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## CHAPTER 11

# WELFARE REFORM AND THE LABOR MARKET OUTCOMES OF WOMEN

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### Introduction

This chapter provides an overview of recent changes in the income support system for low-income families in the State of California, and describes some of the associated changes in the labor market outcomes of women. Although much attention has focused on federally-initiated welfare reform associated with the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), significant welfare reforms were adopted in California in the 1980s and early 1990s. Moreover, many of the changes associated with PRWORA, such as time limits and mandatory work, have only been partially implemented or have not yet had time to reach their full effect. Other income support programs, in particular the Earned Income Tax Credit, have also changed over the past decade. This rapidly evolving program environment, coupled with the effects of the strong economy, make it very difficult to assess the impact of any single component of welfare reform. Nevertheless, the outcomes of lower-income workers and their families are changing. Welfare caseloads in California fell by 50 percent from January 1996 to early 2000. The fraction of welfare recipients who work has risen from less than 10 percent to over one-third. And after rising sharply in the early 1990s, poverty rates among single-female-headed families have begun to fall. All these changes suggest that cumulative reforms in the income support system is having some effect in California.

### I. A Brief Overview of Welfare Programs and Reforms

The U.S. system of income support for families headed by non-disabled and non-elderly individuals includes four main components: cash assistance (“welfare”); Food Stamps; medical insurance (Medicaid); and the Earned Income Tax Credit (EITC).<sup>1</sup> This chapter will ignore the Medicaid program and will concentrate on cash assistance programs, with some limited discussion of Food Stamps and the EITC.<sup>2</sup> A summary of the major reforms in the federally-funded cash assistance welfare system is presented in table 1.<sup>3</sup>

Until 1996, cash assistance for low-income families was provided under the Aid to Families with Dependent Children (AFDC) program. AFDC was conceived in the 1930s as an income replacement program that would allow widows and women whose husbands were absent to stay at home with their children. Consistent with this intention, the program had the feature that benefits were reduced by one dollar for each dollar of earnings or other income received by a participant. With changes in social attitudes toward working mothers, the program was modified in the 1960s to provide incentives for work. The Work Incentive Program introduced child care allowances for mothers who worked and also introduced an “earnings disregard”: welfare recipients were allowed to keep the first \$30 of earnings each month, and one-third of any additional earnings, without affecting their welfare payments. In the early

1980s, concerns over the cost of the welfare system led to the abolition of the one-third disregard feature for those who had been on welfare four months or longer. Thus, over the last 15 years of the AFDC program, most welfare recipients confronted a 100 percent “tax rate” on any earnings over \$30 per month. This feature is widely believed to have contributed to low levels of work activity among welfare recipients.<sup>4</sup>

In 1985 California established a statewide program with the goal of moving welfare participants into the workforce. The “Greater Avenues to Independence,” or GAIN program, included three phases: up to two years of basic skills training, followed by assisted job search (“job club”), and ending with a referral to a public sector employment program for those who were unsuccessful in finding work. Participation in GAIN was supposed to be mandatory for adults in two-parent households and for single-parent families with no children under the age of six.<sup>5</sup> Following an established tradition in the state, individual counties were given considerable latitude in the design of their GAIN program. Some counties implemented programs with a greater emphasis on training, while others (including Riverside County) designed programs that emphasized moving to employment as quickly as possible – a strategy that is now known as “work first.”<sup>6</sup> Some three years later, the federal government passed legislation establishing the JOBS (Job Opportunities and Basic Skills) program, which required all states to adopt a similar set of strategies. Despite the stipulations of state and federal law for mandatory participation in job search and employment programs, evidence from a variety of sources suggests that the fraction of welfare recipients who actually participated in the GAIN program was far below 100 percent.

A second round of major welfare reforms was initiated in California in the early 1990s under the so-called waivers program which allowed states to apply for exemptions from federal regulations governing the AFDC program. The first California waiver established the Work Pays Demonstration project. This program offered cash bonuses to teenage AFDC parents who finished high school and liberalized the asset limits for AFDC eligibility.<sup>7</sup> Subsequent waivers, approved between 1993 and 1996, introduced a “family cap” (a rule that disallows benefit increases for families that have an additional child); added transitional benefits for mothers who marry; reintroduced the one-third earnings disregard, and expanded the earnings disregard to allow AFDC recipients to earn the difference between their monthly payment and the state need standard (an estimate of the income needed to live above the poverty line) without affecting their benefit amount.

As a result of these changes, by the mid-1990s the California AFDC program provided a relatively strong incentive to work. This is illustrated by the entries in the first two columns of table 2, which show the welfare grant available to a single mother with two children at different levels of earnings between 0 and \$1,500 per month.<sup>8</sup> Because of the enhanced earnings disregards introduced in the waivers, a mother who moved from not working to a job earning \$500 would lose only \$64 of her basic \$565 monthly welfare grant. The reduction associated with the change from \$500 to \$1,000 per month of earnings was larger (\$234), but still provided a reasonable incentive for increases in work effort.

It is important to note that although enhanced earnings disregards increase the financial incentive to work for those on welfare, they also reduce the incentive to leave welfare. In the absence of an enhanced disregard, a participant in the AFDC system would lose one dollar for each dollar of earnings in excess of \$30 per month. Thus, a single mother with two children who could earn \$750 per month would have to leave the welfare system in the absence of an enhanced disregard. As shown in table 2, however, under the California AFDC system in 1997 she would still be eligible for \$334 per month, and would presumably stay on welfare. Such comparisons suggest that the introduction of enhanced earnings disregards would be expected to lead to a rise in welfare caseloads but an increase in the work activities of those on welfare (and potentially a fall in the average amount of welfare payments per case).

As shown in the third column of table 2, the financial incentives for work under the old AFDC system in California were even stronger when the effect of the EITC is taken into consideration. Between 1993 and 1996 the benefit rate of the EITC for families with children was substantially increased: by 1997 the benefit rate was 40 percent on the first \$9,140 of earnings for families with two or more children.<sup>9</sup> Taking account of welfare payments and the EITC, a single mother with two children would have \$636 per month more in income if she was able to find a job paying \$500 per month than if she did not work.<sup>10</sup>

The EITC also increases the reward to increasing work effort for those who are working part-time: for example, moving from \$500 to \$1,000 per month in earnings would lead to a \$103 per month increase in EITC for a mother with two children.

Unlike the EITC, the Food Stamp program provides a modest disincentive for increasing work effort.<sup>11</sup> The rules of the program imply that a family's Food Stamp allotment is reduced by 24 cents per dollar of earnings, and by 30 cents per dollar of income from other sources (including cash welfare payments but not the EITC). The net effect of these rules is illustrated in the fourth column of table 2. Taking account of cash welfare payments, the EITC, and Food Stamps, a single mother with two children had a very strong financial incentive to move from zero earnings to some modest level of earnings (\$500 or \$750 per month), but relatively weaker incentives to increase earnings from \$750 per month to \$1,000 or \$1,500.

