

In the Spring 2008 issue of *Monitoring Wisconsin*, the Institute for Survey and Policy Research (ISPR) of the University of Wisconsin-Milwaukee (UWM) presents a summary of work in progress by Dr. Swarnjit Arora (Dept. of Economics), Dr. Thomas Moore (Sociology Dept) and Laurie Turtenwald (Dept of Economics). The views expressed in this article are those of the authors and not necessarily those of ISPR. Any questions should be directed to

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Wisconsin's Welfare Reform and its Consequences on Employment, Earnings and Income of Poor Single - Mothers

by

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Introduction

The decline in the welfare caseload in Wisconsin can be traced back to the election of Tommy Thompson as governor in 1986. From the outset, Governor Thompson made the replacement of welfare with work-based assistance programs the centerpiece of his administration's social policy. The welfare rolls, which peaked at 100,000 families in 1986, had been cut nearly in half by 1996 and fell to a low of less than 11,600 families in 1999 before leveling off (see Table 1). The extent of this caseload decline far exceeded that in any other state with a substantial urban population, and was widely attributed to the work-based programs that began with the Work Experience and Job Training Program (WEJT) in 1987 and culminated in the 1996 passage of Wisconsin Works (W-2) that replaced AFDC statewide in September 1997.

Over half the states used waivers (from AFDC program requirements) to begin welfare reform before the passage of Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, but none did so more extensively than Wisconsin. Unlike most states that added financial incentives to the existing welfare system, Wisconsin demanded work as an eligibility condition for aid, and as a principle means of enforcing work to prevent applicants from going on the rolls in the first place. Wisconsin encouraged and then demanded that aid applicants attend work orientations sessions and put in 60 hours of job search at least 30 days prior to receiving AFDC benefits. With the passage of W-2, these diversion efforts were institutionalized through the creation of a job ladder consisting of four tiers, or placement levels. Former AFDC recipients did not automatically qualify for assistance as they did in many states; they had to come in and apply like all other applicants and to show that they had exhausted all other sources of assistance.

The preferred option was to limit cash aid by requiring applicants to accept unsubsidized employment, while offering them noncash support and case management services. Only those judged unable to find unsubsidized jobs were assigned place-

ments on the W-2 job ladder and granted cash aid in the form of flat monthly grants (i.e., they did not vary with family size). Most successful aid applicants were assigned to community service jobs and given monthly grants of \$673; those judged least job ready were assigned to transitional "work-activity" programs

Table 1

Cash Aid Cases, Food Stamp Recipients, and Number of Poor Persons in U.S., Wisconsin, and Milwaukee County

Indicator:	1993	1996	1999	2002	2005
Cash Aid Cases (AFDC/TANF) ^a					
U. S. (1,000s)	5,012	4,434	2,581	2,048	1,895
Wisconsin	79,585	54,954	11,589	13,125	12,308
Milwaukee	37,461	31,086	9,315	10,155	9,502
Food Stamp Recipients ^b					
U. S. (1,000s)	26,952	25,494	18,151	19,057	24,881
Wisconsin	332,666	285,239	175,460	270,559	340,135
Milwaukee	145,879	136,092	91,074	130,223	130,923
Number of Poor Persons ^c					
U. S. (1,000s)	39,265	36,529	32,791	34,763	38,231
Wisconsin	550,361	447,899	442,421	510,675	545,650
Milwaukee	181,036	148,239	138,393	146,812	162,134

^a U.S. Department of Health & Human Services, Administration for Children & Families; and Wisconsin Department of Workforce Development.

^b U.S. Department of Agriculture, Food & Nutrition Service.

^c U.S. Bureau of the Census, Small Area Income & Poverty Estimates, 1993-1999; American Community Survey, 2000-2003.

that carried monthly grants of \$628. Under Temporary Assistance to Needy Families (TANF), these W-2 participants were expected to progress up the job tiers into unsubsidized employment within two years. Any failure to meet the work activity requirements associated with their job tier was sanctioned by having their monthly grant reduced by \$5.15 for each hour missed and, if the failure persisted, by termination of their grant.

