

## **Does it Pay to Move from Welfare to Work?**

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## **Does it Pay to Move From Welfare to Work?**

### **Abstract**

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act requires welfare recipients to look for work, has made it much more difficult for nonworking recipients to remain on the welfare rolls, and has made it easier for them to continue to receive welfare benefits if they work part-time at low-wage jobs. In addition, the economic boom of the 1990s and changes in federal and state policies that supplement the earnings and subsidize the work expenses of the working poor have raised the net income gain associated with moving from welfare to work. We analyze data from a panel survey of single mothers, all of whom received welfare in February 1997, and find that by 1999, those who had left welfare and were working and those who were combining work and welfare were financially better off, on average, than those who continued to receive cash assistance but did not work. Those who worked had higher household incomes, lower poverty rates, experienced similar levels of material hardship, engaged in fewer activities to make ends meet and had lower expectations of experiencing hardship in the near future than did nonworking welfare recipients.

Prior to the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), conventional wisdom held that it “did not pay to move from welfare to work.” Economists emphasized the high marginal tax rate implicit in the Aid to Families with Dependent Children Program (AFDC). According to Rebecca Blank, “When a woman goes to work, her benefits decline rapidly as her earnings increase. This means that her income gains from employment are limited, since she loses close to a dollar in benefits for every dollar she gains from work (1997, p.146).” Sociologists emphasized the difficulties in coping strategies caused by the transition from welfare to work. Kathryn Edin and Laura Lein concluded that -- “[M]others generally found it more difficult to make ends meet when they worked than when they collected welfare (1996, p.254).”

In this paper, we analyze data gathered from a panel study of single-mothers who received cash welfare in February 1997 to answer the question: Does it pay to move from welfare-to-work in the aftermath of the 1996 welfare reform? We find that by the late 1990s, single mothers who had been welfare recipients are, on average, financially better off working or combining work and welfare than remaining as non-working welfare recipients. Mothers who were working in Fall 1999, about 34 months after the sample was drawn, had higher household incomes and lower poverty rates, experienced similar levels of material hardship, engaged in fewer activities to make ends meet, and had lower expectations of experiencing hardship in the near future than did nonworking welfare recipients.

Nonetheless, almost half of the work-reliant respondents were poor in 1998, about half experienced at least two material hardships in the year prior to the Fall 1999 interview, and over one-third did not have medical insurance. Thus, while it does now pay to move from welfare to

work, there remains a need for additional policies that would extend health insurance coverage for those leaving welfare and to make work pay even more than it now does.

## **I. Economic and Public Policy Changes in the 1990s**

The relative financial benefits of moving from welfare to work changed dramatically over the course of the 1990s. First, several policy changes affecting the net income of single mothers were implemented. Most importantly, PRWORA replaced the entitlement program, Aid to Families with Dependent Children (AFDC), with the Temporary Assistance for Needy Families (TANF) program. TANF reduces the likelihood that a single mother can “choose” to remain a welfare recipient, because even if she finds that the economic benefits of working do not exceed its costs, cash assistance is conditional on the performance of work-related or community service activities. On its own, work requirements and the fact that states must sanction recipients who do not comply with this and other requirements reduce a nonworking recipient’s expected welfare income. In addition, the imposition of a 60-month lifetime limit on benefit receipt increased pressures to enter the labor force.

In response to PRWORA’s granting them more autonomy, most states have also increased earnings disregards, which allow recipients to have some earnings that do not directly offset welfare benefits (Acs et al., 1998; Gallagher, et al., 1998). According to Pavetti (2002), 36 states have higher earnings eligibility limits in the first month a recipient takes a job under TANF than under AFDC. Most states have also increased spending on child care for recipients and former recipients. Taken together, PRWORA’s changes require more recipients to look for work, have made it more difficult for non-working recipients to receive cash assistance, and have made it easier for them to receive cash and child care assistance if they work part-time and/or at low-wage jobs.

Policy changes outside of welfare have also increased the benefits of moving from welfare to work in the late 1990s relative to those in the early 1990s. The minimum wage increased from \$4.25 to \$5.15 in 1997, shortly after welfare reform was implemented. In 1993, President Clinton proposed and Congress passed a major expansion of the Earned Income Tax Credit (EITC). The maximum EITC in 1990 was \$950; by 1998, a working single mother was eligible for a maximum credit of \$2,272 if she had one child and \$3,756 if she had two or more children.

Prior to the PRWORA, the move from welfare to work typically left both the mother and children uninsured because most jobs that recipients take do not provide employer-subsidized insurance. Transitional Medicaid covers adults leaving TANF for a year. In 1997, however, the State Child Health Insurance Program (CHIP) was passed. CHIP and changes in Medicaid policy have expanded coverage for both children and parents in low-income families, making jobs that do not provide health care coverage more attractive. States can now cover low-income working parents who have no recent connection to cash welfare and can establish Medicaid eligibility limits much higher than those in the past (Broaddus, et al., 2002). Thus, by the end of the 1990s, leaving welfare for work was less likely to leave a mother and her children uninsured.

The labor market in the late 1990s was also much tighter than it had been for several decades, increasing the likelihood that welfare mothers who must search for work will find jobs (Holzer and Stoll, 2001). In October 1991, the national unemployment rate for adult females was 5.9 percent; it had fallen to 4.1 percent by October 1998 and 3.6 percent by October 1999 (about the time of the interviews that gathered the data reported here).

Against this background of state and federal policy changes and a long economic boom, welfare caseloads fell dramatically after the mid-1990s. Some of this decline was due to welfare

reform and the associated policy changes; some to the booming economy (Danziger ed., 1999). We do not attempt to account for the relative contribution of the various economic and policy changes to our finding that current and former welfare recipients who are working are financially better off than nonworking welfare recipients. To do so requires a behavioral model of labor supply and welfare participation decisions that is beyond the scope of this paper. Rather, we document how the economic circumstances of former and current recipients who are working compare to those of non-working welfare recipients.

## **II. Related Studies**

Our results are the first to be based on post-welfare reform panel data that include detailed information on both welfare leavers and welfare stayers. A related literature analyzes levels of income and material hardship among work-reliant and welfare-reliant single mothers with data gathered *prior* to welfare reform; other studies evaluate the effectiveness of policy changes in the late 1990's in encouraging single mothers to move from welfare to work. There are also numerous studies of the economic well-being of "welfare leavers."

These studies, however, do not provide direct evidence on the question we address -- In the aftermath of the 1996 reform, does it pay to move from welfare to work? Answering this question requires panel data on the subsequent incomes and experiences of material hardship of a sample of women that includes both "welfare leavers" and "welfare stayers." When we compare the well-being of women in our panel, we distinguish between workers who have left welfare, those who are combining work and welfare, and those who are nonworking welfare stayers.

In contrast, most studies of welfare leavers have no information at all on welfare stayers, and tend to have limited data on the income sources and material hardships of leavers. They answer the question, "What is the financial well-being of all recipients who have left welfare,

whether or not they are working?" This is an interesting question, but, it is not the one we are addressing.

### **Pre-welfare reform studies**

The pre-welfare reform literature provides mixed evidence on whether or not it does pay for women on welfare to leave welfare for work. Analyses of nationally representative samples generally find that women who work and do not receive welfare have higher incomes, lower poverty rates and similar or lower levels of material hardship than women who rely upon welfare income alone (Bauman 2000; Beverly 2000; Smith et al. 2000). In contrast, Edin and Lein's (1997) analysis of monthly income and expenditure data from in-depth interviews with a nonrandom sample of women concludes that the economic benefits of working are outweighed by the economic costs associated with work.

Between 1998 and 1992, Edin and Lein (1996; 1997) interviewed 165 single mothers who were working but not currently receiving welfare (whom they call wage-reliant) and 214 single mothers who were currently receiving welfare, some of whom were working in the formal or informal labor market (welfare-reliant). The women were selected using snowball survey techniques in Chicago, San Antonio, Chicago and Charleston. They gathered detailed information about income sources, consumption patterns, and experiences of material hardship and found that working mothers had higher incomes than welfare mothers. For example average income (in 1991 dollars) for working mothers was \$1,226 per month, compared to \$887 for welfare mothers, a 38 percent advantage. However, they concluded that the former fared worse economically than then the latter because, in most cases, the costs of work eroded this income advantage. In addition, 42 percent of working mothers lacked health insurance, whereas all welfare mothers were covered by Medicaid.

Bauman (2000), using nationally representative data from the 1991 and 1992 panels of the Survey of Income and Program Participation (SIPP), finds that women who left welfare have lower poverty rates and similar levels of material hardship compared to those who remain on welfare. Similarly, using the 1992 SIPP panel, Beverly (2000) finds that poor households with children who met current TANF work-requirements reported lower levels of food insufficiency, eviction, lack of phone service, and had overall higher income-to-needs ratios than those who did not work. She also finds that poor households who were employed reported higher medical needs than those in non-working households.