In August 1996 the federal government passed the Personal Responsibility and Work Opportunity Reconciliation Act. As noted in table 1, the Transitional Aid for Needy Families (TANF) program established by PRWORA represented a substantial departure from AFDC. TANF is a system of block grants to the states, rather than an entitlement program. Under PRWORA the states are given considerable freedom in the design and operation of their welfare programs, and also reap the benefits of any saving in welfare costs. The new law established a timetable for states to meet a series of target participation rates in work programs, with financial penalties for states that do not meet the targets. It also established a maximum five year time limit on TANF participation for most welfare recipients, although states were free to choose a lower limit.

California's TANF program, known as CalWORKS, was passed into law a year later. Relative to other state's welfare reform programs, some key features of CalWORKS are more generous: for example, the maximum time limit is five years, and the maximum sanction that can be imposed for noncompliance with work requirements is the loss of the adult portion of the TANF grant (rather than the entire grant). CalWORKS also maintained the relatively generous benefit levels of the previous California AFDC program (the sixth highest in the country).<sup>12</sup> Like the earlier GAIN program, CalWORKS gives the counties considerable freedom in the design of their welfare to work programs. Paralleling the federal law, it establishes specific goals for work participation (adults in single parent families must participate 20 hours per week in work or training effective January 1998, rising to 32 hours by July 1999; one adult in two parent families must participate 35 hours per week).<sup>13</sup> Finally, CalWORKS creates strong financial incentives for the counties to reduce caseloads and cut welfare costs: 75 percent of any savings due to program exits to long-term employment or rises in the earnings of participants accrue to the counties. CalWORKS also allows counties to offer "diversion" payments: lump sum amounts that are paid to potential applicants in lieu of entering the welfare role. Three-quarters of any savings in welfare costs arising from diversion programs are also reaped by the counties.

The impact of the switch from AFDC to CalWORKS on the cash welfare benefits available to a typical single mother is illustrated in the four right-hand columns of table 2. Compared to the AFDC system, CalWORKS provides a slightly weaker work incentive at low levels of earnings, and a slightly stronger work incentive at high levels of earnings. On balance, however, the differences between payments available under CalWORKS and the earlier program are small. Thus, one would not expect the switch in financial incentives to have much effect on the labor market outcomes of single mothers or other low-income families.

Other features of CalWORKS – such as time limits and work requirements – presumably will have a bigger impact on welfare participation rates and the labor market activities of those in the welfare system. However, these impacts are not likely to be fully realized until some time in the future, and certainly cannot be observed in the data that are available so far, which mainly cover the period up to 1998 (see below). The reason is that the process of welfare reform in California only got started in late 1997. Given the complexity of reforms, and in particular the massive change in the mission of the county welfare agencies that is mandated by CalWORKS, it will take several years to fully implement the new program. The available evidence suggests that participation rates in mandated welfare-to-work programs in the first year of CalWORKS were relatively low (Zellman et al. 1999) and that procedures for

sanctioning nonparticipants were still being developed as of 1999.<sup>14</sup> Moreover, CalWORKS specifies that the “clock” for assessing time limits started on January 1, 1998. Thus, the full impact of time limits will not be seen until 2002.<sup>15</sup>

## II. Changes in Labor Market and Program Participation in California

This section turns to an examination of labor market outcomes and program participation rates among individuals likely to be affected by welfare reform. The main data for this analysis are drawn from the March Current Population Survey (CPS) microdata files for 1980-1999, covering the period from 1979 to 1998.<sup>16</sup> For comparative purposes, most of the tabulations are presented for California and for the U.S. as a whole. To help increase the accuracy of the analysis, and to simplify the presentation, results are presented for three-year averages, rather than for individual calendar years.

As background for the analysis, table 3 presents some basic descriptive information on demographic trends in California and the U.S., and some data on the evolution of average wages for all workers in the state and the country as a whole. The upper panel of the table shows the fraction of youth in the adult population, the average years of education of the adult population, and the fractions of high school dropouts and college graduates. Nationwide and in California the fraction of young people in the adult population fell from the early 1980s to the mid-1990s, and has recently stabilized. The relative trends in education are more different between the state and the country as a whole: although education levels have been rising, and the fraction of dropouts has been falling, California has moved from being slightly above-average in terms of years of schooling or the fraction of high school completers to slightly below-average. The change in the relative fraction of high school dropouts is especially large: in the early 1980s California had only 85 percent as many dropouts as the U.S. while by the late 1990s it had 110 percent of the national average.

One explanation for the rise in the fraction of dropouts in California is the steady inflow of relatively poorly educated immigrants from Mexico and Central America. While the CPS did not collect immigrant origin data until very recently, an indication of this phenomenon is provided by the data on the fraction of Hispanics in the middle panel of table 3. During the past two decades the fraction of Hispanics has risen by 12 percentage points in California relative to the U.S. as a whole. Since Hispanics have about 2.8 fewer years of education than non-Hispanics, and a 30 percentage point higher probability of being high school dropouts, this trend can explain about one-half of the relative rise in the fraction of dropouts in California, and two-thirds of the relatively fall in mean years of education.<sup>17</sup> California also differs from the rest of the country in having a relatively high and rising fraction of Asians, many of whom are immigrants too.

The bottom panel of table 3 shows average hourly wages for all workers, and the fractions of workers earning up to \$6.00 per hour (in inflation-adjusted 1997 dollars), from \$6.01 to \$10.00 per hour, and more than \$10.00 per hour. Relative to the rest of the country, average hourly wages are about 10 percent higher in California, and this differential has been quite stable. The stability of the average, however, hides the fact that the relative fraction of workers at the low end of the labor market (earning \$6.00 or less per hour) has risen in California relative to the rest of the country, especially during the 1990s. Although not reported in the table, measures of the *inequality* of wages have similarly trended upward in California relative to the U.S. Part of the explanation for this trend is the growing presence of poorly-educated immigrants, who tend to earn less than other workers.

Another important piece of background information is presented in figure 1, which shows annual average unemployment rates in California and the nation. Over the period from 1980 to 1990, the two unemployment rates rose and fell more-or-less in tandem. During the 1990s, however, the rise in unemployment was far greater in California, and even by 1999 California still had a one percentage point higher unemployment rate. The more severe recession and continuing unemployment gap has a potentially important impact on the comparison of welfare caseloads and labor market outcomes in California versus the U.S. Since job opportunities for younger and less educated workers are highly sensitive to business cycle conditions (see Hoynes 2000), one would expect welfare caseloads to have

risen more in the early 1990s, and to have fallen less in the late 1990s in California than in other states.

