose income (Fraker et al. 1997). Overall, welfare reform would have to be given a grade of "B" or "C."

However, a more appropriate grade for welfare reform might be "incomplete."

Over the next 10 years, the "employment solution" to welfare faces three challenges: 1) employing all welfare recipients who are employable; 2) helping welfare recipients get and keep good jobs; and 3) reconstructing a safety net for those who cannot work.

Jobs for All?

Some time in the next 10 years, it is likely that the United States will experience a recession. In some local labor markets, this recession may be prolonged. Bad economic times will increase welfare applications and make it more difficult for welfare recipients to find jobs. Furthermore, because current federal welfare law provides for only a very limited expansion of funding in response to a recession, studies suggest that at least in some states, a recession will lead to pressure to cut welfare programs (Levine 1999; Chernick and McGuire 1999).

To minimize the damage to the poor caused by recessions, policy should encourage employment expansion during recessions, particularly in local labor markets with high unemployment. One policy option is a revived New Jobs Tax Credit (NJTC). In effect in 1977 and 1978, the NJTC provided subsidies for

Figure 1 Welfare Recipients as a Percentage of Population and the Employment-to-Population Ratio for Female Heads of Household

NOTE: Welfare recipients is the number of welfare recipients as a percentage of the total population; data are from the U.S. Department of Health and Human Services. The employment-to-population ratio is for female heads of household, with other relatives present, ages 16–44, who have less than a college degree; the data come from the Current Population Survey, Outgoing Rotation Group, and were calculated by the author. Note that because the female heads group is 4 percent of the population, and about half of welfare recipients are in this group, it is unlikely that all of the female heads who leave welfare actually get a job.

firms that expanded employment above some baseline level. Evaluations suggest that the NJTC did increase employment (Perloff and Wachter 1979; Bishop 1981). A revived NJTC might be triggered by high unemployment in a local labor market; research suggests that encouraging employment expansion in high-unemployment areas minimizes effects on inflation (Bartik 1999). In addition, we might consider expanding the federal discretionary fund for welfare block grants during recessions so that states would be encouraged to maintain welfare services.

Even when the economy is booming, not all welfare recipients who are potentially employable will get jobs. The best evidence that demand is inadequate for the disadvantaged is that programs that provide guaranteed jobs for disadvantaged persons usually increase employment of the target group by 60–70 percent of the program jobs (Bartik 1999).

To reach all welfare recipients who are potentially employable requires much

more extensive services than the relatively cheap placement services emphasized by current welfare reforms. Services might be needed to enhance labor demand for welfare recipients, to provide extra support for increased labor supply of welfare recipients, and to more aggressively link labor demand and supply. Among the services that might be considered are

- more aggressive placement services that would develop job opportunities for welfare recipients and screen job applicants to ensure they are a good match (e.g., the Minneapolis Neighborhood Employment Network; Molina 1998);
- last resort, temporary community service jobs for welfare recipients in nonprofit organizations (e.g., the recent experiment “New Hope”; Poglinco, Brash, and Granger 1998);
- employment subsidies, distributed in a discretionary manner by labor market intermediaries, to encourage selected small- and medium-sized employers to hire screened welfare

recipients (e.g., the Minnesota MEED program of the 1980s; Rode 1988);

- van services, as well as programs to provide welfare recipients with inexpensive but reliable cars;
- increased funding and better organization of child care subsidies, particularly subsidies to provide back-up child care services when primary arrangements fall through.

Will Jobs Pay Off for Welfare Recipients?

Even if we get welfare recipients into jobs, we may not reduce poverty, for several reasons. First, the lack of job retention by many former welfare recipients is a major problem. For example, one welfare-to-work program in Chicago, Project Match, found that 46 percent of the program’s clients lost their first job by 3 months, 60 percent by 6 months, and 73 percent by 12 months (Berg, Olson, and Conrad 1991). This job loss limits work experience and its consequent wage gains. Less-educated and more-educated workers who work full-time and full-year make comparable percentage gains in wages (Gladden and Taber 2000), but because most former welfare recipients do not consistently work full-time full-year, real wages for former welfare recipients typically go up on average by only 1 or 2 percent per year (Cancian et al. 1999; Burtless 1995).