Smith et al. (2000) use the National Longitudinal Survey of Youth-Child Supplement to compare the impact of work and welfare receipt in the first three years of life on child outcomes at age 5 or 6. They find that average three-year family incomes are highest for mothers who worked continuously and received no welfare, lowest for those who were welfare-reliant, with women combining work and welfare falling between the other two groups.

The three studies using nationally representative data from the early 1990s find that women who work are financially better off than those who are welfare-reliant. However, in addition to using data gathered before the implementation of TANF and the other policy changes we discuss, these studies do not directly answer our question regarding the economic benefits of moving from welfare because their samples include many women who have not received welfare and who are likely to differ in important ways from welfare recipients.

### **Evaluations of Policy Changes in the Late 1990's**

Conclusions from studies that evaluate the benefits of moving from welfare to work after welfare reform are mixed. Ellwood (2000) and Meyer and Rosenbaum (2000) find that policies implemented in the 1990s greatly increased the financial benefits of moving from welfare to

work. Less positive results are reported by Bavier (2001a), Cancian et al. (2002) and Acs and Loprest (2001).

Ellwood (2000) describes a hypothetical scenario in which a single mother who moved from being a nonworking welfare recipient into a full-time job paying the minimum wage would have increased her net income by only \$2,005 (24 percent) in 1986, but by \$7,119 (95 percent) in 1996. This additional gain from taking a job is due to the combination of a decline in inflation-adjusted welfare benefits, the increase in the Earned Income Tax Credit, and an increase in the amount of child care subsidies available to low-income working mothers. Also, in 1986, it was likely that both the recipient and her children would have lost medical coverage due to the welfare exit, whereas in 1996 only the mother would have lost coverage after a year of transitional Medicaid.

Meyer and Rosenbaum (2000) examine the impact of policy changes on the employment of single mothers over the 1984-1996 period using data from the Current Population Surveys. Like Ellwood, they document the increased returns to working due to the expanded availability of federal and state Earned Income Tax Credits and the expansion of Medicaid eligibility. Their difference-in-differences analysis finds that the employment of single mothers increased more over this period than that of other groups not affected by these policy changes.

Since the implementation of TANF, a number of “leavers studies” have used state administrative records and/or surveys to document labor market experiences, earnings and transfer income of women who have left welfare. These studies tend to classify both women who leave welfare and work and women who leave welfare and do not work as “leavers.” Likewise, they classify as “stayers” both women who are combining welfare and work and those who receive welfare and do not work.

Bavier (2001a) uses SIPP data to compare employment rates and incomes associated with welfare exits and re-entries in the 1996-97 period. He finds that the median leaver experienced a decline of more than \$50 in household income in the exit month relative to the month before exit. Among continuous 12-month leavers, half had earnings in their exit month and two-thirds were employed at some point in the observation year. In further analysis comparing pre- and post-welfare reform cohorts, Bavier (2001b) finds that recipients in the post-reform cohort were more likely to have earnings than recipients in the pre-reform cohort. However, once off the rolls, post-reform leavers were more likely than earlier leavers to experience economic difficulties.

Cancian et al. (2002) use administrative data from Wisconsin and find that over half of women who left AFDC in 1995 and 1997 increased their earnings within one year of exiting welfare relative to their earnings while on welfare; the two cohorts had mean 1998 earnings of \$9100 and \$7700, respectively. Less than one-third of leavers, however, improved their total income relative to what it was prior to their welfare exit (as measured by the value of their post-tax earnings plus food stamps and cash assistance, but not including the income of other household members or other transfer income). Three years after exiting welfare, 59 percent of the 1995 leaver families remained poor.

Acs and Loprest (2001) synthesize the findings of 13 post-PRWORA leavers studies conducted in various states and counties. They report, based on Unemployment Insurance records available for ten states, that mean earnings among leavers employed during the first quarter after exit range from about \$2100 in the lowest-earnings state to about \$3500 in the highest-earnings state. By the fourth quarter after exit, mean earnings of those employed rose to between \$2400 and \$3600. They also report poverty rates (based on cash income) in Missouri and Washington; in both states the rate among leavers was 58 percent.

Thus, Bavier (2001a), Cancian et al. (2002) and Acs and Loprest (2001) show only modest improvements, or slight declines, in financial well-being for welfare mothers who have moved from welfare to work. As we show below, the inability of most leavers' studies to include all income sources, especially the earnings of other household members, tends to understate their estimates of the financial well-being of both leavers and stayers. Consequently, the poverty rates from both Cancian et al. and Acs and Loprest are somewhat higher than the rate for working leavers in our study, which are based on a full range of income sources. The studies also document both that employment and earnings for welfare leavers tend to increase as the number of months since the welfare exit increases, and that poverty among leavers remains high. None of these studies, however, presents comprehensive measures of the extent of changes in the financial well-being of women who make the transition from being nonworking welfare recipients to being working nonrecipients.

In this paper, we provide extensive information on the financial benefits of moving from welfare to work. We analyze data from a survey, the Women's Employment Study (WES), that has several advantages. First, WES began with a random sample of welfare recipients, which allows us to compare the financial well-being of women who left welfare for work to those who remain on welfare. Second, it includes comprehensive measures of income, experiences of material hardship, hardship mediating activities and expectations of future hardship. Finally, using the panel data, we estimate a fixed effects model that controls for both measured differences in characteristics between working leavers and nonworking stayers, such as mental and physical health status, as well as unobserved time-invariant characteristics that may differ between these groups of mothers.

### **III. Data**

We use data from the Women's Employment Study to compare differences in objective and subjective measures of economic well-being between working and nonworking women, all of whom were first observed as welfare recipients. The respondents were systematically selected with equal probability from an ordered list of single mothers with children who were welfare recipients in an urban Michigan county in February 1997. To be eligible, they had to reside in this county, receive cash assistance from Temporary Assistance to Needy Families (TANF), be U.S. citizens between age 18 and 54, and be either Caucasian or African-American.<sup>1</sup> Interviews were conducted with the women in Fall 1997, Fall 1998 and Fall 1999. The response rate was 86 percent for the first wave (N=753), 92 percent for the second wave (N=693) and 91 percent for the third wave (N=632) of the panel study. The first two interviews lasted approximately one hour; the third, about 90 minutes.<sup>2</sup>

We analyze data from the Fall 1999 interview, which occurred about 34 months after the sample was drawn. Respondents were asked to report, for the month before the interview, work hours, earnings, welfare receipt, income from a variety of sources, and work-related child care and transportation expenses. Monthly income sources include own earnings, earnings of other household members, cash assistance from TANF, Food Stamps, Social Security and other pension and disability income, such as Supplemental Security Income (SSI), unemployment compensation, child support, cash contributions from friends and family outside the household, and any other sources of income not previously mentioned. We also asked about total own earnings and total household income for calendar year 1998. (The Appendix provides details on these data and our measurement strategy).

In addition, respondents were asked about ten kinds of material hardship -- food problems, lack of health insurance (mother), unmet medical needs (mother), lack of health

insurance (child), unmet medical needs (child), housing upkeep problems, utility cut-offs, evictions, experiences of homelessness, and disconnection of a telephone. These hardships are similar to those reported in Mayer and Jencks (1989) and Edin and Lein (1997, p. 113).

Respondents were asked about their subjective assessments of well-being (“How difficult is it to live on your income right now?”) and whether they had engaged in any of the following activities to make ends meet in the six months prior to the interview -- pawned or sold personal possessions; provided blood or plasma for cash; sold or traded food stamps; engaged in illegal activity; and received food, shelter, or clothing from a charity in the prior twelve months.

Given our high response rates and the extensive survey instrument, these data are well-suited for testing the hypothesis that, in the post-welfare reform era, single mothers who move from welfare to work are financially better off than if they had remained nonworking welfare recipients.

#### **IV. Results**

We classify respondents into four mutually-exclusive categories based on their work/welfare status in the month prior to the survey when we analyze current economic well-being, and into five mutually-exclusive work/welfare categories when we analyze well-being over a period of a year.

##### **Monthly Income**

In Table 1, we define *wage-reliant* mothers as those among the 632 respondents who reported positive earnings, but who, according to the state agency, received no cash assistance in the month prior to the Fall 1999 interview; they represent 54.7 percent of the sample (N=346).<sup>3</sup> The second group includes *combiners*, defined as women who both reported earnings and received cash assistance in the month prior to the interview; they represent 18.0 percent of the

sample (N=114). This group is more common post-welfare reform than in the early 1990s because of the increased earned income disregards. We define *welfare-reliant* mothers as those who reported no income from earnings in the month prior to the interview, but who are reported by the state agency as receiving TANF; they represent 13.8 percent of the Fall 1999 sample (n=87). The remaining 13.4 percent (N=85) of the sample includes women who were neither working nor receiving TANF benefits in Fall 1999.<sup>4</sup>

Thus, in Fall 1999, about three-quarters of all respondents were working (wage-reliant plus combiners), and about one-third were receiving TANF (welfare reliant plus combiners). There was a large movement from welfare to work over the study period, as all respondents received cash assistance in February 1997 and only about 40 percent worked at that time. At wave one, only 21.4 percent were wage reliant; at wave two, 43.7 percent, compared to 54.7 percent at wave 3. Over the study period, respondents tended to move first from being welfare reliant to being combiners, and then to wage reliance. The percentage of the sample who were combiners fell from 43.1 to 27.6 to 18.0 percent between waves 1 and 3.