A third background factor that is potentially important for explaining welfare participation and the labor market outcomes of women is the fraction of women who live in different family relationships. Welfare participation rates and poverty rates are much lower for women who live with a husband than for those who are single family heads.

In recognition of this fact, one of the goals of recent welfare reforms has been to reduce the fraction of families headed by lone mothers, both by encouraging higher marriage rates and by discouraging births to single women. Table 4 shows the family status of women age 16-59 in California and in the U.S. as a whole over the 1979-98 period. Interestingly, the family relationship distributions have been relatively stable in California, while they have changed somewhat more in other states. The fraction of single mothers, however, has been relatively steady at around 10 percent in both California and the country as a whole. Thus, differences in welfare participation rates between California and other states are not mainly attributable to differences in family structure. Tables 5, 6, 7, and 8 present a variety of information on the labor market outcomes, welfare participation, and poverty status of women ages 16 to 59 in California and the U.S. Table 5 presents results for all women, while the subsequent tables present parallel results for married women with children (table 6), married women without children (table 7), and single mothers (table 8). The formats of the tables are similar: the upper panel in each table presents data on employment and hours, the middle panel presents data on earnings and hourly wages, and the bottom panel presents data on welfare and food stamp reciprocity, total welfare receipts, and poverty status.

An examination of the employment and hours data for all women in the upper panel of table 5 points to two main conclusions. First, the fraction of women who work has been relatively stable in California, and rising elsewhere. Between the early 1980s and the late 1990s, the employment rate of California women fell from somewhat above the national average to about 10 percent below the national average, with most of the relative decline occurring in the 1980s. Second, the fraction of women working full-time, and average annual hours, has risen in both California and other states.<sup>18</sup> However, the rise was faster outside California, so that by the end of the 1990s California women's annual hours were about 8 percent below the national average. Again, most of the relative decline occurred between 1979-81 and 1991-93.

Comparisons of the changes in employment and hours for the different family groups in tables 6-8 suggest that the *relative* trends in employment and hours of work in California have been similar for married women with children, married women without children, and single mothers. Across all three groups of women, the annual hours of Californians fell from a level just above the national average in the early 1980s to a level 8-10 percent below the national average in 1997-98. The similarity of the relative trends for the three groups suggests that welfare reform and changes in income support programs are unlikely explanations for the relatively slow growth in the labor supply of California women. In particular, since married women without children have extremely low welfare participation rates, their behavior is only marginally affected by welfare reform.

The middle panels of tables 5-8 show average annual earnings (in inflation-adjusted dollars),<sup>19</sup> the fractions of workers earning \$5,000 per year or less, and \$5,001-10,000 per year, and the average hourly wages of workers. Like average annual hours, average annual earnings of women have been rising over the past two decades, with a slower rate of growth in California. In the early 1980s California women had about 17 percent higher average earnings than the national average. By the end of the early 1990s, however, women in other states had caught up. Interestingly, the decline in the *relative* annual earnings was not due to a relative change in the hourly wages of California women: throughout the 1980s and 1990s California women had 10 percent higher average wages than the national average. Rather, the relatively slower growth in annual earnings can be attributed to the slower growth in hours of work. As with the hours changes, the changes in the relative earnings for Californians are quite similar for married women with children, married women without children, and single mothers. Moreover, all three groups show a steady 10-15 percent higher average wage in California than the U.S. as a whole.

The first two columns in the bottom panel of table 5 show the fractions of women age 16-59 who

reported receiving any welfare during the year in California and the nation. For the U.S. as a whole welfare reciprocity rates were fairly stable over the 1980s, rose in the early 1990s, and then fell dramatically in the late 1990s. A similar pattern is evident in California, although the average fraction of welfare recipients is consistently higher in California. Moreover, the decline in welfare participation in the later 1990s was much smaller in California, leading to a sharp rise in the relative welfare participation rate. An important caveat to this conclusion is that the CPS data underlying these tabulations are only available up to 1998.<sup>20</sup> In 1999, welfare caseloads fell much more rapidly in California than in other states. This fact is illustrated in figure 2, which shows the numbers of welfare recipients in California and other states relative to the number in January 1996 (the last year under the old AFDC welfare system). Between January 1996 and January 1999, the number of welfare recipients fell by 30 percent in California but 45 percent in the rest of the states. During 1999, however, California effectively “caught up” with other states: by December 1999, the number of welfare recipients was about one-half of the January 1996 level.

The welfare participation rates for married women with children and single mothers in tables 6 and 8 show a similar pattern to the data for all women, although the average levels of welfare participation are lower for married women with children, and much higher for single mothers. The patterns of welfare participation for single mothers are particularly important for understanding trends in welfare since single mothers account for 75 percent of welfare recipients in California, and an even higher fraction (85 percent) of welfare recipients in the U.S. as a whole.<sup>21</sup> Over the 1980s single mothers had roughly 10 percent higher welfare participation rates in California than the national average. In the early 1990s national welfare participation rates of single mothers surged, presumably as a result of the recession. Consistent with the more severe downturn in California and the relatively sluggish recovery, the rise between 1988-90 and 1991-93 was larger in California, and the decline between 1991-93 and 1994-96 was smaller. By 1997-98, the fraction of single mothers who reported receiving any welfare over the year had fallen to 18 percent nationally, but remained at 25 percent in California.

Although comparisons of annual welfare participation rates are informative, they do not reflect changes in the intensity of participation (i.e., the number of months on welfare). A more comprehensive measure of welfare usage is the amount of benefits collected.<sup>22</sup> The annual welfare benefit amount data in tables 5-8 show patterns that are generally similar to the simpler participation measures. In particular, average welfare benefits were higher in California than the national average throughout the 1980s, and did not decline as quickly in the late 1990s, leading to a rise in the relative amount of welfare benefits collected by California women.

In contrast to the major reforms to the cash welfare system introduced by PRWORA, the structure of the Food Stamp program has been fairly stable. Moreover, people who leave the welfare roll are still eligible for food stamps, provided that their income is below a threshold that has been roughly constant over the 1990s. These observations suggest that changes in food stamp participation should primarily reflect changes in relative economic conditions, rather than changes in eligibility rules.<sup>23</sup> In view of this, it is interesting to examine trends in food stamp participation by women in California and in the U.S. as a whole. Food stamp participation rates for all women in table 5 show a modest decline nationally between 1988-90 and 1997-98 (from 8.6 to 8.0 percent of all women) and a rise in California (from 7.0 to 8.4 percent). Similar relative trends are seen for married women with children, for married women without children, and for single mothers. In each case, food stamp participation rates rose in California between the late 1980s and late 1990s, but fell elsewhere. These relative changes suggest that the fraction of lower-income families has risen in California relative to other states, and that *even in the absence of welfare reform* participation rates in cash welfare programs would have fallen more slowly in California than in other states. Two potential explanations for the relative rise in the fraction of low-income families in California are demographic factors and macroeconomic trends. On one hand, California has a rising fraction of families headed by relatively poorly-educated immigrants, who earn less than other families and are therefore more likely to need income and in-kind assistance. On the other hand, the more severe recession in California in the early 1990s and the slower subsequent recovery presumably contributed to slower income growth in the state.