So far, policies to increase job retention appear to have been ineffective. The Postemployment Services Demonstration, which tried to increase job retention for former welfare recipients by providing intensive case management services, did not significantly increase employment of participants (Rangarajan and Novak 1999). Greater job retention may require helping employers to improve their front-line supervision and mentorship of new hires from the welfare rolls. Different employers have quite different job retention success with welfare recipients. For example, job retention rates differ greatly with the industry of the employer (holding wage and occupation constant), which may

reflect different employment practices in these industries (Bartik 1997).

Another problem for employed ex-welfare recipients is that their jobs pay low wages, typically around \$6–7 per hour (Cancian et al. 1999). Increasing the minimum wage helps a little, but the minimum wage increases needed to help a lot would probably be large enough to reduce job availability. Increasing the

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So far, welfare reform has had it easy: pushing the most employable welfare recipients into a job . . . in a booming economy.

Earned Income Tax Credit further would also help, but increasing the EITC for families with children by too much beyond its current maximum subsidy of 40 percent would be difficult, requiring either that families remain eligible for the EITC at higher incomes than at present or imposing a higher implicit tax rates as the higher EITC is more quickly phased out.

A more promising way to increase wages would be improved training programs that would enable ex-welfare recipients to be hired in higher-paying occupations. A few training programs have been able to effectively target higher-paying occupations, for example the Center for Employment Training (Melendez 1996) and Project Quest (Lautsch and Osterman 1998). These training programs are distinguished by their focus on particular industry and occupation sectors, their cultivation of close ties with employers in designing their training, their efforts to ensure that program graduates have the skills that employers need, and their aggressive outreach efforts to develop job opportunities for graduates in the targeted sectors.

The current “work first” approach to welfare reform discourages even six-month training programs. Such training is perceived by some welfare reform advocates as inequitable compared with what is available to other low-wage

workers. Training programs may be more politically viable as part of a workforce advancement program available to all low-wage workers. All workers might be made eligible for larger and more generous training/education loans to allow them to take night classes or take time off for education. Loan terms might be more generous for lower-income families. Such loans might be repaid as a percentage of future income, with loan repayments collected by the IRS (Bluestone and Harrison 2000).

Can Everyone Work All the Time?

Another issue is how public policy should respond to persons who at any particular time are unable to find a job. First, there are individuals who temporarily may be unable to work, either due to economic conditions or temporary disabilities. Many low-wage individuals who lose jobs are ineligible for unemployment insurance. Federal and state lifetime limits for welfare receipt may make hundreds of thousands of individuals permanently ineligible for welfare benefits (Duncan et al. 1998; Moffitt and Pavetti 2000).

We need to recreate some safety net for these individuals while continuing to encourage work among welfare recipients. One policy option is to allow individuals to over time recover some eligibility for welfare assistance, for example allowing one month of additional welfare eligibility for every one year off welfare.

Second, physical and mental health barriers to employment are so extensive for some welfare recipients that working successfully in an unsubsidized job is unlikely. One study found that of welfare recipients who had 7 or more barriers to employment out of the 14 barriers considered (about 3 percent of the welfare population), only 6 percent were employed at least 20 hours per week when contacted 7 to 10 months later (Danziger et al. 1999). Many of these individuals should probably be made part of the disability system.

At the current time, the disability system in the United States is under debate. There are financial pressures to

reduce the growth of Social Security disability and of payments to disabled persons under the SSI program. In addition, the Americans with Disabilities Act (ADA) has set up a federal policy that employers should try to make reasonable accommodations to allow persons with disabilities to work. However, the welfare system has included some individuals who really cannot work in regular jobs and should be transferred to the disability system. Furthermore, some of these individuals will not be able to work regularly without extensive accommodations. If we truly want everyone to work, this will require very expensive sheltered workshop jobs. In some cases, it may be simpler, cheaper, and fairer to just provide these ex-welfare recipients with disability payments.

Conclusion

So far, welfare reform has had it easy: pushing the most employable welfare recipients into a job, any job, in a booming economy. The harder challenges are how to reach the rest of the welfare recipients, either with a job or with some sort of safety net or disability program, and how to get welfare recipients to get and keep full-time, full-year jobs with adequate pay. Political realities suggest that it will be difficult to develop policies to do this that are not part of broader policies meant to help many more persons than just welfare recipients. An employment policy for welfare recipients must be part of overall employment policies that benefit all Americans who have irregular jobs or low pay.

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Jean Kimmel

Employment-Related Child Care Issues

What We Know and What We Do Not

Child care policy proposals are floated across the national and state policy landscape with growing frequency, and with good reason. An ever-growing percentage of parents are in the workforce, with the most recent gains attributable in part to the decline during the 1990s in welfare receipt for single mothers. But even for married mothers with young children, labor force participation rates are high, although many do not work full time or year round. Whatever the demographic group, every family with an employed mother faces a myriad of child care choices.

