Introduction

The Labor Market and Welfare Reform

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The coordinated push to move an increasing number of welfare recipients off assistance and into full-time work has raised a number of key questions about the nature of the labor market for less skilled workers: Will employment opportunities for former welfare recipients be vulnerable to future recessions? How quickly will workers' wages grow as they gain labor market experience? What is the effect of eligibility time limits on those who remain on welfare despite financial incentives and administrative prodding to leave? The twelve chapters in this book address these and many other important questions about the labor market prospects facing less skilled workers in the aftermath of recent welfare reform legislation.

IMPLEMENTING THE 1996 WELFARE REFORM ACT

Concern about job prospects for less skilled workers is hardly new. Interest in the issue has grown substantially, however, in the wake of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996,the latest effort at welfare reform. This legislation created powerful incentives for the states to move welfare recipients into jobs. It mandated specific employment targets for the welfare caseload and offered states new freedom in designing their welfare benefit schedules and implementing welfare-to-work programs.

The long-established Aid to Families with Dependent Children (AFDC) program, which had provided cash assistance to needy parents with children for more than forty years, was abolished and replaced with a federal block grant known as Temporary Assistance for Needy Families (TANF). Whereas AFDC was a welfare program operating under a complex set of federally mandated rules, TANF is a funding stream that states can use in a variety of ways. Nevertheless, a number of key restrictions affect state eligibility for TANF funds.[1]

Many of these restrictions relate to the employment behavior of adult beneficiaries. In order to continue receiving full TANF funding, states must meet or exceed a rising target for the proportion of welfare recipients who work at least thirty hours a week. Many states are attempting to achieve these targets by expanding welfare-to-work programs and by encouraging new welfare applicants to look for work before entering the program (so-called diversion activities). A second key provision of welfare reform legislation is the establishment of a five-year lifetime eligibility limit for the receipt of federally funded benefits by adults. Time limits on federal funding create an additional incentive for states to move recipients off welfare and into work as quickly as possible.

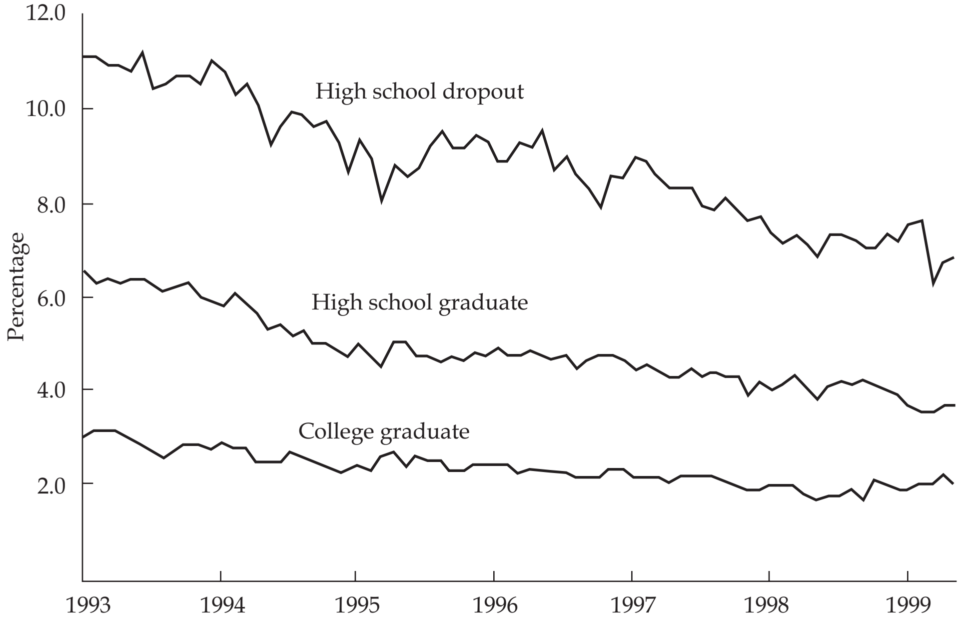
The new federal policies have led to a virtual revolution in the design of assistance programs for low-income families. The fifty states have introduced a host of new TANF-funded programs that vary by how time limits are enforced, how benefit payments are related to work effort, how cases are managed, and how sanctions for noncompliance are enforced.[2] At the same time, public assistance caseloads have plummeted, and the employment rates of welfare recipients and single mothers as a whole have risen. State governors routinely cite these trends as evidence that their welfare reform efforts are succeeding.

The apparent success of welfare reform efforts has been aided by a remarkable economic climate. Labor market conditions have improved steadily since the end of the 1991 recession. By the end of the decade, unemployment was at a thirty-year low, the proportion of the population with jobs was continuing to rise, and the real (inflation-adjusted) wages of less skilled workers were showing steady growth for the first time in many years. In this extraordinarily favorable macroeconomic environment, most states were able to focus on redesigning and implementing new programs, with little concern for job availability.

The strong economy has been particularly helpful to less skilled workers. Figure I.1 shows unemployment rates by education level over the past six years. The unemployment rate of high school dropouts fell from 11.1 percent in January 1993 to 6.7 percent in May 1999.[3] Figures I.2 and I.3 show trends in average hourly wages for men and women at the median (or middle) of the wage distribution and at the tenth and twentieth percentiles.[4] Real wages of most groups—especially less skilled men—have declined since the late 1970s. Only in the past four years has there been evidence of a sustained turnaround. For those at the tenth percentile of the male wage distribution (typically, young men with less than a high school education), real hourly wages rose by 6.9 percent between 1994 and 1998. Over the same time period, real wages of low-paid women rose by 5.3 percent.