The final set of numbers in the bottom panel of tables 5-8 are poverty rates: the fractions of women whose family income falls below the federal poverty threshold for the appropriate family size. In the early 1980s, California had poverty rates that were slightly below the national average for single mothers and married women with no children, and slightly above the national average for married women with children. Poverty rates are highly counter-cyclical: consequently, poverty rates in California and the nation rose in the early 1980s, fell during the expansion from 1984 to 1989, rose again in the early 1990s, and have been falling since. Over the entire period, however, the *relative* poverty rate in California has been gradually rising. The trend for married women with children is especially remarkable: whereas poverty rates for this group in 1997-98 were just below the levels of 1979-81 nationally, in California they had risen from 8.1 to 11.8 percent. While some of this relative rise may reflect the slower recovery from the 1990-92 recession, it seems likely that much of the rise is attributable to the growing fraction of California workers with relatively low wages (see table 3). This trend, in turn, is at least partially explained by the rising fraction of California families headed by poorly-educated immigrants.

A final issue of much interest is the trend in labor market outcomes for those who participate in welfare. A major goal of the welfare reforms adopted in the 1980s and 1990s, including the California GAIN program, the JOBS program, and PRWORA, was to get welfare recipients into employment. As noted in the discussion of table 2, changes in California's AFDC program in the early 1990s, coupled with the expansion of the EITC, introduced substantial financial work incentives for people on welfare. Under the new TANF program, these financial incentives have remained, and additional non-financial incentives have been introduced by mandatory work requirements.

Table 9 presents a variety of labor market outcomes for single mothers who were "full-year" welfare recipients in the Current Population Survey between 1988 and 1998.<sup>24</sup> The first two columns of the table report the fraction of single mothers who received welfare at any time during the year who received it for all months. This fraction ranges from 73 to 86 percent, suggesting that full-year recipients account for most of the single-mother welfare recipients recorded in the CPS. Indeed, since single mothers make up 75-80 percent of all welfare recipients, and full-year recipients account for three-quarters of all single-mother recipients, single mothers who were on welfare all year represent about 60 percent of all welfare participants during the year, and an even higher fraction of the monthly caseload.

Three indicators of work activity are reported in table 9: the fraction of full-year recipients who worked at any time during the year, average weeks of work, and average annual earnings. All three indicators show dramatic rises in California and in the country as a whole over the 1990s. Moreover, the rises are somewhat bigger in California than other states: for example, average weeks rose by 8.5 in California, but 7.3 in the U.S., while average earnings rose by \$2,148 (in 1997 dollars) in California but only \$1,507 nationally. These results point to two important conclusions. First, work effort by welfare recipients is on the rise. Second, work effort by California welfare recipients is rising somewhat faster than in other states. In view of the slower economic recovery in California, and anecdotal evidence that the implementation of formal work requirements under TANF has proceeded more slowly in California than in many other states, this is rather surprising, and suggests that the enhanced work incentives in the California welfare system are having a strong effect.<sup>25</sup>

### **III. Summary**

This chapter has summarized recent welfare reforms in California, and used data from the Current Population Survey to examine trends in the labor market outcomes and program participation of female family heads in California and in other states. California's system of cash assistance for families with dependent children has been evolving steadily over the past two decades. During the 1980s the GAIN program introduced job search requirements. In the early 1990s the financial incentives for work were substantially enhanced by innovations under the waivers program and the expansion of the federal Earned Income Tax Credit. Finally, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act and the 1997 CalWORKS legislation have substantially changed the goals and operation of the welfare system, with a devolution of authority to the counties and the introduction of time limits and targets for work activity.



A comparative analysis of labor market outcomes and program participation trends in California versus the nation points to a number of conclusions. First, the relative composition of the California population is changing. In the early 1980s California had a higher average education than the rest of the country, and a lower fraction of high school dropouts. With the continuing rise in the fraction of relatively poorly educated immigrants in the California population, this relative advantage has steadily eroded. Associated with the decline in relative education levels is a rise in the fraction of workers earning relatively low wages. Since individuals with low education are more likely to experience difficulties in the labor market, this trend would be expected to lead to a relative rise in the fraction of welfare participants in California.

Second, the California economy underwent a more serious recession than other states in the early 1990s, and recovered more slowly. This by itself would be expected to lead to higher rates of program participation, and slower reductions in welfare caseloads. Moreover, California was slower to implement certain features of welfare reform, such as sanctions for those who do not participate in work programs, than some other states. This too could account for slower relative declines in welfare caseloads. An examination of welfare participation rates up to 1998 suggests that California did not see as big declines as other states. However, during 1999 California's welfare caseload declined very rapidly. Comparing caseloads between January 1996 (just before PRWORA) and December 1999, the declines in California are fairly similar to the declines in the other states.

Third, California has adopted relatively generous financial incentives for work for those on welfare. Coupled with changes in the EITC, the welfare system provides strong economic incentives to move from non-work to work. Consistent with these incentives, the available evidence suggests that the fraction of welfare recipients who work has risen somewhat faster in California than in other states, even though California has lagged behind many other states in implementing non-financial incentives for work.

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**Table 1: Welfare Reform Chronology**