What is the state of knowledge concerning employment-related child care issues? What will likely be the important research and policy issues in the near future? To provide a broad overview in response to these questions, the relevant child care issues can be grouped into four broad areas: 1) factors affecting child care costs and the choice regarding type and place of child care provider; 2) quality; 3) the direct relationship between child care prices and employment behavior; and 4) federal and state child care spending.

Several factors are important to parents' choices concerning the child care provider, where modes of nonparental care include relative care, family day care (care in unrelated individuals' homes), or center-based care. Parents respond to some unknown subset of quality factors, including child:adult ratios, caregiver training and turnover, consistency of interactions between parents and caregivers, reliability and convenience of care, and price. However, the existing literature

does not explain sufficiently just how parents are weighing these different quality factors. There is some evidence that parents respond to prices when making modal choices, and an increased probability of using center-based care is seen with full-time employment (Connelly and Kimmel 2000).

Factors affecting child care prices also have a direct effect on child care quality, implying that issues 1 and 2 are linked. The most significant factor in child care cost is the wages of child care workers, which by almost any reasonable standard are notoriously low. As a result, there is frequent turnover of child care workers, which negatively affects quality and also raises costs. And, although many states impose minimum training and education requirements of its child care workers in center-based care, most child care workers are still untrained in child development and first aid.

Child care quality concerns include the measurement of quality, observable linkages between quality and child outcomes, and the relationships between quality, mode, and government regulation. Regarding the availability and importance of child care quality, evidence suggests that in the United States, much of available child care is of insufficient quality; see, for example, the report titled *Cost, Quality and Child Outcomes in Child Care Centers* (Helburn et al. 1995). However, the evidence linking child care quality and child outcomes is less clear. Blau (1999) finds little association between child care quality and child development on average, and finds inconsistent effects when focusing on

lower-income children. But recent findings from the Carolina Abecedarian Project show long-term positive development effects, persisting to the age of 21, of providing particularly high-quality child care beginning in infancy to at-risk children.

The link between state regulations and child care quality is complex. While stricter regulations do seem to increase the quality of care provided by licensed providers, this increased quality comes with a higher price tag, resulting in a decline in the demand for such licensed care (Hofferth and Chaplin 1998).

The empirical evidence of the importance of child care costs in the employment decisions of both married and single mothers is growing. The bulk of this evidence suggests differences across marital status in the responsiveness of employment to child care prices. Low-income white single mothers, who devote up to 30 percent of their incomes to child care, exhibit relatively greater

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The effectiveness of means-tested child care subsidies could be improved—and in fact assessed more concretely—if policy goals were clarified.

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employment responsiveness to child care prices (Kimmel 1995). Although there is disagreement in the child care literature about the magnitude of this employment response, the evidence is clear that providing subsidies has a meaningful impact on work behavior (see, for example, Kimmel 1998). Child care prices have differential impacts for full-time versus part-time workers as well, with Connelly and Kimmel (2000) finding that both married and single mothers are less responsive to child care prices in their part-time employment choices than in their full-time employment choices. Finally, the evidence concerning the relationship between child care prices and

the choice of actual hours worked is weak.

What about federal and state spending on child care? The availability of child care subsidies, provided via the income tax system or more directly to providers or consumers, can alter the relative supply and demand for different modes of care and, as a result, can affect child outcomes as well as employment of parents. In fact, tension often arises between the goals concerning child development and employment (Blau, forthcoming). Child care subsidies are also politically palatable work-tied transfers, raising the overall standard living of the recipient families. The effectiveness of means-tested child care subsidies could be improved—and in fact assessed more concretely—if policy goals were clarified or if key response parameters were known, including the responses to subsidies in parents' modal choices and the responses by suppliers to the availability of subsidies. Other policy issues include the appropriate regulation of providers, the modes of care that should be subsidized, and the availability of subsidies to encourage providers to locate in underserved areas.

Across these four broad areas, other gaps exist in our current state of knowledge. A significant portion of the gap in the child care literature reflects insufficient knowledge of choices and behavioral responses for specific subgroups, particularly the welfare-to-work population (Council of Economic Advisers 1997). We do not know how this subgroup will care for their children when faced with inconsistent work schedules, shift work, and frequent job changes. We also know very little about the issues and concerns related to care for school-aged children, the parental motivation underlying observed child care quality choices, and details concerning differences in child care preferences across ethnic groups. Also, there is insufficient research documenting presumed shortages in specific types of care (such as infant care and off-hours care), although some surveys do document an overall excess demand for nonparental care of specific types.

