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Commentary

Howard Chernick and Cordelia Reimers have written a very useful paper that sheds light on issues that many citizens and policymakers care deeply about: How have the employment and earnings of low-income Americans been affected by welfare reform? How has reform affected the mix of welfare benefits and earned income received by low-income families? Chernick and Reimers go about answering these questions in a straightforward and illuminating way.

My comments will focus on the effect of reform on the well-being of New York City's low-income population. I want to suggest a couple of extensions of the authors' analysis that might shed even more light on this crucial aspect of reform.

When President Clinton and Congress were considering reform back in 1993, many policymakers and researchers wanted to know the possible impact of time limits and work requirements on the welfare-dependent population. Soon after the Administration took up the issue of reform, in the spring of 1994 the Urban Institute organized a conference on the topic of work requirements.[1] When the conference volume was ultimately published, but well before Congress had acted on reform, the Urban Institute held a press conference to publicize the volume's main lessons. Because of wide public interest in reform, the press conference was very well attended, and one question repeatedly came up: If Congress enacts a law that imposes strict time limits, strong work requirements, and tough sanctions on recipients who fail to comply with new welfare rules, how will the reform affect the well-being of the low-income population? Many people obviously were concerned that children in single-parent families might be harmed as a result of time limits and tough work requirements.

Using a variety of indirect measures of well-being, Chernick and Reimers try to answer this crucial question. It is obviously impossible to answer the question in isolation. Many other things have changed since 1994 besides the public assistance law and welfare administration. The economy is in much better shape in 2000 than it was in 1994. The earned income tax credit (EITC) is also more generous, and a number of states have established or expanded EITC programs of their own. In addition, the Children's Health Insurance Program (CHIP) now provides subsidized health insurance protection to many low-income working families who would have been ineligible for such coverage in 1994. All of these changes in the environment have affected family earnings, net incomes, and well-being.

Nonetheless, it is still useful to try to answer the question posed in 1994: What is the situation of the population at risk of receiving welfare today compared with the situation it faced in 1993 or 1994? Many people, including President Clinton and other architects of reform, believe that reform involved changes in addition to those directly connected to the welfare system. Reform also involved liberalization of the EITC, implementation of CHIP, more generous provision of child-

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care subsidies, and expansion of earnings disregards. President Clinton also believed, correctly, that he and the Federal Reserve deserve some of the credit for the healthy job market.

What do Chernick and Reimers find?

- Employment has risen in the New York City population at risk of receiving welfare.
- Unconditional average earnings have increased 7 percent in the at-risk population (an increase that is not statistically significant).
- Unconditional household income has increased 9 percent in the at-risk population (an increase that is almost statistically significant).

The authors do not tell us whether or how much these gains are due to welfare reform as narrowly defined, to welfare reform more broadly defined (to include the expansion in the EITC, for example), to ordinary economic progress, and to extraordinary labor market tightness. Chernick and Reimers have not attempted to determine how much of the employment and income gains in the at-risk population can be traced to tougher work requirements, strict time limits on benefits, generous disregards, a liberalized EITC, or six years of strong economic growth and two or three years of tight labor markets. This is understandable, because it is famously difficult to disentangle the separate effects of each factor. Nonetheless, the authors have given us a helpful overview of the changes in employment and income that have followed in the wake of New York City's welfare reform.

It would be useful if the analysis could be extended to consider two other questions. First, is it possible to give readers an indication of the changes in broader measures of well-being? The present paper shows changes in the employment rate, unconditional earnings, and unconditional household income of the at-risk population. The employment rate, by itself, provides an ambiguous indicator of well-being. Some critics of recent U.S. economic performance suggest that jobless people in western Europe enjoy a higher standard of living than low-wage job holders in the United States. If the United States has increased the ranks of job holders by withholding transfer benefits from people who are jobless, the increase in job holding in the at-risk population might be consistent with a decline rather than an improvement in the living standards of the at-risk population. Perhaps, as some European critics suggest, the increased employment rate of low-productivity American workers is not a reliable indicator that they are better off.

The improvement in unconditional earnings in the at-risk population also gives an ambiguous signal that the population at risk of receiving welfare is better off today than it was in the past. If the gain in earnings has been offset by an equal or even greater loss in public transfers to the at-risk population, the well-being of the poor may have declined even as average earned income increased.