- 1935 Title IV of 1935 Social Security Act established Aid to Families with Dependent Children (AFDC), an entitlement program for single mothers with costs split between the state and federal governments. Key program parameters set by federal government; states allowed to determine payment levels.
- 1967 Work Incentive Program (WIN) established. Funded child-care for working parents and established an earnings disregard (\$30 plus one-third of additional earnings).
- 1981 Omnibus Budget Reconciliation Act (OBRA) allowed states to experiment with work requirement for benefit eligibility. Subsequent changes in Social Security Act allow Secretary of Health and Human Services to grant waivers from federal AFDC rules. Eliminated one-third earnings disregard for most cases.
- 1985 California GAIN program. Designed to move welfare recipients into the work force through program of basic skill training, job search (“job clubs”) and public service employment.
- 1988 Family Support Act (FSA) established Job Opportunities and Basic Skills (JOBS) training program. Required participation of two parent families and mothers with older children in work activities. GAIN is designated at California’s JOBS program.
- 1992 California Assistance Payments and Work Pays Demonstration Project (“Work Pays”) waiver program. Re-introduced one-third earnings disregard. Subsequent waivers introduce “family cap” (no raise in AFDC payments for those who have a child); transitional child care for newly married welfare leavers; expanded disregard (“fill-the-gap” disregard allows disregard of earnings up to the difference between AFDC benefit and need standard); CalLearn program for teen parents who had not completed high school.
- 1995 Changes in GAIN legislation. Shift in focus to work-first approach, with tightening of exemptions from work requirements.
- 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) passed. Ends AFDC entitlement program and replaces it with Transitional Aid to Needy families (TANF) block grants. Under “maintenance of effort” (MOE) provision, states are required to maintain spending at fraction of pre-reform levels. Introduction of work requirements – most recipients are required to participate in work programs, with a series of rising targets for the state-wide work participation rates. Introduction of time limits: federal maximum of five years of welfare reciprocity. States are allowed to introduce shorter limits. States allowed considerable freedom in design of welfare program, including use of diversion payments, sanctions for non-compliance, and rules for exemptions from work requirements and time limits.
- 1997 CalWORKs legislation passed August 1997. Set lifetime five year time limit, with clock to start in January 1998, and 18-month time limit for continuous receipt of TANF after initial assessment process. Sanctions apply only to adult portion of family grant. Responsibility for design and operation of diversion and welfare-to-work (WTW) programs given to counties. Benefit levels equal to rates under previous AFDC program. Earnings disregard under TANF set to \$225 plus one-half of additional earnings.

**Table 2:** Comparison of Welfare and Other Transfers Pre- and Post- CalWORKS for a Single Mother with Two Children

<b>Earnings per Month</b>	<u>Under Old (AFDC) System:</u>				<u>Under New (TANF) System:</u>			
	<b>Welfare</b>	<b>EITC</b>	<b>Food Stamps</b>	<b>Total</b>	<b>Welfare</b>	<b>EITC</b>	<b>Food Stamps</b>	<b>Total</b>
<b>0</b>	565	0	298	863	565	0	298	863
<b>250</b>	565	100	238	1,153	553	100	242	1,145
<b>500</b>	501	200	197	1,398	428	200	219	1,347
<b>750</b>	334	300	187	1,571	303	300	197	1,550
<b>1,000</b>	167	303	177	1,647	178	303	174	1,655
<b>1,250</b>	0	251	167	1,668	53	251	152	1,706
<b>1,500</b>	0	107	0	1,607	0	107	0	1,607

Notes: Program amounts are calculated for 1997. All entries are estimates, assuming that family is eligible for the maximum dependent care deduction for food stamps, has no other income sources (e.g., no child support income), and that asset limits for welfare and food stamp eligibility are satisfied.

**Table 3:** Demographic Characteristics and Labor Market Outcomes in California versus the United States, 1979-98

	<u>Percent Age 16-24</u>			<u>Average Education</u>			<u>Percent High School Dropouts</u>			<u>Percent College Grads</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
	<b>1979-81</b>	21.6	21.8	99	12.2	11.8	103	27.2	32.1	85	18.1	14.6
<b>1982-84</b>	20.4	20.3	100	12.4	12.0	103	25.6	29.0	88	19.9	16.3	122
<b>1985-87</b>	18.7	18.5	101	12.4	12.2	102	24.9	27.0	92	20.3	17.3	118
<b>1988-90</b>	17.7	17.0	104	12.3	12.3	100	25.5	25.1	102	21.5	18.7	115
<b>1991-93</b>	16.7	16.2	103	12.4	12.5	100	21.9	21.0	104	21.3	19.2	111
<b>1994-96</b>	16.3	16.2	101	12.5	12.6	99	22.4	20.4	110	22.7	20.6	110
<b>1997-98</b>	17.3	16.3	106	12.6	12.7	99	21.1	19.2	110	23.0	21.7	106

	<u>Percent Hispanic</u>			<u>Percent Black Non - Hispanic</u>			<u>Percent Asian and Other Races</u>			<u>Percent White Non-Hispanic</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
	<b>1979-81</b>	14.8	5.2	283	7.6	10.6	72	6.7	2.2	308	71.0	82.1
<b>1982-84</b>	17.0	5.8	292	7.2	10.8	67	8.2	2.5	321	67.7	80.8	84
<b>1985-87</b>	20.4	7.0	292	6.4	10.9	59	8.6	2.9	296	64.6	79.2	82
<b>1988-90</b>	22.7	7.5	301	6.2	11.2	55	9.6	3.2	300	61.5	78.1	79
<b>1991-93</b>	25.4	8.4	303	5.8	11.4	51	10.2	3.5	290	58.6	76.8	76
<b>1994-96</b>	26.7	9.6	279	6.3	11.5	55	11.4	3.9	291	55.6	75.0	74
<b>1997-98</b>	26.7	10.3	261	6.3	11.6	54	13.0	4.5	290	54.0	73.7	73

**Percent With Hourly Wage:**

	<u>Average Hourly Wage</u>			<u>Up to \$6.00 / Hour</u>			<u>\$6.01-10.00 / Hour</u>			<u>Over \$10.00 / Hour</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
	<b>1979-81</b>	15.0	13.7	109	11.1	13.6	82	25.5	28.7	89	63.4	57.7
<b>1982-84</b>	15.1	13.7	110	13.0	16.0	81	24.6	27.4	90	62.4	56.6	110
<b>1985-87</b>	15.7	14.1	111	14.0	16.2	86	22.2	25.4	87	63.7	58.3	109
<b>1988-90</b>	15.7	14.2	111	13.0	15.6	83	23.8	25.8	92	63.2	58.6	108
<b>1991-93</b>	15.5	14.0	111	14.1	16.5	86	23.1	25.8	89	62.8	57.7	109
<b>1994-96</b>	15.5	14.4	108	15.7	16.3	97	23.4	26.3	89	60.9	57.5	106
<b>1997-98</b>	16.1	15.1	107	15.2	14.8	102	23.8	25.8	92	61.0	59.4	103

Notes: All data are derived from tabulations of the March Current Population Survey (CPS). Dollar amounts are expressed in inflation-adjusted 1997 dollars.

**Table 4:** Family Status of Women Age 16-59 in California versus the United States, 1979-98

	<u>Percent Married with Children</u>			<u>Percent Married without Children</u>			<u>Percent Single Mothers</u>			<u>Percent Not Family Heads</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	33.5	36.2	93	21.7	23.0	94	10.3	9.6	107	34.5	31.2	111
<b>1982-84</b>	33.0	34.6	96	21.6	23.4	92	10.2	10.6	96	35.2	31.4	112
<b>1985-87</b>	33.5	34.0	99	21.3	23.3	91	10.2	10.9	94	34.9	31.8	110
<b>1988-90</b>	32.3	33.1	98	20.8	23.5	89	11.1	11.2	99	35.7	32.3	111
<b>1991-93</b>	33.5	32.4	103	21.3	23.3	91	12.0	12.1	100	33.1	32.2	103
<b>1994-96</b>	33.3	31.6	105	20.7	23.1	90	12.4	12.2	101	33.6	33.1	102
<b>1997-98</b>	31.7	30.8	103	19.9	22.8	87	11.6	11.8	98	36.8	34.6	106

Note: Women who are not family heads include those who live alone, and those who live in a family with parents or other relatives.

