
How Will Welfare Recipients Fare in the Labor Market?

Sheldon Danziger and Jeffrey Lehman

The proposed welfare reform programs in Congress are not accompanied by jobs programs. How will welfare recipients fare in the job market? The authors present new research that shows most welfare recipients will probably not be able to climb out of poverty.

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The President and Congress have ignored what has been learned from the research of the last decade about the labor market in general, especially the state of employer demand for less-skilled labor, and about the employment prospects of welfare recipients in particular. The President's Work and Responsibility Act, introduced in June 1994, at least had a chance to "end welfare as we know it," without harming many recipients. It would have placed a time limit on cash assistance, but would also have provided increased education, training, and child care services in an attempt to transform the welfare poor into the working poor and ideally then into the working near-poor (either through their moving up to higher wages and/or through increased earned income tax payments, child care credits, etc.). The Act might have accomplished its goals through its increased government spending and its offer of subsidized employment to welfare recipients who exhausted their eligibility for cash assistance and were actively, albeit unsuccessfully, searching for regular jobs. In other

words, it would have replaced the cash welfare safety net with a "work for wages" safety net. What is important is that the entitlement for destitute recipients remained—their cash assistance could not have been terminated if the government did not offer some work opportunity for jobless recipients who were willing to work. In contrast, the Republican Congress has sought to reduce welfare spending, eliminate the entitlement to cash assistance by converting Aid for Dependent Children into a block grant, and provide no work option for those who seek work but cannot find a job.

Recent research suggests that many welfare recipients will not fare well in the labor market because the past two decades have been characterized by economic distress for the middle class, the working poor, and the unemployed, as well as for welfare recipients. There has been relatively little economic growth over the past generation, and the gains from growth have been uneven. In the two decades following World War II, "a rising tide lifted all boats." During economic recoveries most families

gained—the poor as well as the rich, the less-skilled as well as the most-skilled. During the recovery of the 1980s, however, a rising tide became an “uneven tide,” as the gaps widened between the rich and the poor and between the most-skilled workers and the least-skilled workers.¹

Economic hardship is now remarkably widespread. Popular portrayals of economic hardship tend to focus on inner-city poverty, single-mother families, or displaced factory workers, and attribute poverty primar-

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ily to their behavior or their lack of work effort or skills. But since the 1980s, inequalities have increased within most socioeconomic groups as well. While white-collar workers fared better on average than blue-collar workers, and married-couple families fared better on average than mother-only families, many white-collar workers and many workers in married-couple families were also laid off or experienced lower real earnings.

Not even the most educated groups were spared. To be sure the average college graduate continues to earn substantially more than less-educated workers, and the earnings of the average college graduate grew much faster than the earnings of other workers in the 1980s. Nonetheless, a college degree no longer guarantees a high salary. In 1991, among 25- to 34-year-old college graduates (without post-college degrees), 16 percent of men and 26 percent of women worked for some time during the year but earned less than the poverty line for a family of four persons.²

Because economic hardship is this extensive, one should be suspicious of claims that any welfare reform bill debated in Congress can turn most welfare recipients into self-sufficient workers. The “welfare problem” is part of a broader “poverty problem,” which, in