The average income received by the at-risk population offers a less ambiguous indicator of well-being. If the loss of government transfers had offset the gain in earned income, average household income would have declined. But the authors' tabulations show that average income climbed 9 percent while labor earnings rose just 7 percent.

Most students of American poverty, however, recognize that cash household income is a deficient measure of family well-being.

- Do the authors' tabulations include state and federal EITC payments? If the earned income tax credit is excluded, then the tabulations understate the gains that some families have made as a result of moving from the public assistance rolls into employment.
- Do the tabulations subtract from household income a reasonable estimate of the cost of caring for children when the custodial parents are at work? If they do not, they overstate the improvement in family spendable income that occurs when potential breadwinners move off welfare and into jobs.
- Do the authors' calculations include plausible imputations of federal, state, and local tax withholdings? Because wage earnings are taxed while government transfers are untaxed or very lightly taxed, ignoring tax payments can bias the assessment of a breadwinner's relative position when he or she moves off the public assistance rolls and into employment.
- Do the tabulations include consumption enjoyed by the family that is not paid for with spendable household income? For example, do they include rent subsidies received by residents of public housing? Food purchases made possible with free school lunches or food stamps? Consumption of medical care that is financed by Medicaid, CHIP, or a group health plan subsidized by an employer?
- Do the tabulations adjust household incomes to reflect differences in the number of people who must divide the incomes? Most people agree that families containing more members must receive more income to enjoy a standard of living comparable to that of a family with the same income but fewer members. One crude adjustment to reflect such differences is to calculate each family's income-to-needs ratio, that is, the ratio of its spendable income to its poverty threshold. The authors' calculations show that unconditional household income rose 9 percent in the at-risk population. If family size also rose, well-being did not increase by 9 percent; if family size fell, well-being probably improved by more than 9 percent. No adjustment for family size differences seems to have been made in the first version of the paper.

Although it is difficult to make the calculations required to derive a meaningful measure of family or personal well-being, it is not impossible. Most of the required data are available in the March Current Population Survey, which provides information on estimated tax liabilities and EITC payments, noncash income sources, health insurance coverage, and family size. Using methods proposed by the Census Bureau, we can also make defensible estimates of work-related expenses.[2]

A second question worth considering involves the distribution of gains and losses in the at-risk population. The authors show us how gains and losses differ by racial and ethnic group. Their emphasis on race is a sad commentary on the huge significance of race in U.S. policy evaluation. Americans care more passionately about this difference than they do about a distinction that may be much more meaningful, namely, the difference between workers and nonworkers. How has reform affected the comparative well-being of workers versus nonworkers in the at-risk population? It should be clear that people in families containing working breadwinners are better off as a result of the changes in the economic and policy environment over the past few years. The EITC and CHIP have improved the potential living standards of families containing children and a low-wage breadwinner. However, low-income families without a working breadwinner may be significantly worse off. It is now more difficult to obtain cash public assistance than it was in the past. Once people become entitled to cash benefits, it is now more difficult to remain steadily entitled to benefits.

The comparison between workers and nonworkers is complicated by the fact that changes in the economic and policy environment have increased the percentage of at-risk potential breadwinners who actually work. Many low-wage people now hold jobs who would not have been at work if the environment of the early 1990s had remained unchanged. Thus, it would be interesting to assess the shifting fortunes of three groups of at-risk people: those who are members of families where an adult would have worked in either the old or the new regime; those who are members of families where no adult would have worked in either the old or the new regime; and those who are members of families where there would have been no adult worker in the old environment, but where an adult has been induced to find employment in the new one. My guess is that families in the first group have seen an improvement in their well-being while families in the second group are now worse off. I do not know whether families in the third group are better off or worse off now than they were under the old regime. It would be worthwhile to find out. A major extension of Chernick and Reimers' excellent paper is needed before we will know.

Endnotes

1. The papers presented at the conference were later published in Smith Nightingale and Haveman (1995).

2. See Short et al. (1999).

References

Short, K., T. Garner, D. Johnson, and P. Doyle. 1999. "Experimental Poverty Measures, 1990-1997." U.S. Bureau of the Census Report no. P60-205. Washington, D.C.: U.S. Government Printing Office.

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