**Table 5:** Relative Labor Market Outcomes, Welfare Participation, and Poverty: Women Age 16-59 in California versus the United States, 1979-98

	<u>Percent Employed During Year</u>			<u>Percent Full-Time All Year</u>			<u>Percent Part-Time All Year</u>			<u>Average Annual Hours</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	66.6	65.6	102	31.6	31.0	102	7.2	7.5	96	1,037	997	104
<b>1982-84</b>	65.3	66.1	99	33.1	33.3	99	8.4	8.4	100	1,049	1,035	101
<b>1985-87</b>	67.7	69.6	97	36.3	36.9	98	8.5	8.8	96	1,120	1,128	99
<b>1988-90</b>	67.5	71.4	94	37.0	39.6	93	8.4	9.1	93	1,152	1,197	96
<b>1991-93</b>	64.5	71.1	91	36.5	40.5	90	8.8	9.5	93	1,116	1,212	92
<b>1994-96</b>	65.4	72.5	90	37.7	41.8	90	9.7	9.7	99	1,144	1,242	92
<b>1997-98</b>	66.9	73.0	92	39.2	43.7	90	10.3	10.1	102	1,180	1,277	92

  

	<u>Average Annual Earnings</u>			<u>Percent of Earners with Annual Earnings:</u>						<u>Average Hourly Wage</u>		
	CA	US	Ratio	<u>\$1-5000/Year</u>			<u>\$5001-10000/Year</u>			CA	US	Ratio
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	11,680	9,975	117	21.6	24.9	87	14.9	15.9	94	11.8	10.6	112
<b>1982-84</b>	12,075	10,677	113	20.8	24.3	86	14.4	14.8	97	12.2	10.8	113
<b>1985-87</b>	13,816	12,324	112	19.7	22.8	87	13.4	14.2	94	12.8	11.4	113
<b>1988-90</b>	14,582	13,501	108	17.8	20.6	86	14.2	14.0	102	13.4	11.8	113
<b>1991-93</b>	14,191	13,814	103	18.1	19.7	92	12.9	13.7	94	13.6	12.0	113
<b>1994-96</b>	14,908	14,730	101	17.1	18.5	93	14.2	14.0	101	13.6	12.3	110
<b>1997-98</b>	16,098	15,958	101	17.1	17.8	96	14.1	13.6	104	14.0	12.8	109

  

	<u>Percent Received Welfare During Year</u>			<u>Percent Received Food Stamps During Year</u>			<u>Average Annual Welfare Amount</u>			<u>Percent Poor</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	5.3	4.3	125	7.6	9.5	80	381	252	151	12.0	12.8	94
<b>1982-84</b>	4.8	4.2	115	7.3	9.7	76	355	231	154	14.6	15.3	96
<b>1985-87</b>	4.7	4.3	110	5.3	8.6	61	357	231	154	13.6	14.3	95
<b>1988-90</b>	5.1	4.2	121	7.0	8.6	82	380	212	179	14.6	13.8	106
<b>1991-93</b>	6.2	5.0	125	9.9	11.0	91	417	230	181	18.2	15.4	118
<b>1994-96</b>	6.3	4.3	148	10.2	10.6	97	409	194	211	17.6	15.0	117
<b>1997-98</b>	4.2	2.8	150	8.4	8.0	105	221	109	202	16.9	14.0	121

See note to table 3. Welfare amounts include AFDC and TANF – see text.

**Table 6:** Relative Labor Market Outcomes, Welfare Participation, and Poverty: Married Women Age 16-59 with Children in California versus the United States, 1979-98

	<u>Percent Employed During Year</u>			<u>Percent Full-Time All Year</u>			<u>Percent Part-Time All Year</u>			<u>Average Annual Hours</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	58.9	58.8	100	23.8	23.7	100	7.3	8.3	88	862	849	102
<b>1982-84</b>	57.5	60.3	95	25.5	26.8	95	9.3	9.5	97	880	909	97
<b>1985-87</b>	61.4	65.0	94	29.5	31.0	95	9.1	10.4	88	973	1,019	95
<b>1988-90</b>	61.5	67.5	91	29.2	33.7	87	9.5	10.7	89	997	1,094	91
<b>1991-93</b>	59.4	68.2	87	30.3	36.1	84	9.3	11.2	83	989	1,137	87
<b>1994-96</b>	59.7	69.9	85	33.1	38.1	87	9.8	12.0	82	1,025	1,177	87
<b>1997-98</b>	61.5	70.3	87	34.7	40.0	87	9.9	11.6	85	1,079	1,214	89

  

	<u>Average Annual Earnings</u>			<u>Percent of Earners with Annual Earnings:</u>						<u>Average Hourly Wage</u>		
	CA	US	Ratio	<u>\$1-5000/Year</u>			<u>\$5001-10000/Year</u>			CA	US	Ratio
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	9,540	8,183	117	23.3	26.5	88	16.0	18.0	89	12.1	10.8	113
<b>1982-84</b>	9,991	9,165	109	21.8	24.6	89	15.7	16.8	93	12.6	11.1	114
<b>1985-87</b>	11,687	10,998	106	20.1	22.4	90	14.8	15.7	94	13.1	11.9	111
<b>1988-90</b>	12,188	12,191	100	18.3	19.9	92	16.4	15.3	107	13.8	12.2	113
<b>1991-93</b>	12,443	13,044	95	17.7	18.6	95	14.3	14.5	99	14.0	12.6	111
<b>1994-96</b>	13,713	14,583	94	15.9	16.1	99	14.6	14.4	102	14.2	13.3	107
<b>1997-98</b>	16,166	15,983	101	16.1	15.5	103	14.2	13.9	103	15.2	13.8	110

  

	<u>Percent Received Welfare During Year</u>			<u>Percent Received Food Stamps During Year</u>			<u>Average Annual Welfare Amount</u>			<u>Percent Poor</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	3.0	1.7	175	5.7	6.5	87	197	87	225	8.1	7.5	107
<b>1982-84</b>	3.1	1.6	188	6.6	7.1	93	221	83	268	11.0	9.9	111
<b>1985-87</b>	2.8	1.6	173	4.6	5.7	81	192	80	238	10.4	8.3	126
<b>1988-90</b>	3.6	1.7	206	5.3	5.3	100	260	84	310	10.2	7.6	134
<b>1991-93</b>	3.8	2.1	177	7.9	7.2	110	247	100	247	13.7	8.8	155
<b>1994-96</b>	4.6	2.0	235	8.2	6.5	127	278	92	302	13.8	8.1	170
<b>1997-98</b>	2.4	1.0	236	6.3	4.4	142	148	47	318	11.8	7.2	165

Note: see note to table 3.