Table 1 presents, for each of the four groups, the percentage of respondents who received income from each of the listed income sources or reported work-related expenses and the average value for recipients for each income source and for work-related transportation and child care expenses.<sup>5</sup>

Table 1. Net Monthly Income by Work and Welfare Status in Fall 1999

	Wage-Reliant Mothers (N=346)		Combining Work & Welfare (N=114)		Welfare-Reliant Mothers (N=87)		Neither Work nor Welfare (N=85)	
	% Reporting	Mean for Reporters	% Reporting	Mean for Reporters	% Reporting	Mean for Reporters	% Reporting	Mean for Reporters
<i>Receipt in Month Prior to Fall 1999 Interview:</i>								
<b>Work-Based Income</b>								
Own earnings <sup>aBCDE</sup>	100.0%	\$ 1,065	100.0%	\$ 623	0.0%	--	0.0%	--
Earnings of other household members <sup>AaBbEeFf</sup>	40.2%	\$ 1,578	23.7%	\$ 1,066	29.9%	\$ 876	50.6%	\$ 1,546
Less estimated federal payroll and income tax <sup>abcdf</sup>	100.0%	\$ 164	100.0%	\$ 69	100.0%	\$ 22	100.0%	\$ 66
<b>Welfare-Based Income</b>								
TANF cash assistance <sup>ABbCcDdEeF</sup>	4.6%	\$ 194	76.3%	\$ 195	90.8%	\$ 365	15.3%	\$ 317
Food Stamps <sup>AaBbcEF</sup>	33.0%	\$ 186	90.4%	\$ 237	90.8%	\$ 230	38.8%	\$ 271
SSI, Social Security, and other pension and disability income <sup>BCcDEff</sup>	16.8%	\$ 512	14.9%	\$ 573	43.5%	\$ 483	27.4%	\$ 708
<b>Network-Based Income</b>								
Child support <sup>abef</sup>	24.1%	\$ 232	15.8%	\$ 106	14.9%	\$ 66	20.2%	\$ 320
Cash contributions from friends/family <sup>f</sup>	13.6%	\$ 252	17.7%	\$ 230	17.4%	\$ 137	18.8%	\$ 268
<b>Other income</b>								
Unemployment insurance/worker's compensation <sup>CE</sup>	1.7%	\$ 704	0.9%	\$ 200	1.2%	\$ 500	5.9%	\$ 853
Income from other sources <sup>D</sup>	3.5%	\$ 579	0.9%	\$ 790	8.1%	\$ 242	2.4%	\$ 245
Less work-related transportation expenses <sup>AaBCDE</sup>	86.4%	\$ 91	66.7%	\$ 71	0.0%	--	0.0%	--
Less child care expenses <sup>BCDE</sup>	30.4%	\$ 281	24.6%	\$ 282	9.2%	\$ 321	11.8%	\$ 328
<b>Mean net monthly income</b> <sup>a,b,c</sup>		\$ 1,649		\$ 1,205		\$ 1,014		\$ 1,193
<b>Poverty rate based on net monthly income</b> <sup>a,b,c,d,f</sup>		49.1%		77.2%		90.8%		71.8%
<b>Mean income-to-needs ratio based on net monthly income</b> <sup>a,b,c</sup>		1.20		0.85		0.70		0.79

<sup>a</sup> wage-reliant mothers' mean income differs from combiners' mean income at p<.05

<sup>b</sup> wage-reliant mothers' mean income differs from welfare-reliant mothers' mean income at p<.05

<sup>c</sup> wage-reliant mothers' mean income differs from neither work nor welfare mothers' mean income at p<.05

<sup>d</sup> combiners' mean income differs from welfare-reliant mothers' mean income at p<.05

<sup>e</sup> combiners' mean income differs from neither work nor welfare mothers' mean income at p<.05

<sup>f</sup> welfare-reliant mothers' mean income differs from neither work nor welfare mothers' mean income at p<.05

<sup>ABCDEF</sup> Capital letters denote % reporting differs at p<.05

Missing values on individual income items range from 0 to 3

Work-based Income. Work-based income is the sum of respondents' own earnings and the earnings of other household members, less the estimated value of federal income and payroll taxes. For monthly income, we do not impute the value of the Earned Income Tax Credit (EITC) or state income tax credits because they are almost always received as a lump sum after the year's tax forms have been filed. When we analyze annual income, below, we do include the EITC and state of Michigan income taxes and credits. Taxes are imputed using the TAXSIM program developed by the National Bureau of Economic Research (Feenberg and Coutts, 1993).

By definition, all wage-reliant women and all combiners had earnings in the month prior to the interview, whereas welfare-reliant mothers and those neither working nor on welfare did not. Wage-reliant mothers earned more per month than did combiners, \$1065 vs. \$623, an earnings differential that reflects both higher work hours and higher wage rates for wage-reliant women. Compared to women combining work and welfare, wage-reliant mothers were more likely to work 35 or more hours per week (69 percent vs. 38 percent), and they earned a higher average hourly wage (\$7.83 vs. \$5.89).

Substantial numbers of respondents co-reside with another household member who had earnings in the month prior to the survey. About 40 percent of wage-reliant mothers, 24 percent of combiners, 30 percent of welfare-reliant mothers, and half of women neither working nor receiving welfare lived in a household with an additional earner. These other earners, many of whom are husbands or cohabiting partners, earned on average substantially more than the respondents, with the mean amounts ranging from \$876 to \$1578. Interestingly, the lowest mean for the four groups is that of other earners who reside with welfare-reliant mothers (although the mean for combiners is not significantly higher).

The third line of table 1 subtracts estimated federal income and payroll taxes. We assume that both respondents and the other earners in the household paid the 7.65 percent employee share of the payroll tax. We estimate income taxes on total household income for married women, and on total household income less the income of others for women who are not married. (We do not have enough information to estimate income taxes for other earners; see the Appendix for further detail). Taxes are estimated to average \$164 per month for the wage-reliant, about \$22 for the welfare-reliant, and just under \$70 for the other two groups.

Welfare-based Income. Three categories of welfare-based income are shown in Table 1 - TANF cash assistance, Food Stamps, and income from SSI, Social Security and other pension and disability income. Welfare-reliant mothers received TANF benefits that averaged \$365, combiners, \$195. In Michigan, in 1999, the maximum cash benefit for a mother with two children was between \$450 and \$500, depending upon county of residence. Recipients who work can keep the first \$200 per month without it affecting their benefits; each additional dollar of earnings beyond this amount reduces the welfare benefit by 80 cents. Assuming no income other than earnings, a single mother with two children can earn approximately \$800 a month before cash benefits end.<sup>6</sup>

Both welfare-reliant mothers and combiners were much more likely to receive Food Stamps as wage-reliant mothers and women not working or receiving welfare—about 90 percent of those in the former two groups, compared to less than 40 percent in the latter two. The average value of Food Stamps ranged from \$186-\$271 across the four groups. The Food Stamp benefit amount is set by the federal government and is a function of the state's TANF grant amount. The maximum value of food stamps in Michigan for a single welfare-reliant mother with two children and no income other than welfare is approximately \$305 per month.

The situation of women in our sample who combine work and welfare in a given month is not atypical. We used the Urban Institute's 1999 State TANF Income Calculator to estimate monthly income for a hypothetical woman earning \$625 per month (the mean for combiners in Table 1). The estimated total income from earnings, TANF, and Food Stamps, after adjusting for federal taxes and the federal Earned Income Tax Credit ranges from \$1,119 to \$1,384 in the 10 states, including Michigan, that account for 70 percent of the 1999 federal TANF caseload (Allen and Kirby, 2000; Urban Institute, 2000).<sup>7</sup> Combiners in our sample have average incomes in about the middle of this range.

One in six working mothers, about 40 percent of welfare-reliant mothers and 27 percent of nonworking/nonwelfare mothers reported that they or someone else in the household received SSI, Social Security, or other disability or pension income. The average amount received for the first three groups was about \$500 per month; women who neither worked nor received welfare averaged \$708 per month. The higher incidence of receipt among welfare-reliant mothers suggests that care-giving responsibilities for disabled household members may deter some respondents from working and/or allow them to qualify for deferrals from the state's work requirements.

Network-based Income. Two sources of network-based income are reported in Table 1 -- child support and cash contributions from friends and/or family. Mothers not receiving welfare were somewhat more likely to receive child support from an absent father than welfare recipients, and the average amounts of child support received by nonrecipients was significantly higher. One-quarter of wage-reliant mothers and one-fifth of women who neither worked nor received welfare compared to about one-sixth of mothers in the two welfare groups reported receiving child support. The average monthly amounts received by those who received any child

support were \$232, \$106, \$66, and \$320, respectively. Increasing the numbers of current and former recipients who receive child support remains an unfulfilled goal of welfare reform.

