

## Does It Pay to Move from Welfare to Work? Reply to Robert Moffitt and Katie Winder

*Sheldon Danziger  
Hui-Chen Wang*

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 ended the entitlement to cash assistance and requires welfare recipients to quickly take jobs or engage in work-related activities. Despite the end of entitlement, the relative financial benefits of moving from welfare to work have been enhanced by other policy changes within and outside of welfare. For example, welfare reform increased funds for state and federal child care subsidies for recipients and other low-income families; most states increased earnings disregards, which lowered the benefit reduction rate for recipients combining welfare and work; the earned income tax credit increased dramatically in the mid-1990s; and the minimum wage was increased in 1997, the same year that the State Child Health Insurance Program was passed.

Danziger et al. (2002) found that in Michigan income after taxes and work-related child care and transportation expenses for welfare leavers increased by \$2.63 for every additional hour worked and that working leavers had higher incomes than did nonworking welfare stayers. Moffitt and Winder (this issue) point out that much of this income difference is due to (a) working leavers being more likely than welfare stayers to live with other earners and (b) other earners residing with leavers earning more than those living with recipients. Without these additional earnings, there would be small income differences between working leavers and working recipients (combiners).

Using data from the Three-City Study, they observe smaller income gaps between working leavers and nonworking stayers and little difference between the incomes of working leavers and combiners. Cross-state variation in welfare rules, especially differences in earnings disregards, and differences in the demographic composition of caseloads probably account for the smaller returns to work in Boston, Chicago, and San Antonio than in Michigan. But, Moffitt/Winder are correct that, given the risk of job loss, recipients would be better off if welfare rules were modified to encourage more of them to be combiners for longer periods of time.

They also emphasize that welfare reform contributed to an increase in single mothers who are without work and without welfare. Our 2002 paper focused primarily on those who moved from welfare to work. However, others (Loprest, 2003; Turner, Danziger, & Seefeldt, 2004) have documented the increasing size and hardships of nonworking leavers, especially those not living with other earners. We agree that many nonworking leavers have lost economic ground since welfare reform and

Manuscript received May 2004; review complete July 2004; revision complete August 2004; review complete August 2004; revision complete September 2004; accepted September 2004.

Journal of Policy Analysis and Management, Vol. 24, No. 2, 411–417 (2005)

© 2005 by the Association for Public Policy Analysis and Management

Published by Wiley Periodicals, Inc. Published online in Wiley InterScience (www.interscience.wiley.com)

DOI: 10.1002/pam.20096

that more policy attention should be given to increasing their access to social services, subsidized jobs, and/or cash assistance.

In this reply, we analyze additional panel data from Michigan and document that it “pays to move from welfare to work” even when the contributions of additional earners are excluded. We also document that combining work and welfare is a transitory state for most recipients over a four-year period. We then estimate fixed-effects regressions to test Moffitt/Winder’s views on the benefits of being a working leaver relative to being a combiner and show that the hourly returns to work for the former exceeds that of the latter even without the earnings of others.

### TRENDS IN MONTHLY INCOME FOR CURRENT AND FORMER WELFARE RECIPIENTS

Table 1 shows trends in four income measures (in constant 2001 dollars) from 1997 to 2001 for current and former recipients in Michigan; food stamps are counted as equivalent to cash.<sup>1</sup> Mean monthly earnings of respondents (including nonearners) grew by 68 percent, from \$490 to \$821 over four years. Net household income, defined as gross income less federal income and payroll taxes, increased by 28 percent, from \$1,401 to \$1,791.<sup>2</sup> When the earnings of others are excluded, incomes grew by only 11 percent.<sup>3</sup> The sum of respondents’ own earnings, TANF and food stamps shows little variation—the 2001 value, \$1,054 is only slightly higher than the 1997 value, \$1,018.<sup>4</sup> Thus, as Moffitt/Winder emphasize, gains from rapid growth in earnings after welfare reform were mostly offset by declining cash assistance and food stamps.

