

FROM Welfare TO Work

By Isabel Sawhill

Toward a New Antipoverty Agenda



Debates about poverty in the United States have for decades centered on what to do about cash assistance for those unable to work. With the enactment of welfare reform in 1996, the debate has entered a new phase: what to do about those who can work but remain poor nonetheless.

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From Welfare to Work

By some measures welfare reform has been a stunning success. Caseloads declined 38 percent between August 1996 and the end of 1998. A majority of former recipients are now working. Most studies put the proportion employed at between 60 percent and 70 percent. Many of the rest are probably living with family or friends. Equally important, fewer people are applying for welfare: women who might once have turned to the government for support appear to be finding jobs instead. Reports of increased homelessness or other instances of extreme hardship are few, and many welfare recipients report that they are satisfied with the new rules. (In a South Carolina survey, three-fourths of ex-recipients said they were better off than when they were on welfare.)

But this is only half the story. Over the longer term, the strong job market that has enabled so many people to escape welfare may falter. Temporary sources of assistance, whether from relatives and friends or from the welfare office, may dry up. And mothers who do find work may not earn enough to support themselves and their children.

For all these reasons, the debate has now shifted from how to end welfare to how to support the working poor.

And, indeed, government supports for the working poor—the Earned Income Tax Credit and Medicaid in particular—have expanded rapidly in recent years. Not all of this assistance shows up in published data on poverty because the official measure excludes taxes and noncash benefits. But according to the Congressional Budget Office, changes in law since 1984 have increased the assistance available to low-income working families almost tenfold. Combined with the declining generosity of the welfare system, this enhanced support for employed adults has greatly increased people's incentive to work. And as my colleague Gary Burtless has shown, the employment rate of never-married mothers, the group most likely to have been affected by these changes, increased quite dramatically in the past decade and a half—from 36 percent in 1984 to almost 62 percent in 1998. In short, both public policy and private behavior have undergone enormous if unheralded change since 1984, and many studies suggest that the greater work incentives built into the new policies are partially responsible for the higher employment rates among unmarried mothers.

Low-Wage Jobs and the Poverty Rate

A single mother with two children who works full-time, all year long, at a minimum wage job will earn a little over \$10,000 a year. The spendable income of this family, adjusted for payroll

taxes, the Earned Income Tax Credit, food stamps, and child care expenses, is roughly \$11,000, just a little below the federal government's official poverty line for a family of three (\$12,273 in 1996). If this mother has no child care expenses—perhaps because there is a grandmother in the home—she will be considerably better off. Similarly, two-parent families are much less likely to be poor than single parents. If one parent stays home, no child care expenses offset their relatively low income. If both work, their combined income will be almost twice as high. For this and other reasons, poverty rates are five times higher for one-parent than for two-parent families. Thus, one clear solution to poverty is to bring back marriage to low-income communities. The problem is that no one knows how.

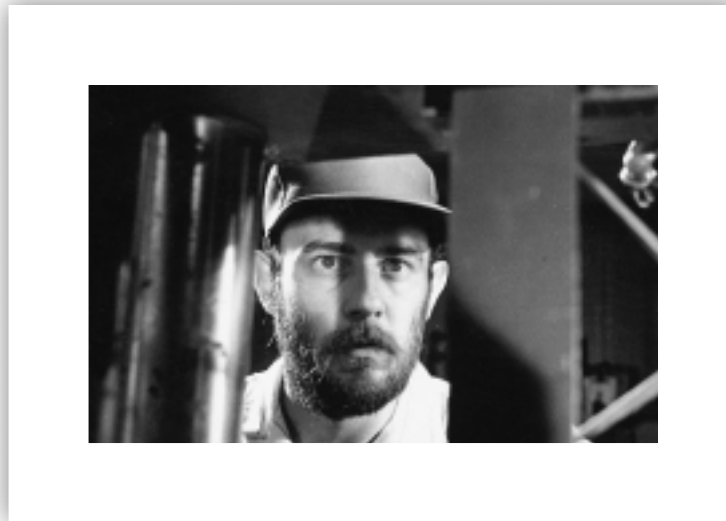
Most mothers leaving welfare earn a bit more than the minimum wage, perhaps \$6.00 to \$7.00 an hour according to various studies. Their families will probably be slightly above the poverty line, although their exact circumstances will depend on how many hours they work, how much they earn, and how

much they pay for work-related expenses, child care in particular. Even if they end up above the official poverty line, bear in mind that the poverty line was established four decades ago when overall incomes were much lower. If we adjusted the poverty line for this three-person family to make it bear the same relationship to average incomes that it did in 1963, it would now be closer to \$20,000. So by contemporary (as opposed to 1960s) standards, none

of these families will have even minimally comfortable lives.

