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Urban Welfare and Work Experiences: Implications for Welfare Reform

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Urban Welfare and Work Experiences Implications for Welfare Reform

NOTE: This article highlights some of the research findings that appear in the authors' new book, Welfare and Work: Experiences in Six Cities, which is available from the Upjohn Institute (see p. 7).

The last decade has seen extraordinary changes in U.S. welfare programs. Even as early as 1970, with greater numbers of mothers in paid employment, public opinion had begun to shift toward an increased emphasis on work as an alternative to welfare. The shift to an employment-focused system gained momentum in the 1990s, initially with states modifying Aid to Families with Dependent Children (AFDC) under federal waivers, and culminating in passage of the federal Personal Responsibility and Work Opportunity Reconciliation Act in 1996. This bipartisan legislation, which replaced AFDC with Temporary Assistance for Needy Families (TANF), established explicit program participation and work requirements for participants, limited the length of time recipients could receive aid, and further expanded state autonomy.

Reform-oriented policy changes during the 1990s were accompanied by major declines in the national caseload. After peaking at 5.0 million in 1994, caseloads began a decline, falling to 3.9 million in 1997, the year TANF was implemented in most states, and 2.6 million in 1999, a level not seen since 1970. While increasing numbers of

families are transitioning from welfare to work, whether welfare leavers will succeed in achieving stable employment and economic self-sufficiency over the long term remains in question. Many recipients face significant barriers to employment, and those who get jobs commonly cycle in and out of work, earn low wages, and often continue to rely on government supports.

In this article we present findings from *Welfare and Work: Experiences in Six Cities*, in which we examined welfare participation and labor market involvement of female welfare recipients during the 1990s. Our analysis relied on individual-level welfare data linked to state earnings records for the core counties in six major urban areas—Atlanta, Baltimore, Chicago, Fort Lauderdale, Houston, and Kansas City—which together accounted for around 5 percent of the nation's welfare caseload in 1991.¹ The selected sites provide considerable diversity, as they include cities from a very low-benefit state (Texas) and a classic northern urban area (Chicago), two cities on the border of the old South (Baltimore and Kansas City), and a traditional southern city (Atlanta). Three of the cities have significant representation of Hispanics.

The cities chosen also allowed us to examine the extent to which differences in state and local policy, administrative directives, and local labor market

conditions contribute to observed trends. Policy and administrative changes designed to move families from the rolls have been facilitated by a growing economy, much more so than in the late 1980s and early 1990s during implementation of earlier reforms. Other supportive policy changes—including expansions of the federal Earned Income Tax Credit (EITC), Medicaid, and child care subsidies—were also occurring during this period.

Caseload declines vary among our sites but are substantial. They bracket the national decline, ranging from 44 percent in Kansas City to 81 percent in Fort Lauderdale. Many of the legal and policy changes following from

Overall, we conclude that the kinds of jobs welfare recipients obtain have not seriously deteriorated over the 1990s.

welfare reform focused on the activities of recipients, attempting to create both incentives and opportunities for them to obtain employment and exit welfare. Time limits pushed people from the rolls, and mandatory programs attempted to help recipients build job skills and obtain employment. Some elements of welfare reform were also designed to reduce entry onto welfare. Explicit diversion programs were adopted by many states, in some cases requiring potential recipients to engage in job search before applying for welfare. Our analyses show that at each of our sites, increases in the welfare

exit rate alone would have produced important caseload declines, ranging from 30 to 64 percent. Yet declines in the numbers entering welfare contributed substantially as well, causing caseloads to fall by 20 to 71 percent.

Employment of Welfare Leavers

Employment of leavers is of particular concern because national and state welfare reforms placed increased emphasis on this route of exit from welfare. Those supporting welfare reforms argued that training and related provisions, in conjunction with work requirements, would move welfare families into the world of work, providing them with new opportunities for betterment. Critics warned that it was more likely that reforms would force those who were ill-prepared for work to seek aid from family, private charities, or less restrictive public programs, causing increased hardship and ultimately damaging the welfare of their children.

Table 1 provides employment rates for those exiting welfare in each of our sites. We see that rates increased substantially between 1994 and 1997 but changed little between 1997 and 1999. These results do not accord with the views of either the supporters or the critics of reform. Moderate increases in the employment rates for welfare leavers in the face of the extraordinary economic growth in the 1990s do not suggest unprecedented opportunity for those who left welfare. On the other hand, the fact that employment rates did not decline

suggests that reforms were somewhat successful in achieving the act's employment goals. A fuller understanding requires looking at the types of jobs welfare leavers obtained and the factors determining their employment success.