About 14 to 19 percent of the groups reported receiving cash contributions from friends and/or family; the average amounts received ranged from \$137 to 268 per month. Just as with child support and the earnings of other household members, welfare-reliant mothers received the smallest amounts on average.

Other income. A very small percentage of respondents reported income from unemployment insurance, worker's compensation or other income sources (e.g. insurance settlements). The amounts received are in some cases substantial.

Work-related Transportation and Child care Expenses. Edin and Lein concluded that higher work-related transportation and child care costs were one reason wage-reliant mothers experienced more material hardships than welfare-reliant mothers. We also find that working women had higher child care and transportation costs than did welfare-reliant women. The majority of both groups of working mothers--86 percent of the wage-reliant and 67 percent of combiners--reported work-related transportation expenses that averaged \$91 and \$71 per month, respectively.

About one-third of the wage-reliant and one-quarter of the combiners reported out-of-pocket child care expenses that averaged about \$280 per month. About 10 percent of nonworking mothers also reported work-related child care expenses, probably because they were searching for work or had recently left a job. The percentages of working mothers who reported child care expenses were relatively low, in part, because some received a state child care subsidy that covered part or all of their child care costs (10.8 and 24.1 percent of the sample, respectively). Others relied on unpaid care (13.9 percent of the sample), had no children under

age 14 (10.8 percent of the sample), or did not report using work-related care (27.3 percent of the sample). In Michigan, child care subsidies are available for all welfare recipients and for working families whose incomes fall below 85 percent of the state median income. State spending on child care has increased dramatically since 1996.

Net Monthly Income. There is much diversity in the receipt of these various income sources. We sum income from nine sources, and subtract federal income and payroll taxes and transportation and child care expenses. The mean net monthly income is \$1,649 for wage-reliant mothers, \$1,205 for combiners, \$1014 for welfare-reliant mothers, and \$1,193 for women neither working nor receiving welfare. (As mentioned above, net monthly income excludes the estimated value of the EITC and state tax credits because most women receive them as an annual lump sum and not each month.)

Women who have left welfare for work have significantly higher income than the other three groups; their average net income was about 37 percent higher than that of combiners and 63 percent higher than that of the welfare reliant. Combiners and women who neither worked nor received welfare had incomes that were about 18 percent greater than those of welfare-reliant mothers, but these differences were not significant.

We also evaluate the poverty rate and the mean incomes-to-needs ratio for the four groups. Poverty was calculated by dividing net monthly household income by  $1/12^{\text{th}}$  of the 1999 official federal poverty threshold for the respondent's household size. Although workers had lower poverty rates than the welfare reliant, most workers remain poor—49.1 percent of wage-reliant mothers and 77.2 percent of women combining work and welfare. The highest poverty rate, 90.8 percent, was that of welfare-reliant mothers. The mean income-to-needs ratio

was also highest for the wage-reliant (1.2 times the poverty line) and lowest for the welfare-reliant (0.7 times).

### **Annual Income**

Data on monthly income tend to overstate the economic status of working respondents because many of them do not work in every month during the year; they also tend to understate the economic status of nonworking recipients, because many of them have worked in at least some of the months in the year prior to the interview. For example, about 90 percent of respondents worked in at least one month in the period between waves 2 and 3 (Fall 1998 to Fall 1999), but less than half worked in every month.

To address this issue, we also analyze annual income in calendar year 1998, and classify respondents by the work/welfare category that best characterizes their situation during “most” of that year. We apply a “7/12ths rule” and classify a respondent into a work/welfare category only if she was in that category for at least 7/12ths of the time.<sup>8</sup> Respondents who do not fall into one of these four groups are classified as “mixers.” For example, consider a respondent who received welfare, but did not work, in the first 3 months of the year, who combined work and welfare in the next two months, and who then left welfare and worked in the last 7 months of the year. She would be classified in Table 2 as wage reliant. However, if she had been welfare-reliant in the first 3 months, combined work and welfare in the next 3, and been wage reliant in the following 6 months, she would be classified as a “mixer”, because she did not meet the 7/12ths requirement for any single category.

This classification results in a somewhat different distribution of respondents in Table 2-- 34.0 percent are wage reliant, 25.0 percent are combiners, 16.6 percent are welfare reliant, 7.4 percent are classified as not working/not receiving welfare, and 16.9 percent are “mixers.” The biggest changes relative to the monthly categories of Table 1 are declines in the wage reliant, increases in combiners and declines in those not working/not receiving welfare. Nonetheless, the

patterns of annual economic status across the group are quite similar—the wage reliant have much higher net income and a much lower poverty rate than the welfare-reliant.

Table 2. Annual Household Income by Work and Welfare Status During Calendar Year 1998

	Wage-reliant mothers (N=215)	Combining Work and Welfare (N=158)	Welfare-reliant mothers (N=105)	Neither Work nor Welfare (N=47)	Mixers (N=107)
Own Earnings in 1998 <sup>a,b,c,d,e,f,g,i,j</sup>	\$10,842	\$7,001	\$1,163	\$2,137	\$4,652
Total Household Income in 1998 <sup>a,b,d,e,f,h,j</sup>	\$17,265	\$12,005	\$8,244	\$17,416	\$10,855
Mean income net of taxes paid and tax credits received <sup>a,b,d,e,f,h,j</sup>	\$17,205	\$13,075	\$9,244	\$17,753	\$11,879
Poverty rate based on net income <sup>a,b,d,e,f,h,j</sup>	49.1%	70.6%	88.1%	51.1%	76.9%
Mean income-to-needs ratio based on net income <sup>a,b,d,e,f,h,j</sup>	1.12	0.82	0.56	1.07	0.72

<sup>a</sup> wage-reliant mothers' mean income differs from combiners' mean income at  $p < .05$

<sup>b</sup> wage-reliant mothers' mean income differs from welfare-reliant mothers' mean income at  $p < .05$

<sup>c</sup> wage-reliant mothers' mean income differs from neither work nor welfare mothers' mean income at  $p < .05$

<sup>d</sup> wage-reliant mothers' mean income differs from mixers/cyclers' mean income at  $p < .05$

<sup>e</sup> combiners' mean income differs from welfare-reliant mothers' mean income at  $p < .05$

<sup>f</sup> combiners' mean income differs from neither work nor welfare mothers' mean income at  $p < .05$

<sup>g</sup> combiners' mean income differs from mixers/cyclers' mean income at  $p < .05$

<sup>h</sup> welfare-reliant mothers' mean income differs from neither work nor welfare mothers' mean income at  $p < .05$

<sup>i</sup> welfare-reliant mothers' mean income differs from mixers/cyclers' mean income at  $p < .05$

<sup>j</sup> neither work nor welfare mothers' mean income differs from mixers/cyclers' mean income at  $p < .05$

Missing values range from 5 to 19.

The first row of Table 2 shows self-reported annual earnings during calendar year 1998. While welfare-reliant mothers report nonzero annual earnings and wage-reliant mothers report annual earnings below what one would get from annualizing the monthly earnings data in Table 1, the pattern is similar. Wage-reliant mothers report the highest earnings, on average, \$10,842; combiners, \$7,001; welfare-reliant mothers, \$1,163; women neither working nor receiving welfare, \$2,137; and mixers, \$4,652. Self-reports of total 1998 household income follow the same pattern, with wage-reliant mothers reporting roughly twice as much total income as welfare-reliant mothers. The one exception to this pattern is that the small number of women who neither work nor receive welfare report total household incomes very similar to those of wage-reliant mothers--\$17,416.<sup>9</sup>

The third row presents mean annual income net of taxes (state and federal income and payroll taxes are subtracted and the EITC and the Michigan renter's credit are added) and work-related transportation and child care expenses, which are the monthly 1998 values for these expenses multiplied by 12.<sup>10</sup> Because many wage-reliant women did not work in every month, this annualization of monthly expenses probably understates their total income and overstates that of welfare-reliant women. Nonetheless, women who were wage-reliant for most of the year have net household incomes that are 86 percent greater than those of the welfare reliant; women who combined work and welfare during most of the year have annual incomes that are 41 percent higher.

Poverty rates are quite similar in Table 2 to those shown in Table 1 for nearly all groups, and the pattern is consistent despite the annual categorization of work/welfare status rather than the monthly status and the inclusion of the EITC in Table 2, but not in Table 1. The wage reliant have much lower poverty rates (49.1 percent) than the welfare reliant (88.1 percent), with combiners falling in the middle (70.6 percent). The major change between Tables 1 and 2 is the large reduction in the size of the no work/no welfare group, and the increase in their economic well-being. Moving from welfare to combining work and welfare to wage reliance is associated with increased economic well-being. Poverty rates, however, remain high for every group.<sup>11</sup>

## **Adverse Selection of Nonworkers**

Respondents who have left welfare for work have higher net incomes and lower poverty rates than those who remain welfare reliant. However, in examining these improvements in economic well-being, it is important to recognize that some portion of the income differences may be due to differences in the attributes of workers and welfare recipients.