The way W-2 is administered in Milwaukee is also a serious problem. Prior to 1996, public agencies handled AFDC cases. In light of the reform public agencies only earned the right to administer W-2 if they reduced their AFDC caseloads by 25% during the period September 1995 to August 1996. Otherwise, private agencies were allowed to administer W-2. The private agencies' objectives were different than that of the public agencies. The funding of the private agency contracts were fixed based upon the caseloads at the beginning of the contract period. The private agencies were allowed to keep up to 7% of the contract amount as profit, as well as up to 10% of any remaining funds that were left unspent. Because of this incentive, many applicants were pushed into unsubsidized jobs in order to avoid the expenses of creating community service jobs and transitional programs. Also, private agencies imposed more sanctions which

(continued on page 2).

reduced cash aid grants and kept their caseloads to a minimum.

Measuring Employment, Earnings, and Income Trends among Poor Families.

In less-populated states such as Wisconsin, estimates involving the population of poor families are usually based upon small subsamples from Census Bureau surveys. Because of the small size of these subsamples, the estimates of employment, earnings, and income trends are highly uncertain. Many analysts therefore supplement survey data with administrative data derived from social programs that serve people with poverty-level incomes. This study uses the Food Stamp Quality Control (QC) data for the fiscal years 1993 to 2005 to compare the employment, earnings, and income trends among poor single-mother families in Wisconsin with the same trends nationwide. The QC data are the product of an ongoing review of food stamp recipients that is designed to measure the accuracy with which eligibility and benefit determinations are made. It is collected from a national sample, stratified by state, of approximately 60,000 individuals and families receiving food stamps whose incomes are less than 130 percent of the poverty level. Compared to Census surveys (e.g., the Current Population Survey) which typically underestimate the income received from various sources, the QC data present a more accurate and complete assessment of the earned and unearned income received by poor families. The comparisons presented here are limited to single-mother families, who account for more than 60% of the food stamp families with children, because they are more likely to be impacted by welfare reform.

Table 2
Employment, Earnings and Income Trends
among Single-Mother, Food Stamp Households in U.S., Wisconsin, and Milwaukee County Single-Mother Households

	1993	1996	1999	2002	2005
% Employed					
U.S.	18%	22%	37%	35%	39%
Wisconsin	20%	29%	38%	42%	51%
Milwaukee	13%	21%	30%	40%	41%
Mean Monthly Earnings (In 2005 Dollars)					
U.S.	\$173	\$196	\$324	\$332	\$341
Wisconsin	\$157	\$224	\$406	\$435	\$435
Milwaukee	\$108	\$167	\$386	\$473	\$290
Mean Monthly Income (In 2005 Dollars)					
U.S.	\$691	\$662	\$746	\$731	\$686
Wisconsin	\$888	\$858	\$897	\$918	\$860
Milwaukee	\$883	\$849	\$908	\$997	\$752

Source: Food Stamp Quality Control Files, authors' calculations.

Employment, Earnings, and Income Trends among Poor, Single-Mother Families.

As discussed above, Wisconsin's strict work test and sanctions appear to have contributed to the sharp decline in welfare use. It is not clear, however, that Wisconsin has been equally successful at helping poor families become economically self-sufficient. This question is addressed in Table 2 which presents the trends in employment, earnings and income among single-mother families receiving food stamps.

As we might expect from that strict work requirement, the level of employment among poor single mother families appears to have

risen more in Wisconsin and in Milwaukee than it has nationwide. During 1993 to 2005 the employment rate among these families rose from a little over 20% to 51% in Wisconsin, and from 13% to 41% in Milwaukee. The comparable increase for the entire U.S. sample was from 18% to 39%. Although the differences are not large, Wisconsin has been comparatively more successful at increasing employment among single mother families. Wisconsin has also been comparatively suc-

Table 3
Income Sources of Single-Mother, Food Stamp Families in U.S., Wisconsin, and Milwaukee County

