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How do economic downturns affect welfare leavers? A comparison of two cohorts

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ABSTRACT

Early welfare reform research showed high rates of employment for TANF leavers. However, work-focused welfare may not be effective during an economic downturn. We investigate the employment of Wisconsin TANF leavers, contrasting outcomes among early leavers (1998) with those who left during the 2001 recession. We use data from administrative records on about 6000 welfare leavers, tracking quarterly employment for 3 years after they left benefits. Separate panel data analyses of those exiting in two different time periods show that individual leavers are less likely to be employed when their local unemployment rate is high in the later cohort; no relationship is found for the early cohort. In a panel analysis in which the cohorts are combined, we find that leavers in the later cohort, who experienced the recession early in their post-welfare career, are less likely to be employed, a result that holds controlling for observed and unobserved characteristics. These findings raise questions about how well single-parent families and their children will fare during difficult economic times now that welfare reform has such a strong emphasis on work.

1. Introduction

The 1996 welfare reform replaced the long-standing cash welfare program for single parents and their children, Aid to Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF). States had the freedom to design their own TANF programs with a variety of features, most of which were targeted at parents, not children, and were focused on moving welfare participants quickly off of benefits and into the labor market. Early research that examined those who left welfare showed high rates of employment (for reviews, see Acs & Loprest, 2004 or Grogger & Karoly, 2005), and many proclaimed welfare reform to be a success (for reviews of the effects of welfare reform, see Blank, 2002; Lichter & Jayakody, 2002). However, welfare reform was implemented during an economic boom, and it is unclear whether work-focused approaches are as effective during an economic downturn when fewer jobs are available. If the later employment outcomes for those who leave welfare during difficult economic times are much worse than those who leave during better times, this would have obvious implications for the economic well-being of children in single-parent families, and for the conclusions, we can draw about the effectiveness of welfare reform. Unfortunately, there is little research that explores TANF leavers' outcomes under difficult economic conditions. The extent to which a work-focused welfare reform is able to keep women in employment during difficult economic times has particular salience now that we are experiencing the highest unemployment rates seen in a generation. In this paper, we provide information from the previous recession, in 2001, on the employment of TANF leavers in Wisconsin. We conduct several types of analyses, including a cross-cohort analysis, contrasting outcomes among those who left during the 2001 recession with those who left during a stronger economic period, 1998.

Our general interest is in the extent to which economic conditions inhibit the success of work-focused welfare reform. But the types of analyses that could lead to firm conclusions about whether welfare reform is associated with different outcomes in different economic conditions are not straightforward. The simultaneous timing of welfare reform and beneficial macroeconomic conditions in the 1990s makes it difficult to disentangle the effect of the policy from the economy.

One conceptual approach could be to randomly assign some welfare leavers to good economic conditions and others to problematic ones, with the welfare program itself having similar features. This is obviously not possible.

An alternative approach would be to try to hold the overall macroeconomic conditions and the welfare policy constant and examine the success of welfare reform in different local labor markets, some of which were experiencing better conditions than others. This approach has promise but has a key difficulty: to get sufficient variation in economic conditions within the same time period generally means looking across broad geographical regions, and under the devolution that was part of welfare reform, the types of welfare programs in different locations differ in ways that may not be fully identifiable. Still, to the extent that a single state had the same policy environment, but moderately different *local* (county) labor market conditions, some information can be gained by contrasting the experiences of those in

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stronger and weaker local labor markets. This is a stronger approach if panel data are available, as this provides the opportunity to control for characteristics of the individual that are unmeasured. We follow this approach here.

A final approach that we also use here is to take two cohorts of those who left the same welfare program in the same state and who experienced approximately the same policy environment: one group that experienced relatively strong economic conditions and one group that experienced relatively weak conditions early in their post-welfare career. Again panel data methods that control for unobserved heterogeneity strengthen the approach.[2]

In essence, then, we are making two types of comparison: first, we compare those who face stronger and weaker labor market conditions (holding constant their observed and unobserved characteristics); second, we compare those who left in stronger overall economic times with those who left during a recession. If the research suggests that leavers' employment outcomes are strongly related to economic conditions, this may mean that the positive effects experienced by the early leavers were primarily due to the strong economy, and single-parent families with children may have special difficulty during difficult economic times now that cash-based welfare has been replaced with work-based welfare.

2. Economic and policy context

The national annual average unemployment rate in 1996, the time of welfare reform, was 5.4% (U.S. Bureau of Labor Statistics, 2010). The employment situation continued to improve over the next several years, reaching a low of 4.0% in 2000, demonstrating the favorable conditions for the implementation of work-based welfare. Then came the relatively short recession of 2001, followed by a jobless recovery, with annual unemployment rates peaking in 2003 at 6.0% before again dropping. In contrast, the national unemployment rate in 2009 was 9.3%, underlying the depth of the current economic crisis, and highlighting the need to understand from our past experience whether work-based welfare reform can be sustainable.