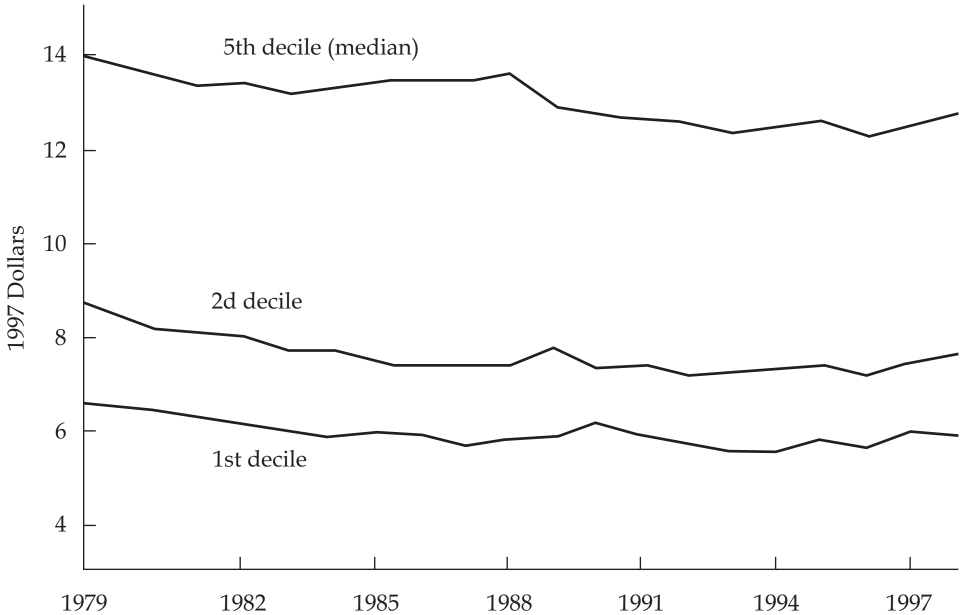
Reinforcing the strong labor market, other policy changes in the 1990s also increased the incentives for low-wage workers to enter the labor market and made it easier for states to strengthen their welfare-to-work efforts. The Earned Income Tax Credit (EITC), which provides a refundable credit to individuals with low earnings who live in low-income families, was increased in 1990 and expanded greatly in 1993. The cumulative effect was a tripling of the real (inflation-adjusted) value of the maximum refundable credit available to low-wage workers with two or more children between 1990 and 1998. (The maximum credit for a low-wage worker with one child rose by 90 percent.) The minimum wage was also increased in 1990, 1991, 1996, and 1997, with a cumulative 9 percent increase in

FIGURE I.1 / Unemployment, by Education Level



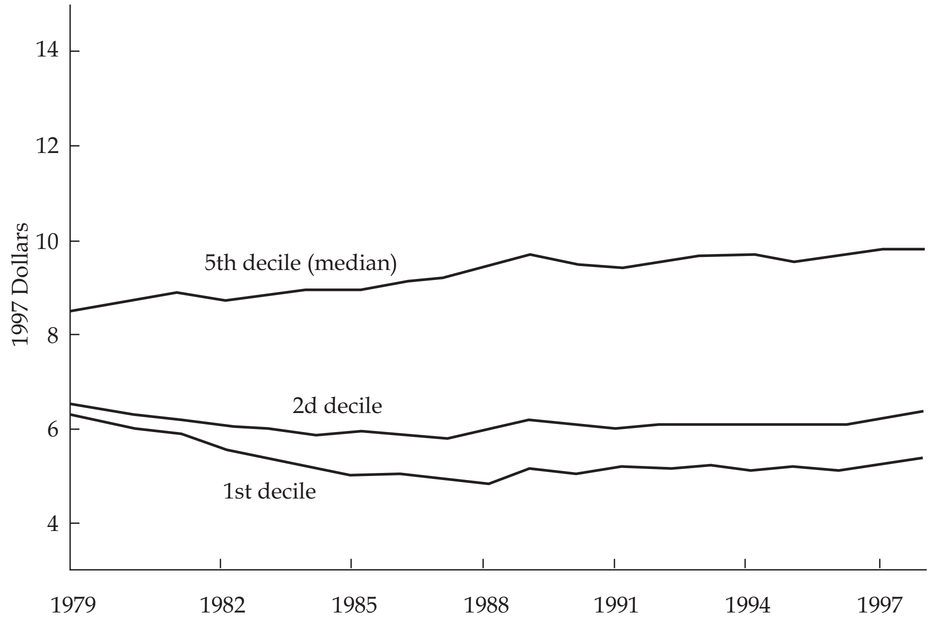
Source: Data from U.S. Department of Labor, Bureau of Labor Statistics, monthly unemployment releases (2000).