**Table 1.** Monthly economic well-being, 1997–2001, all Michigan respondents (constant 2001 \$).

Mean	Wave 1 (Fall 1997)	Wave 2 (Fall 1998)	Wave 3 (Fall 1999)	Wave 4 (Fall 2001)
Own earnings	\$490	\$660	\$763	\$821
Net household income	1401	1592	1671	1791
Gross household income				
Less earnings of others	1189	1238	1215	1324
Own earnings + TANF + Food stamps	1018	998	991	1054
Number of observations	713	653	595	543

Note: All Women’s Employment Study (WES) respondents present at a wave are included. Response rates were 86, 93, 91 and 91 percent, at waves 1–4 respectively. There is no evidence that attrition has led to a biased sample (Pape, 2004).

<sup>1</sup> Danziger et al. (2002) used data through the second wave (fall 1999), which Moffitt/Winder reanalyze. Here we analyze four survey waves, through fall 2001.

<sup>2</sup> Net monthly income does not count the earned income tax credit and state tax credits because most women receive them as an annual payment. Danziger et al. (2002) reported net income less work-related transportation and out-of-pocket child care expenses. These expenses were not gathered at Wave 1. Mean net income less these expenses increased by 13 percent between 1998 and 2001, the same rate as did the net income measure reported here.

<sup>3</sup> Taxes are not subtracted from gross income due to the difficulty of imputing them to others’ earnings.

<sup>4</sup> Temporary Assistance for Needy Families (TANF) income is based on administrative records here, not on self-reports.

## TRANSITIONS IN WORK/WELFARE STATUS AND ECONOMIC WELL-BEING

After welfare reform, most respondents moved from being welfare recipients to being working leavers even though Michigan did not adopt the federal five-year time limit on cash assistance. Between 1997 and 2001, working leavers increased from 21.6 to 61.1 percent of respondents and combiners fell from 44.0 to 10.7 percent. Nonworking welfare recipients fell from 30.3 to 12.9 percent and nonworking leavers increased from 4.1 to 15.3 percent. Although combiners were the largest group in 1997, they were the smallest four years later. And, being a combiner is a transitory work/welfare status: about two-thirds of combiners at one wave were not combiners at the next wave, whereas three-quarters of working leavers continued in that status at the next wave.

One indication of the gain to work is that the real hourly wage of leavers increases relative to that of combiners. For the former, the mean increased from \$7.71 to \$9.44 between fall 1997 and fall 2001; for combiners, it fell from \$6.60 to \$6.47. And, working leavers were less likely to engage in activities to make ends meet, such as pawning possessions or seeking food, shelter, or clothing from charity. In 2001, 26 percent of working leavers, but 42 percent of combiners and 58 percent of nonworking stayers engaged in one or more of five such activities (see Danziger et al., 2002, Table 5 for a list of activities).

## MOFFITT/WINDER'S ESTIMATES OF THE RETURNS TO WORK

Moffitt/Winder report average and marginal measures of the returns to work for Three-City respondents who received welfare at Wave 1 and were working leavers or working stayers at Wave 2, about two years later. They conclude, “. . . that much of the increase in earnings and income occurring when individuals go to work or leave welfare is a flat, fixed amount that does not vary with how much they work. This implies that work “pays” more if one is going to work from nonwork, but much less if one simply works more, given that one is already working.” They show that working leavers have smaller marginal returns to work than combiners—\$2.39 vs. \$3.17 for own earnings.

We replicated their method for measuring returns to work using four years of data, but the results differ (data not shown).<sup>5</sup> The average and marginal returns are greater in Michigan than in the three cities. For example, the marginal returns to work for leavers and stayers are \$3.35 and \$3.76 per hour for net income in Michigan, but only \$0.89 and \$1.79, respectively, in the three cities. For other income concepts, the average and marginal returns are greater in Michigan for leavers than for combiners. For own earnings, leavers receive \$4.04 per additional hour, combiners, \$3.17; for gross income less others' earnings, \$3.14 per hour for leavers, only \$1.67 for combiners.