We also have insufficient information regarding quality in the various modes of care, regardless of how one measures quality, and the evidence of long-term effects of poor quality care for the average child is scant, as is evidence of the link between child care cost and availability and school completion (for the latter, see Kaukmann et al. 2000). Finally, what is the appropriate expenditure on child care subsidies? A recent study of welfare leavers reports that few are receiving subsidies (Center for Law and Social Policy 1999), and only 1.24 million of the approximately 10 million children eligible for federally funded support received assistance in 1997 (U.S. Dept. of Health and Human Services 1999).

Because of the importance of child care costs in the low-income working family's budget and the importance of child care in welfare reform, policy could be better informed by data gathered in a purely experimental context. That implies some sort of random assignment experiment in which individuals (probably recent welfare leavers) are offered different versions of child care subsidies, without variation in a broad package of other benefits, to observe individuals' willingness to utilize different versions of subsidies and the impact of the subsidies on employment outcomes (Blau, forthcoming). Unfortunately, one result of welfare reform is that states are no longer required to conduct such expensive experiments.

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Jean Kimmel is a Senior Economist at the Upjohn Institute.

New Books from the Upjohn Institute

Changes in Income Inequality within U.S. Metropolitan Areas

Janice F. Madden
University of Pennsylvania

Madden uses data on the 182 largest MSAs to study income redistribution

during the 1980s. These data allow her to relate characteristics of metropolitan economies with significant changes in income inequality and poverty.

She offers statistical analyses on the relationships between changes during the 1980s in income inequality, wage inequality, and poverty rates in MSAs and what she calls the three "likely suspects," factors that are most likely related to changes in income inequality in metropolitan areas. Those are 1) demographics, 2) the labor market, and 3) geographic structure, including the increased locational isolation based on income or race.

This study is important, says Madden, because "Knowledge of the circumstances surrounding changes in metropolitan income inequality is essential to our understanding of how the larger economy affects income distributions. We cannot respond with economic or social policies (or even decide not to respond) to changes in income inequality or other metropolitan economic issues without such knowledge."

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Bidding for Business The Efficacy of Local Economic Development Incentives in a Metropolitan Area

John E. Anderson, *University of Nebraska*
Robert W. Wassmer
California State University-Sacramento

Anderson and Wassmer examine the use and effectiveness of local economic development incentives within a specific region, the Detroit metropolitan area.

The Detroit area serves as a good example, they say, because of the area's 20-plus year track record of its communities offering the gamut of economic incentives aimed at redirecting economic activity and jobs.

The evidence they uncover reveals factors that drive cities—not just in this southeast Michigan area, but nationwide—to offer particular types of incentives that are more or less generous than those offered by their neighbors.

"Since we know that the fiscal blight experienced in core cities relative to periphery cities got no better over this period (a case could be made for it getting worse)," say Anderson and Wassmer, "*bidding for business* was the likely reason that periphery cities used a greater number of incentives over time."

The authors use this finding and the results of their simulations to assess the three policy choices for the future of local incentive activity in a region: free choice, elimination, and regulation.

220 pp. \$35 cloth ISBN 0-88099-202-6 / \$17 paper ISBN 0-88099-201-8 / 2000

Economic Conditions and Welfare Reform

Sheldon H. Danziger, Editor
University of Michigan

Welfare reform is widely touted as the reason welfare caseloads have declined rapidly over the last few years. Apparently, say a group of researchers, reforms have contributed to this decline, but so has the booming economy. If this is true, what will

happen to caseloads should the economy enter a recession, and what will states do to confront rising welfare costs?

The relationship between welfare

caseloads and the economy is one of the key issues addressed in this important new book. Using the most current data available, a group of the nation's leading researchers examines the effects of welfare reform prior to and after enactment of the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). What they find is a mixed picture.

Says Danziger, "Taken together, the chapters in this volume suggest that, in its first few years, the 1996 welfare reform has been more successful in some dimensions (notably, reducing caseloads) than in others (raising disposable income). Much of the success to date is due to a booming economy and to a fiscal environment in which states have more funds to spend per recipient than they had in the past. Nonetheless, even under these optimal economic and fiscal conditions, some recipients have already 'slipped through the cracks.'"

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