Our previous research (Danziger et al., 2000; Danziger, 2001) has shown that nonworking respondents have a higher number of barriers to work (e.g. physical health problems, mental health problems, low education and labor force skills) than those who were working. When we examine the prevalence of the 19 barriers to work measured in Fall 1999, for example, we find that using the monthly categories of Table 1, wage-reliant women averaged 2.0 barriers, combiners, 3.1 barriers, and welfare-reliant mothers 4.7 barriers.

Also, nonworking recipients may have other unmeasured attributes that lower their likelihood of employment and their expected earnings if employed. Examples of such unobserved attributes include ability and motivation. Adverse selection suggests that it is likely that the benefits of moving from welfare to work are higher for those who became wage reliant than for those who remained welfare reliant.

To explore the potential effects of adverse selection, we estimate fixed-effect regression models. By controlling for all individual-specific factors that are constant over time, the method eliminates certain kinds of omitted variable biases in cross-sectional research (Powers and Xie, 2000). With ordinary least squares regression, a component of the error term may be correlated with included independent variables. Suppose that women who are more highly motivated are also more likely to move from welfare to work. In this case, the income gains of moving from welfare to work shown in Tables 1 and 2 may be overstated. By specifying individual-specific

fixed effects in the model, we can derive a consistent estimator of the income gains from moving from welfare to work, provided that the unobserved traits and their effects do not change over time.

As shown in the equations below, each variable is averaged over all assessed time points for a specific woman. This average value is then subtracted from the value at a specific time point for that woman. As a result, time-invariant measured and unmeasured characteristics for a specific woman, such as race, drop out of the model.

$$Y_{it} = \beta'X_{it} + \gamma \cdot HOURS_{it} + \alpha_i + \varepsilon_{it},$$

$$\Rightarrow (Y_{it} - \bar{Y}_i) = \beta'(X_{it} - \bar{X}_i) + \gamma(HOURS_{it} - \overline{HOURS}_i) + \varepsilon_{it} - \bar{\varepsilon}_i$$

In our models,  $Y_{it}$  indicates monthly income net of taxes for individual  $i$  in time period  $t$ ; <sup>12</sup>  $\alpha_i$  is the individual-specific constant term that accounts for the unobserved time-invariant factors;  $HOURS_{it}$  is the monthly hours that woman  $i$  worked on all jobs in year  $t$ ; <sup>13</sup> and  $X_{it}$  is a vector of individual demographic characteristics and barriers to work. We have three observations for each woman, Fall 1997, Fall 1998 and Fall 1999. Time-variant characteristics included in the  $X$  vector include the number of individuals living in the household, the number of children under age six in the household, and a dummy variable indicating if woman  $i$  at time  $t$  was cohabiting with a husband or partner. Based on work by Danziger et al. (2000) and using variable specification defined there, dummy variables are also included for five barriers to employment—1) if the respondent lacked either a car or driver's license; 2) if the respondent met the diagnostic criteria for a mental health disorder; 3) if the respondent cared for a child with a physical, learning or mental health problem that limits the child's regular activities; 4) if the respondent had a physical health problem; and 5) if the respondent experienced severe physical partner abuse in the last 12 months.

We also include terms for the interaction between time and four time-invariant variables that could affect wage growth: 1) race, a dummy variable indicating if the respondent is an African-American, 2) the number of years the respondent received cash welfare between the time she turned age 18 and the Fall 1997 survey; 3) a dummy variable indicating if the respondent had low job skills prior to 1997; and, 4) a dummy variable indicating if the respondent lacked a high school diploma.

Table 3: Fixed-Effect Regression Results Predicting Net Monthly Income  
(Standard Errors in parentheses)<sup>a</sup>

Variables	Beta	SE
Monthly work hours	2.63	(0.31) ***
Demographic Characteristics		
Cohabiting with spouse or partner	561.04	(68.74) ***
Number of children under age 6	18.19	(46.20)
Household size	135.31	(24.64) ***
Barriers to Employment		
Transportation problems	-97.98	(65.09)
Health problems	-58.961	(68.90)
Child with health problems	9.95	(64.24)
Domestic violence	-107.67	(64.83) *
Mental health problem	19.14	(52.45)
Wage Growth Interaction Terms		
Race*1998	-56.51	(71.04)
Race*1999	-16.7	(73.06)
Less than high school diploma*1998	6.37	(86.34)
Less than high school diploma *1999	-263.02	(89.71) ***
Low work skills *1998	75.55	(103.95)
Low work skills *1999	149.2	(105.41)
Years cumulative welfare receipt*1998	3.23	(6.12)
Years cumulative welfare receipt*1999	11.65	(6.29) *
Number of observations <sup>b</sup>	1846	
Overall R-squared	0.2564	

a \* indicates  $p < .10$ , \*\* indicates  $p < .05$ , \*\*\* indicates  $p < .01$

<sup>b</sup> A respondent must have at least two valid observations (with a maximum of three observations) to be included in the analysis sample.

Fixed-effect regression results presented in Table 3 show that for every hour a woman increases her monthly work effort, her monthly net income increases by \$2.63. The magnitude of this coefficient represents the effect of each additional hour of work net of taxes, and the reduction in food stamps and cash welfare. If it did not pay to move from welfare to work, we would expect that this coefficient would not be significantly different from zero.

Likewise, if differences in the characteristics of the women themselves, either measured or time-invariant unmeasured characteristics, were the primary determinants of the increased income associated with moving from welfare to work, we would expect to find net income differences largely explained by other factors besides work effort. We do find that living with a spouse or partner and increases in household size are associated with higher monthly income and that an experience of domestic violence is associated with a decrease in income. Of the variables used to examine differential levels of wage growth over time, having less than a high school education is associated with lower monthly incomes in 1999 and years on welfare is associated with a positive, although substantively small, increase in income.

The estimated magnitude of the income gain from work is substantial. In Table 1 we show Fall 1999 monthly income differences between the wage reliant and welfare reliant of \$635. In Fall 1999, wage-reliant women worked about 144 hours per month more than the welfare reliant. This differential in hours evaluated at \$2.63 per hour yields a monthly income difference of \$379, or about 60 percent of the observed monthly income difference between the two groups. Thus, we conclude that even after controlling for measured and time-invariant unmeasured characteristics, it does pay to move from welfare to work. We also estimated a number of different model specifications and found similar results.<sup>14 15</sup>

## **Experiences of Material Hardship**

We now analyze experiences of material hardship and the extent to which mothers engage in activities to make ends meet.<sup>16</sup> We find that women who moved from welfare to work are better off in several non-income aspects of economic well-being, and worse off only in terms of access to health insurance and having foregone medical and dental care.

Using questions similar to those reported in Mayer and Jencks (1989), and Edin and Lein (1997, p.113), we asked respondents about ten types of material hardship. Respondents in Table 4 are classified into work/welfare categories based on what they were doing in 7/12 of the months between waves two and three.<sup>17</sup> Wage-reliant mothers were significantly less likely to experience three of the material hardships compared to welfare-reliant mothers-- having experienced moderate or severe hunger<sup>18</sup> (12.2 vs. 28.6 percent), having experienced a night of homelessness (2.1 vs. 10.0 percent), and having experienced a telephone cut-off (25.9 vs. 48.6 percent). They are also less likely to have 5 or more out of 8 housing upkeep problems,<sup>19</sup> to have had utilities cut off, and to have been evicted, but these differences are not statistically significant. The extent of hardship for women combining work and welfare tends to fall between those of these two groups for most measures.

Table 4. Experiences of Material Hardship by Work and Welfare Status Between the Fall 1998 and Fall 1999

	wage-reliant Mothers (N=286)	Combining Work & Welfare (N=93)	Welfare-Reliant Mothers (N=70)	Neither Work nor Welfare (N=61)	Mixers (N=122)
<u>During year previous to Fall 1999 interview</u>					
Moderate or severe hunger <sup>a,b,h,i</sup>	12.2%	20.7%	28.6%	9.8%	15.6%
No health insurance (mother) <sup>a,b,d,f,g,h,i,j</sup>	36.7%	5.4%	2.9%	36.1%	15.7%
Mother did not receive needed medical o dental care <sup>a,b,d,f,h,j</sup>	41.3%	11.8%	14.3%	37.7%	18.9%
No health insurance (child) <sup>a,b,d,f,h,j</sup>	13.1%	3.2%	0.0%	14.8%	5.0%
Child did not receive needed medical car	3.9%	5.4%	1.4%	1.6%	2.5%
5 or more housing upkeep problem	5.2%	10.8%	8.6%	3.3%	5.7%
Utilities cut off	7.3%	10.8%	11.4%	4.9%	12.3%
Eviction <sup>d</sup>	5.9%	10.8%	8.6%	6.6%	12.3%
Homeless <sup>b</sup>	2.1%	4.3%	10.0%	3.3%	5.7%
Telephone cut off <sup>a,b,h,i</sup>	25.9%	38.7%	48.6%	27.9%	32.2%
<u>All hardships</u>					
No hardships	31.8%	40.2%	31.4%	34.4%	39.5%
One hardship <sup>b,h,i</sup>	22.5%	25.0%	38.6%	21.3%	21.8%
Two or more hardships <sup>d</sup>	45.7%	34.8%	30.0%	44.3%	38.7%
Mean number of hardships	1.53	1.21	1.34	1.46	1.25
<u>Excluding medical insurance</u>					
No hardships	41.3%	40.2%	31.4%	42.6%	43.8%
One hardships <sup>i</sup>	29.7%	27.2%	40.0%	31.1%	24.0%
Two or more hardships	29.0%	32.6%	28.6%	26.2%	32.2%
Mean number of hardships	1.03	1.12	1.31	0.95	1.06