One of the intents of welfare reform was that each state would be able to design its own program for low-income, primarily single-parent families and their children, although there are federal rules, with which state programs must comply, particularly those related to work requirements and time limits. This has had the intended effect of creating different types of programs in different states (for state TANF policies for single-parent families, see Grogger & Karoly, 2005). Studies examining the effects of welfare reform using national data have the advantage of generalizability if they can capture the differences across programs. An alternative model, and the one we use here, is to select a single state's program. Studies based on a single state have the advantage of being able to identify the key features of the policies affecting low-income families, and, particularly important for a cross-cohort analysis, to ascertain whether the policy environment can be thought to be approximately constant. In this section, we provide a brief description of Wisconsin's TANF program, Wisconsin Works (or W-2). (For more information on the features and history of W-2, see Cancian, Meyer, & Caspar, 2008; Kaplan, 2000; Wiseman, 1996).

Like the TANF program in most states, W-2 emphasizes a work-first approach. This emphasis on work is expressed in the philosophy of W-2 (Wisconsin Department of Workforce Development, 1998), which states that “for those who can work, only work should pay” and “W-2 assumes everybody is able to work within their abilities.” The main component of the W-2 strategy is a tight linkage between cash assistance and work-related activities: all parents must participate in a near-full-time work-related activity in order to receive cash benefits unless they have a child less than 13 weeks old. One relatively unusual feature of W-2 is that there is no earnings disregard; thus, if a participant becomes employed, they cannot continue to receive cash benefits. Another important feature of W-2 is the sanction policy: participants lose a portion of their grant for every hour they do not participate in a required activity; sanctions in Wisconsin are fairly common (Wu, 2008). A final important feature of TANF in Wisconsin is that child care subsidies are available to all those who are eligible; there is no waiting list (Ha & Meyer, 2010). These features combine to create a strong push off benefits and into the labor market; this makes Wisconsin a particularly interesting place to study how those who left a work-focused welfare program fare in difficult economic circumstances.

3. Previous studies on Welfare leavers' employment, focusing on cohort-comparison studies

Our interest is in the relationship between economic conditions and employment outcomes for welfare leavers; but studies on this topic need to acknowledge that economic conditions could affect the likelihood of entering welfare and then the timing and likelihood of exiting, even controlling for changes in family structure (see Bane & Ellwood, 1994 for classic research on individual reasons for entering and exiting AFDC). Limited research has used individual data to examine the relationship between economic conditions and entering TANF and it finds conflicting results; Wallace (2007) finds state unemployment rates are strongly related to the probability of entering welfare (with his data covering both AFDC and TANF); in contrast Acs, Phillips, and Nelson (2005) examine these periods separately and find no significant relationship between state unemployment rates and the probability of entering TANF. Note that welfare reform may create a wedge between economic conditions and entries: even in difficult times, those who have used up their 60 months of assistance will not be able to enter. While there are few studies of the relationship between local labor market conditions and exiting from AFDC, there are few recent studies examining TANF. Previous research suggests that common reasons for exiting welfare include changes in family structure, gaining employment, and welfare policy itself (e.g., Hofferth, Stanhope, & Harris, 2002; Loprest, 1999). However, the most recent studies on welfare spell and/or welfare exits using individual data do not show consistent results on the effects of labor market conditions on welfare exits (e.g., Cancian, Haveman, Meyer, & Wolfe, 2002; Hoynes, 2000).[3] In addition, no study has explicitly examined the effects of the 2001 recession on TANF dynamics.

[2] A critical assumption of a cohort-comparison analysis for this topic is that the only thing that systematically differs between the two periods is the economic environment, not the policy environment or the characteristics of leavers. Policies which can affect the labor market outcomes of TANF leavers include the Earned Income Tax Credit and minimum wages as well as the features of the welfare program. Since there were no substantial changes in these three policies during 1998–2005 in Wisconsin, we assume that the policy context can be considered to be similar throughout this study period. (And even if the policy effects change over time, we can control for them with time fixed effects since we utilize longitudinal data.)

[3] A different type of analysis of the relationship between economic conditions and welfare use uses aggregate caseload data. Several studies examine whether welfare reform or the strong economy is associated with the changes in the caseloads in the 1990s (e.g., Blank, 2001; Figlio & Ziliak, 1999; U.S. CEA, 1997, 1999; Ziliak, Figlio, David, & Connolly, 2000). These studies show that both labor market conditions and welfare reform are significantly associated with changes in welfare caseloads. Other studies that are somewhat related to our interest focus on employment outcomes of a cohort of welfare participants, whether or not they have left TANF. Studies of this type include Johnson and Corcoran (2003),Slack et al. (2007) and Wu et al. (2008). These studies often show increases in employment, in part because participants are exiting the program for work. Our focus is only on those who leave TANF, not all participants.