FIGURE I.2 / Hourly Wages of Men Aged Sixteen and Over



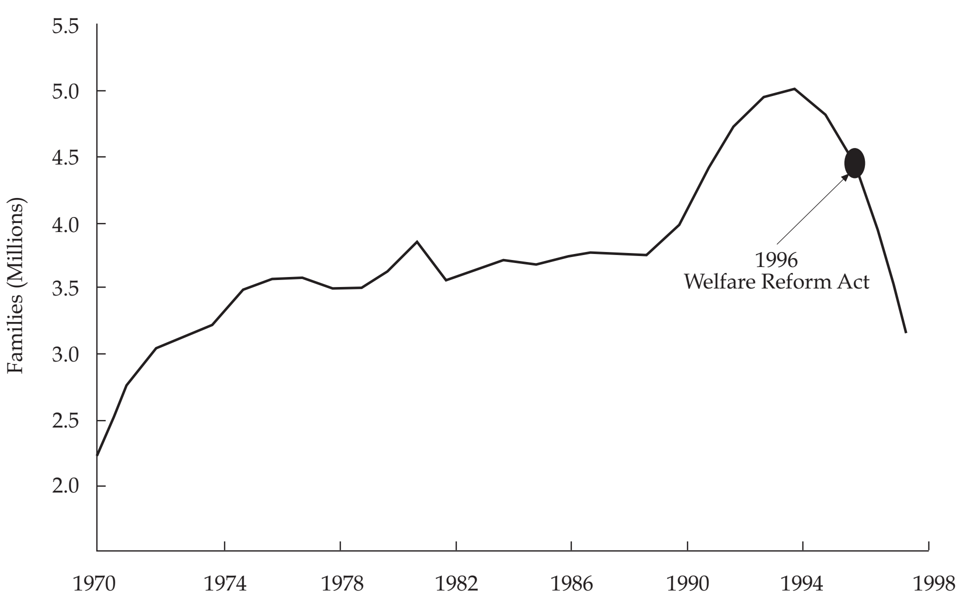
Source: Tabulated by the Council of Economic Advisers from the Current Population Survey.

FIGURE I.3 / Hourly Wages of Women Aged Sixteen and Over



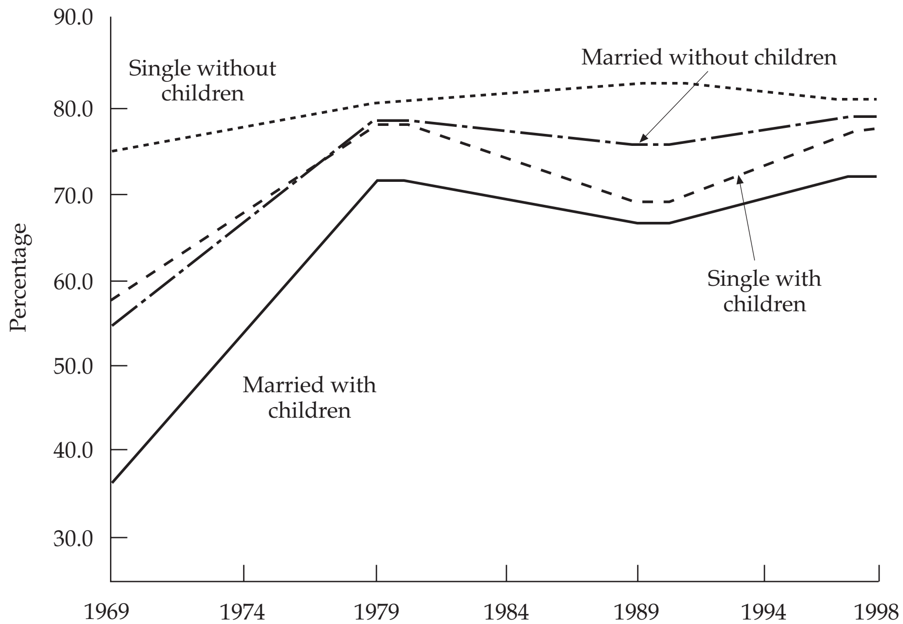
Source: Tabulated by the Council of Economic Advisers from the Current Population Survey.

FIGURE I.4 / Welfare Caseloads, from 1970 to 1998



Source: Data from U.S. Department of Health and Human Services, Administration for Children and Families (2000).

FIGURE I.5 / Labor Force Participation of Women



Source: Tabulated by the author from the Current Population Survey data.

real terms from 1990 to 1998. Both of these policy changes presumably increased the incomes of low-wage workers (and their families), although they may have also had some offsetting effect on hours or employment. At this stage there are few indications of significant disemployment effects, perhaps because of the strong economic climate.[5]

In the short term, welfare reform, combined with other policy changes and a strong and growing economy, has produced substantial declines in public assistance caseloads. Figure I.4 plots the number of families receiving AFDC or TANF benefits from 1970 through 1998. After hitting a peak in 1994, caseloads have fallen dramatically, with particularly fast declines after 1996. Current research suggests that the strong economy accounts for about a fifth of the recent caseload decline; much of the remainder is presumably related to policy changes.[6]

As caseloads decline, there has been a parallel increase in labor force participation among women with children. Figure I.5 plots the various rates of labor force participation of married and single women with and without children. Among single women with children, labor force participation has risen 10 percentage points, from 68 percent in 1989 to 78 percent in 1998. The increase is even larger among women who have children and have never been married (who are more likely to receive welfare) than among divorced, separated, or widowed mothers. By comparison, childless women have shown little change in their labor force participation over the decade. Analysts have credited the relative rise in participation of single women with children to the EITC expansions, as well as to welfare reform.[7]

All of these changes are quite recent. It is still far too early to evaluate the long-term impact of welfare reform, particularly on the ability of younger and poorly educated parents to find and keep jobs that will adequately support their families over the course of any future recession.

KEY QUESTIONS ABOUT JOBS, WORK, AND POLICY DESIGN

In the spring of 1997, we formulated twelve broad questions we thought were critical to understanding the long-term prospects for employment-focused welfare reform. We then recruited twelve researchers to refine and investigate these questions; their findings constitute the twelve chapters of this book.