**NOTE: Hardships are measured over the 12 months prior to the Fall 1999 interview. Missing values range from 0 to 5 on individual items.**

<sup>a</sup> wage-reliant mothers' rate differs from combiners' rate at p<.05

<sup>b</sup> wage-reliant mothers' rate differs from welfare-reliant mothers' rate at p<.05

<sup>c</sup> wage-reliant mothers' rate differs from no work or welfare mothers' rate at p<.05

<sup>d</sup> wage-reliant mothers' rate differs from mixers/cyclers' rate at p<.05

<sup>e</sup> combiners' rate differs from welfare-reliant mothers' rate at p<.05

<sup>f</sup> combiners' rate differs from no work or welfare mothers' rate at p<.05

<sup>g</sup> combiners' rate differs from mixers/cyclers' rate at p<.05

<sup>h</sup> welfare-reliant mothers' rate differs from no work or welfare mothers' rate at p<.05

<sup>i</sup> welfare-reliant mothers' rate differs from mixers/cyclers' rate at p<.05

<sup>j</sup> no work or welfare mothers' rate differs from mixers/cyclers' rate at p<.05

The main exceptions to this general pattern were lack of health insurance and having unmet medical and dental needs.<sup>20</sup> Over one-third of wage-reliant mothers did not have health insurance for themselves, and 13.1 percent did not have insurance for their children. In contrast, almost all welfare-reliant mothers and combiners had medical insurance for themselves and their children. Unmet medical and dental needs were a problem for 41.3 percent of wage-reliant mothers, but only 3.9 percent of their children.<sup>21</sup> This loss of health insurance in the transition from welfare to work is similar to the Edin/Lein finding that working mothers experience greater hardship than welfare-reliant mothers.

In the bottom part of Table 4 we report the percentages of women who experienced no hardships, one hardship, two or more hardships, and the mean number of hardships – first including all ten hardships, and then excluding the two medical insurance questions. There are no significant differences across the five groups, although the wage reliant are more likely to have no hardships than the welfare reliant when medical insurance is excluded (41.3 vs. 31.4 percent), and have a lower mean number (1.03 vs 1.31). The loss of Medicaid by women who leave welfare for work and who either do not work for an employer who provides health insurance or cannot afford required premiums is a serious problem that was not addressed by the 1996 welfare reform. Extending CHIP to the mothers of eligible children or extending the Medicaid transition period for more than 12 months or other policy options that increase coverage all deserve further attention.

### **Activities to Make Ends Meet**

Respondents were questioned about a number of activities they might have pursued to makes ends meet and to raise their material well-being, including informal or irregular work-related activities, such as selling food stamps or seeking charity. Edin and Lein note that “taking

a job made the pursuit of work-based strategies more difficult, so that mothers that relied upon these strategies would realize a net loss when they went to work (1996, p. 263).”

In Table 5, we show the proportion of women, classified by their work/welfare category in most of the months between the Fall 1998 and 1999 interviews, who reported engaging in each of the listed activities during the six months prior to the Fall 1999 interview (receipt of charity is measured over the entire period between waves). Welfare-reliant mothers were significantly more likely than wage-reliant mothers to have pawned or sold personal possessions for cash (20.0 vs. 7.3 percent), sold or traded food stamps (4.3 vs. 0.3 percent) and received food, shelter or clothing from a charity (54.3 vs. 24.6 percent). About two-thirds of welfare-reliant mothers reported engaging in at least one of the hardship-mediating activities, compared to about two-fifths of combiners and one-third of the wage reliant. Women who neither worked nor received welfare resembled the wage reliant and mixers resembled combiners.

Table 5. Percentage of Respondents Engaging in Activities to Make Ends Meet, by Work and Welfare Status in Between the Fall 1998 and Fall 1999 Interviews

	wage-reliant Mothers (N=286)	Combining Work & Welfare (N=93)	Welfare-Reliant Mothers (N=70)	Neither Work nor Welfare (N=61)	Mixers (N=122)
During 6 months prior to Fall 1999 Interview					
Pawned or sold personal possessions <sup>b,h</sup>	7.3%	14.0%	20.0%	6.6%	10.7%
Provided plasma or blood for cash	2.4%	1.1%	1.4%	1.6%	3.3%
Sold or traded food stamps <sup>b,d</sup>	0.3%	2.2%	4.3%	1.6%	4.9%
Engaged in illegal activity	1.4%	1.1%	2.9%	0.0%	2.5%
Received food, shelter or clothing from a charity <sup>b,d,e,h,j</sup>	24.6%	34.4%	54.3%	24.6%	44.3%
Percent engaging in one or more of above activities <sup>a,b,d,e,f,h,i,j</sup>	30.2%	41.9%	64.3%	26.2%	48.4%

Note: Respondents were asked the following question: I'm going to read you a list of things that people might do when times are hard to make extra money to get things that they need. How often have you done the following things in the past six months? Percentages responding sometimes or often are shown above. Missing values range from 0 to 1.

<sup>a</sup> wage-reliant mothers' rate differs from combiners' rate at  $p < .05$

<sup>b</sup> wage-reliant mothers' rate differs from welfare-reliant mothers' rate at  $p < .05$

<sup>c</sup> wage-reliant mothers' rate differs from no work or welfare mothers' rate at  $p < .05$

<sup>d</sup> wage-reliant mothers' rate differs from mixers/cyclers' rate at  $p < .05$

<sup>e</sup> combiners' rate differs from welfare-reliant mothers' rate at  $p < .05$

<sup>f</sup> combiners' rate differs from no work or welfare mothers' rate at  $p < .05$

<sup>g</sup> combiners' rate differs from mixers/cyclers' rate at  $p < .05$

<sup>h</sup> welfare-reliant mothers' rate differs from no work or welfare mothers' rate at  $p < .05$

<sup>i</sup> welfare-reliant mothers' rate differs from mixers/cyclers' rate at  $p < .05$

<sup>j</sup> no work or welfare mothers' rate differs from mixers/cyclers' rate at  $p < .05$

Although these results are consistent with the findings of Edin and Lein, our interpretation differs. They suggest that wage-reliant mothers had less time to pursue these alternative strategies and were thus disadvantaged by working. Our conclusion is that working mothers were less likely to pursue these strategies because they had higher net incomes and lower poverty rates, and hence had less need to pursue activities, such as pawning possessions, selling food stamps, or seeking charity, all of which carry social stigma or legal risk.

### **Subjective Well-Being**

Finally, we examine the respondents' subjective assessments of their material well-being. Table 6 reports the distributions of responses to the question: "How difficult is it for you to live on your income right now?" Because this question is based on the respondents' situation at the time of the interview, we use the Fall 1999 monthly work/welfare classification.

**Table 6. Subjective Financial Strain by Work and Welfare Status in Fall 1999**

	wage-reliant Mothers (N=346)	Combining Work & Welfare (N=114)	Welfare-Reliant Mothers (N=87)	Neither Work nor Welfare (N=85)
<i>At Fall 1999 Interview</i>				
<b>How difficult is it to live on your total income right now?</b>				
Not at all, or a little difficult <sup>a,b</sup>	53.5%	38.6%	35.6%	45.2%
Somewhat or very difficult <sup>a</sup>	37.0%	48.2%	35.6%	39.3%
Extremely difficult <sup>b,d,f</sup>	9.5%	13.2%	28.7%	15.5%

<sup>a</sup> wage-reliant mothers' rate differs from combiners' rate at p<.05

<sup>b</sup> wage-reliant mothers' rate differs from welfare-reliant mothers' rate at p<.05

<sup>c</sup> wage-reliant mothers' rate differs from no work or welfare mothers' rate at p<.05

<sup>d</sup> combiners' rate differs from welfare-reliant mothers' rate at p<.05

<sup>e</sup> combiners' rate differs from no work or welfare mothers' rate at p<.05

<sup>f</sup> welfare-reliant mothers' rate differs from no work or welfare mothers' rate at p<.05

*One missing respondent excluded from analysis.*

If Edin and Lein's conclusion about the economic disadvantages of moving from welfare reliance to wage reliance remained true in the post-welfare reform era, wage-reliant mothers should, on average, have reported higher levels of difficulty living on their household income. We find the opposite: 53.5 percent of wage-reliant mothers answered that it was "not at all difficult" or "a little difficult" compared to 35.6 percent of welfare-reliant mothers. Only 9.5 percent of wage-reliant mothers and 13.2 percent of combiners said that it was "extremely difficult", compared to 28.7 percent of the welfare reliant. According to their own subjective evaluations, working mothers reported less difficulty making ends meet than did welfare-reliant mothers.