Looking at Recipients' Jobs

A central goal of welfare reform is moving recipients into stable jobs. Welfare recipients tend to have unstable, short-term jobs, with few benefits and low wages. Although we are unable to determine benefits, wage records allow us to determine how long an employee receives earnings from a given employer. Table 2 provides information on the stability of jobs obtained by welfare recipients. Only about half of all jobs last beyond the quarter in which they start, and this proportion did not change appreciably between 1994–1995 and 1998–1999.

Only 4–10 percent of jobs last eight quarters or more. In three of the five sites where we can make comparisons, we see that the number of such long-term jobs has declined. Although these results might suggest a decline in the quality of jobs welfare recipients obtain, we found that similar declines occurred for other workers in the same firms. And, even where job stability has declined, earnings have not. Overall, we conclude that the kinds of jobs welfare recipients obtain have not seriously deteriorated over the 1990s.

While changes over time are modest at best, by any standard welfare recipients' jobs are poor ones. Over the life of the job—up to two years for our data—average cumulative earnings are only between \$2,000 (for Atlanta) and \$5,000 (for Chicago).² Few of these jobs lead to economic self-sufficiency for mothers with one or more dependents. Some individuals may obtain sufficient earnings to move off of welfare and support their families if they succeed in cobbling together multiple low-paying jobs into a semi-steady earnings stream. Others may stumble onto a good job only after many tries.

Table 1 Employment Rate for Welfare Leavers in Six Areas

Area	Employment rate (%)		
	1994	1997	1999
Atlanta	58.5	64.5	61.2
Baltimore	44.8	54.6	59.7
Chicago	48.6 ^a	54.5	56.7
Fort Lauderdale	53.3	53.2	55.4
Houston	43.7	50.4	49.1
Kansas City	57.6	65.2	66.0

NOTE: All measures apply to federal fiscal year (October–September) unless indicated otherwise.

Site measures are means for four quarters.

^aFiscal year 1996.

SOURCE: Authors' calculations

Table 2 Stability of Jobs Held by Welfare Recipients in Six Areas

Variables	Probability that job lasts more than 1 quarter		Probability that job lasts more than 7 quarters	
	1994–95	1998–99	1994–95	1998–99
Atlanta	0.472	0.457	0.050	0.050
Baltimore	0.536	0.525	0.089	0.060
Chicago	0.539	0.561	0.100	0.097
Fort Lauderdale	0.517	0.519	0.075	0.068
Houston	0.533	0.527	0.073	n/a
Kansas City	0.441	0.428	0.044	0.032

SOURCE: Authors' calculations.

Finding a Good Job

Although opportunities clearly are limited, recipients who obtain the best jobs have substantial advantages. In all of our areas, the standard deviation of total earnings on a job is at least 50 percent greater than the mean, implying that some jobs provide reasonably good long-term earnings in these urban labor markets. In considering how a particular welfare recipient achieves stable employment, it is natural to ask

Despite the poor prospects offered by the average welfare recipient's job, we find evidence that some jobs do offer greater opportunities.

how important individual characteristics are in determining job stability and earnings. If individual characteristics are of primary importance, there is little benefit in placing individuals with certain employers, since the only route to achieving economic self-sufficiency will be to augment their human capital. In contrast, if certain employers offer highly desirable jobs—jobs that provide high stability and earnings to any incumbent—individuals lucky enough to land them will do relatively well over time.

What factors determine differences in earnings and job stability across jobs? We find that demographic characteristics play a role, but their effects are quite modest. In contrast, the industry of the employer is of substantial importance. Furthermore, when we examine those firms that

employ many welfare recipients, we find that employers differ from one another quite dramatically. Some employers appear to offer unstable employment and low wages to *all* their employees, whereas others offer relative stability and higher wages.