Part I relates the demand side of the labor market to outcomes for low-wage workers. The strong macroeconomy and the concomitant strength in demand for workers has obviously been very important to the progress of welfare reform since 1996.

Do Less Skilled Workers Respond Differently to Macroeconomic Cycles?

In chapter 1, Hilary Hoynes examines the effect of business cycle fluctuations on the employment, earnings, and incomes of individuals in different gender, race, and education groups. A key innovation in her approach is her study of labor market outcomes at the local (city) level. This provides much more data than an analysis at the national level and allows her to analyze potential changes in the cyclical responsiveness of different groups over time. Another key feature of Hoynes's chapter is a focus on a full set of labor market outcomes—employment, hours, earnings, and hourly wages. The chapter provides a far more comprehensive picture of the cyclical sensitivity of different skill groups than has been available in the past.

Hoynes's findings confirm that less educated workers, nonwhites and (in some cases) women, are more heavily impacted by business cycle changes than are highly educated white men, whom she treats as a reference group. For instance, when the employment rate of white men with more than a high school education rises by 1 percentage point, the employment rate of less educated white men increases by 1.37 points, the employment rate of less educated nonwhite men increases by 2.92 points, and the rate for less educated nonwhite women increases by 1.52 points. Earnings of these groups are also more cyclically sensitive. The employment and earnings of less skilled white women are somewhat less responsive to the cycle than those of more highly skilled white men. Total family income, which includes government transfers, is also more cyclical among less skilled and nonwhite groups—but less so than earnings, confirming the role of transfers in smoothing earnings fluctuations.

These results help to explain the relative employment and earnings gains of less skilled workers over the 1990s, during a long period of economic expansion. However, they also raise many questions about the sustainability of these gains during any future economic downturn, since less skilled workers suffer greater employment and income losses in a recession. The impact of welfare reform on the future cyclical responsiveness of less skilled workers is hard to predict. For instance, less skilled black women's employment has been more cyclical than that of less skilled men. Historically, black women have also made greater use of public assistance benefits (largely because they are more likely to be single mothers). This may have made it easier for them to move in and out of the labor market as economic conditions change. It is interesting to speculate whether welfare reform efforts and time limits will decrease the cyclicality in labor force participation among less skilled black women because it limits their access to support through the public assistance system or whether, on the contrary, it will increase their cyclicality as they find they are more affected by movements in labor market demand.

Will the Movement of Former Welfare Recipients into the Labor Market Reduce Opportunities for Other Workers?

Welfare reform is expected to add between 1 million and 2 million people to the labor force between the mid-1990s and the middle of the following decade. In chapter 2, Timothy Bartik investigates the potential impact of this labor force influx on wages and unemployment rates. Because of the modest size of the inflow relative to the overall U.S. labor market, welfare reform is unlikely to have an appreciable aggregate effect. It may have a larger effect on the labor market for less skilled women, however, because newly working welfare recipients constitute a much larger share of that group's labor supply. Bartik pulls together a range of possible estimates of the effects of this labor supply increase on the outcomes of less skilled groups. His estimates suggest there could be a significant effect on both employment and wages of currently employed less skilled women as a result of the increase in labor supply among welfare recipients. These effects may be avoided only if the demand elasticities for less educated women are quite large and the labor market clears quickly. Given existing evidence on the behavior of low-wage labor markets, this seems unlikely.

Bartik's chapter raises a number of key theoretical and policy questions. An uncomfortably large range of "reasonable" estimates for key parameters can be used to predict the impact of welfare reform on wage and employment outcomes of less skilled workers. It is unclear how best to model the labor market for less skilled women. Do increases in the labor supply among this population induce demand changes that might permanently increase their job opportunities (as appears to happen with new immigrants)? Is the labor market for less skilled workers close to a zero-sum game between new entrants and similar women who were already working? At the present time there is no clear way to choose one model over another; analysts are thus left with a disturbingly wide range of potential impacts. Future research, based on what actually happens in the aftermath of welfare reform, may help us choose better among these models.

From a policy perspective, Bartik's findings provide information on the labor market costs of welfare reform. An influx of less skilled workers looking for jobs may have a negative impact on the earnings and employment opportunities of other less skilled workers that is particularly large in certain local labor markets. For instance, inner-city areas may experience bigger negative effects of welfare reform than will medium-size towns and suburbs.

THE LABOR MARKET FACED BY LESS SKILLED WORKERS

Those who want to help move welfare recipients into economic self-sufficiency must be concerned about the nature of the jobs available to less skilled workers. For instance, welfare-to-work transitions will be harder if these jobs are markedly less stable, provide fewer rewards to experience, or provide far less compensation because they limit nonwage benefits. Part II explores these questions.

Why Are Unemployment Rates of Less Skilled Workers So High?

It is sometimes argued that low-skilled workers have less difficulty actually finding a job than they do in keeping a job. In chapter 3, Harry Holzer and Robert LaLonde investigate the dynamic behavior underlying the relatively low employment rates—and correspondingly high unemployment rates—experienced by younger and less educated workers. They find that unskilled workers differ from more highly skilled workers both in the rate at which they find jobs when they are out of work and in the rate at which they lose jobs and enter unemployment. Moreover, less skilled workers who lose a job are more likely to exit the labor market altogether rather than move to a new job immediately or begin an active job search. These findings suggest that differences across skill groups in both job-finding and job-retention rates are important, although the gap in job-finding rates accounts for a larger share of the overall employment gap. Holzer and LaLonde find some evidence that both workers with little education and those with higher education gradually "age out" of job instability. Finally, they note that longer duration of employment in previous jobs appears to coincide with increased stability in the current job.