## **V. Conclusion**

When Edin and Lein (1997) compared the material well-being of wage-reliant and welfare-reliant single mothers in the late 1980s and early 1990s, they concluded that it usually "did not pay" for welfare mothers to take a job. More recent research (Bavier, 2000; Cancian et al., 2000; Acs and Loprest, 2001) found modest financial gains among welfare recipients who became wage-reliant after the 1996 welfare reform. We revisited this issue using Fall 1999 panel data from a random sample of single mothers who had received welfare in February 1997. We found that those who had moved from welfare to work were objectively and subjectively better-off financially than those who remained welfare reliant. Working mothers had higher household incomes, lower poverty rates, experienced a similar level of material hardships, were less likely to engage in activities to make ends meet, and reported less difficulty living on their current incomes.

Several factors contributed to these differences in well-being. First, some combination of a tighter labor market, a higher minimum wage, a much increased EITC, increased medical

insurance for children, and increased subsidies for child care made work pay more relative to cash assistance in the late 1990s than at the beginning of the decade. Second, a substantial portion of our respondents combined welfare and work. This reflects a recent policy shift, as many states increased the amount of earned income that is disregarded in the computation of welfare benefits. Women whose earnings would have disqualified them from cash assistance a decade ago can now receive some welfare benefits and maintain Medicaid for themselves and their children.

Our results are consistent with those of Edin and Lein and others in several respects. First, we confirm that many working mothers could not make ends meet on their paychecks alone; they continue to receive government assistance (e.g., TANF, Food Stamps, EITC) and/or to rely upon cash contributions from friends and family. Second, poverty remains high, even among the wage reliant; about half of the wage-reliant mothers reported experiencing at least two material hardships during the previous year; and about one-quarter of the wage reliant and one-third of combiners reported receiving food, shelter or clothing from a charity.

The policies now in place have changed economic incentives so that they are in accord with the goals of PRWORA—i.e., on average, wage-reliant mothers and those combining work and welfare are financially better off than welfare-reliant mothers. Yet, insufficient policy attention has been paid to factors that may have prevented those who remained welfare-reliant about three years after the Act's implementation from making the transition to work. The new economic incentives and the increased pressure to leave the welfare rolls suggest that few welfare-reliant mothers are able to reject work and choose to stay on welfare. It seems more likely that many of them have problems, such as poor physical and/or mental health or lack of

job skills, which prevent them from getting jobs even when unemployment rates are low (Danziger et al., 2000; Danziger, 2001).

As we approach TANF's reauthorization, welfare-reliant mothers in many states are at risk of losing their welfare benefits due to impending sanctions and/or time limits. And, in many states, mothers combining work and welfare are also at risk of losing benefits due to time limits.<sup>22</sup> Even though it now pays to move from welfare reliance to wage reliance, there remains a need for additional policy enhancements to make work pay enough so that a greater percentage of working mothers can escape poverty and afford medical insurance, as well as a need for enhanced policies to help welfare-reliant mothers move into regular jobs or into subsidized employment.

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## **Appendix: Measuring Income and Poverty**

The survey included detailed questions on income for the month immediately prior to the interview because a respondent's recall for specific types of income would be best at this time; these included questions about ten sources of income and two types of work-related expenses. The survey also asked one question about household income received during the prior calendar year and one question about personal earned income during that year. The questionnaire is available on our website, [www.ssw.umich.edu/poverty/pubs.html](http://www.ssw.umich.edu/poverty/pubs.html).

Interviewers reported that respondents had more recall problems with the annual income and earnings questions than they did with the monthly questions because they were being asked about calendar year 1998, which ended 10 months or more prior to the Fall 1999 interview. As a result, reports of annual earnings are likely to have more measurement error than monthly reports. However, monthly earnings tend to overestimate economic well-being for those working in the survey month because a typical working respondent worked in only about 86 percent of the months in the past year. Likewise, monthly earnings understate annual earnings for those not working in the survey month because a typical nonworking respondent worked in about 27 percent of the months. Thus, we present results using measures of both annual and monthly income.

### **Own Earned Income**

Respondents reported earnings and self-employment income from all jobs, before taxes and other deductions, in the month prior to the Fall 1999 interview. Respondents also reported pre-tax earnings from all jobs in calendar year 1998.

## **Earnings of Other Household Members**

In collecting monthly information, respondents were asked, “Did anyone else in your household have a job or work for pay last month?” Respondents who answered affirmatively were asked, “Thinking of everyone besides yourself who worked last month, how much money did they earn altogether last month?” We included the earnings of all other household members in computing total monthly household income.

We assumed that household earnings were those of a spouse when a spouse was living with the respondent. In most cases where a married woman reported earnings for another household member, it tends to be for a spouse. We based this assumption on our analysis of data from the 1998 Current Population Survey, March Supplement. We drew a sub-sample of households where total earnings were less than \$30,000 and where a married woman was present. Within this sample, earnings of spouses and other household members were identified for each married woman.

The most relevant points are summarized here. (A table is available on request.)

For women with positive earnings, from these households:

- In 85 percent of cases where other household earnings were reported, the earnings came from the spouse alone.
- In 91 percent of cases where other earnings were reported and the respondent received welfare, other household earnings came from the spouse alone.
- For women with zero earnings, these percentages were 77 percent and 82 percent, respectively.

In collecting annual information, we asked “What was your total household income in 1998 from all sources before taxes?” In keeping with our assumptions for monthly income, we

assumed that, if the respondent was married, household income less her earnings represented her spouse's earnings. This assumption affects our estimate of taxes paid and tax credits received, but not our estimate of gross annual income.

For both monthly and annual calculations, we assumed that *all* earnings of *all* other household members were shared with respondents and we computed total household income and the household's poverty line based on the total number of persons living in the household. The Census Bureau definition of household income makes this same assumption. In contrast, the Bureau's measure of family income assumes income-sharing only for persons related by blood, marriage, and adoption.

## **Taxes**

All taxes and credits, with the exception of payroll taxes, were computed using the TAXSIM program developed by the National Bureau of Economic Research (Feenberg and Coutts, 1993). Respondents' net taxes are the sum of: federal income taxes and the employee share of payroll taxes (7.65% of earnings); the Earned Income Tax Credit; Michigan state income taxes, which are 4.4% of adjusted gross income after exemptions are subtracted; and the Michigan Homestead Tax Credit. The latter is a refundable credit with a maximum of \$1200 that is an increasing function of the ratio of rent to household income but that decreases with the ratio of cash welfare to total household income.

We assumed that married women living with their spouses filed joint tax returns. Women who were not married were assumed to file as single head of household if they were the primary caregiver for a minor child and as single if they were not. We assumed that all respondents claimed as dependents all children for whom they were the primary caregiver.

In our monthly income calculations, we subtracted only federal income and payroll taxes, as these are generally withheld on a regular basis from paychecks. In our annual income calculations, we included the EITC and Homestead Credit since they are received on an annual basis, after a tax return has been filed. Because the TAXSIM program does not separate out positive state taxes from negative state credits, and because state taxes on net were generally credits, we were not able to subtract state income taxes from monthly calculations.

Our assumption about income sharing affects how we compute taxes. For married respondents, we computed the EITC based on the summed 1998 earnings of respondent and spouse, and income taxes on the gross cash income of the household, including the earnings of others. For respondents who were not married, we computed taxes based on their earnings alone. In all cases, we subtracted federal payroll taxes from the earnings of all household members. We did not, however, calculate federal or state income taxes, the EITC, or Michigan's Homestead Credit for household members who were not spouses because we did not collect enough information about them to determine their filing status.

SSI or other pension or disability income and unemployment insurance are included in tax calculations only if the respondent or her spouse (or, for SSI, her dependent) is the recipient. Respondents reported receipt specifically for themselves and their children, but not for their spouse. Where the respondent reported such income but not for herself or her child, we assume that the income belongs to the spouse in cases where the respondent is married; we do so because in the large majority of such cases there are no other household members. Pension or disability benefits—along with TANF benefits, child support, and unemployment insurance—are included only in the monthly tax calculations, as they are amounts received in the month prior to the interview and may not be stable over the year. Child care expenses and rent, on the other hand,

(both of which are relevant for tax credits) are included in the annual calculations, as they are reported for a “typical” rather than for a specific period. We assumed that respondents received no untaxed earned income (such as interest and dividends), no student loan or scholarship income, and did not take IRA deductions.

### **Government assistance**

TANF, food stamps, disability income, and unemployment insurance/worker’s compensation amounts include the total monthly value received by the respondent and any other household members.