**Table 7:** Relative Labor Market Outcomes, Welfare Participation, and Poverty: Married Women Age 16-59 without Children in California versus the United States, 1979-98

	<u>Percent Employed During Year</u>			<u>Percent Full-Time All Year</u>			<u>Percent Part-Time All Year</u>			<u>Average Annual Hours</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	64.2	64.9	99	36.2	38.2	95	7.4	7.4	99	1,121	1,133	99
<b>1982-84</b>	64.1	65.6	98	38.1	40.2	95	8.0	8.2	97	1,146	1,168	98
<b>1985-87</b>	67.4	68.6	98	41.8	43.5	96	8.3	8.6	96	1,241	1,253	99
<b>1988-90</b>	69.0	70.6	98	43.5	47.5	92	8.5	8.6	99	1,289	1,338	96
<b>1991-93</b>	65.8	71.9	92	44.8	49.2	91	9.2	9.4	98	1,298	1,381	94
<b>1994-96</b>	70.1	73.4	96	46.9	49.7	94	11.0	9.2	120	1,371	1,405	98
<b>1997-98</b>	69.6	73.6	95	46.8	51.6	91	12.6	9.6	131	1,368	1,438	95

  

	<u>Average Annual Earnings</u>			<u>Percent of Earners with Annual Earnings: \$1-5000/Year</u>			<u>\$5001-10000/Year</u>			<u>Average Hourly Wage</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	12,770	11,649	110	15.2	14.8	103	13.9	14.3	98	12.6	11.2	112
<b>1982-84</b>	13,552	12,405	109	14.4	14.6	98	13.6	13.5	100	12.8	11.4	112
<b>1985-87</b>	15,871	14,272	111	12.6	14.1	89	11.3	12.6	90	14.0	12.2	114
<b>1988-90</b>	17,608	15,750	112	11.6	11.6	100	10.9	11.7	93	14.6	12.7	115
<b>1991-93</b>	17,284	16,491	105	10.7	10.6	100	10.6	11.8	89	15.1	13.0	116
<b>1994-96</b>	19,001	17,420	109	9.4	10.2	92	12.0	11.7	103	14.5	13.1	111
<b>1997-98</b>	19,346	19,079	101	9.1	9.0	101	11.5	10.9	105	15.4	13.8	112

  

	<u>Percent Received Welfare During Year</u>			<u>Percent Received Food Stamps During Year</u>			<u>Average Annual Welfare Amount</u>			<u>Percent Poor</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	0.4	0.2	226	1.1	2.2	50	29	14	204	3.6	3.9	93
<b>1982-84</b>	0.3	0.2	175	1.5	2.3	62	6	11	55	4.5	4.9	93
<b>1985-87</b>	0.2	0.2	99	0.6	1.8	32	17	13	134	3.3	4.3	76
<b>1988-90</b>	0.2	0.2	89	1.0	1.8	56	28	12	245	3.9	3.9	99
<b>1991-93</b>	0.4	0.3	123	2.1	2.5	86	32	15	212	5.6	4.1	136
<b>1994-96</b>	0.3	0.2	107	2.4	2.4	101	22	13	174	5.3	4.0	130
<b>1997-98</b>	0.3	0.1	181	1.2	1.5	80	11	7	159	3.6	3.6	100

Notes: see note to table 3.

**Table 8:** Relative Labor Market Outcomes, Welfare Participation, and Poverty: Single Mothers Age 16-59 in California versus the United States, 1979-98

	<u>Percent Employed During Year</u>			<u>Percent Full-Time All Year</u>			<u>Percent Part-Time All Year</u>			<u>Average Annual Hours</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	68.9	67.1	103	37.6	36.5	103	4.6	4.7	99	1,149	1,099	105
<b>1982-84</b>	62.7	63.1	99	35.3	34.9	101	5.3	5.0	106	1,030	1,027	100
<b>1985-87</b>	62.2	65.6	95	36.5	36.5	100	5.8	5.2	111	1,052	1,078	98
<b>1988-90</b>	59.8	68.0	88	35.4	38.7	91	4.8	5.3	91	1,053	1,140	92
<b>1991-93</b>	60.0	66.7	90	33.5	37.2	90	7.0	6.3	111	994	1,109	90
<b>1994-96</b>	63.0	71.6	88	36.5	41.3	89	7.5	6.6	113	1,087	1,213	90
<b>1997-98</b>	70.1	76.7	91	40.1	45.7	88	7.5	7.5	100	1,191	1,320	90

  

	<u>Average Annual Earnings</u>			<u>Percent of Earners with Annual Earnings:</u>						<u>Average Hourly Wage</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	13,084	11,069	118	16.5	19.1	86	13.7	14.6	93	11.7	10.2	114
<b>1982-84</b>	11,735	10,329	114	16.8	21.0	80	14.1	14.1	100	11.6	10.3	113
<b>1985-87</b>	12,717	11,257	113	18.7	21.7	86	11.3	14.1	80	12.3	10.5	118
<b>1988-90</b>	12,766	11,796	108	16.5	20.6	80	13.7	15.2	90	13.0	10.6	122
<b>1991-93</b>	11,700	11,512	102	20.6	20.9	99	14.8	15.7	94	12.1	10.6	114
<b>1994-96</b>	12,686	12,756	99	16.5	20.1	82	16.7	15.9	105	12.3	10.8	114
<b>1997-98</b>	14,089	14,038	100	19.7	19.2	103	13.5	16.6	82	12.1	11.0	110

  

	<u>Percent Received Welfare During Year</u>			<u>Percent Received Food Stamps During Year</u>			<u>Average Welfare Amount</u>			<u>Annual Percent Poor</u>		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
<b>1979-81</b>	34.4	31.1	110	32.2	37.9	85	2,522	1,885	134	38.9	46.5	83
<b>1982-84</b>	33.7	31.0	109	30.7	38.1	81	2,530	1,682	150	47.3	53.4	89
<b>1985-87</b>	32.5	30.8	106	25.8	36.7	70	2,530	1,632	155	47.9	52.7	91
<b>1988-90</b>	30.5	28.7	106	28.5	36.1	79	2,316	1,406	165	49.0	50.2	98
<b>1991-93</b>	34.8	30.7	114	37.4	41.6	90	2,421	1,401	173	53.0	52.2	102
<b>1994-96</b>	32.1	25.3	127	36.4	38.6	94	2,092	1,116	188	46.4	48.2	96
<b>1997-98</b>	25.0	17.7	141	34.1	32.0	106	1,282	667	192	48.7	45.5	107

Note: see note to table 3.