From a policy perspective, these results indicate that attention should be directed both to increasing the rate of job acquisition of welfare recipients and other less skilled workers and to lowering the likelihood of job loss. It may also be important to provide assistance in locating a new job if the current job ends, as a way of helping people avoid having to exit the labor market and begin a period of welfare dependence.

How Much Wage Growth Can Less Skilled Workers Expect over Time?

Economists typically assume that wages grow with job experience. According to this reasoning, working today will yield higher wages tomorrow and increase the prospects for self-sufficiency among former welfare recipients. Some analysts have argued that the payoff to work experience can be quite substantial, while others have argued that less skilled workers rarely (if ever) experience substantial wage growth. In chapter 4, Tricia Gladden and Christopher Taber investigate the extent of wage growth among less skilled workers. An innovative feature of their analysis is the use of detailed data on actual job experience rather than imputed or "potential" experience based on age. Remarkably, they find that different skill groups experience about the same percentage growth in wages per year of actual work experience. Moreover, less skilled women experience about the same wage growth per year of work as less skilled men. Differences in accumulated wage growth over time among these groups reflects differences in their actual accumulated work experience, not differences in the returns to work experience. The evidence in this chapter is the best available research on this topic, and it suggests that less skilled workers who remain employed can indeed expect steady, albeit relatively modest, wage growth.

Gladden and Taber also investigate the role of job mobility in wage growth. They find that high school dropouts who change jobs voluntarily once a year experience higher wage growth than those who stay in their old job. More frequent job changes lead to lower wage growth, however, and involuntary job changes lead to wage declines. These patterns suggest that many low-skilled workers can achieve higher wage growth through selective job changes. Indeed, if low-skill jobs are concentrated in small firms or in establishments with only limited job ladders, job changing may be the best way to increase wages over time.

These results reinforce those presented in the previous chapter and emphasize the importance of long-term attachments to the labor market. They also imply that job changing per se is not a problem for low-wage workers and may in fact be a key to sustained wage progression. Joining these to the findings in chapter 3, one can conclude that effective job-training programs are those that help less skilled workers enter the labor market, maintain steady employment, and find new jobs in the event of a job dissolution and also prepare them to actively seek better employment opportunities when and where they are available.

How Are Labor Market Outcomes Different for Less Skilled Women and Less Skilled Men?

The recent policy focus on welfare reform has led to an new interest in the low-wage labor market for women and how it may differ from the labor market for men. In chapter 5, Susan Mayer and Jane Waldfogel investigate differences in wages among men and women by skill group and the evolution of these differentials over time. The past two decades were particularly difficult for younger, less educated men, whose real wages declined by 10 to 20 percent. Less skilled women have not fared as badly, and consequently the gender gap in wages among the less educated has narrowed steadily. The employment gap has also closed somewhat, partly because of declines in the labor force participation of less skilled men and partly because of rises in the participation of less skilled women. Using a standard model of human capital earnings, Mayer and Waldfogel show that the narrowing of the gender wage gap has occurred largely through a convergence in the relative rewards received by women for higher education, longer work experience, and other characteristics. In addition, less skilled men have been hurt by their disproportionate representation in certain sectors (for example, heavy manufacturing) that have experienced difficulties in recent decades.

Mayer and Waldfogel underscore the fact that although the gap in wages between less skilled men and women has narrowed, the real earnings of younger, less educated women have not risen appreciably over the past two decades. Rather, the gender gap has narrowed because of the fall in real earnings for less skilled men. In this light, policies such as the EITC may have played a critical role in determining the relative well-being of many female-headed families and of families headed by couples with low levels of education. Without increases in hours worked or in the real value of supplementary benefits available to less skilled workers, their income position would not have improved over the past two decades.

A further interesting result in this chapter is Mayer and Waldfogel's finding that the historically negative impact of children on the wages of more skilled women has declined over time, but that children have a greater negative effect on the wages of less skilled women now than in the past. The latter may be indicative of the relative difficulties faced by lower-wage women in obtaining reliable child care.

Can Less Skilled Workers Obtain Health Insurance Through Their Jobs?

Just as higher wages make employment more attractive, so does the availability of health insurance. Because most welfare recipients are automatically eligible for Medicaid (public health insurance), going to work can lead to the loss of health benefits, at least for the adults in a family (children in low-income families are covered by Medicaid even if the family receives no public assistance). In chapter 6, Janet Currie and Aaron Yelowitz explore the issue of health insurance availability for less skilled workers. They find that the extent of private employer-sponsored health insurance declined from the mid-1980s through the early 1990s but has been stable in the late 1990s. These changes in the availability of private health insurance seem to be largely explained by a combination of three factors: a general deterioration in the labor market opportunities for less skilled workers, rising health insurance costs, and "crowd-out," the process by which availability of public health insurance leads employers and employees to drop private health insurance.

Currie and Yelowitz emphasize the role of nonwage issues in encouraging employment among less skilled workers. State welfare-to-work programs typically allow families to retain their Medicaid eligibility for some period of time. A small but growing number of states are experimenting with more extensive ways of providing health insurance to low-wage workers. Subsidized health insurance—like child care subsidies—can be viewed as a form of wage subsidy, which increases the relative attractiveness of employment for workers in low-wage jobs.