	1993	1996	1999	2002	2005
U.S. Upper 50%:					
Mean Earnings ^a	\$314	\$360	\$580	\$589	\$631
Mean AFDC/TANF	\$403	\$335	\$209	\$153	\$98
Gross Income	\$977	\$957	\$1,101	\$1,112	\$1,086
U.S. Lower 50%:					
Mean Earnings	\$20	\$20	\$50	\$58	\$48
Mean AFDC/TANF	\$295	\$276	\$226	\$155	\$112
Gross Income	\$381	\$347	\$370	\$330	\$282
Wisconsin Upper 50%:					
Mean Earnings	\$291	\$386	\$661	\$722	\$738
Mean AFDC/TANF	\$535	\$413	\$164	\$192	\$54
Gross Income	\$1,129	\$1,129	\$1,292	\$1,398	\$1,304
Wisconsin Lower 50%:					
Mean Earnings	\$15	\$55	\$152	\$154	\$137
Mean AFDC/TANF	\$574	\$472	\$200	\$125	\$56
Gross Income	\$634	\$573	\$505	\$451	\$425
Milwaukee Upper 50%:					
Mean Earnings	\$205	\$294	\$686	\$800	\$523
Mean AFDC/TANF	\$634	\$490	\$206	\$250	\$112
Gross Income	\$1,119	\$1,118	\$1,309	\$1,500	\$1,168
Milwaukee Lower 50%:					
Mean Earnings	\$7	\$34	\$90	\$158	\$63
Mean AFDC/TANF	\$593	\$512	\$274	\$176	\$81
Gross Income	\$642	\$570	\$511	\$513	\$347

Source: Food Stamp Quality Control Files, authors' calculations.

^a All earnings and income figures are in 2005 dollars.

cessful at boosting the average earnings of poor, single mother families. Again during 1993 to 2005 period, and basing comparison on constant 2005 dollars, real earnings rose from \$157 to \$435 among Wisconsin families, from \$108 to \$290 among Milwaukee families, and from \$173 to \$341 for U.S. families.

The Changing Income Sources of Poor, Single-Mother Families

Wisconsin's success in reducing welfare use while raising the employment levels and average earnings of its poorest families has not been matched by an absolute or relative improvement in the real incomes of these families. Moreover, the number and percent of Wisconsin's single-mother families that are extremely poor has sharply increased as the income/poverty ratios among these families have become more unequal. It appears that the earnings of many families have not been sufficient to offset their benefit losses, and their poverty has deepened as their incomes fall. The figures in Table 3 support this conclusion. It shows the changes in the real earnings, in welfare benefits, and in the total incomes of poor single-mother families divided at the median of their income distribution. In other

words, it compare how the major sources of income, and the total income, of families in the top and bottom halves of this income distribution have changed.

In the top half of their income distribution the average earnings gains of poor, single-mother families have roughly equaled the average reduction in their AFDC/TANF payments. During 1993 to 2005, the real monthly income for these families increased by \$175 in Wisconsin (from \$1,129 to \$1,304), by \$49 in Milwaukee (from \$1,119 to \$1,168), and by \$109 nationwide (from \$977 to \$1,086). Whatever gains they made in their earnings, \$447 in Wisconsin, \$318 in Milwaukee and \$317 nationwide were to some extent negated by decrease in the AFDC/TANF payments. There has been a moderate increase in real family income, but not substantially larger than that observed nationwide.

A very different picture emerges when we look at families in the bottom half of the distribution. Among these families, the earnings gains that have accompanied welfare reform have been small and have offset only a small fraction of the benefit losses, and real monthly incomes have dropped precipitously. Comparing the same periods, monthly earnings increased by \$122 in Wisconsin (from \$15 to \$137), by \$56 in Milwaukee (from \$7 to 63), and by \$28 nationwide (from \$20 to \$48). These earnings gains represent a small fraction of the loss in welfare payments, which decreased by \$518 in Wisconsin (from \$574 to \$56), by \$512 in Milwaukee (from \$593 to \$81), and by \$183 nationwide (from \$295 to \$112). The average income loss among these families was cushioned by the growth of other forms of government assistance. Nonetheless, their average monthly incomes fell by \$209 in Wisconsin (from \$634 to \$425), by \$295 in Mil-

waukee (from \$642 to \$347), and by \$99 nationwide (from \$381 to \$282).