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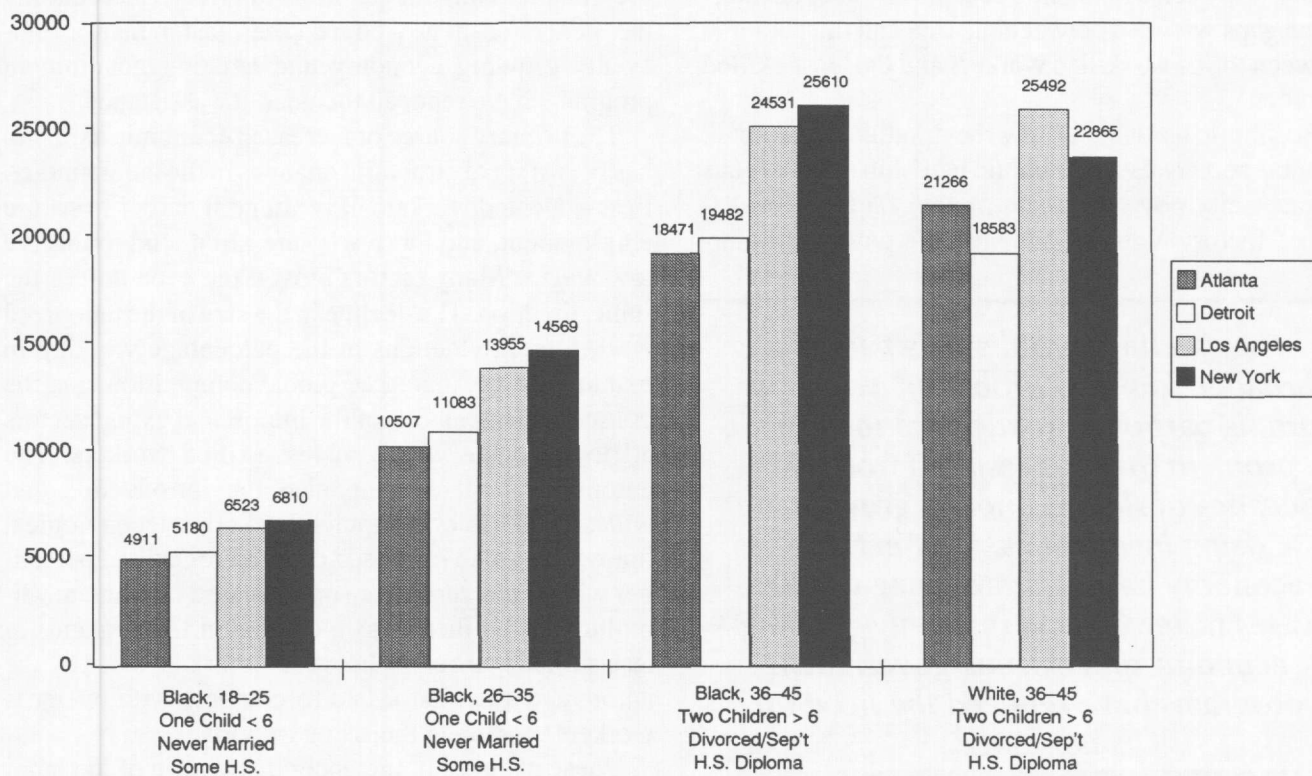
The primary source of increased economic hardship has been a set of structural changes in the labor market. Less-educated workers have found it harder to secure employment, and those who are hired tend to receive low wages. Many factors moved the economy in the same direction. The decline in the size of the unionized work force, reductions in the percentage working in manufacturing, increased global competition, and the consequent expansion of the import and export sectors all lowered the wages of less-skilled workers. The automation that accompanied the introduction and widespread use of computers and other technological innovations also increased demand for skilled personnel who could run more sophisticated equipment. Simultaneously, there was a decline in the demand for less-skilled workers, who were either displaced by the automated systems or had to compete with overseas workers producing the rising imports.

These changes in the general structure of the labor market have important implications for the current welfare reform debate. Because most welfare recipients have limited education and labor market experience, the contemporary economy offers them diminished prospects even when unemployment rates are low. Moreover, in many communities the unemployment rate has exceeded 6 percent for most of the past 15 years; in many inner cities, the unemployment rate has remained well above 10 percent for this period. The shift in the skill mix required in today’s economy means that, even if an employer extends a job offer to a welfare recipient with low skills and experience, that employer is not likely to pay very much.

It is simply not the case that most of today’s welfare recipients could obtain stable employment that would lift them and their children out of poverty, if only they would try harder. Fear of destitution is a powerful incentive to survive; it will not, however, guarantee that an unskilled worker who actively seeks work will be able to earn enough to support his or her family. The harsh realities of the labor market mean that increased incentives for welfare mothers to search for work—such as time-limited welfare benefits—are unlikely to make much of a difference in their earnings unless they are accompanied by increased employment opportunities.

Figure 1.