POLICIES TO INCREASE EMPLOYMENT AND EARNINGS OF LESS SKILLED WORKERS

A major focus of policy design at both the federal and state level has been to make work more economically rewarding for less skilled workers. Wage subsidy schemes (including child care subsidies) as well as other financial incentive programs are one way to do this. In the absence of private sector demand, the provision of public sector employment is another way to encourage employment among the less skilled. Part III reviews the current evidence on the effectiveness of these programs.

Can Subsidies—Either to Workers or to Employers—Improve Outcomes for Less Skilled Workers?

One way to improve labor market opportunities for less skilled workers is to offer subsidies to employers who hire certain workers or to workers who find suitable employment. In chapter 7, Stacy Dickert-Conlin and Douglas Holtz-Eakin use an analytical framework to compare these subsidy schemes and discuss the pros and cons of the two approaches. A key concern is the question of targeting: will subsidies to low-wage workers raise the incomes of low-income families?

Dickert-Conlin and Holtz-Eakin present a variety of data showing that many low-wage workers are in middle-income families. This means that an employer-based subsidy scheme has to rely on other eligibility criteria—over and above the wage rate or earnings offered on a job—to effectively target individuals in low-income families. Such eligibility criteria may stigmatize potential employees. In contrast, worker-based subsidies through the tax system (such as the EITC) can target low-income families directly. The certification problems with targeted employer-based subsidies are one reason take-up rates in these programs are far lower than participation rates in the employee-based EITC. In addition to the issue of targeting efficiency, Dickert-Conlin and Holtz-Eakin's analytical framework suggests other differences between an employee-based subsidy scheme and an employer-based scheme, which they also discuss.

There is evidence that both employer-based and employee-based subsidies can raise the labor force participation of targeted groups. The evidence on the positive effects of the EITC on the labor supply of single mothers over the past decade is particularly compelling. It is also worth noting that the EITC should raise the overall income levels and change the income distribution between lower- and higher-wage workers, although this is an effect that is hard to analyze with available data (the chapter cites evidence on the extent to which the EITC has lowered poverty rates). If the Bartik chapter suggests that there may be negative effects on wages or unemployment from increasing work effort among less skilled women, this chapter discusses policy options that might plausibly offset some of those negative effects.

What Can We Learn from Past Efforts to Stimulate Demand Through Public Sector Employment Programs?

An alternative way to bolster the labor market opportunities of less skilled workers is through the creation of public sector jobs. David Ellwood and Elisabeth Welty analyze past and present public sector employment (PSE) programs in chapter 8, providing a comprehensive discussion of the design issues and potential effects of PSE programs. Although the record suggests that some PSE programs have been wasteful and inefficient, leading mainly to the "displacement" of preexisting public sector jobs, the authors argue that other PSE programs have been able to increase employment and produce socially valuable output with modest displacement effects. In particular, they argue that displacement effects are minimized if the program is targeted at workers with characteristics different from those of regular public sector workers (for example, less skilled), if the program offers only short-term employment, and if PSE employees perform jobs that are substantially different from regular public sector jobs. Only a handful of states are currently trying to implement PSE programs as part of their welfare reform efforts. Given the evidence in chapter 1 showing the cyclical sensitivity of labor market opportunities for less skilled workers, however, more states may become interested in PSE programs during the next economic downturn as a way to maintain work effort among welfare recipients. This chapter provides useful guidance to states on the design of effective PSE programs, indicating the trade-offs they will face in program design and providing evidence on how past programs have been more or less effective.

Can Financial Incentives Stimulate Greater Work Among Less Skilled Workers?

Over the years, a variety of financial incentives have been used to promote work among less skilled workers. Chapter 9, which we co-wrote with Philip Robins, reviews the evidence on the efficacy of a new set of financial incentive programs, some of which have been designed as part of larger welfare-to-work efforts.

These programs range from the EITC (discussed in a slightly different context in chapter 7), to enhanced disregards of earnings for welfare recipients, to alternative assistance programs that operate outside the realm of regular welfare, in the mold of the negative income tax proposals of the 1970s. There is clear evidence that financial incentive programs—which essentially raise the percentage of any additional earnings that a welfare recipient or former recipient can keep for herself or himself—can increase work effort, raise incomes, and lower poverty. A large number of states have adopted various financial incentive schemes as part of their TANF-funded public assistance programs, and so over time there will be additional information on the effects of these programs.

A key issue in the design of these programs is the extent to which so-called "windfall" beneficiaries—individuals who would have been working even in the absence of the incentives—can participate and claim benefits. Making benefits available to windfall beneficiaries increases the antipoverty effects of the program but may substantially raise its costs, as well. Several of the new programs limit costs by targeting long-term welfare recipients (rather than the general population of low-wage workers) or by restricting eligibility to full-time workers. Because these financial incentive programs are typically more expensive to run than existing welfare programs, states are forced to make a choice among policy priorities. If a state places a priority on poverty alleviation, a broad-based financial incentive program available only to full-time workers can have a significant income effect without leading to reductions in work effort. If a state is more concerned with budget expenditures than poverty alleviation, then it may find a narrowly targeted financial incentive program more appropriate. In any case, these programs provide options for states that clearly reinforce the effects of more traditional welfare-to-work programs. In fact, there is evidence that combining financial incentive programs with job search requirements and job support services can lead to greater employment and income gains than either program would produce alone.

How Do Child Care Costs Affect Employment?