To conclude, the average earnings of families in the bottom half of this distribution have not increased substantially, either in Wisconsin or nationwide. At the same time, there has been a much larger reduction in the average welfare payment in Wisconsin. As a result, the bottom 50% of poor, single-mother families in Wisconsin and its major urban center have seen their real monthly incomes decrease by nearly a third, a proportionate income loss considerably more than the 20% reduction experienced by comparable families nationwide.

Wisconsin's combination of work requirements and work supports is claimed to demand more of aid recipients while at the same time providing the assistance they need to meet those demands. The evidence of deepening poverty among the state's poorest families calls these claims into question. Many poor single-mothers face barriers to successful labor market entry such as physical disabilities, poor physical and mental health, the need to care for a sick or disabled child or other family member, drug or alcohol problems, involvement in physically abusive relationships, and the lack of a high school diploma or GED. Wisconsin's work supports may be comparatively generous and have undoubtedly helped many former aid recipients achieve economic self-sufficiency. But they have not enabled the bottom half of the state's poor, single-mother families to achieve earnings gains that offset the loss of benefit income. The result has been increasing hardship for these mothers and their children. ■

Table 4
Wisconsin Employment (in Thousands)

	1990	1995	2000	2005	2006	2007.1	2007.2	2007.3	2007.4
Labor Force	2598.9	2,881.2	2,996.1	3,033.0	3,062.9	3,089.4	3,089.6	3,089.2	3,089.1
Total Employment	2486.1	2,773.6	2,894.9	2,887.4	2,918.2	2,935.2	2,937.3	2,939.0	2,940.2
Total Nonfarm	2291.5	2,558.6	2,833.8	2,842.1	2,860.7	2,880.1	2,884.1	2,881.2	2,881.5
Goods Producing	614.8	672.5	723.0	636.4	636.0	634.3	631.5	628.5	625.2
Service Providing	1676.7	1,886.1	2,110.8	2,205.7	2,224.8	2,245.8	2,252.2	2,253.5	2,255.9
Natural Resources and Mining	3.9	4.2	4.0	4.0	3.9	3.8	3.7	3.6	3.6
Construction	87.9	101.7	124.8	127.5	127.0	127.0	125.7	125.4	124.8
Manufacturing	523.0	566.6	594.1	504.9	505.0	503.1	502.0	499.8	497.8
Trade, Transportation, and Utilities	458.7	502.4	552.9	543.2	544.0	549.0	548.2	548.1	547.0
Information	44.4	45.2	53.6	49.7	49.2	49.8	50.1	50.5	50.5
Financial Activities	123.9	134.3	149.1	159.8	161.1	163.1	163.0	162.3	162.7
Professional and Business Services	153.6	206.9	247.0	263.1	269.2	275.6	277.7	277.9	277.7
Educational and Health Services	237.4	280.4	339.6	383.3	391.5	396.2	397.8	400.5	400.4
Leisure and Hospitality	199.3	217.9	236.7	255.2	258.0	262.0	261.9	261.0	260.7
Other Services, exc Public	116.6	120.3	126.3	136.0	136.2	137.0	137.6	137.6	137.8
Government	342.9	378.7	405.6	415.3	415.6	413.5	416.5	414.5	418.5