Predicted Annual Earnings for Selected Welfare Mothers
(all are assumed U.S.-born, living in a central city, with no disabilities)



WHAT CAN WELFARE RECIPIENTS EXPECT TO EARN WHEN WELFARE ENDS?

We now turn to some empirical estimates of the labor market prospects for current welfare recipients. We began with the Public Use Microdata Sample from the 1990 Census of Population and drew a sample of single mothers between the ages of 18 and 45 who resided in the 77 largest metropolitan areas.³ Single mothers are defined as women who had at least one child under the age of 18 living with them and who did not have a husband residing in the same household.

Compared to the average single mother who does not receive welfare, the typical welfare recipient has less education, is younger, has more children and is more likely never to have married. For example, about one-quarter of nonrecipients, but half of recipients, never married; about one-fifth of nonrecipients, but more than two-fifths of recipients, lack a high school degree; about one-sixth of nonrecipients, but one-quarter of recipients, are below 25 years of age; about one-sixth of nonrecipients, but one-third of recipients, have three or more children.

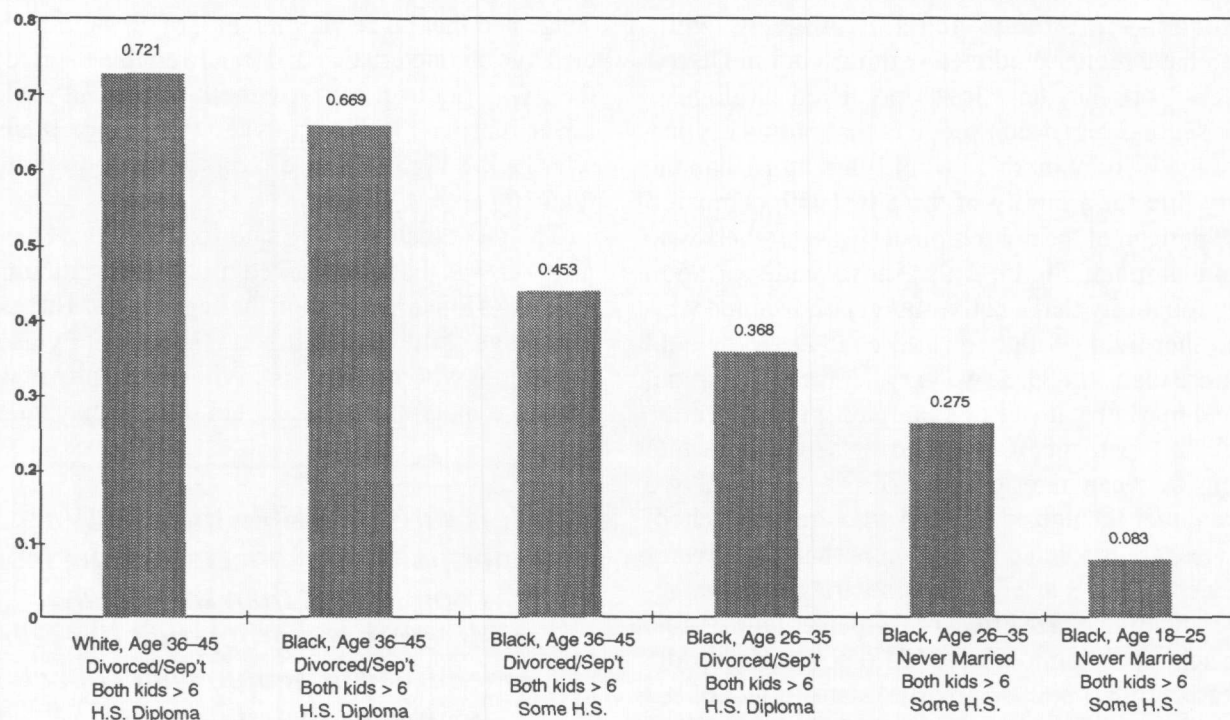
All of these observed characteristics suggest that welfare recipients, *ceteris paribus*, are likely to have lower expected earning capacities than nonrecipients. Regression analysis confirms this suggestion.