What If Everyone Worked Full-time?

In 1996, the poverty rate for all people residing in families in the United States was 12.2 percent. Many of the people in poverty, however, lived in families where the head did not work or worked less than full-time. The question I ask is how many would still be poor even if they worked full-time throughout the year? To answer this question, I first adjust for the fact that many of those not working have been discouraged from working precisely because they are less employable, or have less earning power, than those who already have jobs, and I assign them wages that reflect their own earnings capacity. Second, I subtract from their incomes the most important work-related expense, the cost of child care. In reality, many low-income families use unpaid care, but it is not realistic to assume that unpaid care can be a permanent solution to the poverty problem. For one thing, the supply of grandmothers or others who are not themselves employed and thus available to care for children is increasingly limited. For another, some



of this unpaid care is of dubious quality. No one wants to reduce poverty by creating more latchkey children. Third, I measure income after taxes, including income and payroll taxes that reduce net incomes and the refundable Earned Income Tax Credit (EITC), which supplements the incomes of most low-wage workers, especially those with children.

Once the data are adjusted in all these ways, the share of people who would have been poor in 1996 if the head of the household had worked full-time for the entire year becomes 3.6 percent. For families with children, the share is 4.9 percent and for those without children it is less than 1 percent. Assuming that everyone works full-time doesn't solve the poverty problem, but it reduces it substantially.

What More Could Be Done?

Although a poverty rate of 3.6 percent is a big step in the right direction, it still leaves about 7 million people below the poverty line. What else could be done to ensure that once people were working, they wouldn't be poor?

Table 1 illustrates the results of three policy changes that might address the problems of working poor families, especially those with children. The first policy change, increasing the minimum wage from its present value of \$5.15 to \$6.00 an hour, would have modest effects. The minimum wage is not well targeted to poor families; many of its benefits flow to low-wage workers, such as teenagers, in higher-income families. A second alternative, increasing the value of the EITC by one-third, has slightly bigger effects, cutting the poverty rate a full percentage point from 4.9 to 3.9 percent among families with children. The third alternative, providing subsidized child care to every family that, absent such assistance, would be poor lowers the poverty rate even more, from 4.9 percent to 2.9 percent among families with children. The reason is straightforward. Most families who remain poor despite working full-time are headed by single parents. Most of these parents are women with little education and earning power. Without subsidized child care, most will remain poor. The reality is that despite increased public spending on child care in recent years, many low-income families still rely on unpaid care because existing public funds cannot guarantee a slot for every low-income child whose mother is in the work

force. Finally, I look at the combined effects of a more generous EITC and child care subsidies for poor families. Together they reduce the poverty rate to 2.4 percent among families with children.

Achieving the Work Standard

Work is a powerful antidote to poverty. Indeed, as we have seen, it virtually eliminates poverty among families without children. For those families with children, adding subsidized

TABLE 1.
Poverty Rate for Individuals in 1996 under Different Assumptions about Work Behavior and Government Supports

	PERCENT POOR		
	TOTAL	FAMILIES WITH CHILDREN	FAMILIES WITHOUT CHILDREN
ACTUAL			
All families (includes elderly and disabled family heads)	12.2	16.7	6.1
ESTIMATED (see note)			
If all family heads worked full-time at predicted wage and single heads had to pay for child care	3.6	4.9	.9
If minimum wage were increased to \$6 an hour	3.4	4.6	.9
If value of EITC were increased one-third	2.9	3.9	.9
If child care costs were fully subsidized for all families that would otherwise be poor	2.3	2.9	.9
If value of EITC were increased one-third and child care costs were fully subsidized for all families that would otherwise be poor	1.9	2.4	.9

Note: Estimated poverty rate is the rate that would have applied to all nondisabled, nonretired household heads in 1996 if they had worked full-time (40 hours a week) and year-round (52 weeks) at their predicted hourly wage. Wage rates are predicted based on age, education, race, and gender for every household head, including those with no earnings in 1996. The poverty rate is based on comparing total family income to the government's 1996 poverty thresholds for a family of a given size. Income is adjusted for federal income and payroll taxes as well as child care expenses, which are imputed to every single parent whether the mother currently pays for care (at a rate of \$4,000 a year for families with one or more preschool children and \$1,000 a year for one or more school-age children under the age of 15). Incomes are adjusted for the EITC and child credit where applicable. No changes in behavior in response to policy changes are assumed.