Source: U.S. Department of Labor, Bureau of Labor Statistics

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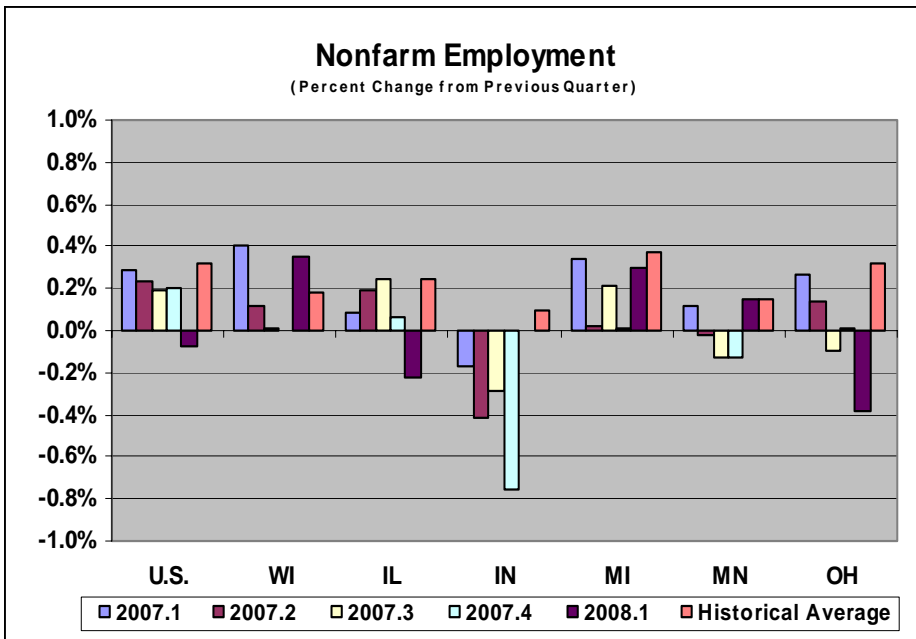
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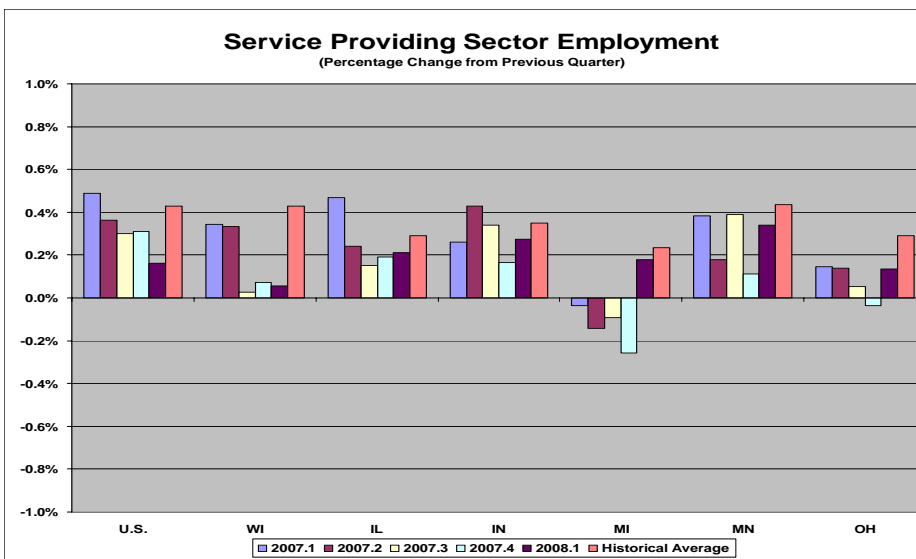
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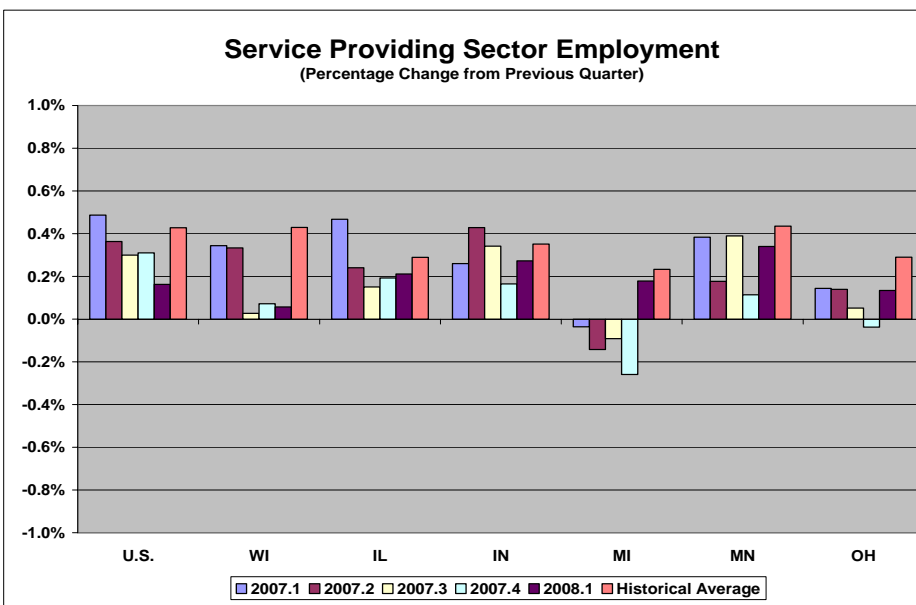
Seasonally -Adjusted, Non-Farm Employment (Thousands)