Any discussion of welfare reform and the goal of higher employment among single mothers must inevitably confront the issue of child care. Welfare reforms over the past few years have led to large increases in the child care subsidies available to low-income women in most states. In chapter 10, Patricia Anderson and Phillip Levine investigate how child care subsidies influence employment outcomes of single mothers. Low-skilled women are less likely to use paid child care and pay less for the care that they do use. Yet, child care expenses are still a higher fraction of earnings for less skilled women than for women with higher-level job skills. Anderson and Levine estimate that the elasticity of labor force participation with respect to the price of child care is between -0.06 and -0.36. This narrows the range of estimates substantially compared with earlier studies and suggests that child care subsidies can have a significant but modest effect on labor force participation among women, although the effects are larger for less skilled women and for unmarried mothers with young children.

Anderson and Levine's findings underscore the importance of nonwage issues for low-skilled workers. If less educated mothers have to pay full market rates for child care, their net wage may be close to zero. Subsidized child care is potentially as important as other types of wage subsidies in providing an incentive for increased work among former welfare recipients.

THE IMPACT OF WELFARE REFORM

The specific institutional details that were part of the welfare reform legislation can have an impact on who is affected and how. In part IV, the final two chapters in this book explore the impact of two controversial aspects of the 1996 legislation, namely, cuts in public assistance eligibility for immigrants and the implementation of time limits for TANF-funded services.

How Do Immigrants and Their Children Use Work and Welfare?

One group that has been greatly affected by welfare reform is immigrants. In addition to converting AFDC into the TANF block grant, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act made sweeping changes to rules governing the availability of food stamps and Supplemental Security Income (SSI) to immigrants. In chapter 11, Kristin Butcher and Luojia Hu compare the participation rates of immigrants and natives in means-tested welfare programs and explore the sources of the differences. Butcher and Hu find that immigrants are more likely than the native born to use transfer programs, particularly in-kind transfers (food stamps or Medicaid). Once observable characteristics such as education and location are taken into account, however, immigrants are less likely than the native born to participate in these programs. Butcher and Hu then extend their analysis to study utilization of public assistance by second-generation immigrants (that is, the U.S.-born sons and daughters of immigrants) compared with natives. They find that second-generation families are less likely to utilize public assistance than the native born with similar characteristics. They also find little evidence that by itself the use of welfare by immigrants makes their children any more likely to use welfare.

The results in this chapter provide little indication that immigrants abused the public assistance system before the 1996 legislative changes; indeed, immigrants used public assistance programs less than natives with similar individual characteristics. Hence, major cuts in immigrant access to these programs can be justified only by budgetary pressure, not by abnormal or objectionable behavior on the part of immigrant recipients. There is also little evidence that the second generation will utilize public assistance more extensively than people whose families have been in the United States for three or more generations, although this conclusion may change as the characteristics of immigrants and their countries of origin change over time.

What Is the Projected Impact of TANF Benefit Time Limits on Less Skilled Workers?

One of the most controversial and widely discussed aspects of the 1996 welfare reform legislation was the imposition of a five-year time limit on the receipt of program benefits funded by the TANF block grant. In chapter 12, Robert Moffitt and LaDonna Pavetti use historical welfare participation data, as well as recent program data from the states, to assess the likely effects of these time limits. Microeconomic data from the era of the AFDC program suggest that about 40 percent of welfare recipients will hit the five-year time limit over an eight-year period. Younger, less educated, and never-married women are most likely to experience long spells of welfare use. Of course, if TANF recipients respond to the threat of time limits by taking work requirements more seriously, many fewer than 40 percent will be affected by time limits. Some states have adopted maximum benefit periods that are even shorter than the sixty-month limit prescribed in the federal legislation; but in only a few states have individuals actually begun to hit these limits. Moreover, some of these "early" states have found ways to exempt families that are running into time limits. Most importantly, many states have begun to utilize their new powers under the TANF legislation to deny continued benefit eligibility to people who fail to meet job search requirements or other work criteria. These "sanctioning" policies potentially eliminate many long-term welfare recipients who would otherwise hit the five-year time limit. Thus, it may be that the threat of sanctions will have a greater effect on welfare durations and caseloads than time limits per se.

The introduction of time limits raises the prospect of a large influx of former welfare recipients into the labor market, if and when substantial numbers of women hit the limits. Currently, however, it is unclear exactly how many people will be subject to time limits. Beyond the obvious monitoring and enforcement problems, states have some flexibility to avoid imposing limits on women they believe are satisfying the program rules. In the extreme case, they can cover their benefit costs out of non-TANF funds. Women who are not cooperating with employment programs are likely to be sanctioned well before their time limit. The potential interactions between time limits and labor market participation are still unclear, however, and a fuller analysis of the impact of time limits is an important future research agenda.

WHAT DOES THIS RESEARCH TELL US, AND WHAT DO WE STILL NEED TO KNOW?

The research findings in this volume contain both good and bad news about the long-run prospects for welfare reform. On the positive side, there is clear evidence that certain policies—including wage subsidies (chapter 7), public sector employment (chapter 8), and financial incentive programs (chapter 9)—can increase employment and hours and simultaneously raise the incomes of less skilled workers. Variants of these programs are already operating federally and in many states, and we expect to see widening use of financial incentives, and perhaps wage subsidies and public sector employment programs, in the next few years.