One may be concerned, however, that observed differences between employers are the result of unmeasured differences between individuals. If some employers hire particularly capable individuals, but the differences between individuals are not readily observable, we may mistakenly assume that they offer desirable jobs. If this were the case, there would be no benefit in placing less qualified workers with such employers, since they would be expected to face summary dismissal. Fortunately, we

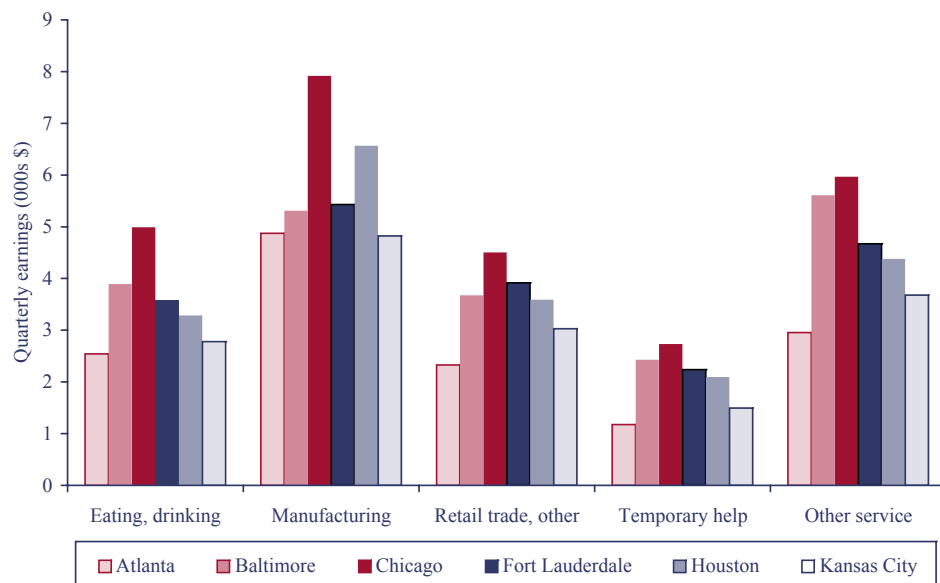
are able to examine the importance of unmeasured individual factors, since many welfare recipients obtain multiple jobs. As might be expected, our analysis confirms that unmeasured differences between individuals do play an important role. But we find that even after controlling for such person “fixed effects,” substantial differences between jobs remain.

An indication of the extent to which jobs differ can be seen by observing industry differences. Figure 1 reports the total expected earnings for jobs in five industries, controlling for unmeasured individual characteristics. Although there are differences across our sites, variation in expected earnings across industries is generally consistent. As expected, jobs in temporary help services firms provide the lowest expected total earnings, reflecting both shorter duration of employment and lower quarterly earnings. Retail trade provides somewhat greater job stability and higher earnings, as does restaurant work. Manufacturing jobs are appreciably better than jobs in these other industries, often with total earnings two or three times those for temporary help jobs.

Conclusions

The 1990s saw a dramatic shift in the character and focus of welfare

Figure 1 Predicted Total Earnings for Job in Selected Industries



SOURCE: Authors' calculations.

in the United States. The proportion of recipients working increased substantially, and employment also was more prevalent among those leaving welfare. However, the kinds of jobs obtained by welfare recipients did not change dramatically. Expected earnings and job stability remained low for most recipients of cash assistance, and few of the jobs recipients landed could assure economic self-sufficiency.

Despite the poor prospects offered by the average welfare recipient's job, we find evidence that some jobs do offer greater opportunities. Even recipients who have had a string of dead-end or short-lived jobs may ultimately be able to obtain a job providing a reasonable chance for economic self-sufficiency. Federal and state reforms of the 1990s have not altered this dynamic significantly. The goal of reduced dependency has been attained in that fewer individuals now receive cash aid and more are working. But there is no evidence that reform has substantially improved the lives of recipients or former recipients.

Congress continues to struggle with reauthorizing the Personal Responsibility Act, having passed a series of temporary extensions since the Act expired at the end of September 2002. Yet differences between the House and Senate over work and participation requirements, allowable activities, and other issues have been substantial enough to keep those bodies from succeeding in crafting new legislation. Our research supports the view that the reforms of the 1990s were successful in moving individuals off the welfare rolls and into jobs. But if the ultimate goal is economic self-sufficiency and not simply reductions in "dependency," revisions of the program will need to go far beyond the reforms currently envisioned.

Notes

1. Our analysis uses data from the county containing the central city. For convenience, we refer to each area by the city name.

2. This figure is the sum of earnings for as long as the job lasts, up to eight quarters, with earnings adjusted for inflation and reported in 1999 fourth-quarter dollars.