Quarter	WI	US
2007.3	2,881.2	137,758.3
2007.4	2,881.5	138,030.7
2008.1	2,870.4	137,924.7
2008.2 (forecast)	2,890.4	138,359.9
Average (1990-Present)	2,657.0	124,037.0



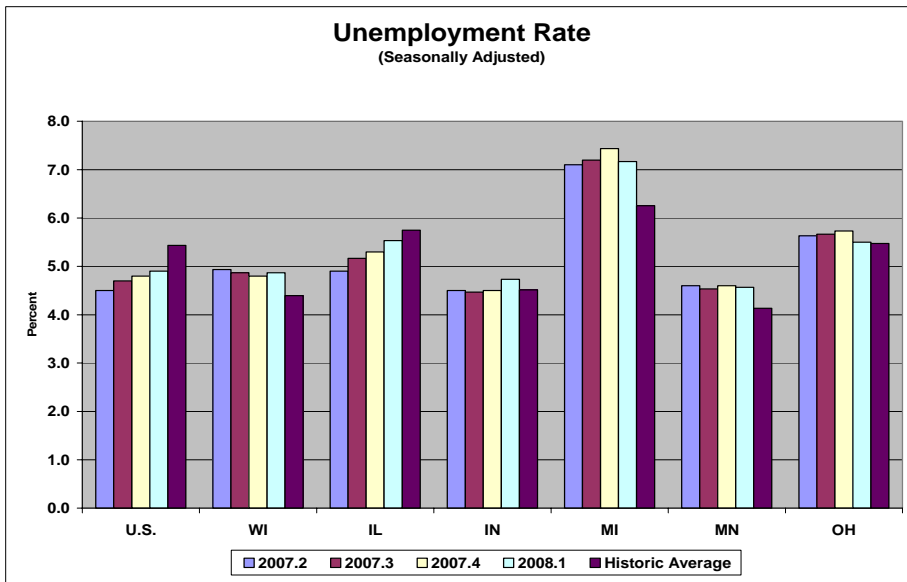
Seasonally-Adjusted, Goods-Producing Employment

Quarter	WI	US
2007.3	628.6	22,181.3
2007.4	625.0	22,031.8
2008.1	620.8	21,831.3
2008.2 (forecast)	620.3	21,713.4
Average (1990-Present)	656.5	23,006.5