Although Moffitt/Winder concluded that much of the gain “does not vary with how much they work,” in Michigan the gain does increase with hours worked. And using their method, the returns for working leavers exceeds that of combiners even when others' earnings are excluded.

## AN ALTERNATIVE SPECIFICATION OF THE FIXED-EFFECT REGRESSIONS

Moffitt/Winder's method uses data only on initial wave welfare recipients who were working at the final wave. We prefer an alternative specification that includes all

<sup>5</sup> Results are reported in an earlier version of this reply at [www.fordschool.umich.edu/research/poverty/publications.htm](http://www.fordschool.umich.edu/research/poverty/publications.htm); accessed October 19, 2004.

respondents (except those who received disability benefits during the study period) at four waves and analyzes monthly income as a function of monthly hours and welfare receipt. This fixed-effects model is described as follows:

$$\text{Income}_{it} = \alpha + \beta_1 \cdot \text{Hours}_{it} + \beta_2 \cdot \text{Hours}_{it} \cdot (\text{No Welfare})_{it} \\ + \beta_3 \cdot (\text{Wage Reliant})_{it} + \beta_4 \cdot (\text{No Work/No Welfare})_{it} + X_{it}\psi + f_i + \varepsilon_{it},$$

where  $X_{it}$  represents a vector of demographic characteristics of individual  $i$  at wave  $t$ , and  $f_i$  is an individual-specific fixed effect.  $(\text{No Welfare})_{it}$  indicates that respondent  $i$  did not receive welfare in the month prior to the wave  $t$  survey. Those not receiving TANF are classified by work status, indicated by two variables:  $(\text{Wage Reliant})_{it}$ , and  $(\text{No Work/No Welfare})_{it}$ .

For the wage reliant, the marginal hourly return is  $\beta_1$  plus  $\beta_2$ ; for combiners it is  $\beta_1$ . Hence,  $\beta_2$  reflects the additional return for working leavers relative to that of combiners. If Moffitt/Winder's three-city results held in Michigan,  $\beta_2$  would not differ significantly from zero. If it pays to be a working leaver relative to being a combiner,  $\beta_2$  will be positive and significant. We expect a positive coefficient for two reasons. First, the wage reliant worked more over the four-year sample period and have higher wage rates than combiners. Second, as combiner's earnings increase they face an implicit tax rate—the marginal reduction in welfare benefits. A welfare leaver working an additional hour does not face this implicit tax rate.

The lump-sum loss in benefits when a worker exits welfare is  $\beta_3$ ; it is  $\beta_4$  when a nonworker exits. These losses may differ because nonworking leavers lose the maximum welfare benefit whereas combiners who exit welfare received smaller monthly benefits at the time of exit.<sup>6</sup> We expect both coefficients to be negative, with  $\beta_4$  being more negative than  $\beta_3$ .

Table 2 shows regression results for net household income, gross income less earnings of others, and the sum of own earnings, TANF, and food stamps. The coefficients on the interaction terms of hours and the no welfare indicator variable are positive and statistically significant for two of the three measures. A wage-reliant woman gains \$2.56 in net income per additional hour, \$0.67 more than a combiner gains. She gains \$2.67 per additional hour in terms of gross income less others' earnings, \$0.86 more than the combiner. She obtains \$2.84 per additional hour in the sum of earnings, TANF, and food stamps, \$0.71 per hour more than a combiner.

The coefficients on the variables indicating wage reliance and no work/no welfare are both negative in each equation, reflecting the lump-sum loss associated with welfare exit. The loss is smaller for working than for nonworking leavers. For the former, the loss is \$60 of net monthly income, \$100 of gross income less others' earnings, and \$101 in the sum of earnings, TANF, and food stamps. For nonworking leavers, the corresponding losses are \$273, \$486, and \$660.

Compared to a nonworking stayer, a working leaver earns \$2.56 to \$2.84 per additional hour, so she has to work 23 to 38 hours per month to compensate for the lump-sum loss, depending on the income definition. A combiner is better off than a nonworking stayer by \$1.81 to \$2.13 per additional hour, but she does not incur the lump-sum loss ( $\beta_3$ ).