child care for all poor families and a more generous EITC to our current menu of policies goes a long way toward ensuring that those who work will not be poor. But how realistic is full-time work? Suppose someone loses a job or cannot find one in the first place and experiences many months of unemployment in the process? Although low wages are an issue for the poor, most of whom have limited education and skills, much more important is the fact that many of them do not work continuously. These intermittent work patterns reflect both the instability of many low-wage jobs and personal problems, such as

illness or lack of child care, that cause workers to drop out of the work force. They may also reflect the workers' own preferences. Low-wage work is often unpleasant, and, given any kind of a safety net (public or private) to fall back on, many people will simply opt out of work altogether. Also, although it is not likely to be an issue in today's tight labor markets, when jobs are scarce, workers with the fewest skills tend to go to the end of the hiring queue and may remain unemployed for lengthy periods through no fault of their own.

Still, we are within striking distance of eliminating poverty through work. The remaining agenda involves what to do about slack labor markets and intermittent work patterns that reduce people's annual earnings.

Too Few Jobs

A common lament is that annual earnings are low because unskilled or disadvantaged workers cannot find jobs, except perhaps temporarily. Almost everyone recognizes that jobs are easier to come by in tight labor markets than they are during, say, a recession. And less-skilled workers benefit disproportionately when the unemployment rate falls. Between 1993 and 1998, for example, the employment rate rose more than 9 percent among high school dropouts but less than 1 percent among college graduates. Thus one solution to lack of employment among less-skilled workers is macroeconomic policies that keep employer demand high. But even in good labor markets, there may be some workers whom employers will not hire because of personal characteristics. One possible response is to offer such workers a publicly subsidized community service job. A recent experiment with such a policy in Milwaukee suggests that it can have modest effects. Employment rates among the low-income group offered full-time jobs were about 10 percent higher than those among controls after one year. All the improvement was due to the availability of the subsidized jobs. Such jobs may serve as the ultimate safety net in a work-based antipoverty agenda.

Intermittent Work Patterns

Another possible reason for sporadic employment among low-paid workers is its lack of consequences. Time spent out of the labor force carries few penalties, and a continuous work record carries few rewards. Unskilled workers typically do not advance much over the course of their careers. An individual making \$7.00 an hour at age 20 may earn little more by age 45. For example, from 1979 to 1990 hourly

earnings of former AFDC recipients increased less than 1 percent a year, according to Gary Burtless. This lack of wage progression means that, unlike more educated workers, low-wage workers may have little motivation to accumulate experience on the job. To address this problem, experiments with experience-conditioned benefits for the working poor may make some sense. Just as private employers often reward longer-tenured workers with additional benefits, such as increased vacation time, so too might governments reward them with enhanced benefits of various kinds. Even a modest adjustment in the EITC to provide greater supplements to those with more years of work experience (on a prospective basis) might create an incentive for the poor to make a more serious commitment to the labor force. States are now adding earned income credits to their arsenal of antipoverty measures and could make these credits vary with months or years of experience. Other benefits such as subsidized health care or child care could be treated in similar fashion. Both to contain costs

and to provide the biggest incentives for those with the least experience, the bonuses should be front loaded. That is, the biggest rewards for continuous employment should come in the first few years after leaving welfare or some other period of extended joblessness and should level off thereafter. The intent, however, would be to provide low-skilled workers with the same kind of rewards for continuous employment that typically flow to those

with more skills on the grounds that both they and society would benefit from their greater attachment to the labor force.

Finishing the Job

Ending poverty as we know it is not an impossible dream. By combining requirements that adults work with adequate supports for those that do, and assuming reasonably good labor markets, it should be feasible to reduce poverty and hardship to minimal levels at a cost that is well within reach. The most pressing needs are child care subsidies and health care insurance for adults who now lack such coverage. In the long run, improvements in education and more intact families are the best insurance against poverty. But in the interim, work remains the most powerful antidote to poverty and social exclusion. The new supports for the working poor enacted on a bipartisan basis over the past several decades are a huge step forward. We should now finish the job by rewarding not just work, but steady work, and by ensuring that single mothers have the child care that they need. ■