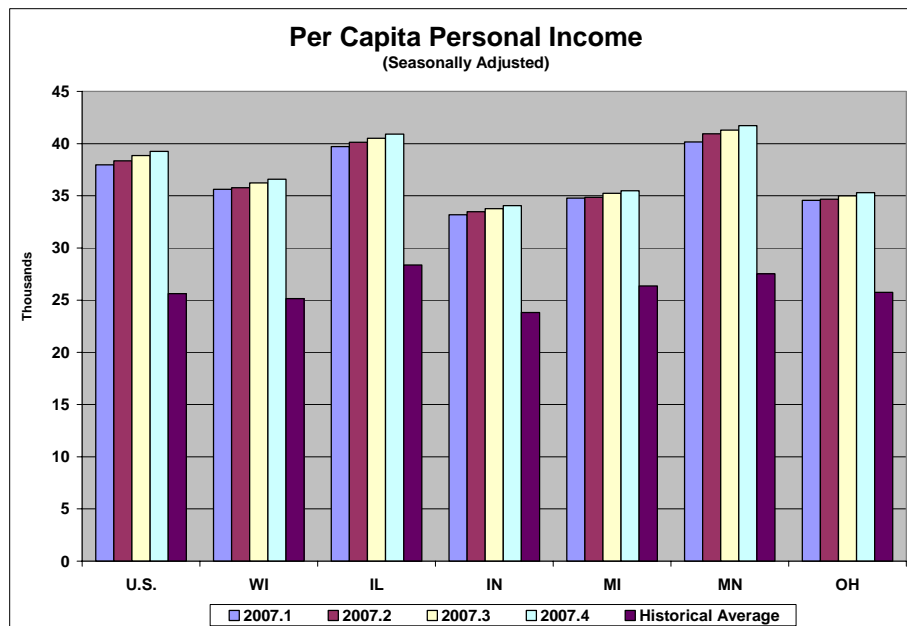
Seasonally-Adjusted, Service-Providing Employment (Thousands)

Quarter	WI	US
2007.3	2,253.6	115,587.4
2007.4	2,255.2	115,946.3
2008.1	2,256.5	116,135.0
2008.2 (forecast)	2,274.2	116,921.5
Average (1990-Present)	2,000.7	101,032.2



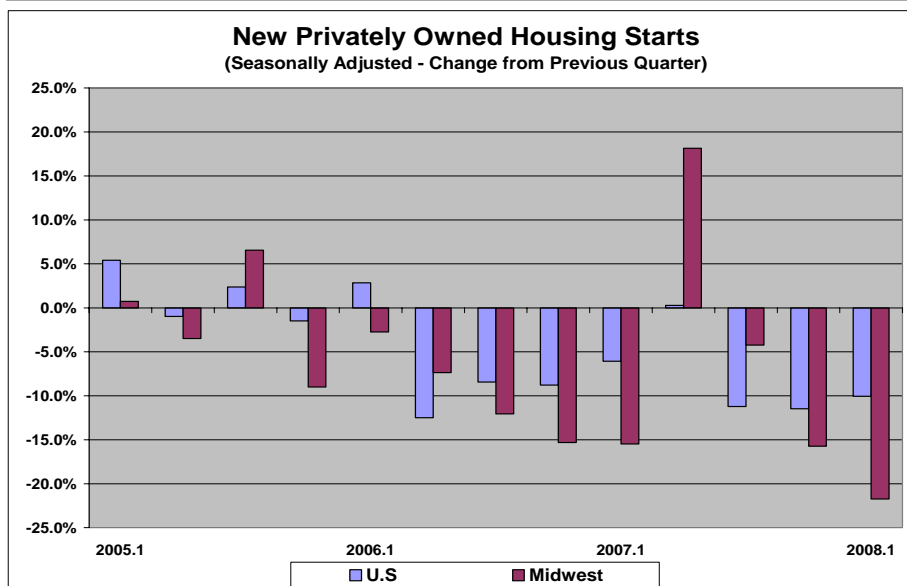
Unemployment Rate Seasonally-Adjusted

Quarter	WI	US
2007.3	4.9	4.7
2007.4	4.8	4.8
2008.1	4.9	4.9
2008.2 (forecast)	5.4	4.8
Average (1990-Present)	4.4	5.4



Per Capita Personal Income (Seasonally -Adjusted)

Quarter	WI	US
2007.3	36,226.53	38,866.20
2007.4	36,581.07	39,254.11
2008.1	36,997.14	39,705.18
2008.2 (forecast)	37,417.80	39,963.30
Average (1990-Present)	25,155.38	25,634.47



Housing Starts Seasonally-Adjusted (Thousands)

Quarter	Midwest Region	U.S.
2007.2	228.0	1,464.3
2007.3	218.3	1,300.0
2007.4	184.0	1,150.7
2008.1	144.0	1,035.0
Average (1990-Present)	307.1	1,528.7