In Michigan, wage reliant respondents worked 156 hours per month and combiners 121 hours. Given these hours, a working leaver would have \$339 more in net

<sup>6</sup> A worker may exit welfare before earnings reach the phase-out level. For example, she may be eligible for a small benefit, but the amount may be less than the transactions or stigma costs of welfare participation. This suggests that lump-sum losses for working leavers would be small.

**Table 2.** Fixed-effect regressions predicting monthly income measures: Controlling for concurrent welfare status and interaction term of work hours and welfare status.

	Net Household Income	Gross HH Income less Earnings of Others	Own Earnings + TANF + Food Stamps
Monthly hours ( $\beta_1$ )	1.89*** (0.41)	1.81*** (0.30)	2.13*** (0.23)
Hours * no welfare ( $\beta_2$ )	0.67 (0.54)	0.86** (0.40)	0.71** (0.30)
Wage reliant ( $\beta_3$ )	-59.99 (81.86)	-100.39* (60.09)	-100.57** (45.46)
No work/no welfare ( $\beta_4$ )	-272.72*** (79.87)	-485.58*** (58.63)	-659.56*** (44.35)
Married with husband	728.42*** (96.38)	-80.72 (70.74)	-89.42* (53.52)
Cohabiting with unmarried partner	616.63*** (63.58)	111.52** (46.67)	27.39 (35.31)
# of children < age 6	-68.23* (35.43)	-24.72 (26.01)	12.26 (19.68)
Household size	148.81*** (21.07)	22.31 (15.47)	6.83 (11.70)
Transportation problems	-66.91 (59.74)	-32.25 (43.85)	12.93 (33.17)
Physical limitations & fair or poor health	-18.10 (62.45)	-23.30 (45.84)	5.01 (34.68)
Child with health problems	4.12 (61.03)	14.89 (44.80)	7.38 (33.89)
Domestic violence	-21.84 (60.31)	-12.77 (44.27)	7.19 (33.49)
Mental health problems	-4.14 (48.63)	1.26 (35.70)	-2.38 (27.00)
Within R-squared	0.174	0.161	0.320

Note: Sample includes 618 respondents, comprising 2287 observations; standard errors are in parentheses; \* significant at 10%; \*\* significant at 5%; \*\*\* significant at 1%; income variables are measured in constant 2001 dollars.

monthly income than a nonworking stayer, \$316 more in gross income less others' earnings, or \$342 more in the sum of earnings, TANF, and food stamps. The coefficients and these differences in hours suggest that the monthly income of a working leaver would exceed that of a combiner by \$110, \$96, and \$84 in terms of the three measures. Again, in Michigan it pays to move from welfare to work.

The \$339 net income difference between working leavers and nonworking stayers and the \$110 difference between working leavers and combiners are smaller than the differences shown in Table 1 of Danziger et al. (2002), \$635 and \$444, respectively, for two reasons. First, the article used self-reported TANF benefits, while we now have administrative payment records.<sup>7</sup> Second, the published table reported averages that reflect uncontrolled heterogeneity among work/welfare groups. The fixed-effect regression estimates reported here control for differences in demographic attributes and unobserved, time-invariant individual characteristics among the work/welfare groups.

### SUMMARY AND POLICY IMPLICATIONS

In this reply we analyzed new panel data from Michigan and found that descriptive data, estimates using the Moffitt/Winder method, and our alternative fixed effect estimates all suggest that it pays to move from being a nonworking welfare recipient to being a working leaver, even if the earnings of other household members are ignored. And, working leavers earn more per additional hour of work than do combiners, even accounting for the lump-sum loss associated with leaving welfare. Nonetheless, this income advantage, as Moffitt/Winder point out, is not large and is smaller than our 2002 article implied. And, because the gains to work are higher in Michigan than in Boston, Chicago, and San Antonio, one should be cautious in generalizing either set of results to the nation.