The findings on job stability (chapter 3) and wage progression (chapter 4) indicate that low-wage workers who can find and keep jobs will experience modest wage growth over time. Workers who are able to voluntarily move between jobs will likely experience even greater wage gains. All of this suggests that it is possible to increase the earnings and work effort of younger and less educated parents who have traditionally relied on public assistance programs. Nevertheless, wage subsidies and financial incentives (such as the EITC and enhanced earnings disregards) still involve transfer payments to low-skilled workers. Unlike traditional welfare programs, however, they are linked to work effort and may be more politically palatable.

On the other hand, there are also a number of cautionary lessons in these chapters. The greater cyclicality of the low-wage labor market (chapter 1) suggests there may be real problems maintaining employment gains during an economic downturn. Welfare reform may also have some displacement effect on other less skilled workers (chapter 2). So far these effects may have been masked by the strong economic climate of the late 1990s.

A further cautionary note is that the long-run success of welfare-to-work efforts may depend on more than just the effectiveness of job search programs and initial job placements. The availability of child care (chapter 10) is important to employment gains; declines in the number of jobs offering health insurance to less skilled workers (chapter 6) may also cause problems. Wages of less skilled women have not risen much over the past two decades, and wages of less skilled men have actually declined (chapter 5). In the presence of these trends, the increased availability of wage supplements (particularly the EITC and expansions in child care subsidy dollars) has been one of the few bright spots for individuals and families at the bottom of the skill distribution curve. Finally, it is clear that simply getting workers into a job may not assure stable employment; less skilled workers experience greater problems in job instability and more difficulty in reentering employment after a job loss (chapter 3).

Many questions remain. First, this volume focuses entirely on the labor market side of employment programs and does not investigate how these programs are affecting family formation, family behavior, or child-rearing patterns. (In part, we ignore these issues because other major projects are focusing on them.) Second, it is clearly too early to do any real long-term evaluation of the 1996 welfare reform legislation. Some parts of the legislation (such as time limits) are still being implemented. Other aspects of welfare reform are particularly hard to assess in a period of extraordinarily strong economic growth and low unemployment. The real long-term effectiveness of welfare-to-work efforts will be revealed only in the next economic downturn, when we can observe what happens to employment, income, and welfare participation among those who have left the welfare rolls over the past several years. If we have simply produced greater cycling in and out of the labor market, rather than long-term labor market gains, recent reforms will be seen as less effective.

Third, we are just beginning to see preliminary results from studies that track those who leave public assistance in the midst of the currently falling caseloads.[8] (A harder research problem is to identify and track those who would have sought public assistance benefits in the past but do not even apply for public assistance in the current environment.) Such studies will investigate the extent to which adults find and keep jobs over time and how their income changes over time. These studies are crucial to any evaluation of the net effects of the 1996 welfare reform legislation.

Fourth, many specific policy interventions need to be more fully evaluated. The interaction between employment programs and financial incentive programs needs to be better understood. Actual demonstration projects that try to experimentally estimate the impact of subsidies for child care and health care on employment behavior would provide much more reliable evidence on the value of these subsidies to low-wage workers. Greater experimentation with and evaluation of public sector employment programs would provide a better sense of "best practices" in this area. Similarly, we need more experimentation with the mechanics of effective programs that assist workers in maintaining jobs or in searching for new and better jobs in the low-wage labor market. Better information on whether certain occupations or industries offer greater promise of wage growth or wage-enhancing job changes would help assist those who provide job counseling on welfare-to-work programs.

The enormous range of experiments currently under way in different states' assistance programs is both a boon and a bane for researchers. On the one hand, we have the promise of many future "natural experiments" as states adopt a wide variety of alternative programs. These "experiments" may be particularly useful for answering labor market questions, because states will differ in both their economic growth rates and in the nature and type of the TANF-funded programs they implement. On the other hand, the growing diversity of public assistance programs across states means that much analysis will have to occur at the state level. This will require detailed information on state program parameters, as well as data sets that are sufficiently large to measure state-level impacts. Researchers will face the dual challenge of finding new data sources and trying to compare the outcomes of a vast array of different programs.

So far, the evidence suggests that welfare reform is proceeding as well as or better than most analysts had expected. In terms of declining caseloads and increasing work effort among single mothers, welfare reform has been an astonishing success. The evidence is still preliminary, however. Although it is clear that we have run some effective programs that have increased employment among the least skilled, it remains uncertain exactly which gains will be maintained over the business cycle. Only over time will we be able to do the detailed studies of the income changes, job changes, family changes, and wage changes experienced by welfare recipients after they enter the labor market and leave public assistance. The research in this book suggests that we are on the right track with many of our policy efforts. However, maintaining good policies and adapting them to a changing economic environment will be a challenge in the years ahead.

NOTES

1. For a more detailed description of welfare reform and the process leading up to it, see Blank (1997).
2. For a description of the nature of these changes, see Gais and Nathan (1998).
3. Data on unemployment rate by education level are only available starting in 1993.
4. The hourly wage data in figures I.2 and I.3 are based on data reported in chapter 3 of the Council of Economic Advisers (1999), using Outgoing Rotation Groups from each month of the Current Population Survey. Each month's data is deflated by the Consumer Price Index (CPI-UX1) and then averaged across twelve months to produce a annual wage number. Included are all persons sixteen and over who report wage and salary income during the survey week.
5. For instance, see Card and Krueger (1995) for evidence on the 1990 and 1991 increases. See Bernstein and Schmitt (1998) for evidence on the 1996 and 1997 increases.
6. See Wallace and Blank (1999).
7. See Eissa and Liebman (1996) and Meyer and Rosenbaum (1999).
8. For instance, see the recent review of studies by the U.S. General Accounting Office (1999).

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