**Table 9:** Characteristics of Single Mothers Who Received Welfare in All 12 Months of the Year in California and the United States, 1988-98

	<b>Percent of Welfare Recipients Who Receive Benefits in</b>		<b>Labor Market Outcomes of Full-year Recipients</b>					
	<b><u>All Months</u></b>		<b><u>Percent Work</u></b>		<b><u>Average Weeks</u></b>		<b><u>Average Earns</u></b>	
	<b>CA</b>	<b>US</b>	<b>CA</b>	<b>US</b>	<b>CA</b>	<b>US</b>	<b>CA</b>	<b>US</b>
<b>1988-90</b>	72.8	76.9	14.8	19.3	4.2	4.6	664	703
<b>1991-93</b>	78.3	78.6	20.7	21.1	5.6	5.4	855	865
<b>1994-96</b>	85.5	80.0	27.3	29.5	8.3	8.3	1,641	1,596
<b>1997-98</b>	80.9	75.0	37.5	38.1	12.7	11.9	2,812	2,210

Note: Earnings amounts are in inflation-adjusted 1997 dollars.

## Endnotes

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<sup>1</sup>In addition, a wide variety of other benefits is available to low-income families, including subsidized housing, free or reduced price meals at school, and assistance for home heating bills.

<sup>2</sup>Until the mid-1980s, access to Medicaid for non-disabled and non-elderly individuals and their families was restricted to those who were enrolled in the welfare system. A series of reforms have gradually expanded access to Medicaid to low-income families, regardless of their participation in other programs. See Shore-Sheppard (1997).

<sup>3</sup>The chronology in table 1 is based on data from a number of sources, including Zellman et al. (1999). In addition to the federal program, counties in many states operate a limited cash assistance program known as General Assistance. This program is mainly targeted at those who are ineligible for other forms of assistance.

<sup>4</sup>Only about 10 percent of California welfare recipients in October 1994 reported any earnings. By 1998 this fraction had risen to 35 percent. See California Department of Social Services (1994) and (1998).

<sup>5</sup>Under the AFDC-Unemployed Parent or AFDC-UP program, benefits were available to two-parent families if the husband was unemployed. Federal law required all states to provide AFDC-UP after October 1990. Prior to that time, many states did not provide any benefits to married couple families.

<sup>6</sup>See Riccio, Friedlander, and Freedman (1994).

<sup>7</sup>See U.S. Health and Human Services (1996).

<sup>8</sup>The welfare payment data are based on calculations reported in California Legislative Analyst's Office (1998).

<sup>9</sup>Eissa and Liebman (1996), Eissa and Hoynes (1999), and Meyer and Rosenbaum (1999) provide more details on the EITC. The EITC offers a refundable credit that is a proportion of earnings up to some maximum level. The credit rate is modest for families with no children, but much higher (up to 40 percent) for families with children. For earnings above a second threshold, the credit is phased out. An important feature of the EITC is that it is not counted as income for purposes of determining eligibility for other welfare programs.

<sup>10</sup>This calculation ignores state and federal payroll and income taxes.

<sup>11</sup>Federal law restricts eligibility for food stamps to citizens, certain refugees, and immigrants who have worked more than 10 years in the U.S. The California Food Assistance Program provides funding for Food Stamps for legal immigrants who were in the U.S. before August 22, 1996 who do not meet the federal requirements.

<sup>12</sup>It should be noted that California AFDC benefits were cut in the early 1990s and again in 1997. Relative to peak levels in 1990, levels in 1998 were 19 percent lower.

<sup>13</sup>CalWORKS also introduced a number of monitoring functions for the counties. For example, as of January 1, 1998, children age 6-18 in any family that receives benefits are required to be enrolled in school, while pre-schoolers are required to be immunized. Counties are also required to discontinue aid to individuals who are convicted of a felony related to drug use.

<sup>14</sup>In Alameda County, 45 percent of the caseload were participating in welfare-to-work activities in December 1999, 24 percent were exempt from participation, 21 percent were not participating and had been sanctioned, and 9 percent were enrolled but not participating. See County of Alameda (1999).

<sup>15</sup>The state does not yet have a tracking system in place to measure welfare participation across county lines.

<sup>16</sup>The March CPS collects a variety of information on work activity, earnings, income, poverty status, and program participation over the previous calendar year. Survey respondents systematically under-report welfare participation and the amount of income received from welfare (Schoeni, 2000). Moreover, the extent of under-reporting seems to have risen between 1993 and 1994 (from an average of about 20 percent in the late 1980s/early 1990s to an average of 30 percent in the 1994-98 period). Under-reporting should not affect comparisons of California versus the rest of the U.S.

<sup>17</sup>Among white non-Hispanics, average years of schooling rose from 12.8 years in 1979-81 to 13.6 years in 1997-98, versus a change from 12.0 to 13.0 in the country as a whole. Thus, even among white non-Hispanics the relative rise in education was slower in California than elsewhere.

<sup>18</sup>Note that someone who works full-time (40 hours per week) all year will report 2,080 hours per year. An annual average of 1,000 hours is therefore equivalent to a half-time job all year (or a full-time job one-half of the year).

<sup>19</sup>These averages are constructed over workers and non-workers, assigning zero earnings to non-workers.

<sup>20</sup>Data for 1999 were collected in the March 2000 CPS and will be available in late September 2000.

<sup>21</sup>The higher contribution of single mothers to the national totals is due to the fact that many other states greatly restrict access to welfare for two-parent families.

<sup>22</sup>One potential problem with welfare benefit amounts is that a change in benefit rates can affect the amount of benefits received with no change in behavior. Over the 1990s inflation-adjusted welfare benefits levels were fairly stable in most states, although they were cut by 19 percent in California between 1990 and 1996.

<sup>23</sup>Studies suggest that some people who leave welfare are not aware of their eligibility for food stamps – e.g., Zedlewski and Brauner (1999). To the extent this is true, welfare reform may affect food stamp participation. Moreover, federal law eliminated food stamp eligibility for legal immigrants who had been working in the U.S. for less than 10 years in August 1997. However, under the California Food Assistance Program, these individuals are eligible for food stamps funded by the state. Both of these factors suggest that food stamp participation may be somewhat affected by welfare reform.

<sup>24</sup>Starting with the 1989 CPS, which collected data for 1988, welfare recipients were asked how many months they received benefits. Full-year recipients are defined as those who report receiving benefits for all 12 months.

<sup>25</sup>Blank, Card, and Robins (2000) summarize a variety of studies of the effect of financial incentives for work by welfare participants, and argue that financial incentives have a strong effect on the probability of work by welfare recipients.