Given the risk of subsequent job loss for leavers, we agree with Moffitt/Winder on the need for policies, such as increased earnings disregards, that make it easier to combine work and welfare. For example, Illinois, one of their sample states, has one of the most generous disregard policies. This might partially account for their small income difference between working leavers and combiners. Also, as they note, states could choose to exempt months of welfare receipt from the time limit when recipients work at least 20 hours but still have low monthly earnings. There is also a need for administrative changes to facilitate return to cash assistance and food stamps for leavers who lose a job, as well as policies that increase the ability of welfare recipients and other low earners to qualify for unemployment insurance (Holzer, 2003).

In both Michigan and the three cities, working leavers and combiners have higher incomes than do nonworking welfare recipients. This represents a major achievement of the 1996 reform and related policies implemented in the 1990s (that is, 1997 minimum wage increase, higher Earned Income Tax Credit). However, poverty rates remain high among working leavers in these and other studies.

Poverty could be further reduced by policies that raise the net income of workers, such as increased child care subsidies. Only a minority of welfare leavers receive child care subsidies. Danziger et al. (2004) have shown that Michigan mothers who receive child care subsidies work more than those who do not. Other policies that raise net income include expanding access to health insurance for the substantial

<sup>7</sup> The updated Table 1 (not shown), based on administrative reports for TANF, shows an average \$478 difference in net monthly income between the wage reliant and the welfare reliant and a \$300 difference between working leavers and combiners.

minority of working leavers who exhaust transitional Medicaid without securing employer-provided insurance, raising the minimum wage, and encouraging the adoption of state earned income tax credits (as 18 states have done).

The authors thank Robert Moffitt for many helpful discussions and Rebecca Blank, Kristin Seefeldt, and Robert Schoeni for their comments on a previous draft. The Women's Employment Study is supported by grants from the Charles Stewart Mott, Joyce, and John D. and Catherine T. MacArthur Foundations and the National Institute of Mental Health (R24-MH51363).

*SHELDON DANZIGER is Henry J. Meyer Collegiate Professor of Public Policy and Co-Director, National Poverty Center, University of Michigan.*

*HUI-CHEN WANG is Assistant Professor of Economics, University of Mississippi.*

## REFERENCES

- Danziger, S.K., Ananat, E.O., & Browning, K.G. (2004). Childcare subsidies and the transition from welfare to work. *Family Relations*, 53(2), 219–228.
- Danziger, S., Heflin, C., Corcoran, M., Oltmans, E., & Wang, H. (2002). Does it pay to move from welfare to work? *Journal of the Association for Policy Analysis and Management*, 21 (Fall), 671–692.
- Holzer, H. (2003). Improving assistance for the unemployed. Testimony before the Joint Economic Committee, U.S. Congress, March 7. Available at [www.urban.org/url.cfm?ID=900593](http://www.urban.org/url.cfm?ID=900593); accessed October 19, 2004.
- Loprest, P. (2003). Disconnected welfare leavers face serious risks. *Snapshots of America's families III*. No. 7. Washington DC: Urban Institute. Available at [www.urban.org/url.cfm?ID=310839](http://www.urban.org/url.cfm?ID=310839); accessed October 19, 2004.
- Moffitt, R., & Winder, K. (2005). Does it pay to move from welfare to work? A comment on Danziger, Heflin, Corcoran, Oltmans and Wang. *Journal of the Association for Policy Analysis and Management*, 24(2), 399–409.
- Pape, A. (2004). How does attrition affect the women's employment study data? Ann Arbor: Gerald R. Ford School of Public Policy, University of Michigan. Available at [www.ford-school.umich.edu/research/poverty/publications.htm](http://www.ford-school.umich.edu/research/poverty/publications.htm); accessed October 19, 2004.
- Turner, L., Danziger, S., & Seefeldt, K. (2004). Failing the transition from welfare to work. Ann Arbor: Gerald R. Ford School of Public Policy, University of Michigan. Available at [www.fordschool.umich.edu/research/poverty/publications.htm](http://www.fordschool.umich.edu/research/poverty/publications.htm); accessed October 19, 2004.