We began by considering only those single mothers who did not receive welfare but who reported earnings during 1989 (19,060 out of the 21,756 sample). We regressed the natural logarithm of their annual earnings on a set of demographic characteristics. For each model we estimated separate regressions for single mothers who are white non-Hispanic, black non-Hispanic, Hispanic, or other non-Hispanic. We then used the resulting set of regression coefficients to estimate for each of the 7,821 welfare recipients how much she would earn on average if she earned what observationally identical working single mothers earned.

Next, we estimated a second model, in which the dependent variable was the probability that the single mother earned less than the poverty line for a family of three persons (\$9,885 in 1989). The sample for this model included all 21,756 single mothers who did not report any welfare income—2,696 who reported no earnings and 19,060 who reported earnings in 1989. Thus, this model reflects both the probability that a

Figure 2.

Probability of Earning More Than the Poverty Line for a Family of Three
Selected Single-Mother Families with Two Children in Central City, Detroit



single mother worked and her annual earnings. We then used the second set of regression coefficients to estimate for each welfare recipient the predicted probability that she would earn more than the poverty line for a family of three.

Examples of our estimates for welfare recipients with specific demographic characteristics are presented in Figures 1 and 2, for mean annual earnings and the probability of earning more than the poverty line, respectively. There is reason to think that these estimates *overstate* the potential earnings of recipients because they might actually work fewer hours or earn a lower hourly wage than observationally identical working single mothers. This would occur if recipients differed not only in the observed characteristics included in the regression, but also in their unobserved characteristics. For example, consider two never-married single mothers with two children, neither of whom is a high school graduate. If one worked because she was more motivated or more skilled than the other who received welfare, then our estimates, which do not account for motivational or skill differences other than years of completed schooling, will be too high.

Economist Gary Burtless, using data from the National Longitudinal Survey of Youth, finds that the

Armed Forces Qualification test scores of most young welfare recipients place them in the bottom quarter of all test-takers in their own age group. In addition, the age-earnings profile rose more slowly for welfare recipients than for nonrecipients as the cohort aged over the 1980s. This suggests that our predicted earnings levels are overstated, as are the "age" effects we estimate.⁴

Nonetheless, our results, even if biased upwards, suggest that the typical welfare recipient will have great difficulty in the labor market. Whereas the average earnings for working single women was \$18,215 in 1989, our model predicts that the average welfare recipient could have earned only about \$13,000. Even more important, as Figure 1 shows, there is a wide variation in predicted earnings depending on the characteristics of the welfare mother. The figure presents predicted earnings for a native-born welfare mother with no disabilities who resides in Atlanta, Detroit, Los Angeles, or New York. The lowest earners, shown in the left-most part of the figure, with predicted earnings below \$7,000, are black, young, never-married women who have not completed high school. As we proceed to the right, predicted earnings are substantially higher for women between the ages of 26

and 35 than they are for those between the ages of 18 and 25, and substantially higher for high school graduates than for high school dropouts. Race differences are smaller—in Atlanta and Los Angeles, white women have higher predicted earnings, but in Detroit and New York they have lower predicted earnings.

The second regression predicts that only 41.5 percent of the welfare mothers would earn more than the poverty line for a family of three in 1989, compared to 64.3 percent of the nonrecipient single mothers who earned that much. Figure 2 also shows wide variation in the probability that a native-born, nondisabled welfare mother living with two children in Detroit would earn more than \$9,885, as we vary her race, education, age, and marital status. For example, at the left of the figure, 72.1 percent of divorced or separated white women, between the ages of 36 and 45, with two children over the age of six, and who are high school graduates, are predicted to earn more than the poverty line. Each of the subsequent bars varies one characteristic, yielding a race effect of 5.2 percentage points, a high school diploma effect of 21.6 points, a “middle age” effect of 8.5 points, a marital status effect of 9.3 points, and a “young age” effect of 19.2 points. Thus, only 8 percent of black, never-married mothers who are between the ages of 18 and 25 and lack a high school diploma are predicted to earn enough to avoid poverty.