### **Child Support**

Welfare recipients are required to assign their child support rights to the state. The state passes on to those recipients the first \$50 of child support collected monthly. Additional collections are kept by the state as compensation for providing cash assistance. Therefore, women who receive welfare will receive lower amounts of child support even if the absent parents of their children make the exact same payments as do the absent parents of the children of former welfare recipients. That the average amount of child support received by welfare-reliant respondents and combiners exceeds the \$50 amount suggests that some respondents may have reported to us child support payments that were not collected by the state.

### **Cash Contributions from Friends/Family**

Cash contributions include money that the respondent or anyone else living in the household received from family or friends outside the household to help pay for living expenses.

### **Other Income**

After asking specifically about the above sources of income, we asked respondents about any other household income that they had not already mentioned. Among those few respondents who reported other income, it was frequently from an insurance settlement.

### **Work-related expenses**

In both Fall 1998 and Fall 1999, we asked respondents who reported using work-related child care, “In a typical week, how much do you pay out of pocket for child care?” We also asked all working respondents, “All together how much does it cost you for gas, bus fares, and parking costs to get to and from work, including dropping your children off at child care?” 1999 expenses were converted to monthly values for use in calculating monthly income, while 1998 expenses were converted to annual values for use in calculating annual income. The annual calculation likely overstates expenses for respondents who did not work continuously.

### **Poverty Calculations**

We estimated monthly and annual poverty rates using a definition that is consistent with the recommendations from the Panel on Poverty and Family Assistance of the National Research Council (Citro and Michael, eds. 1995. *A New Measure of Poverty*). This panel proposed that resources for the measurement of poverty should include all sources of cash and near-cash income and subtract taxes paid, work-related transportation and child care expenses, and out-of-pocket medical expenses. We did not have data on out-of-pocket medical expenses. Our poverty measure for annual income includes sources of cash and near-cash income from all household members, subtracts work-related child care and transportation expenses, federal income and payroll taxes, state income taxes, and the imputed EITC and Homestead Credit and reported food stamps. Our monthly poverty measure is similar, but excludes the EITC, Homestead Credit, and state income taxes.

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<sup>1</sup> The sample frame included active single-parent with child cases and excluded child only and two-parent cases.

<sup>2</sup> Respondents interviewed at the first 3 waves represent 72 percent of the original sample, i.e.,  $.86 \times .92 \times .91$ . A fourth interview was completed in January 2002 with a 90 percent response rate.

<sup>3</sup> Some women told us that they received welfare income in the month prior to the survey; however, the welfare agency record says they did not receive assistance in that month. We classified them as wage-reliant in Table 1, because the classification that we use in subsequent tables is based on the number of months of welfare receipt as reported in the agency records. We did include the welfare income they reported to us in our computation of monthly income.

<sup>4</sup> There were 23 women who received SSI benefits in Fall 1999. In our studies of the determinants of work (e.g., Danziger 2001) we exclude them from analysis because they are not subject to the work requirements of the new welfare system. We include them here, as our focus is on the financial well-being of all women in the sample. Our empirical results are not affected by their inclusion or exclusion as they represent only 3.6 percent of the sample.

<sup>5</sup> We do not subtract housing expenses from gross income in Table 1 because they are not work-related. Our treatment of housing expenses is consistent with the recommendations for measuring the poverty rate of the Panel on Poverty and Family Assistance (Citro and Michael, 1995). The panel proposed that resources should include all sources of cash and near cash income and subtract taxes paid, work-related transportation and child-care expenses, and out-of-pocket medical expenses. We do not have data on out-of-pocket medical expenses. We do not account for the fact that residents of assisted housing will pay higher rents when they move from welfare to work. Only 12 percent of wage-reliant mothers and 19 percent of women combining

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work and welfare reported living in assisted housing. And, in our sample, mean rents were very similar across all work/welfare categories.

<sup>6</sup> Some women we classify as “combiners” report amounts of earnings to us that are high enough to make them ineligible for TANF. In some cases this may be due to administrative error and benefits may have been recouped at a later date. However, some women may not be reporting these earnings to the welfare agency. Edin and Lein, for example, find that a substantial percentage of their respondents did not report all of their incomes to the welfare agency. We did not ask respondents if they reported their earnings to the state agency. However, the fact that we have cases where a woman reports substantial earnings and the state reports that she received the TANF benefit for a family of her size with no earnings suggests that some respondents have higher incomes as combiners than they would have if they followed all income reporting requirements.

<sup>7</sup> The other states are California, Florida, Georgia, Illinois, New York, Ohio, Pennsylvania, Texas, and Washington. These states, along with Michigan, contained 53 percent of the overall national population in 1999 (Allen and Kirby, 2000).

<sup>8</sup> We also considered categories that required a respondent to have been in a category for  $\frac{2}{3}$  and  $\frac{3}{4}$  of the months. The differences in the number of women in each group and differences in income across categories were not very sensitive to our choice of a cut-off.

<sup>9</sup> The small number of women in this group were more likely than those in the other groups to either live with another earner and/or to report SSI or pension or disability income. For example about half of the wage reliant met these criteria compared to about two-thirds of the “neither” group.

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<sup>10</sup> Almost every working mother was estimated to be eligible for the EITC. For wage-reliant mothers, rows 2 and 3 in Table 2 are virtually the same, suggesting that, on average, the EITC and homeowner's credit were just about equal to the sum of federal income and payroll taxes, state income tax and work related child care and transportation expenses.

<sup>11</sup> When we combine the welfare reliant and the no work welfare groups to get a "leavers" group, the annual 1998 poverty rate is 49.5 percent. This compares to 59 percent in Wisconsin, but we include more income sources than do Cancian et al. (2000)

<sup>12</sup> For the purposes of regression analysis, our net monthly income variable does not exclude work-related expenses because such information is not available for calendar year 1997. In addition, the EITC is included in monthly income. The wording for monthly income items changed slightly between waves 2 and 3. For waves 1 and 2, respondents were asked to report categories of income for "you or your husband/partner". In wave 3, respondents were asked to report income for "you or anyone else living here".

<sup>13</sup> Monthly work hours are defined as self-reported hours worked per week multiplied by 4.

<sup>14</sup> We examined different definitions of income to test for sensitivity in measurement error. In addition to the measure of net monthly income presented in Table 3, we examined net annual income and gross monthly income less other household members' earnings. The coefficient for hours worked in the annual equation was \$2.17; in the net monthly income less other household members' earnings model the coefficient on monthly hours of work was \$2.64.

<sup>15</sup> To control for self-selection, we also estimated instrumental variable models, with or without fixed effects, for all three measures of income. We used the district welfare office to which the respondent was assigned as our instrument, since the assignment process is close to random. In contrast to the commonly expected direction of selection bias, we find even greater returns to

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work in the IV regression results. The details of these analyses are available from the authors on request.

<sup>16</sup> As mentioned above, our data were gathered during in-home interviews. By the end of the third wave, the typical respondent had spent 3 ½ hours with one of our interviewers. Because Edin and Lein spent more time with their respondents, our data on income and expenses may not be as complete as theirs. However, we have little reason to expect that there are differential response biases in our sample across women classified by their work/welfare status.

<sup>17</sup> The same classification is used for respondents in Table 5. The median number of months between waves two and three was 14; it ranged from 8 to 19 months.

<sup>18</sup> Hunger is measured using the Household Food Security scale from the Current Population Survey. Moderate hunger in households with children is defined as 8 to 12 affirmative responses to the 18-item scale; such a score represents a reduction in adults' food intake "to an extent that implies that adults have repeatedly experienced the physical sensation of hunger." Severe hunger is defined as more than 12 affirmative responses, and implies both that children have experienced hunger and that adults "have repeatedly experienced more extensive reductions in food intake." (Bickel et al., 2000, pp.12-13).

<sup>19</sup> Respondents were asked if they had experienced these eight housing upkeep problems in the year prior to the interview – leaky roof or ceiling; plumbing problems; rodents or insects; broken windows; broken heating system; electrical problems; lack of stove or refrigerator; inadequate garbage pickup. Those who reported 5 or more have "severe problems."

<sup>20</sup> Respondents were asked, "Was there any time since the Wave 2 interview date that you needed to see a doctor or dentist but could not afford to go?"

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<sup>21</sup> Medicaid expansions and CHIP now provide coverage for almost all children below 150 percent of the poverty line. Thus, the lack of insurance reported here may indicate a lack of knowledge about eligibility. If these children were brought to an emergency room for treatment, it is likely they would be signed up by the hospital for Medicaid or CHIP. It may also help explain why the percentage of children not receiving needed medical care is so much smaller than it is for their mothers.

<sup>22</sup> Although there is a five year time limit on use of federal funds for cash benefits, states may use their own funds to continue supporting families. Michigan has indicated it will do this, and there is no time limit in state policy (State of Michigan, 1998). Vermont received a federal waiver to continue operating a demonstration project that does not include the 60 month time limit. Illinois does not count months in which a recipient combines earnings and TANF against its 60 month limit. Other states use a 60 month, or shorter, time limit.