The 1991 termination of the General Assistance (GA) program in Michigan also offers some information on the difficulty that less-skilled individuals have in finding employment. Among male and female former GA recipients who were under the age of 40 and who had not qualified for disability benefits by 1993 when they were interviewed, about two-thirds had worked at some time in the two years following their termination. But at the time of the interview, only about one-quarter of those with less than a high school degree and one-half of those with a high school degree, a GED, or more were working. The mean earnings of the two groups were, respectively, \$377 and \$596 per week. This sample, as do our regression results, suggests that welfare recipients will have difficulty obtaining and maintaining jobs.

It is precisely because President Clinton's original Work and Responsibility Act would have provided an employment opportunity to those seeking but not finding work that we found it attractive. The bill that passed the Senate this past fall, the Work Opportunity Act, however, did not address these labor market problems.

It is difficult to understand the title of the Senate bill. Nothing in it addresses the labor market problems we have documented. Our regression analysis has suggested that far fewer than half of all welfare mothers have characteristics that would enable them to earn their way out of poverty without help. And for black never-married mothers between the ages of 18 and 25 who lack a high school diploma, the figure is fewer than 10 percent.

The most that could be said for the Work Opportunity Act was that it preserved more child care funding than the House version of the legislation. But as important as child care is, it is not sufficient by itself to create jobs where none exist. When an employer wants to hire a potential worker, child care may make it

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possible for the worker to accept the offer. But child care alone will do nothing to increase employers' willingness to hire people whom they do not want to hire.

At the same time that the WOA would fail to create new work opportunities, it would systematically reduce the number of children receiving federal aid by making them ineligible for benefits.

We do not know what kind of welfare reform, if any, is politically feasible in 1996. But the rationale underlying the Work Opportunity Act is disturbing. Perhaps it simply reveals an astonishing degree of faith in the power of “shock therapy.” Since the empirical evidence directly contradicts the view that welfare mothers could all find work if only they tried harder, perhaps the WOA's supporters believe that the prospect of starvation will offer a historically unprecedented spur to entrepreneurial innovation.

Alternatively, one might say that the WOA reflects a sense of deep despair and desperation about the future of America's poor children. Supporters of the WOA might believe that children born out of wedlock pose such a grave threat to American society that we must take big chances, to make dramatic use of the symbolic power of government, in an effort to change

the behavior of individuals. They might even believe we should not invest too much energy in worrying about whether such dramatic moves injure some truly blameless mothers and children along the way.

A third rationale for the Work Opportunity Act is simpler, and more disturbing still. The WOA includes a broad range of proposals for changes in the American welfare state. In addition to the AFDC restrictions, it would deny government benefits and services to legal resident aliens, would slash funding for the Food Stamps program, and would restrict eligibility for Supplemental Security Income. The Congressional Budget Office estimates that the Act would reduce federal spending by \$65 billion over the first seven years. It is surely possible that the Work Opportunity Act reflects nothing more complicated than the narrow self-interest of a group that does not identify with people who collect means-tested benefits.

Whatever the actual personal motivations of the proponents of the legislation, its consequences are clear. It would significantly increase hardship and absolve government of numerous responsibilities that it now attempts to fulfill. The president was correct to veto the welfare bill that reached his desk in early January.

NOTES

1. See Sheldon Danziger and Peter Gottschalk, *America Unequal* (Cambridge, MA: Harvard University Press, 1995), and Sheldon Danziger and Peter Gottschalk, eds., *Uneven Tides: Rising Inequality in America* (New York: Russell Sage Foundation, 1993).
2. In 1991, the poverty line for a family of four was \$13,924. College graduates do fare much better than high school graduates. In 1991, 30 percent of male and 57 percent of female high school graduates earned less than \$13,924.
3. Each of these seventy-seven metropolitan areas has a sample of at least 100 single mothers in the 1 percent census data file.
4. Gary Burtless, "Employment Prospects of Welfare Recipients," in Demetra Nightingale and Robert Haveman, eds., *The Work Alternative: Welfare Reform and the Realities of the Job Market* (Washington, DC: Urban Institute Press, 1995), chap. 4.

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